Retirement Readiness Report

Helping older employees get ready to retire successfully

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

March 2010 – Issue no. 17

RetirementWORKS
a subsidiary of Still River

15 March 2010

Welcome to the seventeenth 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 thru #16:

They're available at: http://www.retirementworks2.com/support.asp?id=newsletter

Next month:

Constructing a pre-retirement education/advice program for older employees.

The worst financial advice your older employees get

And the Oscar goes to . . . Wait! We have a tie!

This is a *very* competitive category, since there is no shortage of bad advice floating around out there. But we find that two pieces of advice stand out, partly because they get pretty heavily promoted, and partly because they are deceptively appealing – they look like smart advice, even though they are deeply dangerous.

Worst Advice Winner #1: Invest aggressively when you retire, because you'll need the extra money.

Given what happened last year to retirees and near-retirees who invested aggressively, a lot of us ordinary folk may already be suspicious of this message. Yet, perversely, for some people in the financial industry, the catastrophes caused by over-aggressive investing have only strengthened their resolve. Their thinking: if you fared badly in the markets lately, this means you have fallen into all the bigger financial hole, so you have all the more need to invest aggressively if you want to dig yourself out.

We can go along with that thinking only to this extent: if you invested aggressively in the past and then the markets plummeted, the last thing most people should do is to sell off their investments at a low point – instead, wait for them to recover, if you can. But once that recovery occurs, change your style and move your money. If you can't afford to lose much of your retirement savings, don't act as if you can.

The fact is, most of us cannot afford to lose much of our savings. By the time we retire, we need to preserve as much of what we have as we can. Wealthy people *can* afford to invest aggressively in retirement, but most of us cannot.

Many investment companies say the opposite, though, and your

401(k) or 403(b) provider might be among them. They argue that because you could live a long time during retirement, and inflation will increase your costs dramatically, you need to maximize your investment returns to compensate for this. Which means moving more assets into stocks, with fewer in conservative forms of saving and investment.

There is a lot wrong with this plausible-looking argument, but we'll confine ourselves to two observations:

1. For most of us, expenses level off when we get into our 80s. Some costs do tend to keep rising, but others decrease or even disappear as our lives become more circumscribed. And with Social Security (and some pensions) providing cost-of-living increases, inflation usually stops being a major problem.

2. If we don't have enough resources in retirement to cover future needs and risks, including inflation, it's too late to try to solve that problem via aggressive investing. We need to find other solutions, such as reducing our living expenses. If riskier investing could <u>guarantee</u> us more income, it would be a smart choice, but precisely because it's riskier, it cannot make that guarantee, so for most of us it's a foolish choice.

"If you are hearing these ideas from your 401(k) or 403(b) provider, you are dealing with a company that is pretty clueless about retirement."

So why do investment companies give out this advice? Although the advice happens to be distinctly self-serving for them, their intentions probably aren't sinister. Investment companies are all about investing in the markets – that's what they live and breathe, so they tend to think investment strategy is the solution to everything (while insurance companies, for instance, tend to think insurance is the solution to everything). This is just human nature. They're wrong, but it doesn't mean your employees have to be wrong, too.

Worst Advice Winner #2: Before you retire, figure out how much you can safely withdraw from your savings every year.

Your 401(k) / 403(b) provider might also be peddling this idea, and even offering your employees a nifty little calculator to help them come up with the right number. If so, you are dealing with a company that is pretty clueless about retirement.

As with the previous bad idea, this one actually has a lot of flaws – too many to investigate here. But we can focus on just the biggest one: almost nobody will need to withdraw a level (or smoothly increasing) amount of money from their savings for the duration of their retirement.

And we could give you forty reasons why. Here are a few: their mortgage will be paid off at some point, they will want to splurge a bit for a year or two right after retirement, the retiree and/or spouse will contract an expensive illness, one of them will die first and the income and expenses of the household will shift dramatically, an inheritance will come in, they will decide to help finance a grandchild's college education, and so on, and so on.

The shear silliness of advising people to make financial plans around a pre-determined, on-going withdrawal amount would be mildly amusing, except that the concept is so dangerous.

Since this approach disregards all the reasons why there might be extra money or less money as time passes, it produces a wrong result except in the rarest of cases, and then only by luck. And this is a serious problem.

If the recommended withdrawals are *lower* than they need to be, the retiree will end up scrimping in the early years of retirement, and failing to make the most of the years that ought to be the best of all. But if the recommended withdrawals are *too high*, the retiree will run out of money, or at least have to make drastic cuts later on. This means living out her or his final years stressed about finances, and either teetering on the edge of poverty or falling into it.

We've all come to suspect in recent times that maybe the financial experts aren't. When it comes to retirement, many of them truly are not.

Recommended Reading for Employees Getting Ready to Retire

The Emotion Behind Money: Building Wealth from the Inside Out by Julie Murphy Casserly

$24.95 (Beyond Your Wildest Dreams, 2008)

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

Speaking of money, this book deals with a topic that is not generally talked about, but is coming more and more into prominence among financial advisors: how people *feel* about money, and how these feelings help or hinder them in making wise decisions, not only about their finances, but about their lives.

Casserly's take on this is highly personal. This is not a dissertation, but a personal narrative, combined with stories and examples from clients and other people she has known. Her writing is full of energy and insight, and she provides many useful illustrations of how our upbringing, our fears, our personalities, and other elements of our psyches influence how we feel about money, and therefore how we behave.

What is most useful about this particular book, though, is its numerous collection of (sometimes entertaining) exercises that Casserly includes, all designed to help readers figure out where their own feelings are interfering with their ability to achieve their financial goals.

This book can be valuable to people of all ages, but for employees considering retirement in the next few years, a dose of this self-administered money therapy might just rescue them from making critically bad financial decisions during the retirement transition, and from misapplying the resources that need to carry them through for the rest of their lives.

They can get a deep discount on this book if they purchase it from the author's website: http://www.emotionbehindmoney.com/.

Featured Website

Retire on Your Terms

http://www.retireonyourterms.org/

Simply because there is so much bad financial advice of the kind we highlighted earlier in this edition of the *Retirement Readiness Report*, we rarely recommend other sources for financial advice. But we're making an exception this time.

Retire on *Your* Terms is a website sponsored by a dozen organizations of various kinds, some of them financial industry associations, but others educational or other not-for-profit institutions, such as the Boston College Center for Retirement Research, and the National Alliance for Caregiving.

The fact that this website has such diverse sponsors means that it is less likely to offer the kind of skewed advice that often comes out of people or places that have a vested interest in just one approach or just one kind of financial product.

This site does talk about financial products, though, as well as non-product issues, providing links both to printed articles and to audio/video feeds. These items are mostly contributed by the sponsoring organizations, and so the format and quality vary (and some of the links don't work, unfortunately). But there is good stuff here.

For instance, their link on "Choosing a Financial Planner" takes you to a PDF from the Financial Planning Association, which favors criteria that will lead you to their members, but the Retire on *Your* Terms site also has a "Select an Advisor" menu item that takes you to a process that is distinctly less biased.

There are also three videos from Ben Stein, who is one of the site sponsors.

The problem with this sort of site, or with other generic information and financial education, is this: with financial advice, as with medical advice, even the best and most general recommendations are not well suited to everyone. So there is a danger.

But at the same time, employees need financial education, and this site is one legitimate source for it. Although there are some links here that we have modest qualms about, it would not be a bad place for your employees to start.

And in this case, unlike many of the books and website we recommend, there is help here for your younger employees, too.

So while we give it only a half-hearted thumbs-up, if you are looking for this kind of site, check it out.

About RetirementWORKS®, Inc.

We are the consumer subsidiary of Still River Retirement Planning Software, Inc., of Harvard, Mass., 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 financial 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) 456-7971 or
info@RetirementWorks2.com

www.RetirementWorks2.com