

Making Retirement Education Work

By Dennis Ackley

Much like the “eat healthy” messages everyone has heard, surveys show that the educational messages about retirement are reaching most people. But in both cases, these messages largely are being ignored.

According to surveys, messages about saving early and needing 60% to 80% of pay in retirement have hit their target. Most workers say they are confident about their prospects for retirement income. But none of this is good news.

It means that the messages employees are hearing about retirement aren't working. Neither are the retirement education programs.

It's time to create new messages and educational techniques. Because continuing to send the same messages the same way to people who already have heard them—and who have not changed their behavior—is a waste of time.

New, high-impact retirement messages are needed—messages that will “break through” to employees and change their retirement savings and investment behaviors.

The new messages must:

- Show each employee's personal retirement income target—vividly and simply—in dollars, not percentages.
- Be described in consumers' terms—making the “purchase of retirement income” more like buying any other consumer item.

Simple—yet meaningful

Here's a simple, high-impact technique: People who intend to retire at age 60, for example, likely will need income for 20 to 25 years (to age 80 or 85) during their retirement.

A couple looking forward to 25 years of retirement and accustomed to living on \$40,000 of spendable pay a year will need about \$40,000 each year for 25 years. That's 25 years times \$40,000 a year—\$1 million. It's that simple. And that's the “retail price” of their retirement.

It's an even bigger amount if they retire earlier, live longer, or if inflation outpaces their investment gains. It's not as much if they're

willing to accept a lower standard of living or keep working, or if their investments do well.

Retirement price estimator—a ballpark estimate of the retail price of an employee's retirement.

The number of years you expect to live during retirement times your current annual spendable pay (maintaining your current lifestyle) equals ballpark estimate of the “retail” price of your retirement.

Naturally, if employees want to improve their lifestyle—traveling or living in a more expensive area—they'll need more. If they are willing to reduce their expenses, they won't need as much.

It's only an estimate. It may be off by 10% to 20% or more.

“Employees need to start viewing retirement income as the largest purchase they will ever make”

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Unfortunately, it's far more accurate than most employees' perceptions. Try it yourself. Ask a few employees, "What's the retail price of your retirement?" Don't be surprised if most employees just look at you—unsure if that's even a logical question. Yet these are the same employees who have the responsibility for making their retirement savings and investment decisions.

Retirement is a 'required purchase'—pay it now or lose it later.

To have high-impact, retirement should be communicated as a "layaway purchase." And maybe retirement is better called "financial independence." It's something employees intend to have—they just haven't paid for it yet.

Fortunately, employees don't need to pay the full retail price—or pay it all at once. They'll have help from Social Security, their employers' pensions and savings plans, their personal savings—and the power of compound earnings.

On the other hand, if employees haven't paid the amount they owe by the time they need it—they'll get only the part that's paid for.

Here's a ballpark estimate of how much of your retirement retail price you owe.

Let's say you're picking up your "financial independence package" from layaway today (you're retiring). Here's an estimate of the amount you need to pay to get the "full package." For help in filling this out, check with the company's benefits department for a projection of your pension payable at retirement—also ask for an estimate of your Social Security benefits or call 1-800-772-1213.

Example

Retirement Retail Price—including your 'lifestyle adjustment' (redo the Retirement Price Estimator using the spendable income you want during retirement).

\$ _____ \$ 875,000

Credits—Amounts Already Paid

Minus Single Sum Amounts—your current 401(k) account, IRAs, employers' plans that pay a 'lump sum' (including your spouse's plans) and other personal savings accounts.

- \$ _____ \$ 75,000

Minus Lifetime Payment Amounts—Social Security, employers' pensions payable at retirement (including your spouse's amounts).

- \$ _____ \$ 690,000

This amount is your total annual income payments **times** the number of years you expect to live during retirement...that equals your lifetime payment amounts. For example, \$27,600 in annual payments times 25 years equals \$690,000.

Your Cost—Paying Off Your Financial Independence Package

This is your retail price minus your credits. It's the estimated additional amount you'll need to accumulate to pay off your layaway package by the time you want your retirement to begin
= \$ _____ = \$ 110,000

This is your estimated savings and investment target—the "discounted amount" of your full retail price. Naturally, a more detailed analysis will provide a better estimate. And as a sophisticated retirement income consumer, you know how important it is to develop a complete financial independence plan.

Comparing what they'll have to what they'll need

Only when employees have a clear idea of their retirement retail price and their financial independence package payoff amount will they become better 'retirement income consumers'—able to make consumer-like comparisons.

For example, some baby boomers can be proud that they've built retirement savings of \$100,000—or even more. And some organizations have introduced retirement plans that feature an even larger single sum at retirement. The amounts sound like a lot. But employees with a "compared to what I'll need" consumers' view would see \$100,000 as \$4,000 worth of income a year for 25 years (\$100,000 divided by 25 years is \$4,000 a year, assuming inflation and their investment rates are the same).

Retirement income consumers know what questions to ask—and they're motivated to get the answers.

How can I get a more precise estimate of the money I'll need? Where will the money come from? How much will Social Security pay? Will I owe taxes on my retirement income—and at what rate? Will I need to work longer than I planned? What about health care and nursing care expenses? Will I need to sell my home? What about future inflation rates and investment performance? What are my risks if I make aggressive investments compared to my risks of having too little retirement income? What types of investments are best to meet my savings target? How can I set a budget to save more now?

Employees need to start viewing retirement income as the largest purchase they will ever make.

To do that, retirement income must be described in realistic personal terms: 20 to 30 years with no paychecks. Retirement is the time when people live on what they've put away and receive from Social Security and their employers' plans.

To be motivated, employees need to know the retail price of their retirement income. They must understand how to make the best use of the time they have to pay off their "layaway purchase." This consumer-approach to retirement education should motivate employees to use libraries, bookstores, investment advisers, the Internet and employers' programs to become better educated retirement income consumers.

It's time employees heard these high-impact messages. Delaying won't change the amounts they'll need—only the amounts they'll have.



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Dennis Ackley is a nationally recognized leader in benefit communication and retirement education. His innovative, award-winning communication programs have reached more than three million employees on topics such as retirement planning, investing, health care, benefit choices, pay, and incentive plans. Dennis has created communication campaigns for hundreds of the country's largest employers. He has written more than four dozen articles for such publications as *HR Magazine*, *Benefits Quarterly*, *Employee Benefits News*, and *Communication World*. He is a featured speaker at scores of conferences including the International Foundation of Employee Benefit Plans, Profit Sharing/401(k) Council, the PBGC, The Conference Board, Pensions & Investments, and Benefits Management Forum and Expo.

For more articles about how to improve employee communication and retirement education, search the Internet for "Dennis Ackley communication."