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West Virginia bill aimed at pending retirement crisis

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TOM BREEN**The Associated Press**

CHARLESTON -- For hundreds of thousands of West Virginia workers, retirement, if it happens at all, means nervously watching utility and grocery bills rise while wondering how much longer Social Security will cover those regular expenses.

Nearly half the state's workers, or about 300,000 people, have no retirement savings plan through their employer, a situation alarming enough to bring together liberals and conservatives on a plan to make West Virginia the first state in the country to help those workers save for retirement.

A bill in the state Senate would enable the state treasurer's office to create a savings program for workers in small businesses which don't offer retirement plans.

Participation would be voluntary. Workers could choose to save, and employers could choose to match employee savings. A percentage of each paycheck would automatically go to an investment fund run by a private firm, and the state would have no obligation to make up for losses.

The plan is similar to the Automatic IRA program proposed by President Barack Obama last month, an idea developed by the Retirement Security Project, a group also backing the West Virginia proposal.

The Heritage Foundation's David John, one of the developers of the Retirement Security Project, was in Charleston last week to testify on behalf of the Senate bill.

"You cannot retire comfortably on Social Security alone," John told The Associated Press. "People are going to have to save from the day they go to work to the day they retire."

Since the decline of defined benefit pensions, many Americans have been doing a poor job of preparing for retirement. The defined contribution plans, like the 401(k), that are far more common today in the private sector, have features that make them more volatile than the old-style pension plans, leading to a situation where millions of people face steep drops in income once they retire.

Just over half the households in the U.S. are likely to see a decline in their standard of living after retirement, according to the Center for Retirement Research at Boston College. That figure has dramatically worsened with the recession, jumping from 44 percent in 2007.

"People basically want to be good, but being good is a bit hard," said Tony Webb, associate director of research at the center.

In theory, defined contribution plans could -- and in many cases, do -- provide for a comfortable retirement. But too many people make bad decisions, either contributing too little or choosing investments that are either too safe or too risky.

"The problem is many people make mistakes at every step of the way," Webb said.

For about 78 million Americans, though, even the defined contribution plan isn't an option, since their employers don't offer retirement savings.

"There are big barriers for small businesses that want to offer their employees a pension plan," said Steve Roberts, president of the state Chamber of Commerce, which supports the concept of the Senate bill but is still analyzing how it would mesh with current federal law. "And the smaller you are, the harder it is to comply with the mountains of federal paperwork that go with having a

For all the potential pitfalls of a defined contribution plan, John argues that it's better than the alternative of relying on Social Security alone, especially for workers in low-wage jobs, who can count on similarly small government pension checks.

"You cannot retire on 3 percent of your income," he said. "Starting to save late is better than not saving at all."

Criticism of such plans -- similar bills are pending in at least seven other states, including Virginia and Maryland -- has come from the left and the right. Liberals suspect plans like this could be a government giveaway to the financial sector, while conservatives argue it's a case of government meddling in the marketplace.

The tag team of a staunch fiscal conservative like John and the liberal West Virginia Center on Budget and Policy, then, is something of a surprise. But the latter's Ted Boettner says averting a crisis of impoverished retirees is something liberals and conservatives should agree on.

"If we can't get people started on this right now, the federal government will have to bail them out somewhere down the road, and I think conservatives understand that," Boettner, who helped draft similar legislation three years ago, said.

Sen. Brooks McCabe, lead sponsor of the bill, points to the coalition supporting it, which includes the state AARP, as a sign that West Virginia can no longer put off decisions about retirement.

"We need to start saving in multiple ways, and this is one way," he said. "We need to start looking at retirement now, instead of waiting until it becomes a major problem."

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