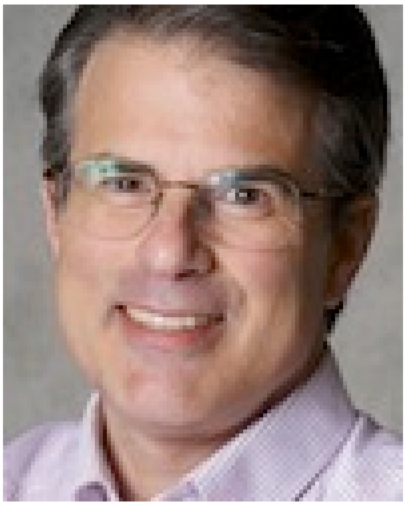
# Anecdotal Evidence: The 10% Solution

By Kerry Pechter *Fri, Jan 20, 2017*

*The smartest companies contribute 10% of pay to each employee's retirement account--not as a bonus but as a carve-out of compensation. This policy is the most effective way to help workers save enough for retirement.*



There's a straightforward solution to the retirement savings problem in the U.S. Forward-looking companies and organizations already use it. It doesn't rely on auto-escalation, peer pressure or other behavioral nudges. When done right, it enables employees to turbo-charge their tax-deferred savings.

The secret? Carve out 10% of each employee's salary and put it in their retirement accounts—in addition to a matching contribution. This was Vanguard's policy when I worked there 10 years ago and I hope it still is. Many colleges and universities practice this. Anecdotally, participants embrace this policy where it's available.

This contribution level is what policymakers recommend. It's what millions of Americans will need for a financially low-stress retirement. The challenge is to make employers and employees see the logic of trading consumption now for consumption later.

There's nothing wrong with nudges. Take auto-enrollment… Wait, I take that back. Participants who are auto-enrolled tend to become locked ("anchored" is the term-of-art) into a low contribution rate. Auto-enrollment alone, if not accompanied by an employer contribution, won't solve the retirement savings crisis.

When I was hired at the aforementioned company, I bridled a little at the modest base pay. (My self-help career books recommended that applicants ask interviewers, "Is that the best you can do?") The HR rep encouraged me to "look at the whole package," including retirement, health insurance, the potential for tuition reimbursement, and annual profit sharing.

Of course, not everybody will prefer a smaller paycheck. Some people can't commit to deferred gratification, even if they know they should. But big stable firms like Vanguard, and many universities, tend to attract conscientious long-term thinkers. I admit that it may not work everywhere.

But it might. If we (savers, employers, and the nation) are serious about tackling the retirement savings crisis in the U.S.—where a minority saves a lot but the majority saves very little, desperate measures may be required. The 10% rule is the most direct way to attack the beast.