

Retirement Readiness Report

Helping older employees get ready to retire successfully

A free report for employers, unions, and pension funds, produced by RetirementWORKS®, Inc.

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Welcome to the fourth issue of the *Retirement Readiness Report*, offered as a free resource, to help you think about how your organization supports the transition into retirement.

We encourage you to contact us at any time if you have ideas, criticisms, or other comments about this publication, or wish to update your email address (or be added to or removed from the list).

If you missed issues 1,2, or 3:

They're available at:

<http://www.retirementworks2.com/support.asp?id=newsletter>

Next month:

Offering retirement advice to pre-retirees at zero cost to the employer.

Are the financial calculations from your 401(k) or 403(b) provider what your retiring or retired employees really need?

“Well, aren’t they?” we are often asked. The simple answer is No. Most of them are not even helpful (despite appearances to the contrary), and those that may be helpful are nowhere near sufficient.

There are at least two kinds of support that your senior employees (and retirees) need: education about the issues they face, and specific advice that will apply the appropriate general principles to each person’s own situation.

And there are two broad categories of issues about which people in this age group require education and advice: financial issues, and non-financial issues. Most older employees, looking ahead to a looming retirement, have important decisions to make in both areas. Furthermore, both areas affect one another. Whether one takes on a new part-time job in retirement, where one lives, how ones spends one’s leisure time, and so on, have important financial effects. Conversely, one’s financial status may necessitate – or limit – key life decisions.

No 401(k) or 403(b) – or other pension plan – provider can handle all of this. To be fair, hardly *anyone* can do all of it, and literally no one does it in the fully detailed, integrated way it ought to be done. Having allowed for that, however, the financial providers still fall short, most of them alarmingly so.

The typical provider offers some useful generic on-line educational information, plus calculators that recommend asset allocations for one’s funds, and also, often enough, another calculator that deals with “systematic withdrawals,” answering the question: how much can be safely withdrawn from one’s nest-egg at a level or smoothly inflating rate with “reasonable” assurance of not running out of money?

One could make the argument that these models are poor tools because they are seriously flawed in their methods – and perhaps we will make that case in a later issue of the *Retirement Readiness Report*, because it is, essentially, true.

But for now, let's focus on the more fundamental problem, that investment and insurance companies are not, by their nature, the best source for retirement education and advice.

The reason behind this statement is not complex: financial firms have certain biases. Some of these are obvious. They have a vested interest in managing your employees' money, and so they are most likely to recommend, or at least emphasize, options that result in this outcome. Financial products and services that are highly profitable, or that are new and need a marketing boost, are most likely to be highlighted.

Some of the biases are more subtle, however, and not at all deliberate or, for the most part, even conscious. Financial people in general, and asset managers in particular, are naturally most

expert in financial matters. They tend to see the world as a place where financial decisions – and especially investment decisions – are the main concern, sometimes the only concern. They tend to be unfamiliar with non-financial issues relating to retirement, and even with financial issues that are outside of their own specialties.

“Relying on your DC plan providers for retirement advice is like relying on your dentist for medical advice. Your dentist is an expert in his or her own sphere, but when you want an authoritative perspective on your overall health, your dentist is not the right person to consult.”

Almost no asset management company will help your employees, for example, with the issue we presented in *Retirement Readiness Report #2*, concerning the best time to start taking Social Security. The very few exceptions we know to this generalization happen to have financial

products designed to help fill the gap between retirement and the start of Social Security. Is anyone surprised?

Let us emphasize: *there is nothing evil going on here*. It makes sense for companies to offer services that support their products, and to focus on issues where they have expertise.

What doesn't make sense is for the rest of us to go to them for retirement advice that we could get elsewhere. In the areas where the product vendors have expert knowledge, they also have bias. In the areas where they are not expert, they seldom offer any advice at all, and even more seldom truly insightful advice.

And because their advice is limited in scope, it is automatically out of whack. You can't make intelligent retirement decisions by analyzing only the two or three questions that you are comfortable with. Retirement typically involves one or two dozen decisions, some primarily financial and some primarily non-financial, but all of them affecting one another. Looking at particular issues outside of this larger context

is almost certain to lead to poor decisions being made, even by otherwise sophisticated advisers or systems.

That is why even the best offerings being presented by the 401(k) and 403(b) firms are not nearly good enough, and why you generally should not go there for advice.

Perhaps in this context, they would prefer that we not even mention their names, but on the contrary, we believe that the leaders do deserve credit for taking the lead, for offering much more than the minimum, and for taking steps that eventually may lead to much better-rounded and more valid advice.

So from our point of view, the winners are Fidelity Investments, in the 401(k) realm, and TIAA-CREF in the 403(b) realm. (We have no connection with either, by the way.)

Fidelity has by far the most powerful financial analytical tool in the industry (not the most powerful that exists, but the best among their peers). Unlike the others, it takes a broad look at their clients'

finances, and in helping retirees manage their cash flows in and out of their 401(k) plans, Fidelity at least tries to take into account the reality that cash flow needs change in many ways over time. Other companies' attempts to advise retirees about rates of withdrawal do not even begin to compare and, in our view, these other calculators should not be used by anyone actually at risk of running out of funds during retirement.

TIAA-CREF, meanwhile, has for years provided personal advice to its members in the 403(b) realm. For soon-to-be retirees, they offer a fairly detailed financial analysis, including a discussion with a live adviser either face-to-face or by telephone. Again, they do only part of the job that needs to be done, but they are a big step ahead of most of their competitors, and have been for decades.

Others are trying to catch up, and perhaps some of them will. So we also want to give a shout-out to Transamerica, whose retirement unit is taking a serious interest in non-financial aspects of retirement, and also to MetLife, whose Mature Market Institute

has funded some very interesting research and analysis.

But for the foreseeable future, relying on your DC plan providers for retirement advice is like relying on your dentist for medical advice. Your dentist is an expert within his or her own sphere, and probably knows a fair amount about other medical issues, too. But when you want an authoritative perspective on your overall health, this is not the right person to consult.

Most of your retiring employees need more and better help than 401(k) and 403(b) providers currently offer, if you expect them to avoid squandering their chance – which you have already paid for – to have a financially successful retirement.

Recommended Reading for Employees Getting Ready to Retire

How to Retire Happy, Wild, and Free, by Ernie J. Zelinski

\$16.95 (Ten Speed Press, 2007)

Notice: We do not sell books, or have any financial stake in recommending them.

This is one of the best-selling books for retirees, and there's a good reason for it: it's a terrific book!

Subtitled, "Retirement wisdom that you won't get from your financial advisor," it lives up to its billing. It is a combination of sage perspective and highly practical suggestions, few of which have to do with money.

The sage perspective is important. Zelinski is skilled at putting concerns in their proper perspective, and is well aware than our happiness – and, more importantly, our joy – in life does not arise from wealth but from our own zest for living, from our making the most of the opportunities we have, and from sharing those opportunities and our selves with others.

His chapter closing chapter is titled, "Happiness doesn't care how you get there," and he uses it to remind us of homely lessons that we all know but tend not to ponder often ("Be happy while you are alive, because you are a long time dead," and "You will overlook the silver lining if you are always expecting gold," for

example. He also makes some worthy points that most of us, perhaps, have not thought much about ("Celebrate your eccentricity and you will be set free.").

If this sounds like a book of platitudes, though, it isn't. Zelinski offers very specific suggestions, sometimes long, long lists of them, about how we might make ourselves "happy, wild, and free." Nor does he ignore his own advice, for his presentation is wild, happy, and free as well, full of interesting anecdotes, humorous cartoons, and apt quotations.

Zelinski does underplay the importance of financial concerns, and gives little practical advice on such matters. But his point is to give the kind of sensible, practical, and yet sometimes wild and unpredictable advice about *living* that goes beyond money.

This is one of the books we most highly recommend for older employees (and retirees) who really want a fresh perspective.

Featured Website

Nursing Home Compare

<http://www.medicare.gov/NHCompare/Include/DataSection/Questions/SearchCriteriaNEW.asp?version=default&browser=IE%7C7%7CWinXP&language=English&defaultstatus=0&pagelist=Home&CookiesEnabledStatus=True>

Many older employees are assisting elderly parents. This website has detailed information about every Medicare and Medicaid-certified nursing home in the country. It's a valuable, new, free service of the U.S. government.

About RetirementWORKS[®], Inc.

We are the consumer subsidiary of Still River Retirement Planning Software, Inc., of Harvard, Massachusetts, which has specialized in retirement plans and retirement planning since 1994.

Our philosophy is that retirement needs to be viewed from the retiree's point of view, in all of its complexity. So we offer the most powerful and useful software available anywhere for retirees and near-retirees, and advice concerning non-financial aspects of retirement. But we do not sell any financial products or services other than software, and have no financial stake in any advice that is offered.

We can be reached at:
69 Lancaster County Rd.
Harvard, MA 01451
(978) 456-7972 or
info@RetirementWorks2.com
www.RetirementWorks2.com