

# 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 twenty-seventh 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 #26:*

They're available at:

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

*Next month:*

Your retirees' "social portfolio"

## How many older employees are at risk of financial failure in retirement? (And where do we turn for help?)

Maybe you saw it. Toward the end of 2010, Deloitte published their *Annual 401(k) Survey*, focusing this year on "Retirement Readiness" (excellent title!). The study was co-sponsored by the International Foundation of Employee Benefit Plans / CEBS.

The principal finding was that while "62% of plan sponsors surveyed feel that their responsibility includes taking an interest whether employees are tracking towards a comfortable retirement (i.e., offering an option that allows participants to plan for a reasonable replacement ratio)," **only about 15% feel that employees are, in fact, on such a trajectory.**

Just as important, from our point of view, is this result: "**plan sponsors...appear unsure about which tools and offerings are most effective** at helping participants manage this [emphasis added]."

This is not a knock on plan sponsors. The financial industry has not made it easy to do the right thing, or even to know what the right thing is. Elaborate, yet often highly inappropriate, advice and asset allocation models are commonplace, and meanwhile even the basics are not well understood, either by financial professionals or by those who rely upon them for their expertise.

For example, raise your hand if you've been given the impression that retirement savings calculators have *any value at all* in determining the correct amount ("The Number") that an employee should save by retirement age. Yet, in principle, there can be no such number. Even if your employees knew exactly when they (and their spouses) would die, and what would happen in the economy and the financial markets during that entire span, and what other lucky breaks and catastrophes would befall them, it would not be possible to determine The Number.

That's because, in any given set of life circumstances, there is no specific amount of savings or income that will make us comfortable and happy, where a dollar less fails to, and a dollar more is unhelpful.

Life is about making the best of what we have, and study after study shows that, once we have enough money to cover our basic needs, possessing more or less money does not correlate with experiencing more or less happiness. (Yes, we intuit otherwise: if we just had a bit more, we'd be a bit happier. But think about the people you know, and who has a happy life and who doesn't – chances are, this does not correlate to their wealth.

The solution to the paradox is this: yes, getting more does make us happier, but only for a little while.)

But just as important, we don't, in fact, know when we will die or what will happen in the meantime. So we could not calculate The Number even if such a thing existed.

So why all the emphasis on figuring it out? There is an answer,

actually, but few plan sponsors and few financial professionals know what it is: the purpose is purely psychological. The purpose of thinking about and calculating one's future needs is not to come up with the right answer, since it doesn't exist, but simply **to motivate employees to save more than they otherwise would**. Saving more is good because it will give them more and better options when they do re-

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tire, and will help them deal with unforeseen difficulties and take advantage of unforeseen opportunities. So this motivational benefit is valuable.

Still, if the process is actually motivational rather than prophetic, shouldn't it be done differently? Of course.

But that's our little secret.

And when it comes to getting *older* employees ready to figure out how pensions and other resources will support a retirement that is not merely financially viable, but actually conducive to a good, fulfilling life, plan sponsors are pretty much entirely on their own. The few financial tools that are sometimes offered are dangerously unreliable, while little help is usually available other than that (and if it were, why should it be trusted, since even the financial support, which ought to be solid, is so faulty?).

So when the vast majority of plan sponsors say that their employees are probably not going to be financially ready for retirement, and that they don't trust the tools and methods currently in place, they are right on the money.

Which suggests that they know more about the reality of retirement than most of the people who are trying to help them.

We are by no means anti-capitalist here at RetirementWORKS, Inc., but this is one area where the system is failing us. Few financial companies paid any real attention to retirement is-

sues, particularly for older consumers, prior to 2000.

Since then, they have all realized *not* that retirement is suddenly a problem for their customers (for this has always been the case), but that that it's suddenly a problem *for the financial companies*. In the old days, the average worker retired with a defined benefit pension and Social Security, and maybe a house with a paid-up mortgage, and only modest personal savings. Today, most retirement benefits are in the form of accounts that the retiring employee controls, and this poses a threat to companies that manage those assets: at retirement, that money could leave!

So suddenly they care about the needs of people who are retiring. But the main concern is finding a way to hold onto those assets. The ability of the employee to live a good life in retirement is a bonus, if it happens.

So if your 401(k) or 403(b) provider mostly wants to talk about keeping assets in the plan and doling out fixed withdrawals to retirees, or if they want to talk about IRA rollovers, who is the

real beneficiary? And no wonder plan sponsors feel that their employees are not in good financial shape for retirement.

Until planning for retirement is uncoupled from the business of financial management, tools that really serve the needs of the consumer first are likely to remain illusory.

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### Recommended Reading for Employees Getting Ready to Retire

***How to Love Your Retirement***, edited by Barbara Waxman and Robert A. Mendelson.

\$13.95 (Hundreds of Heads Books, 2006)

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

This book is recommended with some reservations. But it might be just the sort of book for people who don't like to read books, or who read only in the bathroom.

That's because this book consists of short chapters composed of paragraph-length ideas from hundreds of people – some expert, some not.

It's part of a collection of such books from Hundreds of Heads, based on the theory that “hundreds of heads are better than one.”

Certainly if you want a collection of ideas that vary widely in every important respect – subject matter, significance, appropriateness, wisdom – then asking hundreds of people to contribute is the way to get there.

At the least, this book is very easy to read, and also pretty entertaining in its variety. There are lots of contributions that are unexpected – and that make at least some sense. These can leave a strong impression, because they catch you off guard, and almost every reader is likely to find a few such ideas to latch onto, and perhaps get inspired to make some kind of change in his or her life.

At the same time, a lot of this book is downright cheesy. But this can be a virtue – it can easily come across as homespun wisdom to readers disposed to take it that way. To others, it may seem simple-minded. But again, even for more cynical readers,

this book will have some pleasant surprises.

It is by no means “must reading,” and we would not strongly recommend it for people who are seriously planning an upcoming retirement. But for someone taking a more casual approach, and who is willing to pan through some silliness to find nuggets of real insight, *How to Love Your Retirement* provides an inexpensive and often enjoyable option.

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## Featured Website

### ***Twenty Questions: How Do I Know If I'm A Workaholic?***

<http://www.workaholics-anonymous.org/page.php?page=knowing>

This is a subject we perhaps should feature in a future issue, but for now, let this website suffice. The link, in fact, is to a single internal page of the Workaholics Anonymous website, which contains a good deal of helpful information for people who suffer from this problem. This page by itself is a self-help quiz to see if you are a workaholic or not.

This is a particular issue for retirement readiness for at least three reasons.

First, workaholics, unlike the general population, often actually fear retirement. If you do offer retirement readiness seminars or other group sessions, you may find that workaholics don't fit in well with the others, or that they raise issues that directly challenge your assumptions, or (and this can be harder to deal with) that do not directly challenge your assumptions, but that just seem peculiar and out of place.

Second, workaholism does not end at retirement. Instead, other activities fill in for work, or the retiree just goes out and gets another job. Either way, a truly fulfilling retirement is unlikely to occur for the workaholic – until he or she recognizes the problem and does something about it.

Third, in the meantime, your workaholic employee may be having a bad effect on other employees. Of course, some firms hire workaholics deliberately, but assuming that this is not your own organization's strategy, you may find that the kind of out-

rageous demands that workaholics place on themselves are also being set as expectations for those around them – to the detriment of the team environment you probably prefer.

Since understanding that one has a problem is the first step in resolving it, this website in general, and this page in particular, can be the beginning of a successful intervention, and one where the employee's entire circle stands to benefit.

### **About RetirementWORKS<sup>®</sup>, 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.

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