

Retirement Education Needs to Make a Lot More Cents

By Dennis R. Ackley

Retirement savvy and savings—most employees have far too little of both. It's not because retirement savings messages have failed to reach them. It's because the current messages lack impact.

Recent surveys point out the communication failure. Most people say they've heard the retirement savings messages. Yet they don't have a clear and meaningful dollar target—“How much money do I need to retire?”

Without a clear dollar target, employees (even investment advisers) cannot set realistic savings or investment objectives. They cannot determine “retirement risk tolerance”—the risk of inadequate income during their years of

retirement versus the risk of short-term investment loss.

According to surveys, most employees say they'll be in good financial shape for retirement. They know it's best to start saving early. And apparently, they feel good knowing they don't need 100% of their pay in retirement—just 60% to 80% will do.

But most people are clueless about how many dollars their retirement will cost. Many of them prefer not to be told. That's probably because about a third of them haven't saved a dime.

Like the “eat healthy” messages, nearly everyone has heard the retirement messages, but they don't act like it.

Without a meaningful dollar target, few employees will be motivated to learn about their retirement savings needs and opportunities. (If you don't know where you need to go, why plan the trip?) Naiveté fills the void.

Maybe that's why **people say they know about retirement...but they don't act like it.**

- 95% say they know they should start saving early. ⁽¹⁾

- 86% of employees say they know they need 60% - 80% of their pre-retirement income. ⁽²⁾

- 62% of workers say they are confident about their prospects for retirement income. ⁽²⁾

Yet 36% of eligible employees do not save regularly for retirement. ⁽²⁾

Yet 68% of them have never estimated the retirement *dollars* they'll need ... and nearly half who have tried to find out still don't know. ⁽²⁾

Yet 33% have saved nothing. ⁽²⁾ And 55% of employees say they get “very discouraged” when they are told the amounts they need to save. ⁽³⁾

The Dangers of Not Knowing and Not Preparing

It's no crime to be ill informed or ill prepared. Yet it will be expensive—not for the naive, but for the people who are still working when the naive no longer can or want to.

Workers who reach retirement without enough money to retire have only three choices: keep working, lower their standards of living, or go after “deep pocket” organizations. The first two choices aren't attractive. So watch for lawsuits and politics.

Retirees with too little income could say they were inadequately informed of the huge risks of not properly saving or investing for retirement. Recently a fast-food chain had to pay because its coffee was too hot. In a few years, will juries force unions and corporate America to pay baby boomers because their retirement incomes aren't hot enough?

The other deep pocket is the government. Retirees (voters) could back representatives who promise better benefits.

The Inescapably Expensive “Pay Now or Pay Later” Aspects of Retirement

If the inadequately-prepared-to-retire retirees successfully pursue the deep pockets, then prices or taxes—or both—will rise. How much? If 20 million of the 76 million baby boomers (born between 1946 and 1964) must be paid just \$5,000 a year extra each year from age 65 to 85 ... that's 20 million X \$5,000 X 20 years ... \$2 **trillion**. This could be much larger if they need more money, if there are more in need, or if they live longer.

The “good news” is that the baby boomers' children and grandchildren will have 20 years or more to pay it.

Few employees seem to understand that saving too little or investing too conservatively, or reductions in Social Security, Medicare, or pension benefits—only affects the funding or payouts. All this has nothing to do with how much they'll need in retirement—only with how much they'll have.

Retirement reality is cruel. Employees, employers, or both pay now by funding retirement plans—or someone else pays later.

Employers Have a Huge Opportunity

Employers aren't to blame for employees' naiveté. In fact, most employers are working hard to provide employees with a solid retirement education. They are doing so even though they do not owe that to employees any more than they are obligated to teach them how to buy a house or how to save for a child's education.

However, employers need to play a key role because they have the *opportunity* to reach employees. More reality—if not employers, who?

If the surveys are right, today's retirement education messages are being heard—but they lack the impact to change employees' behavior.

Revamping Retirement Education

Breaking through to employees requires new, high-impact education techniques.

First, each employee's retirement income target must be clear and personal—stated in dollars, not percentages. Second, the retirement savings messages must be repackaged—making the “purchase of retirement income” more like buying any other consumer item. **Make It Simple—Yet Meaningful**

Here's a simple, high-impact technique:

People who intend to retire at age 60, for example, will likely need income for 20 to 25 years (to age 80 or 85) during their retirement.

A couple looking forward to 25 years of retirement and accustomed to living on \$40,000 of spendable pay a year will need about \$40,000 each year for 25 years. That's 25 years X \$40,000 a year—\$1 million. It's that simple.

It's an even bigger amount if they retire earlier, live longer, or if inflation outpaces their investment gains. It's not as much if they're willing to accept a lower standard of living or keep working, or if their investments do well.

High-Impact Tool Number One: The Retirement Retail Price Estimator

An Estimate of the Retail Price of Your Retirement

Here's a ballpark estimate of the retail price of your retirement:

_____		_____		_____
Your current annual, spendable pay (maintaining your current lifestyle)	times	number of years you expect to live during retirement	equals	ballpark estimate of the "retail price" of your retirement.

Naturally, if employees want to improve their lifestyle—traveling or living in a more expensive area—they'll need more. If they are willing to reduce their expenses, they won't need as much.

It's only an estimate. It may be off by 10% to 20% or more.

Unfortunately, it's far more accurate than most employees' perceptions. Try it yourself. Ask a few employees, "What's the price of your retirement?" Don't be surprised if most employees just look at you—unsure if that's even a logical question. Yet these are the people who have the responsibility for making their retirement investment decisions.

Retirement Is a "Required Purchase"—Pay It Now or Lose It Later

To have high impact, retirement should be communicated as a "layaway purchase." And maybe retirement is better called "financial independence." It's something employees intend to have—they just haven't paid for it yet.

Fortunately, employees don't need to pay the retail price—or pay it all at once. They'll have help from Social Security, their employers' pensions and savings plans, their personal savings—and the power of compound earnings.

On the other hand, if employees haven't paid the amount they owe by the time they need it—they get only the part that's paid for.

High-Impact Tool Number Two: Retirement Layaway Package Cost Estimator

The Estimated Cost of Your Financial Independence Layaway Package

Here's a ballpark estimate of how much of your retirement retail price you owe.

Let's say you're picking up your "financial independence package" from layaway today (you're retiring). Here's an estimate of the amount you need to pay to get the "full package." For help in filling this out, check with the company's benefits department for a projection of your pension payable at retirement—also ask for an estimate of your Social Security benefits or call 1-800-772-1213.

Example

Retirement Retail Price—including your "lifestyle adjustment" (redo the Retirement Price Estimator using the spendable income you want during retirement) \$ _____ \$875,000

Credit—Amounts Already Paid – \$ _____ –\$ 75,000
 Minus *Single Sum Amounts*—your current 401(k) account, IRAs, employers' plans that pay a "lump sum" (including your spouse's plans), and other personal savings accounts

Minus Lifetime Payment Amounts —Social Security, employers' pensions payable at retirement (including your spouse's amounts) – \$ _____ –\$ 690,000

Example

<u>\$27,600</u>	times	<u>25</u>	equals	<u>\$690,000</u>
_____	times	_____	equals	_____
Annual income payments		number of years you expect to live during retirement		lifetime payment amount.

Your Cost—Paying Off Your Financial Independent Package

Estimated amount you'll need to pay off your layaway package.

This is your estimated savings and investment target—the discounted amount of your full retail price. Naturally, a more detailed analysis will provide a better estimate. And as a sophisticated retirement income consumer, you know how important it is to develop a complete financial independence plan. \$ _____ \$110,000

Comparing What They'll Have to What They'll Need

Only when employees have a clear idea of their retirement retail price and their financial independence package payoff amount will they

become better "retirement income consumers"—able to make consumer-like comparisons.

For example, some baby boomers can be proud they've built retirement savings of \$100,000—or even more. And some organizations have

introduced retirement plans that feature an even larger single sum at retirement. The amounts sound like a lot. But employees with a “compared to what I’ll need” consumer’s view would see \$100,000 as \$4,000 worth of income a year for 25 years (\$100,000 divided by 25 years is \$4,000 a year—assuming inflation and investment rates are the same).

Meaningful Messages Spark Motivation

Retirement income consumers know what questions to ask—and they’re motivated to get the answers. How can I get a more precise estimate of the money I’ll need? Where will the money come from? How much will Social Security pay? 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 are my risks if I make aggressive investments compared to my risks of having too little retirement income? What types of investments are best to meet my savings target? How can I set a budget to save more now?

High-impact Retirement Education Techniques

Employees need to start viewing retirement income as a consumer item—the largest purchase they will ever make.

To do that, retirement income must be described in realistic terms—20 to 30 years with no paychecks. Retirement is the time former employees live on what they’ve put away, received from Social Security, and earned through employers’ plans. To prepare, employees need to know the “retail price” of their retirement income. They must understand how to make the best use of the time they have to pay off their “layaway purchase.” This consumer approach to retirement education should motivate employees to use libraries, bookstores, investment advisers, the Internet,

and employers’ programs to become better educated retirement income consumers.

It’s time employees heard the high-impact messages—the retail price of their retirement and their cost for their financial independence layaway package. Delaying won’t change the amounts they’ll need—only the amounts they’ll have.

- (1) *Money Magazine*, October 1994.
- (2) “1996 Retirement Confidence Survey.” Employee Benefit Research Institute.
- (3) “...Like There’s No Tomorrow: Examining American’s Attitudes About Retirement and Savings.” Putnam Investments, 1995.

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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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