

Buy Your Retirement Here!

Shop Early! Huge Discounts! Layaway Payments!

By Dennis Ackley

Ask employees to name the most expensive things they'll ever buy. They'll say a house, car, or their kids' education.

Why is retirement rarely mentioned? Because *retirement is not considered a consumer item*.

Few people think retirement is something they must buy. Yet, employees who end their full-time working career at age 60 and live to 85 will need roughly 25 years of their annual income. Houses often cost two to four years of the buyer's annual income.

Test of Basic Retirement Savvy

People are generally smart shoppers – except when it comes to retirement. Savvy *retirement income consumers* who realize retirement is their most expensive and important purchase would easily get an 'A' on this test:

#1. A couple accustomed to \$50,000 a year in "spendable income" wants to retire at age 65. If they expect to live to 85 and keep their current lifestyle, their retirement will likely cost (in today's dollars):

- A. \$250,000
- B. \$500,000
- C. \$750,000
- D. \$1,000,000

#2. An employee who expects to retire at age 60 and live to 85 and who currently has \$100,000 in a 401(k), (assuming inflation and investment rates are the same), should view that money as:

- A. Taxable income
- B. Help with medical and long-term care expenses
- C. Roughly \$4,000 worth of income a year
- D. All of the above

#3. At age 65, a typical retiree who wants the most value should choose:

- A. \$100,000 lump sum
- B. \$1,500 a month for life
- C. Both are about the same value

#4. At age 65, a typical retiree who has \$100,000 and wants a monthly income that will last a lifetime should expect to receive each month...

Part 1 ... **by buying a lifetime annuity** about...

Part 2 ... **by withdrawing the same dollar amount each month from an account invested in large company stocks and U.S. government bonds** about:

- A. \$300
- B. \$700
- C. \$1,500
- D. \$3,000

Retirement for Sale

Retirement illiteracy is rampant. Most people have no idea how much their retirement will cost or how to go about buying it.

Since employees don't consider retirement something they must buy, they ignore most retirement-related messages. Surveys show that nearly all workers have heard "start saving early" and "you'll need 60% to 80% of your pay in retirement." But the messages are having too little impact.

About a third of eligible employees don't save regularly for retirement. And around two-thirds of the baby boomers – roughly 50 million people who are only a few years away from retirement – have no idea how much money they'll need or have. By these measures alone, our country's retirement education efforts are failures.

Even our government doesn't view retirement as a consumer item. If it did, it would likely require the disclosure of much more "retirement product information." Candy bars must have a government-required label that explains how that "food" helps meet your daily nutritional requirements. How many savings, pension, or Social Security booklets have labels showing how well those plans will meet the employees' lifelong retirement requirements?

Until we begin explaining retirement in consumer terms, for most employees retirement simply isn't going to work.

Reinventing Retirement Education

Continuing to send the same retirement education messages to people who have already heard them – and who have not changed their behavior – is a waste of effort.

We need to create high-impact messages that are vivid, easy to understand, and in dollars and cents (not percentages). They must be personal, simple, and in consumer-oriented terms that describe the “purchase of retirement income.”

Here is a simple, high-impact technique: A couple looking ahead to 20 years of retirement and accustomed to living on \$50,000 of spendable pay a year will need about \$50,000 worth of income a year for 20 years. That's $20 \times \$50,000 = \$1,000,000$. It's that simple. That's the “retail price” of their retirement.

Of course, it's a bigger amount if they retire earlier, live longer, or if inflation outpaces their investment gains. It's not as much if they are willing to accept a lower standard of living or keep working.

Taking a consumer's view, employees don't need to pay the full retail price – or pay it all at once. They'll have help from Social Security, their employers' savings and pension plans, their personal savings and part-time income, and the power of compound earnings. However, if employees don't have the amount they owe at the end of their full-time employment, they'll get only the part that they've paid for.

Sure, this easy-to-understand approach lacks precision. But it provides impact. And without impact, there's little motivation to learn more details. The consumer approach is not a panacea – only a first step toward more sophisticated knowledge.

High Cost of Ineffective Retirement Education

Ineffective retirement education will not change how much money employees need to retire – only how much they have. Unfortunately, employees who cannot afford to retire have only three choices – continue working, reduce their financial expectations, or both.

Some people facing these choices will likely blame someone else for their fate. Whose fault could it be? Who has deep pockets? Today, lawsuits are brought over spilled coffee that is too hot. Won't some people try to sue their former employers over too little retirement income or ineffective retirement education?

Most employers are working hard to educate their employees by using “best practices.” But there aren't many best practices in retirement education. In surveys, plan sponsors who say they have excellent retirement communication programs do not believe their employees will be better prepared for retirement than employees at other organizations.

Employers are not to blame for the failure of retirement education. It should have been taught in schools or homes. But it wasn't and still isn't. Employers are no more responsible for teaching about retirement than they are for explaining how to finance a house or how to manage credit card debt. Yet the reality is, if employers do not educate employees about retirement – and other financial aspects of life – who will? And organizations that choose to make the effort should use teaching techniques that achieve the intended results.

Consumer Approach Is Only the Beginning

When employees understand retirement is something they must buy, they'll start making consumer-like comparisons.

For example, some baby boomers are deservedly proud they've built their retirement savings to \$100,000 or more. Yet when they compare that to the retail price of their retirement, they'll see \$100,000 as \$4,000 worth of income each year for 25 years ($\$100,000$ divided by 25 is \$4,000 – assuming inflation and investment rates are the same). Naturally, if their investments do better than inflation, the \$4,000 will increase in value.

As employees become savvy retirement consumers, they'll be motivated to learn the answers to:

- How can I get a more precise estimate of how much money I'll need?
- How much will Social Security pay?
- How can I be sure I'll have income for as long as I live?
- Will I owe taxes on my retirement income, and at what rate?
- Will I need to work longer than I planned?
- What about health care and nursing care expenses?
- Will I need to sell my home?
- What about future inflation rates and investment performance?
- What types of investments are best to meet my savings target?
- How can I set a budget today to save more money for retirement?

The consumer-oriented approach is a starting point for the millions of people who don't know the answer to: "What is the price of your retirement?"

Until we begin explaining retirement in consumer terms, for most employees retirement simply isn't going to work.



Answers #1-D, #2-D, #3-B (actuarially, the lifetime income is roughly twice as valuable), #4-Part 1-B (a life only, single premium annuity from major insurance company), Part 2 - A (this is "dollar-cost averaging" in reverse ... see www.scottburns.com and click on 'The Spenders Portfolio').

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For 20 years Dennis Ackley has been an advocate for clarity and accountability in retirement education – helping workers gain the knowledge to achieve the financial future they want. His award-winning communication programs on retirement, investing, and health care have reached three million employees at hundreds of employers. For more articles and more information, visit www.DennisAckley.com.

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