

Automatic savings: Who cashes in and how

By STEWART AIM

Although experts agree a 401(k) plan for employees is among the best ways to save, there is a debate about the usefulness of automatic enrollment.

Many employers should be adopting automatic enrollment, said Charles Massimo, president of C&M Fiscal Management in Melville. "It's a win-win that almost forces employees to participate in a 401(k) plan because although they can opt out, once people are in it they tend to forget about it," Massimo said.

The 401(k) is a primarily employer-sponsored retirement savings plan in which a percentage of one's salary is invested tax-deferred until withdrawn. Studies have shown that 90 percent of employees participate in a 401(k) in which their companies automatically enroll them, but only 60 percent participate in companies without automatic enrollment. Steven Sherman, president of Wall & William Financial Services (Group in Rockville Centre, believes it's in the employers' best interests to motivate employees to save for the future.

"It's an ethical responsibility to look after the welfare of their employees," Sherman said.

But Ronald Stair, CEO of Creative Plan Designs, a retirement consulting company in East Meadow, said automatic enrollment "is an obnoxious process that has almost no practical use because administratively you are adding burdens on your human resources department."

"You as the employers are forced to give employees a bunch of notices that say they can opt out at a variety of times," he said. "The problem is the additional paperwork.... For the right client it's OK, but for small medical offices that are so bogged down in paperwork, this is just another piece of paper that will get lost. I now have clients in the

middle of audits because they missed a piece of paper somewhere."

A recent AARP survey found that although nearly all large employers with a 401(k) plan were aware of automatic enrollment, six out of 10 chose not to use it, citing concern that employees wouldn't like being enrolled automatically, but also the cost to the company.

Stair said he has seen national statistics that found the percentage of employees who do not open a 401(k) is the same as those who opt out, so he questioned why companies should bother going to the expense of automatic enrollment.

"These automatic enrollment plans are fraught with landmines for the employer if they screw up and do something wrong," he added. "So a lot of employers say it is a nice idea but they are not going to be so paternalistic."

Susan Ganz, a financial adviser at the Center for Wealth Preservation, a financial services consulting firm in Syosset, said she too is against automatic enrollment.

"When you join an employer, you are so interested in completing all the paperwork that you sometimes don't have the opportunity to take a step back and think if what you are doing fits into your broader financial picture," she explained.

Many 401(k) plans consist of mutual funds that are subject to market volatility, Ganz pointed out, and so employees must be aware they should have other assets elsewhere.

"A 401(k) plan is just one asset to have in a broader portfolio," she stressed.

Ganz pointed out that people rely on it for retirement but seldom take into account other safer methods not subject to market volatility such as annuities and whole life insurance that has provisions for retirement.

In addition, Ganz said, the 401(k) is based on the assumption that after people retire they will be in a lower tax



bracket and thus pay less tax on the money they withdraw from the plan.

"But a lot of people are retiring now when it looks like their taxes will be going up," she said.

John Marchisotta, a partner in Pivotal Planning Group, the financial planning division of the Jericho CPA firm Satly, Levine & Ciacco, said people retiring at 65 should have 30 years worth of savings. That means someone with a \$100,000 salary should have between \$2 million and \$2.5 million saved to generate \$100,000 annually in retirement.

"Most people underestimate what they will need in retirement," Marchisotta said.

He noted that the maximum a person may put in a 401(k) each year is \$16,500; those over 50 may put in up to another \$5,500. Employers have the option of adding to that if they have a profit sharing plan.

According to Jay Greenbaum, senior vice president of Wall & William, another benefit of automatic enrollment is it helps assure that a company's senior employees may contribute the maximum to the plan.

He explained that if only the "higher-end people" are contributing the maximum, there is no employer contribution and if few other employees are enrolled in the plan or putting in very little, federal officials could restrict the amount each person invests.