Forbes.com

Adviser Soapbox

Small Biz Can Save Retirement

By Jeff Seely, Electronically reprinted from May 5, 2006

NEW YORK - As I see it, America is facing a retirement crisis. Picture a scenario where most people hit age 60 or 65 and have no choice but to keep working, asking to stay on in their current jobs; or if pushed into "retirement," forced to find a new, lower-paying job at an age when many will be unemployable. At the rate we're going, this could become the unfortunate fate for a frightening number of today's workers. It presents a big problem for the country and for the people that work in its companies. Now is the time to tackle it.

How did we get into this mess? It's simple: Think of retirement funding as a three-legged stool, in which needed savings comes from the workplace, the government and from personal savings.

Traditional pension plans are in jeopardy. Witness the recent decision by **IBM** (nyse: IBM - news - people) to freeze its pension plan or the push by **General Motors** (nyse: GM - news - people) and **Ford** (nyse: F - news - people) to scale back their pension obligations to remain solvent.

They also cannot count on Social Security, which will provide only a small portion of living costs. Add to this a personal savings rate in the United States that stands below zero and, unfortunately, none of the retirement cylinders look to be firing right now.

While the lion's share of attention is focused on big corporations and their pension problems, America's small-business community cannot "fiddle while Rome burns." There are more than 10 million small businesses in the United States. Collectively, they employ about a third of our country's workforce. More than 80% of small businesses do not offer 401(k) plans to employees (translation: about 30% of all workers don't have access to a retirement plan). And for those employees with access to a 401(k), data shows that utilization is far below what it needs to be. This must be addressed.

One could argue that the actions of any single small business may not have a big effect on the country or the economy, but how small-business owners or managers make decisions about employees can and will affect a great many lives. It's time small businesses step up to the plate.

As chairman and chief executive of ShareBuilder, a small business itself, I think we have an obligation to our employees concerning their retirement. Today, we face a myriad of legally prescribed obligations to employees, such as paying salary, withholding taxes, accommodating the disabled and maintaining a safe work environment.

Other duties fall under what I call our "moral obligation" as employers—treating people fairly, providing reasonable benefits and doing more than the minimum to facilitate retirement planning.

This may sound like an unnecessary burden for small-business owners, but I challenge anyone to find a sector in our economy that is better positioned to help solve a looming financial problem than they. Getting employees started right financially won't cost business owners much, and it can be simple to implement. It will also pay long-term dividends in the form of better productivity and lower attrition.

—If your company doesn't have a 401(k) plan, make 2006 the year you implement one. Get your employees to start saving now.

—If you have a 401(k) plan, conduct a critical plan review to determine if it's efficient. Many plans have high sales charges or fund expenses that unfairly burden employees (and you as a participant) with lower investment returns. Deducting 2% or 3% each year from a lifetime of savings makes a huge difference.

—Adopt "best practices" and get employees to use the 401(k) plan to its fullest. Encourage your workers to enroll in the plan and teach them how to use it.

And what are those best practices? At ShareBuilder, we've come up with the following "Retirement Plan Manifesto" for small businesses to adopt for their employees.

—Actively talk about your own 401(k) plan. Promote participation and endorse your plan benefits. Make your 401(k) a cornerstone of your annual benefit review.

—Build in "auto-enrollment," which automatically puts each employee into the plan. (They can opt out.) Have a goal of higher-than-90% participation, with a default contribution of 3% of gross pay.

—Provide a match. If you can afford to match, then do so. Walk the talk with your employees. Consider annual profit-sharing contributions as the alternative.

—Select low-cost, diversified investments so employees can maximize their long-term wealth accumulation goals. At ShareBuilder, we provide people the ability to choose exchange-traded funds or low-cost index funds as a core investment. Keep company stock out of the plan to avoid conflicts of interest.

—Simple is good; too many choices will overwhelm employees into a state of paralysis. Limit the number of investment options to 15 or fewer with enough diversification.

—Install a program of automatic retirement savings increases such that an employee's deferral automatically increases when there's a salary increase.

—Reduce employees' temptation to borrow and spend their retirement savings by restricting 401(k) loans to hardship cases only.

—Build in an automatic IRA rollover to ensure that departing employees secure their retirement savings instead of spending the money. Counsel them not to "cash-in" their 401(k) plan when departing.

Why should we, as employers, subscribe to these themes? Because we as business decision-makers can make a difference, and because it's the right thing to do.

With the weakened foundations of Social Security and the decay of the corporate pension plan, we as employers need to step up and promote better investing and retirement planning for our workers.

Taking care of employees, leading by example and demonstrating that you're interested in helping build their security will have a collateral benefit. And that, in turn, will do nothing but increase your own financial security.