For Most People, Retirement is Just Not Going to Work …*Until Education Measures Matter*

By Dennis Ackley

Until success is clearly defined, and adult learning theory-based content is aligned with that definition, "retirement education" will continue to be a variety of topics told to adults who are not motivated to learn. This is the failed approach that's been used for 30 years.

Virtually every training and education program – including teaching brain surgeons, sheet metal workers, and espresso machine operators – has measures to determine if the individual has attained the intended success level. These measures are also used by instructional designers to develop the curriculum – creating an effective and efficient means of "teaching to the test."

But today's retirement education has no measures of individual success.

How can retirement education be designed well or improved if no success measures exist?

Adults can estimate the price of a car or house they want, why not the price of their retirement?

Enormous room for improvement

Here's a stark indication of the failure of retirement education: most American workers, *including those age 65 or older,* admit that they have no idea – cannot even guess – how much money they'll need to maintain their lifestyle in retirement.(1) Imagine if half the high school graduates had no idea how to do math. Wouldn't we question the teaching methods?

Plan sponsors are keenly aware of the failure.

> ***Eighty seven percent of plan sponsors do not believe most employees are or will be financially prepared for retirement.*** (2)

Think about that. Only 13% of plan sponsors believe at least half of their employees will be successful in achieving the paramount goal of a ***retirement*** plan – helping workers retire successfully.

The 401(k)s, 403(b)s, and 457 Defined Contribution plans that employers offer as "retirement plans" would be better named **Un**-Defined Benefit plans. That's because no benefit is assured, most employees guess rather than "define" their contribution amount, and they, not the employers, are the major contributors to the plans. Defined Contribution is one of the many out-dated terms and concepts left over from when these plans were originally created to supplement traditional Defined Benefit plans – which have been rapidly vanishing.

Because Un-Defined Benefit plans were never designed to be "retirement plans," there are few surveys or studies that address the plans' retirement effectiveness. Rather, these plans are often assessed by benchmarking – a quality improvement tool. Outside the retirement industry, benchmarking is used to make a good process even better. Ask engineers or quality improvement specialists if they would use benchmarking to assess a program or process where the comparison group had an 87% failure rate.

When plan sponsors benchmark their failing plans against other failing Un-Defined Benefit plans, the finding is tantamount to "our plan is not any worse than other failing plans." Benchmarking Un-Defined Benefit plans ignores the plans' dismal performance in achieving the primary goal. Perhaps, if the failure was highlighted, the retirement industry would be even more motivated to dramatically improve employees' retirement success.

Benchmarking does have a place in evaluating established aspects of retirement plans. For example, a plan's investment funds should be benchmarked against other investments in light of the stated objectives, indexes, and other success measures. But plan sponsors should question the appropriateness of benchmarking plan elements that have no record of success.

Benchmarking would also be valuable if the key measures were linked to retirees who used voluntary retirement plans to achieve their retirement dreams. Wouldn't it be helpful to compare your plan's progress with benchmarks set by what successful retirees knew and did during their working careers, how and when they learned it, and other factors that helped them achieve their retirement goals?

Simple concepts remain a mystery

Adults can estimate the price of a car or house they want, why not the price of their retirement?

When asked the amount of money they'll need for their retirement, most workers are unable to think through the simplest issue: "If I stop working at age 65 and live to 95, I'll need 30 years of retirement income…and if I want a lifestyle that costs $30,000 a year…times 30 years…that's $900,000."

This estimate of their desired annual ***lifestyle*** multiplied by their expected ***years of retirement*** lacks precision. Yet, it's far more precise than what most Americans know – which is often "no idea."

And it's a personally meaningful estimate because it's an amount they created and understand.

Helping adults ***begin*** to define their personal retirement dream is a start – not an end. And it's essential in sparking their motivation to acquire and use a more sophisticated estimate. This motivation is something most Americans – especially younger ones – never get from today's retirement education.

Motivated learners seek answers to questions that are important to them (a key adult learning principle). For example, "What if I want a more expensive lifestyle…or live longer…or wait a few years to start saving…what about inflation and taxes…or Social Security and other sources of income…or health care costs…how can I get a more detailed estimate?"…and so on.

Helping motivated learners get answers to their questions is relatively easy. Getting unmotivated learners to understand retirement issues – the current "education" approach – is nearly impossible.

Some highly intelligent people have created sophisticated computer-based programs that predict an individual's financial future under various scenarios. Dozens of these programs – many available free or at low cost – are available by searching the Internet for "retirement estimators." Unfortunately, the majority of workers – including those who could make great use of the information – never become motivated to use them. One group that does use them probably needs them the least. These are analytical thinkers who want to see if the projections and decisions they have already made are reinforced by other retirement estimators.

Naïve employees who have small plan balances and no idea of the price of retirement will eventually become motivated to have a successful retirement…probably in their late 50s or older. Unfortunately, in the new Un-Defined Benefit retirement world, it's pretty much impossible for them to save five to ten years of their annual income in their last few years of full-time work.

What gets measured gets done

The few measures that exist today in retirement education tend to focus on how well the participants enjoyed the materials, the presentation, and the presenter. If these are truly key measures in acquiring the knowledge to retire successfully, it might be best to hire comedians.

Although technically called employer-sponsored, defined-contribution plans, the reality is they are ***individual*** retirement plans. Each individual – not the employer – controls contributions, investments, and payouts. Yet no ***individual measures*** are used to determine success. Antiquated regulations force plan sponsors to be concerned about average rates of plan participation and contributions. None of these plan-related measures has much to do with what matters the most – helping individuals define, pursue, and achieve their personal goal for their retirement.

Here's one of the few overall plan measures that matters: the plan's ***median*** account balance (50% above, 50% below) for employees nearing retirement age. If it's less than $100,000, you probably don't want to call it a "retirement" plan. That's because $100,000 times 4.5% – around what many experts say is a safe withdrawal rate to not outlive the money – is $4,500 a year. That's only $375 a month! If you believe 4.5% is not right, use a percentage you prefer. But, the experts say, it probably shouldn't be as high as 7%. And if it was, that's just $584 a month. Yes, annuities can pay more, but they have some disadvantages. Employees should learn this in their late 20s – not in their late 50s.

Perhaps, to be a “retirement plan,” the median balance for near-retirement employees should be $200,000…or much more?

Plan sponsors are not to blame for the failure of retirement education. It should have been provided in high school. It wasn’t. Regulations and plan designs should have been redone in the late 1980s when the purpose of 401k plans was completely changed. With a few keystrokes on Selectric typewriter, most 401k ***Supplemental*** Plans became 401k ***Retirement*** Plans. The only change was the new name. Evidently, that wasn’t enough to make it clear to employees that they were now fully responsible for creating and managing their own investment plan for retirement. Nothing was done to ensure employees had the knowledge they needed to start being successful in using 401ks to create their desired future lifestyle income.

In theory, there’s nothing wrong with using Un-Defined Benefit plans as retirement plans. They will work ***if employees do all these things:***

1. Define the benefit – get a goal.
2. Start saving early – probably before age 30.
3. Contribute a sizable amount – probably more than 8%, perhaps much more.
4. Invest wisely – diversify, be significantly in stocks.
5. Use the money only for retirement.
6. Make certain the income lasts a lifetime.

Are most of your employees doing all these?

Setting the bar for education

If employers offer retirement education, they should require the retirement education providers to prove they actually educate employees. This is especially important if any of the participants’ money acquired through plan fees is used to provide the education. Employees should be getting value for their money.

At a ***minimum***, retirement educators should ensure that employees (participants and non-participants):

1. Know the dollar amount (at least in today’s dollars) needed to provide the lifestyle they want to have when their full-time working career ends.
2. Know how much to contribute today so they can achieve their dream…and know the personal cost of waiting to save or saving too little.
3. Know how to invest in a way that can help them achieve their dream.
4. Know how to receive their retirement money so it will last their lifetime.

These four basic success indicators are rarely measured or defined. So learning activities intended to provide this knowledge are rarely conducted.

If telling worked, why not by now?

Today’s retirement education is based largely on experts ***telling*** adults what to do. Unfortunately, telling does not work with adults who are not motivated to learn. Ask any adult-learning specialist, “Is telling teaching? Can you teach the unmotivated?”

A person who is motivated to have a garden will seek information – reading books and seed packages, and asking experts in garden stores. Someone who has no motivation to have a garden will ignore gardening booklets and won’t attend “how to garden” meetings. Isn’t that what’s happening with today’s retirement education – no matter how pretty the retirement books are or how funny the jokes are at the retirement meetings?

Naturally, if experts from investment organizations conduct retirement education, these experts will tend to focus on what interests them – investing. Although knowledge of investing is important, it’s not the most important thing for employees who are just beginning to use their plan. And investing is not the most personally motivating thing for most adults to learn. It’s much like emphasizing how to prune a garden when the audience isn’t motivated to have one.

The most important – and most personally motivating – thing for adults to learn is the estimated price of their personal retirement dream. It’s their goal. And there’s no way to achieve a goal unless they have one. Will they want to live in a modest bungalow or a fancy condo…will they want to travel or stay put …will they want to work forever or retire as soon as possible…will they want to spend much more money than they do now, or less, or the same? And for how long – longer than their parents, grandparents or other relatives…or not as long? These types of personal desires motivate people. Without motivation, being told by an expert what to do – even if the advice is spot on – is pretty much waste of time. On the other hand, having an expert address questions from an audience of motivated learners is enormously valuable.

Key to estimating the price of retirement is the knowledge of the sizable cost of receiving retirement income that will last as long as they live. Moreover, if employees do not contribute to their retirement savings, there's little need to understand investing. Thankfully, more target-date and related types of investments that greatly simplify employees' investment selections are being added to plans. Perhaps this will allow more time to be spent helping employees discover and define their retirement dream and estimate its cost.

Destroy the "right answer" illusion

Too many retirement educators try to live up to their "expert status" by telling people the "right answer" or "the number."

Allowing employees to believe there's a universal "right answer" or "number" is worse than misleading – it's dishonest. Here's a somewhat exaggerated example that shows why. Someone who has the misfortune to be run over by the bus at her retirement party doesn't need much, if any, retirement income. On the other hand, someone who retires at age 60 and lives to age 100 needs four decades of income – probably more money than he earned during his entire working career. Naturally, the amount most retirees will need is somewhere between these extremes. But no one can say precisely how much money an individual's retirement will cost.

This example highlights the longevity risk. Dozens of other risks could also affect the cost of employees' financial future – including higher inflation, taxes or medical costs, unforeseen world events, the death of spouse, or a prolonged illness. Uncertainly of the future is reality. Potential risks shouldn't be hidden from employees.

The illusion of a universal "right answer" hides what employees need to discover – they are responsible for setting, pursuing, and achieving their retirement dream. And they are the ones who can best answer "How much will I need?" When employees have some idea of the lifestyle they want when their full-time careers end, experts and computer programs can help them develop more detailed and sophisticated answers.

No automatic motivation

The latest trend in Un-Defined Benefits plans is the use of "automatic" plan provisions. In simple terms, these are plan designs that attempt to get employees to do what some retirement experts consider are the "right things" in using voluntary retirement plans.

The auto-everything fad is full of good intentions – auto-enrollment, auto-contribution increases, auto-time-targeted investments, auto-rollovers, etc. These should have been required in the 1980s when these plans became retirement plans. Back then, creative plan designers and attorneys could probably have found ways to implement these or similar features using employment agreements and other techniques.

But automatic plan design features alone can never accomplish what knowledgeable, motivated individuals can do to achieve their financial lifestyle dreams.

Unfortunately, the majority of younger employees – whether they enrolled voluntarily or automatically – take their money out of the plans when changing jobs. The reason is clear: they aren't motivated to buy their retirement. But they are motivated to buy a big-screen TV, a vacation, or some other "dream purchase."

Employees won't achieve retirement dreams they don't have

Ultimately, the success of retirement education must be judged by the knowledge individual employees acquire as the result of it. Do they know the estimated amount they need to support their personal retirement dream? Do they know how much they should be contributing today and how to invest to help reach their goal? And do they know how to make sure the amount they have at retirement will last as long as they live?

Plan sponsors need to manage the retirement education providers to achieve these outcomes. A good place to start is to remind them that the purpose of the plan is to help employees retire successfully. And that's a measure you intend to ask about each time you review the provider's performance.

Ask retirement education providers how they'll prove their education works to help each employee (including non-participants) understand the four key things they need to know to begin using an Un-Defined Benefit plan. Ask the provider what techniques they will use to measure the results…what they will do with results…and what will they do to help motivated employees who want to learn more? If your education provider doesn't have good answers to these simple questions, you may want to find a new provider.

Here's a simple step you can take. Sit in on a retirement education meeting. As you listen to the content, sort it by the four things employees need to know to begin using a plan successfully. If, for example, employees are being told how much a six-pack will cost in 20 years or where the name 401k came from, ask the retirement education provider after the meeting how that knowledge supports the key things employees need to know? It may not be a bad thing to know, but other knowledge maybe more important and more motivational.

Many plan sponsors have policy statements to guide their investment-related decisions. Perhaps you should write out what outcomes are expected from the work of the retirement education providers.

What matters most?

The ultimate goal of any retirement education approach must be to create employees who have a passion for achieving their personal retirement dreams. Personal motivation is the most effective adult education tool.

Some in the retirement industry refer 401(k)s and other Un-Defined Benefit plans as "American's Retirement Plans." If these plans fail to help the majority of the eligible employees retire with a reasonable level of comfort and dignity, America could face a sad and costly social and financial problem. The alternatives are few and not likely good. For millions of Americans, retirement cannot be…just not going to work.

Abbreviated History of Retirement Education

From the 1950s to the early 1980s

- Retirement education reflected the paternalistic times – largely "selecting your Defined Benefit pension payout."
- 403(b)s became law in 1958, 457s in 1979, 401(k)s were "discovered" in early 1980s – all intended to *supplement* DB plans.
- In each case, separate Defined Contribution education programs were created to show employees how to supplement their DB benefit in a "pre-tax" way – it was not "retirement education," mostly "tax deferral and investment awareness."

In the mid 1980s and early 1990s

- Most "Supplemental 401(k) Savings Plans" were simply renamed "401(k) *Retirement* Plans" …but 401(k) DC education and plan designs were not changed – though many DB plans disappeared or were frozen.
- The retirement world was dramatically altered – employees became fully responsible for defining and achieving their retirement dreams with DC plans…but often without any specially designed education and virtually no pilot-testing to see if the approach would work.
- The *"Do What Others Do"* HR fad locked in the early 1980s "supplemental approach" to 401(k) education and plan design – few "how to use a 401(k) to retire successfully" education programs were ever created.

In the mid 1990s…continuing today

- The "*HR best practices*" movement further entrenched the 1980s approach.
- Overall plan participation and contribution averages became "best practice measures" for retirement education.
- Research shows most employees do not know how to use the plans to create significant retirement income.

Retirement education – although conducted with good intentions – remains adult learning theory-free and non-individual goal targeted or measured.

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(1) *Annual Quicken Fiscal Literacy Survey*, 2001, conducted by Roper Starch Worldwide.
(2) *Annual 401(k) Benchmarking Survey, 2005/2006 Edition*, Deloitte Consulting, International Foundation, and the International Society of Certified Employee Benefit Specialists.

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