

Retirement Benefits Communication Could Use Consumer-Oriented Approach

By Dennis Ackley

In recent years, employees have been focused on keeping their jobs, paying their bills, and watching the country and their employers struggle with the health care crisis. Out of the view of most employees, a related and probably equally serious problem has been growing. But this problem will not stay hidden for long.

Human resources professionals have two choices. They can ignore the problem and let it remain a secret for a while longer—maybe many years. Or they can take a consumer-oriented approach and let employees in on the secret. If they do, employers will need to provide employees with information they can use to decide what, if anything, the employees want to do about it.

So, what's the secret? Simply stated, unlike today's retirees, most baby boomers may not have enough money during retirement to maintain their current standard of living.

Former Social Security Commissioner Dorcas Hardy says to maintain one's current lifestyle in retirement, at age 65 the average person—counting income from all sources—needs a minimum of:

- \$225,000 if retiring in 1992.
- \$500,000 if retiring in 2010 (47 years old in 1992).
- \$1 million if retiring in 2020 (37 years old in 1992).

How many average baby boomers are preparing now to have at least a million dollars from all sources at age 65—or even more to retire earlier?

Baby boomers generally are unaware of the problem. That's largely because most of today's retirees have maintained—and some have even improved—their financial situation. They have enjoyed substantial pension plan benefits and cost-of-living adjusted, largely tax-free Social Security benefits. In addition, many have benefited from their personal savings and investments. Most of today's retirees had long

service with one or two employers. They also purchased their homes and had children at earlier ages than today's workforce. This gave current retirees more time to build equity in their homes and make investments after helping pay for their children's college education.

So baby boomers are not hearing any warnings from

today's retirees. But for baby boomers, the present is not a likely indication of the future.

Baby boomers frequently change jobs—usually joining a new employer for more money, with little regard to retirement benefits. Furthermore, fewer employers are offering traditional pension plans—and today's plans tend not to be as good as those offered a few years ago. Despite this, baby boomers have virtually ignored the changes employers have been making to pension plans. Yet, they are likely to protest even small changes in health care benefits.

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As organizations began moving away from paternalistic philosophies, they often found it easy to give employees what they wanted—usually more choices and benefits for today rather than in the future. This can be seen in the increase in flexible benefit plans and 401(k) savings plans. Giving employees what they asked for also has led to more investment fund choices and greater opportunities for investment fund transfers. Employers believe they are treating employees in a more adult fashion by giving them what they want.

But are employers doing the right thing by giving employees what they want without helping them understand what they need?

Consumer-oriented information is a missing element in most employee benefit communication packages. Benefits are described as “coverage”—but the extent to which they meet needs is not discussed. Employees hear the simple “coverage” message in all types of benefits:

- “The life insurance provides two times your pay”—is that twice as much coverage as the employee needs, or less than half?
- “The health care plan pays 80% of certain eligible expenses”—how well does this coverage meet the employee’s needs?
- “The retirement plan pays 1.5% of final pay for each year of service”—is this coverage more or less than the employee needs?

Only the descriptions of disability benefits begin to provide the “compared to what you may need” element—for instance, “the long-term disability plan ensures 66% of pay.”

Even most flexible benefit plan communication campaigns do not provide “compared to what you may need” information. **How can employees confidently decide what choices to make if they don’t know what they need?** If given an array of life insurance coverage choices, but no means of evaluating how much is needed, how many employees simply will buy the amount they had before or make the decision based on price? Too often the “how much do I need?” question goes unanswered.

Employees get better “compared to what you may need” information when buying tires, refrigerators—even breakfast cereal—than when they make benefit-related decisions. Not all consumers use the information. Some people choose tires based on appearance rather than the detailed performance information printed on the sidewall. And not everyone will choose to use consumer-oriented retirement benefit information. But without that information, they do not have the choice.

Since most employers have not adequately communicated the “compared to what you may need” aspects of retirement, the ill-informed consumers—the employees—tend to:

- Save very little for retirement.
 - Why fix something you don’t know is broken?
- Choose conservative investment funds for retirement savings.
 - Why risk a loss when you don’t realize you need more than the conservative funds can generate?
- Prefer a current account balance versus a promised income in the future.
 - Why not go for the money today rather than take something of unclear value in the future?
- Fail to appreciate the value of pension plans.
 - Why hold in high regard something you don’t understand?

Communicating about retirement isn’t easy. The content is complex and the audience is conditioned to ignore the message. **But baby boomers need to learn about the huge challenge they face, and they need to learn it soon. If they don’t find out until they are only a few years from retirement—the time too many “retirement planning” programs begin—all they will be able to do is lower their expectations.** There won’t be enough time to boost their financial resources significantly.

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Human resources professionals can help employees uncover “the big secret” and give them the “compared to what you may need” information by showing them:

- How much money they may need to maintain their lifestyle during retirement.
- What sources of retirement income exist.
- What they can do to help themselves.

Organizations shouldn't wait until the perfect “compared to what you may need” retirement planning system is developed. **Predicting the future always will be an imperfect science. But for baby boomers, a “ballpark estimate” is far better than what they have now—no clue.** The goal is to give them a target. Let them know the target may move from time to time. At least with a ballpark estimate, employees can decide what, if anything, to do about their future income needs. For example, a person might decide to buy a less expensive car and instead invest more money in a retirement plan.

Naturally, an organization's “compared to what you may need” retirement communication program should be linked directly to its culture, mission, and human resource objectives. In order to be based in solid learning principles, the program should follow an educational sequence. Organizations should follow these steps:

- **Step 1.** Make employees aware the problem exists. Until they become aware the problem exists, no learning can take place.
- **Step 2.** Motivate employees to learn about the problem and the potential solutions. Without motivation—such as fear or the desire to provide for family members—employees will not take the next step.
- **Step 3.** Help employees understand the problem. Without a clear and simple description of the issues, employees may not fully comprehend the challenge they face and the potential solutions.
- **Step 4.** Provide employees access to the program and materials they can use for taking action to meet their needs and thereby gain appreciation of the employer's retirement plan.

To help generate awareness of the problem, organizations may want to use simple cardboard slide rules, “estimator wheels,” or sophisticated interactive telephone systems.

The annual benefit statement could be used to motivate employees to learn about their retirement income challenge. The statement could show each employee his or her target retirement income amount, projected benefits from the retirement and savings plans, as well as Social Security.

Simple worksheets could be developed to help each employee understand:

- How much will I need?
- Where will my retirement income come from?
- How much will I get?
- What can I do to help myself?

Sophisticated personal computer programs and detailed worksheets can be used to help employees take action based on their personal needs. But organizations need to be careful not to let sophistication add the illusion of accuracy. **The “black box” computer programs are terrific for generating a host of numbers, but these numbers are not the only important information. Besides numbers, employees need to understand and appreciate the underlying issues. Simple worksheets may be better for doing this.** In fact, it may be even more important for employees to understand the critical nature of the assumptions used in the programs, including:

- Future pay/inflation rates—change the future percentage amounts only a little and the target moves a lot—what if inflation greatly outpaces pay increases?
- Future tax rates—same as today's low rates—what if they double?
- Future taxable income—Social Security, pension—what if the laws change?
- Future Social Security benefits—same as today's replacement level—will the country be able to afford it?
- Future investment performance—are there boom days ahead—will performance just keep

up with inflation or will there be real growth or real losses?

- Future health care expenses—how much will retirees be asked to pay for their medical coverage and long-term care?
- Future home ownership arrangement —will retirees be able to afford to keep their homes?

Here are the key elements of a simple worksheet designed to give employees—especially the baby boomers—a “ballpark estimate” of how much they will need to maintain their current lifestyle.

- Project your current pay to “Age 65 Pay”** (provide a simple “look-up” table of factors based on the number of years to age 65 and several assumed annual pay increase rates).
- Times 75%**—amount some experts say is needed to keep current lifestyle (assumes lower income and Social Security taxes—no longer saving for retirement, etc.). Of course, employees may move the percentage up or down. This becomes the “initial target.”
- Minus amount replaced by your Social Security** (provide a simple “look-up” table showing estimated percentage of benefit replaced —assumes program stays unchanged).
- Minus amount replaced by your company’s pension plan** (ask employees to use their annual benefit statements for projected amount—they probably will need to adjust for future pay rates).
- Equals your first-year “shortfall”** (the dollar amount from the employee’s profit sharing and savings plans as well as personal savings needed to reach the initial target for the first year of retirement).
- Times number of years you expect to live**—around 15 years at age 65 (provide a life expectancy table)—assumes inflation and interest are equal.
- Equals your extra retirement income target** —the “ballpark estimate” of the extra amount needed at age 65 to continue current lifestyle (could be a huge amount)—because most pension plan benefits are not indexed to inflation, the amount may be understated.

Communicating about retirement presents a challenge. But by developing a “consumer-oriented” program, organizations can help employees—especially baby boomers set retirement savings goals; develop investment strategies; gain better appreciation of their retirement plan; become more aware of their future financial needs; and seek specific retirement-oriented financial counseling from a professional advisor.

In other words, organizations can help teach employees how to **make decisions based on what the employees need—not just on what they want.**



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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.

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