Help 401k Participants *Discover* Annuities

By Dennis Ackley

There's a simple way to get more retiring 401k participants to understand annuities…and it's not how you think.

Unlike architects, engineers, and financial advisors, most 401k participants are not financial analytics. Rather, most people in 401ks are 'the rest of us' – ranging from slightly math averse to borderline innumerates.

'The rest of us' appreciate restaurant bills that show suggested gratuity amounts. In stores, they're grateful when the '35% off sale' signs show a list of 'if the price was $X, it's now $Y.'

This doesn't mean 'the rest of us' aren't smart or that they don't have large 401k balances. It just means they don't process numbers the way you and other financial analytics do.

What does this have to do with selling annuities? Everything – if you want 'the rest of us' to be your clients and customers.

They Don't Do What They're Told

Most of 'the rest of us' are clueless about annuities. That's why they aren't calling you. It's a sizeable potential customer base you're missing.

If you've ever tried to sell annuities to any of 'the rest of us,' in the traditional meaning of selling, it's too often been a waste of time.

'The rest of us' need to *discover* how annuities can help them. They need to want to buy them.

The key is to present ideas in ways they immediately understand.

For example, they may not be great with numbers, but they certainly understand shopping. And using what they already know to learn new things is a key adult learning principle. So why not present the financial aspects of retirement as the same as any other purchase?

Present ideas in ways adults immediately understand…such as describing retirement as a purchase.

Retirement is a Consumer Item

Start by helping them discover what retirement financial lifestyle they want to purchase. Give them a clear and easy way to estimate the price of that lifestyle. Then, help them find all the discounts. And finally, let them see the value of a lifetime guarantee.

Certainly, telling them the answers shows your expertise and saves time. But for 'the rest of us,' telling ain't teaching. Ask any adult education expert.

Rather than telling them how much they should spend each year and how long they'll need it, involve them in discovering those amounts. Ask them big-picture questions. For example, do they want to live in a bungalow or a fancy beach condo…stay where they are or on cruse ships…stop working as soon as possible or keep going as long as they can? Do they want to spend more, the same or less than they do now? And for how long – longer than their parents, grandparents or other relatives…or not as long?

You can use their answers to describe retirement as something they buy. Step one: show them how the 'retail price' is set. Here's an example. "You said you'd like to spend $40,000 a year and that you might need that income for 25 years – from age 65 to 90. To get your estimated retail price we'll simply multiply $40,000 times 25 years….that's (pause) $1,000,000."

Expect to hear, "Wow! No one ever explained it like that before."

Life Drives the Price

This simple explanation helps 'the rest of us' discover the impact of longevity and its risk. You can emphasize it by saying, "You can see the longer your retirement, the higher the price. Lord forbid, if you're run over by the bus at your retirement party,

you'll need around…$0 retirement income. On the other hand, if you stop working at 60 and live to 105, you'll need income for 45 years. That's probably going to be more money than you made in your entire working career. Multiply $40,000 a year times 45 years and you get…$1,800,000. Do you see why no one can tell you exactly how much you'll need for retirement?"

"I've got some good news. You don't have to pay the retail price. You can buy your retirement at a big discount…maybe even covering the full price."

"From the 'retail price,' subtract the amounts from various sources that you expect will be paid during retirement – Social Security, pensions, 401ks, 403bs, IRAs, personal savings, etc. For income benefits, multiply the annual benefit amount times the number of expected years the income will be needed. If future part-time work is planned, add up all the income that is likely to be earned during retirement and subtract it from the 'retail price.'

Yes, there are important things that haven't been addressed yet…inflation, taxes, health care, and so on. You're keeping it simple – helping 'the rest of us' understand the big picture. You'll get more detailed later as they ask questions. If you start with too much sophistication, you'll probably lose 'the rest of us'…and the sale.

It's better for you when they're engaged in the conversation – not just having you tell them facts they're not yet motivated to learn.

If They Want More Money

When you subtract the 'discounts' from the 'retail price,' in most cases, there will be a gap – the amounts paid (the 'discounts') won't cover the price. Some choices are clear. Lower the price, work longer, or both.

Here's where you can offer a way to make the 401ks account balance go further.

"Based on what you've discussed, to buy the retirement you want, you need an additional $180,000. That amount divided by 25 years is $7,200 a year. One way to help close that gap is to diversify your 401k balance by putting let's say $100,000 into an annuity. It would pay around $7,800 a year for as long as you live. That's $195,000 over 25 years – more if you live longer. By moving some of your 401k into an annuity you'd reduce your balance, but you'd increase your monthly income over 25 years. In this case, you'd cut your gap to $115,000. But we've still got some work to do.

One advantage of annuities is that they come with a lifetime guarantee. It's a promise to keep paying for as long as you live…even to age 105 or longer. Let's be sure to discuss both the advantages and disadvantages.

We've covered just the surface of buying your retirement. Would you like to dig deeper? I've got a computer program that gets more detailed."

Lump Sums Lose Luster Over Retirement Years

People who know nothing about diamonds would usually choose a large one (filled with flaws) rather than a small one (nearly flaw-free)…unless someone helped them use a microscope to discover more about the value of diamonds.

Due to naivety, most of 'the rest of us' would not consider giving up a large $100,000 lump sum from for a small monthly income for life of around $650…unless you help them discover the real value of a lump sum by showing it in light of 25 years of retirement.

"Let's say you move $100,000 from your 401k into an IRA that's held at a bank to get FDIC insurance. Assuming interest and inflation rates are the same, when you divide $100,000 by 25 years, that's $4,000 a year – only $334 a month in buying power…then your account is $0. But what if you used $100,000 to purchase an annuity…." You know how to tell the rest of this story.

Because 'the rest of us' are naive about withdrawals, they often believe that with stocks averaging around 10% growth over many years, they can take out 10% each year without touching our balance.

Busting this myth is one of the toughest things for 'the rest of us' to discover. Perhaps you can show the famous Trinity Study or one of the ubiquitous Monte Carlo scenarios – all pointing to around 4%

as probably a safe withdraw rate to avoid outliving an invested lump sum. A few experts recommend only two percent and some a bit above five percent. But not ten percent! That's because regularly withdrawing a set amount is *dollar cost averaging **in reverse***. When the market dips, more stocks/bonds must be sold to make the level payment. And when the market goes up, there are fewer stocks/bonds to participate in the increase.

Some times, by dividing a lump sum by 25 years helps 'the rest of us' discover why four percent makes sense. But dollar cost averaging – forward or reverse – is a difficult concept for many of them.

Replace Replacement Ratios

Don't talk about replacement ratios with 'the rest of us.' Sure, it's a more sophisticated concept and a short-cut for analytics. But it hides longevity, the assumed lower tax rates, and other key assumptions. For 'the rest of us,' it's important to see the factors that could affect the cost of their financial future – including higher inflation, taxes and medical costs, unforeseen world events, the death of spouse, a prolonged illness, or outliving our savings. Annuities can help reduce several of these risks. So why hide the risks in a replacement ratio?

The Largest Purchase They'll Make

This consumer-oriented approach is intended to get 'the rest of us' involved in learning about their choices at retirement. It's simply a start – not the end. Unfortunately, too many of them never get started.

Annuities are not for everyone. But until 'the rest of us' discover how they might help, they will continue to ignore them.

Certainly, it would be best for 'the rest of us' to discover in their 20s or early 30s that our future financial lifestyle will be the largest purchase they will ever make. But until that happens, too many of them will be scrambling late in their careers to find ways to make the best of the money they end up with.

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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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