

Chapter 1

Retirement Readiness: The Super Savers and the Ill-Prepared

Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has.

—Margaret Mead, American anthropologist

It is one of those questions that psychologists and economists love (and live) to grapple with: why do we so frequently fail to act in our long-term best interests?

For example, take a common situation at the organizational level. Findings from Burson-Marsteller's 2011 Crisis Preparedness study showed that while 79 percent of business decision makers believed they were only 12 months away from a potential business crisis event, and while they recognized the risk such events posed to both revenues and reputation, just over half of the companies polled (54 percent) admitted to having a crisis preparedness plan in place. Of those who did, two-thirds agreed that it was probably inadequate.

At an individual level, we have a similar situation with respect to retirement readiness. According to The Investment Company Institute (ICI), "the average balance of Americans' 401(k) accounts was just over \$60,000 at the end of 2010." This means that aside from traditional pension plans (typically known as defined benefit (DB) plans, which only 19 percent of private sector workers participate in) and Social Security (which many Americans expect will provide lower benefits in the future), the average American currently has \$60,000 to last them

2

Transform Tomorrow

throughout their retirement years. According to ICI, “this low 401(k) plan balance is alarming,” but it doesn’t take an expert to come to that conclusion.

The good news is that when we narrow our view to specifically look at individuals who are in their 60s and are approaching retirement and then expand our focus to include both IRAs and 401(k) balances, the picture changes substantially. According to EBRI’s 2010 integrated defined contribution/IRA database, their combined balance at the end of 2010 stood at \$275,517. In the spirit of full disclosure, the analysis was limited to individuals with both 401(k) and IRA balances at the end of 2010, but does demonstrate the emerging success of defined contribution (DC) plans. While this is significantly better than the previously mentioned \$60,000 average 401(k) balance, there is still considerable work to be done.

Just how much savings are enough for today’s soon-to-be-retired Boomers (individuals born between 1946 and 1964) is an issue we will address shortly. But think about it this way. Life expectancy has increased by almost 30 years in the last century and if retirement age remains in the mid-sixties, it could soon be the case that today’s Millennials (also known as the Echo Boomers, Generation Y, or Net Generation—those people born between 1980 and 2000) will need to save enough money to cover them for as many retirement years as the number of years they were in employment. The longer they take to start saving, the harder it will be for them to make up that shortfall.

Who is promoting *that* message?

The level of personal responsibility involved in being prepared to retire when you choose, whether that means stopping work altogether, working part-time, or perhaps venturing into later-life entrepreneurialism, is taking its time to seep into our national consciousness.

Gallagher Retirement Service’s Mike DiCenso told us that just five years ago, 80 percent of people surveyed said they thought they had enough money saved for retirement and expected to be “very comfortable,” despite the fact that the average 401(k) account balance stood at that time at just \$67,000. Even if there had been ironclad guarantees of high investment returns over the years that followed, that still would have likely produced a balance insufficient for them to retire.

Retirement Readiness: The Super Savers and the Ill-Prepared 3

Let us look at the example of a participant who has accumulated as much as \$250,000 by the time they retire. Using conventional wisdom, a 4 percent withdrawal rate has generally been accepted as the amount a retiree can withdraw annually from their account and still have money to last them through retirement. That means a balance of \$250,000 nets a retiree approximately \$10,000 a year, or \$833 a month. Now, consider the individual with an account balance of just \$67,000. Using that same 4 percent assumption, that is an income of \$2,680 a year, or \$223 a month. As DiCenso pointed out, “At that time it wasn’t making sense to us how so many people felt that they would be ready for retirement.” His comments become even more relevant considering the past few years of tumultuous stock market performance and the current state of low interest rates, which bring even the 4 percent rule into serious question.

So, back to our opening question: Why don’t intelligent, responsible human beings connect their current behavior with future consequences?

You could blame this on the Paleomammalian hardware that has managed our fight or flight responses since the dawn of humankind. Specifically, those neural structures known as the amygdalae, which Daniel Pink referred to in *A Whole New Mind: Why Right-Brainers Will Rule the Future* as “the brain’s Department of Homeland Security.” In times of heightened threat these little almond-shaped regions of the brain (the word amygdala means almond in Greek) are on high alert, constantly on the lookout for danger. When we are overly busy, mentally processing all the emotions associated with challenges ranging from mounting credit card debt and possible home repossession to the implications of the Great Recession and the War on Terror, there is very little bandwidth left to focus on the future and how we desire it to be different than the present. But this avoidance behavior is not new and the full explanation for our lack of planning likely runs much deeper than our reactions to recent events.

Joe Mrozek, Managing Director and Head of Middle Markets, Bank of America Merrill Lynch, characterizes the challenge as a tortoise and hare phenomenon. “There is no magic and nothing exciting about retirement planning. In reality, it’s just a slow grind throughout your working lifetime. The most successful people are the methodical

4

Transform Tomorrow

savers that make a consistent commitment to an investment program and stick with it through the ups and downs.” When stated in these straightforward terms, could this be why it’s difficult to engage the average person to save for retirement?

Nevertheless, some people are highly successful at focusing on the future. Later in this chapter we will introduce you to a cohort of Super Savers known as the Future Early Retirees, identified by the Transamerica Center for Retirement Studies[®], a nonprofit, private foundation, as doing everything they can to maintain their own personal vision for a bright, post-working future.

Many people’s emotional states remain in overdrive, however—not just from fear and anxiety, but from regret at the opportunities they feel they have missed.

This is not just a U.S. phenomenon. For example, a recent www.plansponsor.com article reported how Canadian Baby Boomers regretted failing to plan earlier and better for their retirement. Forty-two percent said they wished they had started saving at an earlier age; a quarter of people polled said they regretted not making regular contributions and maximizing the contributions they were allowed to make; slightly fewer (24 percent) said they should have given more thought to, and budgeted more for, their retirement years than they did.

Over on our side of the border, we Americans are grappling with plenty of emotions of our own. The National Institute on Retirement Security (NIRS) study entitled *Pensions and Retirement Security 2011: A Roadmap for Policymakers* reported the highly anxious state of most Americans, 84 percent of whom are concerned about the current economic conditions affecting their ability to achieve a secure retirement.

A Comfortable Retirement

But, what does it mean to be retirement ready?

Given all the variables we need to compute—from how long we are likely to live, how healthy we will be during our later years, and how much health care costs will drain the savings we do have—how do we even begin to get a handle on how much we need to save, even if we have the time and disposable income to do so? After all, we don’t

Retirement Readiness: The Super Savers and the Ill-Prepared 5

live in a world such as the one depicted by the 1976 movie *Logan's Run*, in which the inhabitants had a known number of years to live and a crystal embedded in their hands that turned black to indicate that their human shelf life had expired! In reality, we never know when we are going to die, or what kind of health we can expect to enjoy (or not) during our later years. With all the variables involved, how can anyone expect to plan effectively for retirement? (We will look at the issue of longevity risk more closely later in the book.)

What kind of comfortable retirement are we expecting in any case? Perhaps bowed by the onslaught of recent financial crises that have given the Boomer generation, especially, a major wake-up call, it appears that the average American today does not have unrealistically high expectations. While the marketing of retirement in the late 1950s and early 1960s stressed the appeal of foreign travel and otherwise glamorized these later years, as we outline in Chapter 3, definitions of a financially secure retirement from the same NIRS study cited earlier included such practical, day-to-day considerations as:

- ◆ Maintaining a home and not having to worry about paying for it.
- ◆ Having adequate medical care and coverage.
- ◆ Being able to pay bills and address other family responsibilities.

While these are laudably pragmatic views, they don't account for two vitally important aspects of retirement readiness. In addition to having the right replacement ratio (the percentage of current income that you would need in retirement to maintain your current standard of living), you must also have sufficient knowledge and resolve to make the savings you do have last.

As is evidenced by the NIRS findings cited earlier, few Americans appear to be thinking along the lines recommended by UBS Financial Services' Paul D'Aiutolo. He advises plan participants not to even *think* about retiring until they have no mortgage payment, no credit card debt, and no adult children or grandchildren living under their care for whom they are responsible for big-ticket items like a college education. When they've significantly reduced or eradicated those debts, says D'Aiutolo, they can much more reasonably expect to cover their expenses in retirement. But (and it's a big but), as D'Aiutolo points out, "What we have as a country right now is very different than in the past.

6

Transform Tomorrow

We're not only asking retirement plans to replace 80 percent of income, we're asking them to replace income that is still needed to support mortgages, adult children, credit cards and things that were never intended by the original retirement system, because we didn't even have credit then to the extent that we do now."

According to an analysis of data provided by the Bureau of Labor Statistics, the average American centenarian (a person who lives to be 100 years old) can expect to spend around \$3.5 million in his or her lifetime. Between the ages of 50 and 81—which is the average life expectancy of most 50-year-olds today—we are likely to run up bills totaling \$1.4 million. Of course this assumes living to our average life expectancy! What if we end up living to be 91, or even 100?

As Charles Passy commented in *The Cost of Living Longer—Much Longer*, "Call it the new death calculus: the twenty-first century equation for determining human longevity. Or call it misguided guesswork, as some critics have. Either way, it's hard to imagine a math problem that has flummoxed humanity for longer. (Actuaries, in fact, have been fumbling for an answer since 1583, when the first life insurance policy was issued.) And it's even harder to conceive of one with more at stake in the outcome."

If living to be 100 years old sounds like it will only be a problem for a tiny minority, consider this: the United States and Japan are the countries with the highest percentages of centenarians. It has been estimated that in the United States alone, the number of 100-year-olds will rise from the current 75,000 to over 600,000 by the middle of the century. In just a few years' time (2017 to be precise) we will celebrate a remarkable first: more people in the United States who are 65 and over than children younger than five.

Saving for a time when our ability to earn is diminished, assuming we want to continue working at all, coupled with increasing costs of health care that could stretch for 20 years or more is, as Laura L. Carstensen pointed out in *Retirement in an Era of Long Life*, "a tall order." According to one report, people in their eighties spend 57 percent more on health insurance than their counterparts who are in their fifties (Marte 2012). Whether we are prepared for it or not, that's part of the reality of being retirement ready in the twenty-first century.

As we have discovered, among America's current 1.9 million nonagenarians (people who live into their 90s), these individuals

Retirement Readiness: The Super Savers and the Ill-Prepared 7

rely heavily on Social Security payments and pensions. Concerns about the ability of Social Security to meet its obligations for future generations are beyond the scope of this book. What is of direct concern, however, is the number of Americans who, for one reason or another, do not participate in any kind of retirement savings or pension plans.

Typically, lower-income households are less likely to save for retirement, for reasons that are likely obvious. They are also more likely to have “just getting by” as their greatest financial priority. While Social Security, as it stands currently, does replace a higher percentage of lifetime earnings for lower as opposed to higher-income earners, complete reliance on Social Security is not appropriate for any American.

Also, part of this issue is the fact that the norms of lifecycle consumption mean that most workers do not begin to save for retirement until they are well into their working careers, their primary focus earlier being funding their education, buying homes and cars, and keeping a certain level of cash on hand to pay for emergency needs.

For lower and middle-income earners, not having the money to save was typically cited as the reason not to participate in a defined contribution plan, although for the middle-income earners, other reasons included having a spouse with a plan or simply not thinking about it (Holden 2011). Acting like an ostrich with its head in the sand could be a costly mistake—one that many Americans have made and continue to make.

In the same article cited earlier, Passy points out that simply adding another four years of life to current projections would require an additional \$160,000 of retirement savings to maintain even a modest lifestyle—which puts the current \$60,000 average retirement balance into stark perspective. Whose retirement strategies are likely to remain unaffected? According to Stephen C. Goss, the chief actuary of the Social Services Administration, it is someone like Bill Gates with unlimited means.

Introducing the Super Savers

It is not all doom and gloom, however. There is a significant group of people we term Super Savers who are doing everything possible not

8

Transform Tomorrow

just to be comfortable when they retire, but to actively lower the age at which they choose to do so. These Future Early Retirees exhibit characteristics that have helped us to identify the habits that need to be highlighted in any campaign designed to stress the importance of retirement readiness—if not for Baby Boomers, then at least for the generations that follow them.

In 2011, the Transamerica Center for Retirement Studies (TCRS) discovered a hidden cohort of Super Savers within the data of its Twelfth Annual Transamerica Retirement Survey. These findings were released in a report entitled *A Source of Inspiration: Future Early Retirees*. This Super Saver group isn't especially privileged or affluent; they're mostly your average Joe or Jane (the *Millionaire Next Door*), who realize that if you want to control, rather than be controlled by, life's circumstances, it helps to have a plan in place.

Much of what is described in that report applies to Amy Haley, one of our interviewees who, at the age of 26, has been saving for retirement since the age of 18 and contributes between 10 and 20 percent of her earnings every month.

Describing herself as a compulsive saver since childhood, when her medium was a piggy bank rather than a 401(k) plan, Amy admits to being heavily influenced by her grandfather with respect to the way he invested and managed his money. Formerly a teacher and later an engineer after going back to college, Amy's grandfather died leaving his widow with the ability to live comfortably off of his considerable savings.

Amy's behavior is similar to that of the Future Early Retirees cited by TCRS who always chose to participate in whatever retirement plans their employers had made available, started to save early in life (median age 25), and exhibited a greater propensity to be involved in managing and monitoring their retirement accounts. This behavior is in stark contrast with most of her peer group, however.

Says Amy:

I have peers here who are five, six, seven, ten years older than me and know far less about what it really means to contribute any amount of money to a retirement plan, and why it's important. They don't see an immediate benefit and they have never taken the time to educate themselves about it.

Retirement Readiness: The Super Savers and the Ill-Prepared 9

When you're hired on, we have a meeting with HR to sign up for insurance and benefits and things of that nature, so we only get a one-time exposure.

We do have a financial advisor who comes to speak with us roughly once a month. But you have to schedule an appointment with him and you kind of have to take some initiative to seek out answers from him.

I guess if we really want to push for more people to be more knowledgeable on the subject, companies should not assume that they are going to seek out those resources or educate themselves, because that's not been my experience.

As the nineteenth century “father of psychology” William James once pronounced, “All our life . . . is but a mass of habits.” Trying to unpack all the psychological and other variables as to why some people, like Amy Haley, make better preparations for their long-term security than others—even if that were possible—would make anyone’s head spin. What is possible, and we attempt to do in this book, is to align our understanding of people’s habits, their behaviors, and their beliefs, with support from all stakeholders: employers, the retirement industry, policymakers, the media, as well as the average American worker, so that preparing for retirement can become more routine and automatic.

How? As the *New York Times*’s Charles Duhigg points out in his book *The Power of Habit: Why We Do What We Do in Life and Business*, in order to get into the “habit loop” we need a “keystone habit that creates a culture.” One example was the way pioneering advertising genius Claude C. Hopkins sold toothpaste to the American public back in the early years of the twentieth century.

Brushing one’s teeth, at least daily, was not a social norm for most Americans back in those days. But Hopkins, understanding the power of habit modification and its link to rewards, was determined to promote (and hence sell for his client) a new toothpaste brand called Pepsodent. He did so by not only highlighting the advantage of having a beautiful smile, but stressing the great-tasting feeling that comes from brushing your teeth regularly. Once Americans had gotten into the habit of brushing their teeth and experiencing the difference for themselves, missing even one day just didn’t feel right. Note that what

Hopkins knew—as do all superior advertising geniuses—is that we buy into a message more because of feelings and emotions than we do from rational argument. Unfortunately most of what we do in the retirement services industry has to do with the latter.

Of course, a one-time message is never enough. Undoubtedly regular, catchy advertising messages like “You’ll wonder where the yellow went when you brush your teeth with Pepsodent” provided the necessary trigger—or cues—that prompted Americans decades ago to adopt what is now a daily, automatic behavior.

Arguably one of the most compelling cues prompting Americans to review their retirement readiness (or, in some cases, stick their heads even deeper into the sand) has come from the state of the economy and the recent financial crisis. Fears around unemployment, changing company retirement and health care benefits, curbed pay increases, and the ever-rising cost of health care have all conspired to provoke more and more people to reconsider what it will take to be able to retire as anticipated.

As Towers Watson discovered in their 2011 Retirement Attitudes survey, the average American worker is acutely aware of their vulnerability when it comes to having enough money to maintain their preretirement lifestyle and the risk of outliving their savings.

The closer they are to the finish line, as is the case with people over 50, the more concerned they are about their retirement security, not just with respect to their own lack of good saving habits, but because of changes being made to existing retirement plan benefits. Almost a quarter of respondents to the Towers Watson survey reported recent changes to their employers’ retirement plans, including making the plan unavailable to new hires, freezing benefit increases, or adopting a DB/DC hybrid plan. Additionally, 18 percent cited reduction to or elimination of the employer matching of employee contributions within their 401(k) plan.

The irony is, the Boomer generation (whose concerns about declining retirement account balances and the risks of reduced company retirement benefits are spiking anxiety levels, as reported across many surveys) should never have found themselves in this predicament. Boomers represent the United States’ biggest-ever group of earners, collectively earning twice as much (\$3.7 trillion) as the “silent” generation that preceded them (\$1.6 trillion, according to a

Retirement Readiness: The Super Savers and the Ill-Prepared 11

2008 McKinsey & Co. report entitled *Why Baby Boomers Will Need to Work Longer*). But their ratio of debt to net worth is 50 percent higher than the “silents” because Boomers have consumed more and saved less, taking advantage of the availability of easy credit and low interest rates. The topic of consumerism is one we will return to time and again in this book.

Misplaced confidence in the value of their home equity and the belief that returns on their investments were just going to continue going up and up have left (according to the McKinsey report) 69 percent of older Boomers (born 1945–1964) financially ill-prepared for retirement, and many of them don’t even realize it. For them, perhaps their best option is to delay the age at which they plan to retire. That, of course, assumes that their skills are still in demand and relevant to the marketplace, or they have the capacity to quickly learn new ones. And that they have the health, vision, hearing, mental and physical agility to remain competitive in today’s high-paced (and high-tech) working environments. In some cases there are legal and institutional barriers currently in place that impede people from continuing to work, like airline pilots for example, who are precluded from working beyond a certain age.

Thankfully this isn’t the complete picture of life in America today. As we alluded to earlier, there is another group that represents a significant glimmer of hope: those Super Savers or Future Early Retirees who are on target with higher savings levels so that they might experience the later life they have imagined and planned for.

Arguably the clearest picture of how these Future Early Retirees think, feel, and act comes from the TCRS report *A Source of Inspiration: Future Early Retirees* mentioned earlier. So what do we know about these individuals?

We can highlight those characteristics that have helped the Future Early Retirees more successfully realize their retirement readiness goals, but also compare them with the general population captured by the Twelfth Annual Transamerica Center for Retirement Studies Survey which polled U.S. employers and workers on their attitudes toward retirement. From this survey, TCRS found that a full 21 percent of respondents expected to retire before they reached the age of 65. While that might not seem like a large percentage of our population, given the difficulty of just retiring at a normal retirement age, we were

encouraged by these statistics. Even more encouraging was that, as previously mentioned, these Future Early Retirees are otherwise not exceptional people. Just over half of them have a college degree, they are mostly in their thirties and forties, and the majority of them earn less than \$100,000 a year.

What does make them special, however, is their high degree of confidence that they will be able to retire comfortably and enjoy activities like travel and pursuing hobbies more so than other respondents. Their attitudes and behaviors would lead us to believe this confidence is not misplaced. More than any other group, saving for retirement was cited as their main financial priority. As luminaries since the dawn of humankind have stressed, what we believe and act upon becomes our reality. These Super Savers are certainly evidence of that.

Such optimal savings patterns have led the Future Early Retirees to be more likely to rely on personal savings and investments as an income source in retirement, in addition to 401(k), 403(b), and other workplace retirement accounts. The Future Early Retirees are least likely to expect to rely on Social Security (16 percent versus 30 percent). Unlike the average retiree who expects to give up work at age 65 or later, this early retirement group is relying less on the performance of their investments and hedging their bets with increased savings.

The habits of these Future Early Retirees are worth highlighting. The recession may have hit them just the same as everyone else, but that has not stopped them from saving just as much, if not more, than they did before. They are also better prepared with good habits, including having established a retirement strategy (71 percent of Future Early Retirees compared with 52 percent of Americans generally), having a back-up plan should that strategy not work out (29 percent compared with 16 percent), and being much more personally involved in monitoring and managing their retirement savings accounts (71 percent compared with 58 percent).

They also have more ambitious retirement savings goals: \$750,000 compared with \$650,000 for those who plan to retire at age 65 and \$500,000 for those who plan to retire later. Like Amy Haley, mentioned earlier, the Future Early Retirees are more likely to achieve their goals, given that they defer more of their annual earnings into a company-sponsored plan than other groups.

Retirement Readiness: The Super Savers and the Ill-Prepared 13

Nevertheless, these differences aren't all under their own control. The Future Early Retirees are also more likely to have access to a company retirement plan (including pensions, 401(k)s, and similar plans) than those respondents who expect to retire later, making the cooperation of employers with respect to establishing, promoting, and maintaining some form of retirement plan vitally important. The issue of coverage is something we will come back to later in this book.

What is somewhat more complex to get a handle on is the extent to which people want others to make retirement savings decisions for them—as would be the case with “auto-everything” that we discuss in more detail in Chapter 7. For example, while only a small percentage of workers in the Twelfth Annual Transamerica Center for Retirement Studies Survey said that they wanted to hand over this control, the Towers Watson study found that most Americans would in fact prefer others to look after their retirement investments, in exchange for stronger guarantees that their nest egg wouldn't lose its value.

So what is the truth? Many of our industry experts, during our interviews with them, expressed concern about the disengaged nature of many workers when it comes to this vitally important topic of retirement readiness. On several occasions we were told how many of the highly intelligent, professional people that these industry professionals know spend very little time thinking about and preparing for retirement. One example was given where an otherwise well-educated professional, who knew the importance of retirement planning, spent no more than 15 minutes on the topic. And we are not talking about 15 minutes a month here, or even 15 minutes a week, but 15 minutes *a year*. That is considerably less than the time most people typically spend planning a weekend getaway!

So what is causing this aversion to facing up to one's retirement future, at least for the average American?

Perhaps it is the fault of what David Bach termed The Latte Factor[®]—all that financial advice that says we need to sacrifice our daily latte in order to have better savings levels. But this is not the case for Amy Haley. In fact, because she has intuitively embraced so many of the characteristics of a Future Early Retiree, she is able to enjoy a more balanced life. She told us that there is a cafeteria in the basement of her office building that she visits most days for a breakfast burrito. Okay, that means a few dollars less that she is saving for a rainy day,

but since Amy is otherwise doing all the right things she doesn't feel the need to deprive herself. Many of our interviewees echoed that sentiment, pointing out that if you begin early enough and do all the right things you can have both a sufficient retirement nest egg for the future *and* enjoy the present with controlled spending and an occasional splurge.

Which brings us back to our earlier question of just how much is enough when it comes to retirement savings. How do we effectively plan for retirement when we cannot know how long we will live and may significantly outlive our expected longevity; we simply don't know for how many years of retirement we are planning.

As Fred Reish, Partner/Chair of the Fiduciary Services/ERISA Team at Drinker Biddle & Reath LLP, pointed out: "I think people would be shocked if they learned that if you retire at age 65 with a \$500,000 account balance and you withdraw 5 percent or \$25,000 a year, adjusted for inflation each year, that there's a significant risk you could run out of money before you die."

That is where having enough *knowledge* and not just enough *money* to last during retirement comes into play. There has been raging debate in the retirement services industry about the state of financial literacy among plan participants specifically and the average American worker in general. The arguments essentially fall into two camps: one side suggests that we abdicate our long-standing efforts to educate the average American worker on the grounds that financial literacy—even basic financial literacy—is beyond their grasp; the other proclaims that efforts to create informed investors is a moral imperative.

As Todd Lacey, Senior Vice President of Strategic Distribution at Transamerica Retirement Solutions points out, "We've spent a lot of time as an industry trying to educate plan participants on how to invest their retirement accounts. I'm not sure if that's the right approach. Perhaps our mistake as an industry has been putting too much emphasis on creating a lot of doctors when what people really want is just to be cured."

But Lacey goes on to emphasize that while we may not need to create doctors, we do need to ensure the patient (participant) is adequately informed and educated to make fundamentally sound decisions when needed.

Retirement Readiness: The Super Savers and the Ill-Prepared 15

As you might imagine, both sides of this argument have merit. While most people will never be truly informed investors, a fundamental understanding of basic financial concepts does seem to be an imperative. Financial literacy is a topic we explore in further detail in Chapter 5.

As previously mentioned, the average current account balance is approximately \$60,000, which makes the \$500,000 balance Fred mentions a significant accomplishment by most measures. Yet, even with an abnormally high account balance, if improperly managed there is still significant risk of a financial shortfall in retirement. Does the average person understand how to “draw down” their retirement assets? While defined benefit (DB) plans automatically performed this essential draw down of assets by guaranteeing lifetime income, defined contribution (DC) plans like 401(k)s and 403(b)s typically do not. This draw-down feature of a DB plan, often taken for granted by participants, is one of the true gems of the defined benefit plan. DC plans simply present retirees with a balance upon retirement with which they (the retirees) have multiple options. As such, understanding how to make one’s income last a lifetime would seem to be essential to achieving security in retirement.

As mentioned earlier, a math problem that has stumped humanity since the beginning of time is trying to calculate our individual life expectancy. While actuarial tables for life expectancy will tell us very precisely how long the average American will live, we simply cannot know how long we, as individuals, will do so. In fact, life expectancy is, by its very definition, the average lifespan of a group of individuals, indicating that approximately half of us will live longer and half of us will not. This concept of outliving our life expectancy—and potentially our income—is known as longevity risk. Arguably one of the more sensible actions people can take is to pool at least a portion of their retirement assets with others. If they do, as a group, their collective lifespan will more closely approximate the average life expectancy. This allows them to more clearly define how long they will (on average) live and create a lifetime stream of income that will help eradicate the anxiety that so many Americans are experiencing these days because they fear that they will run out of money before they die. This concept of lifetime income—and annuities—has recently received a significant amount of attention within the retirement

plan industry and will be addressed further, specifically in relation to longevity risk, in Chapter 4. The point we simply want to make here is that there is complexity involved in retirement planning, no less than those issues grappled with by the Clinton Global Initiative, Google's Solve for X, or Eli Lilly's InnoCentive mentioned in the Introduction. As such, an effective long-term solution to retirement readiness will require new and different minds and ideas.

Further, even if we rely heavily on current industry experts to, as Lacey states, "just cure the patient," the average American worker must be equipped with some basic financial knowledge. That would at least prepare them somewhat to navigate the complex decisions surrounding retirement and retirement planning because, at some point in time, they *will* have to make decisions for which they are ultimately solely responsible.

While the Super Savers give us hope, the Ill Prepared dominate our landscape. The Amy Haleys of our world show us the possibilities with discipline, effort, and know-how, perhaps influenced by early childhood relationships like the one Amy had with her grandfather. They have somehow elevated the task of retirement planning to a level of significance in their daily lives. They take the time to enroll in their company retirement plan, to understand their company's benefit structure, and to proactively allocate their accounts to appropriate investments. They set goals and monitor their progress on a regular basis and, as a result, save significantly more for their future. They are somehow able to find a balance between the temptation of rampant consumerism and the pragmatic philosophy espoused by so many retirement plan practitioners: pay yourself first by committing to your future.

Unfortunately, Amy is not the norm . . . not even close. To put it bluntly, the American worker has simply not gotten the memo. Our life expectancies are increasing on a daily basis and the financial burden of retirement goes right along with it. Our appetite for the present still far outweighs our discipline for the future. On the whole, and in stark contrast to the habits of a minority of Super Savers, we don't prioritize saving, we don't take the time to learn and understand our company's benefit structures, and we routinely lose the battle with consumerism. The average American worker has a front row seat on the Titanic, headed for a retirement iceberg.

Retirement Readiness: The Super Savers and the Ill-Prepared 17

So whose responsibility is it anyway? As Jay Vivian, who for years ran the IBM retirement fund and describes himself as a Libertarian, realistically pointed out, “Well, it’s clearly money to do with as you please. If you decide to blow it all on a long weekend in Las Vegas, or otherwise spend it frivolously, or are unfortunate enough to get robbed of all your savings and possessions—who ends up holding the bag? What we’re looking at here—and we are—is a social welfare issue, not just an individual one.”

Jay is 100 percent correct: retirement readiness is not just an individual issue and it is not just an industry issue, it is a social issue—and an incredibly important one. There is a lot more at stake here than comfort in retirement. It is really about survival and there is a lot of work that needs to be done to get us back on track.

But let us consider that for a moment. Were we ever on track? By which we mean, was there ever a cohesive vision for retirement embraced by all stakeholders: from individuals to industry, from employers to policymakers?

To answer that question let us take a brief trip back in time to review the history of this concept we call retirement.

<http://www.pbookshop.com>