RETIREMENT PLANNING IN THE AGE OF LONGEVITY

May 9-11, 2012
“To the degree that people reach old age mentally sharp, physically fit, and financially secure, the problems of individual and societal aging fall away.”

– Laura L. Carstensen
Founding Director, Stanford Center on Longevity
Baby boomers planning for retirement face a uniquely challenging environment.

Changes in pension and retirement plans, questions regarding the stability of government entitlement programs, the lingering effects of the recent recession on investments and housing, continued low interest rates and returns, rising healthcare expenses, and longer life spans have made retirement planning an incredibly complex equation.

Current studies show that individuals’ confidence in the ability to retire comfortably or to retire at all, are at new lows. According to the Employee Benefit Research Institute’s 2011 Retirement Confidence Survey, 27% of all workers were “not confident at all” about their ability to retire, up 5% from the previous year. The same survey indicated that over the past ten years, the percentage of 55+ workers feeling “very confident” that they will have enough money to live comfortably through their retirement years has fallen from 31% to 15%.

Not only are individuals lacking confidence about their ability to retire, they also have very little confidence in their ability to develop and execute a plan through retirement. While retirement planning resources are readily available, many surveys (EBRI 2011, Schwab 2011, ING 2010, AARP 2008, Center for Retirement Research 2008) indicate that in spite of the wide availability of retirement planning advice and materials, most people don’t know:

- How much they should be saving for retirement
- How to allocate their investments
- How to draw down their investments
- When to collect social security
- How much money they will need to live in retirement

Sponsored by The New Retirement Forum™ with additional support provided by Marsh & McLennan Companies, the Stanford Center on Longevity is convening this conference to provide a forum for discussion of this increasingly complex arena of retirement planning and education.

The goals of the conference are to:

- Determine why current efforts have failed to change behaviors
- Evaluate how to best communicate to retirement planning professionals, pre-retirees and retirees
- Define a set of curriculum topics that cover the array of issues facing those near or in retirement
- Identify a practical research agenda that supports creating actionable programs and change

Discussion topics will focus on a number of ‘pitfalls’ that undermine a secure retirement:

- Failing to plan
- Underestimating expenses (especially healthcare)
- Underestimating longevity and/or years in retirement
- Retiring too early
- Failing to save
- Retirement education messages and channels of communication

We welcome your participation and look forward to an engaging discussion.

Martha Deevy
Director, Financial Security Division, Stanford Center on Longevity
AGENDA

May 9  California Café — 700 Welch Road, Palo Alto
       6:00  Dinner

May 10  Landau Building — Stanford Center on Longevity
       7:30 – 8:30  Breakfast
       8:30 – 8:45  Welcome
       8:45 – 9:30  Introductions
       9:15 – 9:45  Setting the Stage
       9:45 – 10:00  Break
       10:00 – 11:00  Pitfall #1: Failing to Plan
       11:00 – 12:00  Pitfall #2: Underestimating Expenses
       12:00 – 1:00  Lunch
       1:00 – 2:30  Pitfall #3: Underestimating Longevity/Years in Retirement
       2:30 – 2:45  Break
       2:45 – 3:45  Pitfall #4: Retiring Too Early
       3:45 – 4:45  Pitfall #5: Failing to Save Enough
       4:45 – 5:15  Wrap-up
       5:15 – 7:00  Cocktails

May 11  Landau Building — Stanford Center on Longevity
       7:30 – 8:15  Breakfast
       8:15 – 10:00  Education and Advice: How Pre-Retirees/Retirees Access Information
       10:15 – 11:15  The Curriculum: What Pre-Retirees/Retirees Really Need to Know
       11:15 – 12:15  Research Opportunities
                       Adjourn/Box Lunches

Sponsored by The New Retirement Forum and Marsh and McLennan Companies
ATTENDEES

Laura Carstensen (Co-Chair) — Stanford University
John Shoven (Co-Chair) — Stanford University
June Bower — Financial Engines
Chris Bryan — Stanford University
Michele Burns — Mercer Consulting (Marsh and McLennan Companies)
Jackie Charnley — Charnley/Rostvold
Peng Chen — Ibbotson Global Investment Management Division
Marjan Chittaee — Mercer Consulting (Marsh and McLennan Companies)
Jeff Clemens — Stanford University
Harry Conaway — Mercer Consulting (Marsh and McLennan Companies)
Elizabeth Costle — AARP: Public Policy Institute
Craig Cross — New Retirement Forum (Halbert Hargrove)
Joanne Cuthbertson — Charles Schwab
Martha Deevy — Stanford Center on Longevity
Margaret Dyer-Chamberlain — Stanford Center on Longevity
Don Ezra — New Retirement Forum (Halbert Hargrove)
Richard Fullmer — T. Rowe Price Retirement Income Industry Association
Gail Graham — Fidelity
Adele Hayutin — Stanford Center on Longevity
Jane Hickie — Stanford Center on Longevity
Russ Hill — New Retirement Forum (Halbert Hargrove)
Paul Horrocks — New York Life
John Kalamardies — Prudential
Naomi Karp — Consumer Financial Protection Bureau
Christine Kieffer — FINRA Foundation
Judith Kozlowski — Consumer Financial Protection Bureau
Jeff Maggioncalda — Financial Engines
Gary Mottola — FINRA Foundation
Arthur Noonan — Mercer Consulting (Marsh and McLennan Companies)
Tim Noonan — Russell Investment Group
Wade Pfau — National University of Tokyo & Retirement Income Industry Association
Mark Riepe — Charles Schwab
Lee Ross — Stanford University
Jason Scott — Financial Engines
Gopi Shah-Goda — Stanford University
Bill Sharpe — Stanford University
Ken Smith — Stanford Center on Longevity
Sally Welborn — Wal-Mart
Ryan Wilson — AARP: Public Policy Institute
David Wise — Harvard, Kennedy School of Government
| Pitfall 1: Failing to Plan                      | 7 |
| Pitfall 2: Underestimating Expenses            | 11 |
| Pitfall 3: Underestimating Years in Retirement | 15 |
| Pitfall 4: Retiring Too Early                 | 19 |
| Pitfall 5: Failing to Save                    | 23 |
| Education and Advice                          | 27 |
| The Curriculum                                | 31 |
P IT F A L L 1 : F A I L I N G T O P L A N

“Very little work has been done in investigating how households make saving plans and how they collect all the relevant information to make savings decisions.”

Lusardi, 2003

Summary:

Facing a shifting retirement landscape requires careful planning. Unfortunately, far from planning with care, many Americans fail to make any plans at all — perhaps due to the complexity of calculating the money needed, the confusing array of educational resources, or because they incorrectly anticipate continuing to work indefinitely.

• Only 1 in 3 adults in their 50’s have ever tried to devise a retirement plan... and only 2 in 3 of those who tried claim to have succeeded. (Lusardi & Mitchell, 2011)

• Only one-third of pre-retirees say they have a retirement plan, compared to just 57% of retirees. (Society of Actuaries (SOA), 2012)

• The typical retiree reports a financial planning horizon of just five years (median), and a general planning horizon of ten years (median). Just 2 in 10 pre-retirees say they look 20 or more years into the future when making important financial decisions. (SOA, 2012)

Failing to Calculate the Amount of Money Needed

• Fewer than 1 in 5 older Americans (50+) have successfully created a retirement plan. (Lusardi & Mitchell, 2011)

• More than half (56%) of people haven’t attempted to calculate how much money they will need in retirement. (Employee Benefit Research Institute (EBRI), 2012a)

• Only 1 in 3 pre-retirees have a plan for how much money they will spend annually in retirement and where that money will come from. 1 in 10 say they “do not know or have not thought about it.” (SOA, 2012)

• Less than 6 in 10 retirees have a plan for their annual expenses in retirement and the source of the money. (SOA, 2012)
Failing to Make Use of Educational Resources

- Those who attempt to calculate what they will need to save use informal methods (1/4 talk to family/friends; 1/5 talk to co-workers/friends) or formal methods (1/3 use retirement calculators, seminars, or financial experts). (Lusardi & Mitchell, 2011)

- Less than half of “middle-income Americans” work with a professional advisor in retirement planning. (Center for a Secure Retirement (CSR), 2011a)

- Only 1 in 5 American workers obtain investment advice from a professional financial advisor who is paid in fees or commissions. (EBRI, 2012a)

- More than half of pre-retirees never consult a “financial professional” for advice or guidance with financial planning. (SOA, 2012)

Incorrectly Anticipating that Work Will Continue in Retirement

Expectations: More than 7 in 10 American workers think they will continue to work part or full time in retirement. (Gallup, 2011; EBRI, 2012a)

- Approximately 14% of pre-retirees do not intend to retire due to financial need. (SOA, 2012)

Experiences: Only 1 in 4 retirees actually work in retirement (EBRI, 2012a)

- 9% of retirees gradually reduce their hours, 9% continue to work part time, 5% continue to work full time, and 25% stop working initially before eventually returning to paid employment. (SOA, 2012)
What prevents people from developing a plan? Is it simply a lack of motivation, or do individuals lack the necessary skills? What prevents individuals from consulting professionals?

If we can understand the factors behind the lack of planning, are there motivational techniques that could be used to make planning for retirement more likely? Are there ways to break down barriers to the use of professional advisors?

How much of what passes for understanding of individuals’ lack of planning is backed by real research and data? How much is simply speculation?

What additional research is needed to understand how to motivate better planning? Is additional data needed? How much of this data can be extracted from existing datasets?

Sources


PITFALL 2: UNDERESTIMATING EXPENSES

Half of workers thought they would need 70% or less of their preretirement income to live comfortably in retirement and only about one in 10 believed they would need 95% or more. When this is compared to the amount of income that retirees stated they currently had in retirement to support a comfortable lifestyle, the discrepancies are evident as only about one-third said they lived on 70% or less of their preretirement income while more than half stated they lived on 95% or more of this amount.

Willett, 2008

Summary:
One of the challenges facing pre-retirees is accurately predicting changing expenses as they age, including medical costs, debt, and accounting for inflation. While median household expenses decline with age, housing related expenses remain the single largest spending category (see graph below). Health care expenses are the second largest component, and these steadily increase with age. (EBRI, 2012b)

Housing is the largest expense at all ages; health care spending increases with age.

Average annual household expenditures by age of household head, 2008

Failing to Appreciate the Cost of Health Care and Long-Term Care

- Many Americans don’t understand the costs of health care in retirement. “43% of middle-income Americans are paying more for healthcare with Medicare than they expected they would.” (CSR, 2012)

- Long-term care can be a very large cost, and is hard to predict. “A typical married couple age 65 can expect lifetime uninsured healthcare and nursing home costs of $260,000.” (Center for Retirement Research at Boston College, 2010)
Failing to Consider Debt

Mortgage Debt
“About a third of the 65 and older households that owned a home in 2009 had a mortgage, according to the Census Bureau’s American Housing Survey, which also put homeownership in this age group close to 81 percent during the second quarter of this year.” (Elmer, 2011)

• The proportion of families with housing debt has increased. The median amount owed also is on the rise. 55% of families headed by a person 55-64 had housing debt in 2007, compared with 41% in 1992. (EBRI, 2009)

• Housing debt is problematic as incomes decrease in retirement and individuals choose to age in place. 9 in 10 older households express the desire to stay in their homes as long as possible. (Center for Housing Policy, 2012)

Consumer Debt
• Consumer debt is on the rise, as is the median amount owed. 1 in 2 families headed by a person 55-64 had credit card debt in 2007, compared with about 1 in 3 in 1992. (EBRI, 2009)

Failing to Consider Inflation

“Inflation is when you pay fifteen dollars for a ten-dollar haircut you used to get for five dollars when you had hair.”
-Sam Ewing

• Compared to other planning activities, only 72% of pre-retirees and 55% of retirees are calculating the effects of inflation on their retirement planning (SOA, 2011). This highlights the need for individuals to better understand and manage inflation and longevity risks when planning for retirement.

• At the same time, retirees and pre-retirees express high levels of concern about the value of their savings keeping up with inflation (69% of retirees and 77% of pre-retirees). (SOA, 2012)
What is a good “rule of thumb” for the expense level most people should be planning for in retirement, compared with pre-retirement? What are the major factors that might alter this estimate?

Is there an equivalent “rule of thumb” for estimating the cost of healthcare? What is this number for those under 65 vs. those eligible for Medicare?

How much money should be allocated in a retirement portfolio to long-term care expenses? Very few individuals obtain long term care insurance – is this the right choice?

Mortgage debt is increasingly a part of the retirement portfolio. For those with such debt, are there creative approaches to dealing with that debt during retirement? Are options such as reverse mortgages, shared housing, and intergenerational housing viable?

Sources

Center for Housing Policy (2012). Housing an Aging Population – Are We Prepared? by Barbara Lipman, Jeffrey Lubell & Emily Salomon. National Housing Conference.


Pitfall 3: Underestimating Years in Retirement

“[F]orecasters, regardless of the techniques they use, have consistently underestimated how long people will live.”

IMF, 2012

Summary:

The failure to adequately estimate the number of years in retirement is experienced both by individuals as they plan their own retirement as well as by governments and institutions as they model pension and entitlement program expenses.

The resulting financial implications are quite large. If the average life span increases 3 years by 2050, as expected, the ‘cost of aging’ would increase by 50%. There is little data on how people think about longevity or why they choose a particular estimate for their own lifespan, yet how long people expect to live sets an important context for longevity risk in retirement planning. Longevity data used for planning purposes, both individual and institutional also regularly underestimate life expectancy. There are gender, socio-economic and health differences in longevity estimates but in general people do not appear to understand the true extent of the risk. Commonly accessed planning tools don’t provide much help to the individual either; either by being too heterogeneous or simplistic or by failing to provide needed context for customization.

Underestimating the Number of Years in Retirement

• The accumulated evidence suggests a prevailing tendency for people to underestimate their longevity. (O’Connell, 2010)

• 2 in 3 pre-retiree men underestimate the life expectancy of the average 65-year-old man. Of that group, 42 percent underestimate average life expectancy by 5 years or more. Roughly half of pre-retiree females underestimate the life expectancy of the average 65-year-old woman. (SOA, 2011)

• Men appear to underestimate longevity by less than do women. (O’Connell, 2010)

• The number of people who don’t know what estimate to use forms a sizable group (+21%). (O’Connell, 2010)

• Policy makers cannot assume that people share a rationale to prepare for a retirement of a realistic length or that people believe that policy rhetoric about working longer as a response to longer lifespans applies to them. (O’Connell, 2010)

• There is almost no data on how people think about lifespan or little explanation for how underestimation of longevity occurs. (O’Connell, 2010)

• Older workers nearing retirement are not well informed about company and national retirement plans and that incorrect knowledge affects retirement planning. (Clark et al., 2010)
Using Incorrect Assumptions for Life-Span

• The main source of longevity risk is the discrepancy between expected and actual life spans, which have been large and one-sided; forecasters, regardless of the techniques they use, have consistently underestimated how long people will live. (IMF, 2012; see graph below)

Longevity trends - 1970-2050 (In years)

<table>
<thead>
<tr>
<th></th>
<th>Observed 1970-2010</th>
<th>Increase per year</th>
<th>Standard deviation</th>
<th>Projected 2010-2050</th>
<th>Increase per year</th>
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<tbody>
<tr>
<td><strong>Change in life expectancy at birth</strong></td>
<td></td>
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<tr>
<td>United States and Canada</td>
<td>8.2</td>
<td>0.20</td>
<td>0.14</td>
<td>4.3</td>
<td>0.11</td>
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<tr>
<td>Advanced Europe</td>
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<td>0.13</td>
<td>4.7</td>
<td>0.12</td>
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<tr>
<td>Emerging Europe</td>
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<td>0.03</td>
<td>0.36</td>
<td>6.8</td>
<td>0.17</td>
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<tr>
<td>Australia and New Zealand</td>
<td>10.8</td>
<td>0.27</td>
<td>0.27</td>
<td>4.9</td>
<td>0.12</td>
</tr>
<tr>
<td>Japan</td>
<td>10.8</td>
<td>0.27</td>
<td>0.23</td>
<td>4.6</td>
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<tr>
<td><strong>Change in life expectancy at age 60</strong></td>
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<tr>
<td>United States and Canada</td>
<td>4.9</td>
<td>0.12</td>
<td>0.11</td>
<td>3.1</td>
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<tr>
<td>Advanced Europe</td>
<td>5.7</td>
<td>0.14</td>
<td>0.13</td>
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<td>Emerging Europe</td>
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Failing to Adjust Perceptions to Current Reality

• Many workers are adjusting their expectations about retirement, perhaps in response to their reduced level of confidence about their retirement finances. (EBRI, 2012a)

• The actual age of retirement has increased even more slowly. There is a considerable gap between retirement expectations and experience. The median “expected” retirement age is 65, the median “actual” age is 61. (EBRI, 2012a)

• There is a large discrepancy between pre-retirement confidence in having paid employment for as long as needed vs. the actual experience of retirees. (EBRI, 2012a)

• The big question is whether there will be employment opportunities available for those who want to continue working. (EBRI, 2012a; Munnell & Sass, 2008)

• Projections based on the 2010 census (see graph below) indicate that Labor Force Participation rates for those over 65 will increase dramatically between 1980 and 2018. (U.S. Census Bureau, 2012)

<table>
<thead>
<tr>
<th>Labor Force Participation</th>
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<tr>
<td>Male (total)</td>
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<tr>
<td>55-64 yr.</td>
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<tr>
<td>65+</td>
</tr>
<tr>
<td>Female (total)</td>
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<tr>
<td>55-64 yr.</td>
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<tr>
<td>65+</td>
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</table>
How should retirement planning deal with the uncertainty inherent in longevity estimates? Should it depend on a ‘fixed’ date? Are there alternative measures of age that should be used for planning?

Research indicates that there doesn’t seem to be a rationale for why people underestimate their longevity – why? What can be done?

Why do pre-retirees often ignore important information about retirement dates and plan pay-outs? Are the answers best directed at educating individuals or changing policy?

What can be done to further influence the trend to ‘work longer’ and increase the number of income earning years?

Sources


Summary:

The decision of when to retire includes factors ranging from health to financial to psychological. Unfortunately many retirees make the decision to retire too soon from a financial perspective. In many cases working only a few more years can have a significant impact on the quality of retirement for the remainder of life. Social Security often represents a significant portion of post-retirement income and individuals frequently compound the problem of retiring too early by also electing to take Social Security payments as soon as eligible (currently age 62). Most economists agree that delaying Social Security, especially in the current era of low interest rates, produces the best financial outcomes.

For a period of approximately 30 years from the 1960’s through the mid 1990’s, retirement age decreased, even as life span increased, creating longer and longer retirements supported by fewer working years. This trend has reversed in the last 15 years, and retirement ages are now increasing.

Failing to Realize that Retirement Might Not Be by Choice

Approximately half of all people who retire do so by choice. (SOA, 2012) The breakdown is as follows:

- Health Issues (self or family member): 31%
- Loss of Job: 12%
- Choice: 57%

This was confirmed by the EBRI – “Regardless of those retirement age expectations, and consistent with prior Retirement Confidence Survey findings, half of current retirees surveyed say they left the work force unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or closure.” (EBRI, 2012a)
Incorrectly Anticipating Retirement Age

- After a steady decrease over the previous 35 years, retirement age for men has been rising since 1996. The average age of retirement for women has been increasing since the early 1960’s.

- There is a long term trend toward workers’ expectation that they will work beyond age 65:

- “Twenty-five percent of workers in the 2012 Retirement Confidence Survey say that the age they expect to retire has changed in the past year. In 1991, 11 percent of workers said they expected to retire after age 65, and by 2012 that has grown to 37 percent.” (EBRI, 2012a)

Taking Social Security Too Early

- The majority of retirees choose to begin receiving Social Security payouts within a few months after age 62 or immediately after they stop working, even though it is almost always beneficial to delay the benefits. A study by Shoven and Slavov concludes that most retirees are leaving money on the table.

- There are “spikes” in the retirement age data at ages 62 and 65. Some psychologists argue that early Social Security eligibility at age 62 and perception of “normal” retirement age at 65 serve as reference points that influence peoples’ decisions to retire at these ages. (Knoll, 2011)

Failing to Understand Employer Concerns About Older Workers

- Employers have not shown significant desire to retain or hire older workers. Relative productivity (combined with relatively higher wages), the increased cost of healthcare, and the perception of older workers having “outdated” skills are prominent concerns.(Munnell & Sass, 2008)

- Conversely, older workers tend to be more educated, and changes in the workforce -- including less physically demanding jobs and defined contribution pensions -- make older workers competitive with, if not more appealing, than younger workers. The large-scale exiting of the workforce by baby boomers should also increase demand for workers generally. (Munnell & Sass, 2008)
What are the factors that cause people to believe that they will work longer than they actually do? Are there ways to help people make more accurate estimates?

What are the key factors in the decision to retire? What is the right type of analysis to perform as part of making the retirement decision? How can people be influenced to analyze their financial situation accurately before making the decision to stop working?

What are the factors that cause individuals to take Social Security payouts as soon as eligible, even though analysts agree that waiting to receive these payments is a better deal? What has been tried from an educational standpoint to alter this behavior? How effective was it?

Are employers correct in assuming that older workers will be less productive at a higher cost than younger ones? Are there policy changes that could be enacted to nullify these discrepancies? Will demographic shifts eventually increase demand for older workers?

Sources


Many of the members of the Boomer generation believe that they have failed to save enough for retirement, and there is good evidence that this is true. Declines in defined benefit plans and the impact of the Great Recession are significant trends affecting retirement savings for this generation.

- Two-thirds of middle-income Boomers feel they are behind where they expected to be at this point in their lives in terms of financial readiness for retirement. (CSR, 2011a)
- Half of middle-income Boomers are not confident that they have saved enough to live comfortably in retirement. Only 1 in 10 feel confident about the adequacy of their retirement savings. (CSR, 2011a)

Failing to Save Adequately While Working

- Less than half of all workers participate in an employer sponsored savings plan (77% of those eligible to participate) and only 40% have an IRA. (Willett, 2008)
- More than 1 in 3 workers in 2008 had savings (retirement plus other) of less than $10,000. Those with savings of $250,000 or more represented only 12% of workers in 2008. (Willett, 2008)
- More than half of middle-income Boomers have saved less than $100,000 for retirement. One-fifth have saved less than $10,000. (CSR, 2011a)
Failing to Adjust to Reductions or Elimination of Defined Benefits

- Nearly 60% of those born between 1936 and 1940 have defined benefit plans. 50% of those retiring now have defined benefit pensions, and only 44% of those retiring approximately 20 years will have them. This affects retirement security. (Green & Painter, 2012)

Half of all households risk being able to maintain their standard of living in retirement if they stop work at 65.

Inability of Investments to Recover from the Great Recession

- Two out of three middle-income Americans age 47 to 65 have experienced a decline in the value of their retirement accounts since 2008; one in three of those have not seen any rebound in value as of March 2011. (CSR, 2011a)

Inability of Investments to Recover from the Great Recession

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What can be done to incent Boomers to save more for retirement? Are there new ways to look at incentives? What type of research is needed?

What is a realistic expectation for savings behavior? Is there a need to re-think savings goals in an era of minimal earnings growth and low rates of return on investment?

Given the lack of savings, what are other options for achieving an acceptable quality of life in retirement? Examples might be behaviors such as working longer, cutting expenses, or creative ideas such as shared housing.

Is it reasonable to expect that people will be able to survive on Social Security only? How can pre-retirees be educated on what quality of life will be like on Social Security before they make a retirement decision?

Sources


“[H]as anyone actually examined why people generally spend more time planning their one or two weeks of vacation than they do the 20 or 30 years or more that they will likely have in retirement?”

Willett, 2008

Summary:

With the responsibility for retirement income shifting from employers to individuals, there has been an increased emphasis on educating workers to take control of their retirement finances. Identifying which resources individuals are likely to use and what educational/advisory methods are likely to stimulate appropriate action are important first steps in changing retirement planning behavior.

Sources of retirement information

Most pre-retirees and retirees do not get their information from professionals. The reported preference for methods of consuming retirement information is incongruent with actual individuals’ experiences. Surveys of methods used generally do not account for use of the internet as a resource.

Reported Preferences:

- Respondents were most likely to say they would make use of short retirement workshops during the workday (48%) and face-to-face sessions (47%), and least like to use online resources (18%) and phone counseling (14%). (Willett, 2008)

Reported Experiences:

- The broad population gets retirement information most often from financial planners/brokers (28%, including insurance agents and other professionals), magazines/newspapers (27%), “calling around” (25%), relatives/friends (21%), materials in the mail (11%), accountants/lawyers (10%). (Lusardi, 2003)

- Less than half of “middle-income” Americans age 55-75 work with a professional advisor to prepare for retirement. (CSR, 2011a)

- Of those without a professional advisor, the most common source of information for middle-income Americans is the internet (50%), followed by family/friends (38%), membership associations (35%) and newspapers/magazines (34%). Less than 1 in 4 get their information from their employer. Insurance agents (13%), television (13%) and financial planners (7%) are the least frequent sources of retirement information. (CSR, 2011a)
Moving people to action

Developing Financial Literacy

- Americans’ lack of financial knowledge has been repeatedly confirmed in many studies showing that well over half of the population fails to correctly answer relatively simple financial questions. (Bernheim, 1994, 2003, Hilgert and Hogarth, 2002, Lusardi and Mitchell, 2006)

- More recent studies have linked financial literacy to retirement planning and that retirement planning is a “powerful predictor of wealth accumulation; those who plan have more than double the wealth than those who have done no retirement planning.” (Lusardi and Mitchell, 2009)

- “[F]inancial education in the workplace can exert a strong influence on personal financial decisions.” (Bayer, Bernheim, Scholz, 2008)

Setting Default Options

- 19% of large U.S. employers used automatic enrollment in 401(k) plans as of 2005 (up from 7% in 1999). (Hewitt Associates, 2009)

- The likelihood of having automatic enrollment in 401(k) plans was much higher in large (24%) than in small firms (1%) as of 2005. (Plan Sponsor Council of America, 2005)

Automatic enrollment for new hires and savings plan participation: Company A

![](image)

Appealing To The “Future Self”

“To those estranged from their future selves, saving is like a choice between spending money today or giving it to a stranger years from now.” (Hershfield et al., 2011)

- Though most retirees will need “something more than leisure activities to be truly happy,” less than 1 in 5 pre-retirees have planned for activities in retirement that will allow them to remain challenged and engaged. (Willett, 2008)
Does retirement/pre-retirement education help? What method is most effective? Do we have enough evidence to say this definitively?

How do we encourage more people to make use of educational resources? Are the available resources reaching the right people?

Are there creative new methods of education that should be explored further?

What delivery methods (internet, magazines, in-person) work best? What areas still need exploration?

Sources


THE CURRICULUM
What Pre-Retirees/Retirees Need to Know

“The problem of developing an appropriate personal financial plan is extraordinarily complex. Ideally, a plan should account for earnings, earnings growth, assets, current and future rates of return, pension benefits, social security benefits, special needs... household composition, current and future tax law, mortality probabilities, insurance rates, risk-return trade-offs, and a host of other factors. Under these circumstances, is it reasonable to assume that the average individual makes well-informed financial decisions?”

Bernheim, 1994

Summary:
There is ample evidence that financial literacy is an important element of retirement planning, yet studies continue to highlight that a relatively small portion of the population has the financial knowledge needed for the task. Despite widely available retirement planning resources, there is consensus that pre-retirees and retirees often fail to adequately prepare for retirement. While this is no doubt due to the complexity of the task, it may also be due in part to the lack of a clear message from financial educators. Commonly accessed retirement planning resources present inconsistent recommendations and assumptions which often miss key topics — topics critical to the development of a comprehensive retirement plan. While there is a great deal of literature on the need for financial literacy and the importance of retirement planning, there is very little written about “what” specifically people really need to know to successfully plan for retirement.

Planning retirement is overwhelming

• Of the 1 in 3 adults in their 50’s who have attempted to create a retirement plan, only 2 in 3 indicate having succeeded. (Lusardi & Mitchell, 2011)

• A survey of pre-retirees and retirees age 59-71 indicated that this “Silent Generation” has carefully saved for retirement, but have done an incomplete job of planning out their retirement income to insure that it will last as long as they do.
  • 1 in 3 have never tried to calculate the monthly income they will need in retirement.
  • 4 in 10 have not estimated how much return their investments will produce over the next 10 years.
  • Nearly half have not estimated for inflation.
  (MetLife, 2005)

• Although they’ve carefully saved for retirement, where education comes up short is helping workers understand what it means to plan and prepare for their retirement lifetime (Willett, 2008)
What are pre-retirees being told – The Assumptions

- Savings at retirement: Advisors recommend a range of 10-20 times one’s “current annual salary” in savings at retirement.

- Years in retirement: Estimates vary between the low 20’s to 30-or-more years in retirement.

- Inflation: General pre-retirement advice estimates inflation at anywhere from 2.5-4%. Note, this varies both within and between education resources.

- Rate of return: Estimates for the average rate of return that can be expected from investments for retirement range from 3.6% to more than 9%. Note, the Canadian Securities Commission uses estimates of more than 4% rate of return as an indicator of financial illiteracy.

- Annual drawdown: The majority of advisors estimate necessary annual drawdown at between 60-80% of pre-retirement income.

- Expenses: Specific advice relating to expenses is sporadic.

- Medical: Advice, estimated as a lump sum, ranges from $175,000 to more than $250,000.

- Age to begin withdrawing social security: All advice professionals surveyed recommend delaying withdrawal as long as possible.


What is generally missing from curricula

- Debt — the impact of debt on saving for retirement and living in retirement

- Longevity — how individuals incorporate an appropriate estimate of longevity and understand the risk of living longer

- Long term care — Should individuals self-insure? If so, when?

- Risk — understanding how “risk” should be reflected in a retirement portfolio
DISCUSSION STARTERS

- Can these complex topics be taught to the average investor in a way which predictably improves the odds of a successful retirement?

- Should there be a “standard” curriculum for retirement planning? Given the range of individual circumstances and literacy, how useful will that curriculum be?

- What else needs to be on the list?

- What role should ‘policy’ play in creating defaults and simplifying the retirement planning equation?

- Can (and should) a standard measurement be created to evaluate individuals’ financial literacy and proficiency with respect to retirement? Could this “scoring system” then be used to guide policy measures, tailor educational efforts, or establish a recommended threshold of competence?

Sources


The mission of the Stanford Center on Longevity is to redesign long life. The Center studies the nature and development of the human life span, looking for innovative ways to use science and technology to solve the problems of people over 50 and improve the well-being of people of all ages.