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**April 11, 2006****ON THEIR OWN**

## **Save Yourself**

**By [DAVID LEONHARDT](#)****Correction Appended**

WHEN my wife and I talk about paying for our retirement, we assume that we will be pretty much on our own. We are both 33, and it's hard to have a lot of confidence that Social Security and traditional pensions will do for us what they did for our grandparents.

So at a time when the national savings rate has fallen below zero — that is, Americans spent more than they earned last year for the first time since 1933 — my family has gone the other way. Laura and I have become addicted to retirement savings even though we are decades from retirement. We try to take advantage of every tax break the government offers and aim to save more than 10 percent of our income every year. We like to think of it as being frugal, but another adjective — cheap — would not be unfair.

I don't really think Social Security will be gone when I retire, and I expect to get some kind of small pension. But it seems foolish to ignore what's going on. President Bush has said that Social Security is "headed toward bankruptcy." United Airlines and [Bethlehem Steel](#) have reneged on some promises to their retirees. [I.B.M.](#), [Verizon](#) and [General Motors](#) have said that future retirees should expect smaller pensions. So my wife and I do not expect much.

Apparently we are part of a small movement of new savers. Hidden by the statistics on average savings, a growing group of Americans in their 30's and 40's are acting like disciples of Ben Franklin. You can find this group in the Federal Reserve's latest study on family finances or just by talking to people around the country.

Of course, the new generation of savers is not exactly a cross section of the population. We tend to make good salaries, be healthy — or at least well insured — and often have relatives who can help us out now and later. We're saving not only because we think we need to but also, simply, because we can.

Take a look, for instance, at the small group of households headed by someone younger than 35 that made at least \$129,400 in 2004, putting them in the highest-earning tenth of households. These families had built up an average of \$91,800 in retirement savings in 2004, according to an analysis of government data by [Moody's Economy.com](#), a research firm. In 1995, the equivalent group had just \$30,700, adjusted for inflation. The level of savings has nearly tripled, despite a decade of stock-market gyrations.

"I'm not entirely counting on Social Security or my pension," said Alma E. Cardenas, a 42-year-old computer engineer on Long Island with \$150,000 socked away. Leslie O'Connor, a 43-year-old married father of two living in Northern California, said, "I want to look past Social Security as if it doesn't exist." Jill Dorson Chi, a 39-year-old bed-and-breakfast owner in Florida, is even more pessimistic about Social Security than I am.

"We're working on the assumption that we'll have to support ourselves in our retirement," said Ms. Dorson Chi, who lives with her husband and 11-month-old daughter on Amelia Island.

This attitude is creating a surge of inequality in retirement saving. Driven by a fear that they will be in worse shape than their parents are, many well-off members of Generation X may actually end up better prepared for retirement. Yet most young families are saving almost nothing, and might have to rely on the rickety retirement structure set up by the federal government and the nation's employers.

"There's no doubt that there's going to be much more variation," said Jack L. VanDerhei, a Temple University professor affiliated with the Employee Benefit Research Institute in Washington. "Some people are smart, some are lucky, and some are on the other end of the spectrum."

In fact, for the young and poor, saving for retirement seems to have become harder over the last decade. In 2004, households headed by somebody younger than 35 that made less than \$18,500 — putting them in the lowest-earning fifth of households — had accumulated an average of just \$200 in savings. Most, in other words, had put away nothing for retirement. In 1995, the same group had savings of \$2,600 on average. That is a decline of more than 90 percent in less than a decade.

Melissa Marcello, a 39-year-old waitress at a steakhouse in Orlando, Fla., expects to make as much as \$40,000 this year, a little more than the national median for full-time workers. Even so, she says retirement is "not a thought in my head."

She automatically moves \$100 into a mutual fund every month, making her thriftier than most Americans, but she still expects Social Security to be a major part of her retirement income. "I think it will be," Ms. Marcello said. "I hope it will be. It will have to be there."

The growing savings gap will probably have big political implications, even if they are not clear now. A relatively small but influential group of workers could end up with a much smaller stake in Social Security than previous generations had. If taxes need to be raised to shore up the system, these families may resist. They may reason that they had responsibly reined in their own spending to set aside money for retirement — and that they shouldn't be asked to pay for the retirement of less careful families.

"The trend lines argue strongly for a big battle along the distribution of income over retirement financing," said Mark Zandi, the chief economist for Economy.com. "I don't see

how we're going to avoid it."

On the other hand, the new savings inequality may also make it easier for the government to reduce the future Social Security benefits of affluent families. This is a potential solution to the looming budget deficits, one that has attracted some support on both the right and the left.

"By itself, that is enough to, 'solve' the Social Security problem," said Douglas Holtz-Eakin, a former adviser to Mr. Bush and former director of the Congressional Budget Office. In the future, he added, the idea "may face less resistance than it would now because the young of today are preparing themselves."

Whatever the implications, it is clear that young people are saving for retirement differently from those who are closer to it. Across the income spectrum, retirement savings have grown during the last decade among families headed by somebody older than 45. The increases were much larger — in both dollars and percentages — for upper-income families.

But even over-45 households that were among the lowest fifth of earners had amassed an average of \$4,000 in 2004, up 21 percent from what the equivalent families had in 1995. Among the second poorest fifth, savings grew 11 percent, to \$12,900 in the same period. Still, no group of households headed by 45-year-olds and up, not even the richest, experienced as big a savings jump as the highest-earning young households over the last decade. These families are the great new savers.

The best news — at least for those of us who think more savings would be a good thing — may be that economists know much more than they used to about getting people to save more. So if our society decides it wants young families, and not just affluent ones, to put away more money, we have a good idea about what to do.

The easiest step is to make saving for retirement the default option for workers. They can opt out of their 401(k) plan if they want to, but if they do nothing, a small percentage of every paycheck will be set aside for retirement.

At companies that have made 401(k) enrollment automatic — and there are a growing number — about 85 percent of employees participate, according to academic research. When employees have to sign up themselves, only about 33 percent do so within their first six months on the job. After three years, the portion rises to only a little more than 60 percent.

A second important change would make it harder for people to take money out of their retirement account. To pay for their move to Northern California from Florida, Leslie O'Connor and his family spent much of the money in their individual retirement accounts. People who do this pay a tax penalty, but drawing down retirement savings is still "incredibly easy," Mr. VanDerhei, the Temple professor, said.

"You have all sorts of people looking at a \$10,000 or \$20,000 or \$30,000 balance and thinking, 'Well, I'm still young, and I could really use this for a new car or a new house,' " he

said.

But it's nearly impossible to make up that savings later on. Money you save when you are young has decades to grow. If a retirement account earns an average of 3 percent after inflation, 25-year-olds who put away \$1,000 will find that its buying power will have more than tripled by the time they turn 65. But money you save in your 50's won't come close to doubling by age 65.

In other words, it makes more sense to save when you're young. A penny saved at age 30 is like three pennies earned. That seems like the best argument for turning the fringe group of new savers into a mass movement.

*David Leonhardt writes an economics column that appears on Wednesdays in the Business Day section of The Times. Suzanne MacNeille wrote the [profiles](#) and contributed reporting for the main article.*

**Correction: April 12, 2006**

*A profile in the special Retirement section yesterday about Alma E. Cardenas, a computer engineer from Nesconset, N.Y., misstated the age she will reach in 2030. It is 66, not 76.*

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