
Replicating Australia's Super system could fill our nest eggs

How they did it right down under

The average Australian is
looking at nest egg of
\$535,000

Source: "Average Aussie to retire...", The Australian; 7/26/2007

That compares to about \$110,000 for the
average American in the 62-65 age
bracket.

Source: Federal Reserve's Survey of Consumer Finances, 2004

The difference? Australian employers are required to contribute 9% of pay

That compares to the 3% matching contribution in the US—and that's only among large employers.

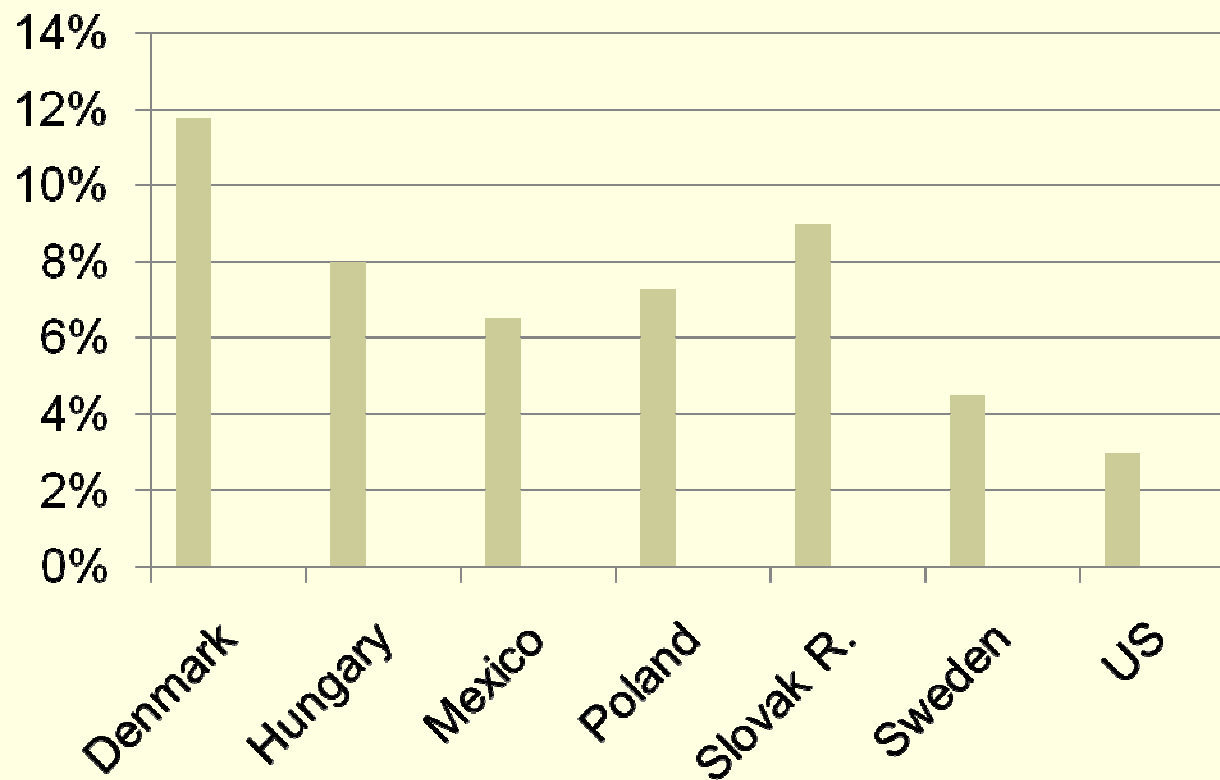
Is every Australian on track for a secure retirement?

- The Baby Boomers face more challenges because the mandatory 9% rate didn't go into effect until 2002.
- However, at least the government is allowing them to make up for lost time with generous catch-up contributions, as opposed to the measly ones allowed here.
- Other differences on the following chart.

Difference between our DC plans

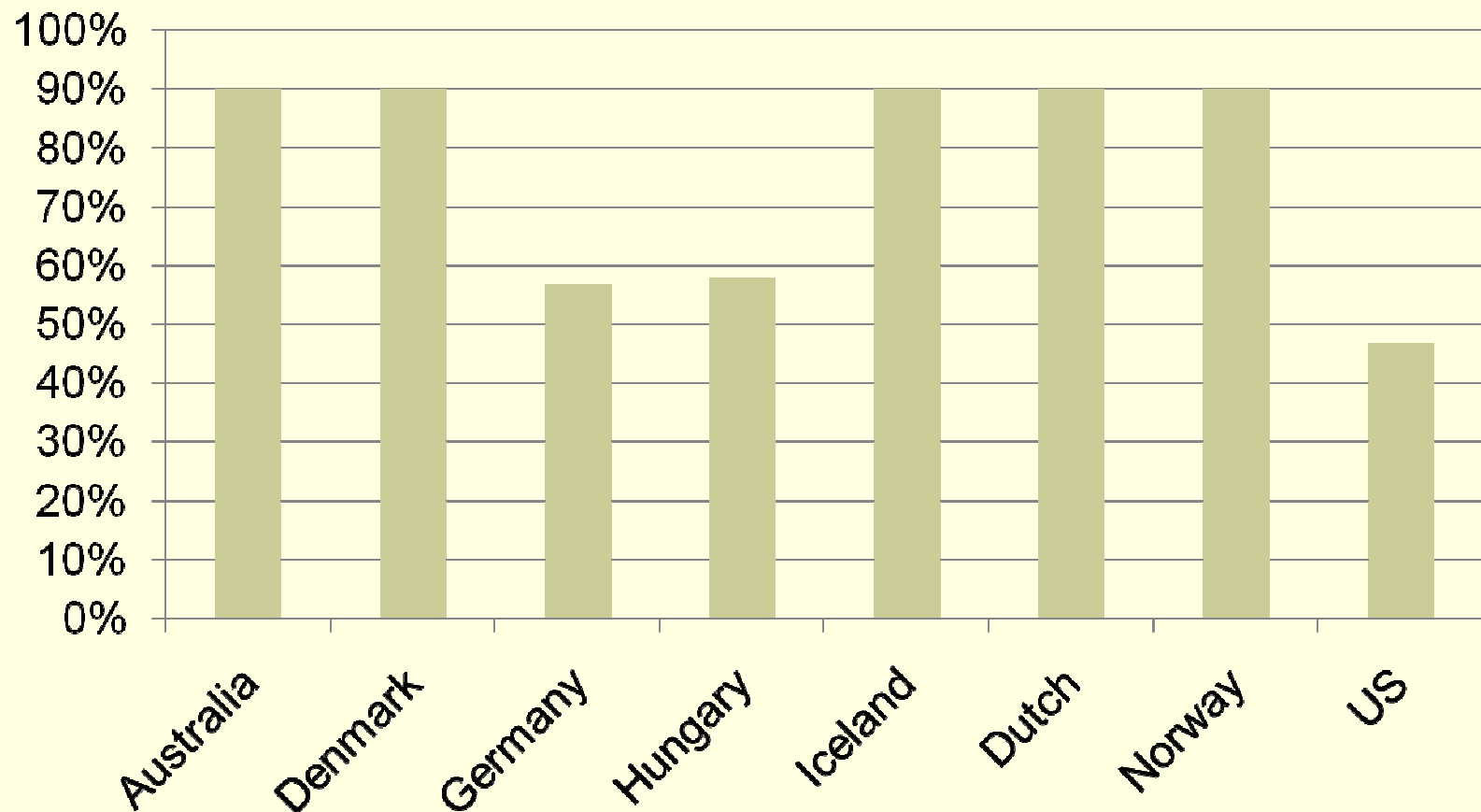
	Australia	US
Employer contribution	9% mandatory up to a salary of \$137,880, up to age 75	Optional, typically 3% with large plans
Government contribution	\$1.50 for every dollar phasing out at \$58,980	None
Over 50 "catch-up"	\$100,000 a year, \$450,000 over 3 yrs.	\$5,000
Who isn't covered	Earning less than \$450 a month, part-time under 18	70 million Americans
Tax treatment of contributions	15%	Depends on tax rate
Can contribute to spouse's account	Yes, if no or low income	No

Employers in other countries contribute more to DC accounts



Source: OECD, "Pensions at a Glance," Paris, France: OECD 2007: 28,29,30

More of overseas population is covered



Source: Ibid: page 77

What went wrong in the U.S.:

1) switch from DB to DC

- Instead of reforming 401(k) plans to turn them into retirement plans, we keep amending ERISA to protect DB pensions.
- Because pensions are a voluntary program, reform often fosters more terminations.
- From 1974 to 2004, the percentage of Americans covered by DB shrunk from 44% of the workforce to 17% of it.

Source: Employee Benefit Research Institute, "The Decline of Private-Sector Defined Benefit Promises and Annuity Payments: What Will It Mean.?" EBRI Notes, Washington, DC, July 2004:2

2) 3% 401(k) employer contribution shifts cost to employee.

- Actuaries say that 401(k) account balance needs to be 10 times the salary at retirement.
- Someone making \$100,000 needs a minimum of \$1 million at age 65.
- To achieve 10 x final pay, participants need to save 10% of pay in their 20s, 17% in their 30s, 23% in their 40s and 48% at age 50. Source:

Retirement Solutions, LLC: "Filling America's Empty Nest Eggs; The Crisis Nobody's Talking About, January 2008: 11

The Six-Point Solution

1. Require most employers who do not also have a DB plan to offer a 401(k) plan with a 9% contribution rate.
2. Exempt: small companies, new companies; employees would get government match.
3. “Define the contribution rate: necessary “co-pay” by employee: 4% at age 25, 7% at age 30, etc.
4. More generous contributions for those over 50.
5. Prohibit access to vested balances when changing jobs. (Australia restricts to “severe financial hardship, etc.).
6. Prohibit annuity sellers from marketing product to those with inadequate savings.

Conclusion:

401(k) plans are the right plan for the 21st century—they need tweaks

- Average American has eight jobs during a career; potentially would never be vested in a DB benefit.
- DC plans are portable; moving vested balances to an IRA means keeping track of your retirement assets.