

# Make Retirement Something People Want to Buy ...

*Otherwise, Retirement  
Just Isn't Going to Work*

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## What We'll Cover

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- Challenge you to question conventional wisdom and “best practices” of retirement education and sales techniques.
- Offer a “consumer-oriented” approach to help people learn how to **buy** their retirement.
- Techniques to create more customers with larger account balances...something that's good for them and for you.

## The Test of Basic Retirement Savvy Might Look Like...

[Here's how simple it could be.]

### Test of Basic Retirement Savvy

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1. A couple wants to retire at age 65 with \$50,000 a year in "spendable income." If they expect to live to age 85, their retirement will likely cost (in today's \$):  

A. \$250,000	C. \$750,000
B. \$500,000	D. \$1,000,000

### Test of Basic Retirement Savvy

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2. A worker who expects to retire at age 60 and live to 85, and who currently has \$100,000 in a 401(k) plan (assuming inflation and investment rates are the same), should view that money as:
- A. Taxable income
  - B. Help covering medical and long-term care expenses
  - C. \$4,000 worth of income a year
  - D. All of the above

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### Test of Basic Retirement Savvy

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3. At age 65, a typical retiree who wants more value should choose:
- A. \$100,000 single lump sum
  - B. \$1,500 a month for life
  - C. Both same value

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### Test of Basic Retirement Savvy

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4. At age 65, a typical retiree who has \$100,000 and wants a monthly income that will last a lifetime should expect – **by buying a lifetime annuity** – to receive about:
- |          |            |
|----------|------------|
| A. \$400 | C. \$1,600 |
| B. \$800 | D. \$3,200 |

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### Test of Basic Retirement Savvy

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5. At age 65, a typical retiree who has \$100,000 and wants a monthly income that will last a lifetime should expect – **by withdrawing the same dollar amount each month from an invested account** – to receive about:
- |          |            |
|----------|------------|
| A. \$400 | C. \$1,600 |
| B. \$800 | D. \$3,200 |

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If More People  
Could Pass  
This Simple Test,  
Your Sales Would  
Increase.

World's Greatest  
Selling Approach—  
*Sell Them What  
They're Buying*



Here's Something  
70% of Americans  
Do Not Have...

### The Big Secret

#### **What's the estimated price of your retirement?**

If you were "fast forwarded" to your last day of full-time work...and things cost the same as today:

**How much do you want to spend each year...\$\_\_\_\_\_**

*Compared to today, the same, more, or less?*

**How many years might your retirement last...X\_\_\_\_\_**

*Example: Age 65 to 90 = 25 years*

**Your personal estimate...\$\_\_\_\_\_**

***Congratulations! You have an estimate  
of the price of your retirement.***

### The Big Secret

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A couple that dreams of spending \$50,000 a year (**lifestyle**), wanting to retire at age 65 and expecting to live to age 85 (**time**), will need 20 years of income...

$$\text{\$50,000} \times \text{20 years} = \text{\$1 MILLION}$$

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### The Big Secret

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*Ackley's Super Simple  
Retirement Income Estimator*

**Spendable Income (lifestyle)**

**X Retirement Years (time)**

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**= Personal Estimate**

*Retirement lifestyle is a  
personal dream...time is reality*

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## The Big Secret

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Big  
Idea!

Most people don't know the price, because retirement is **NOT** considered a consumer item ...and they haven't been helped to visualize their dream.

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Please Give Me a Few Minutes to *Tell* You Why Acting On Your Urge to *TELL* Me How to Improve My "Estimator" May Not Be The Best Sales Approach.

## Why Retirement Isn't a Consumer Item

Who wants to buy something that:

- Provides no immediate gratification.
- Has no easy-to-understand price tag.
- Offers no clear penalty for delaying the purchase.
- Exchanges certain pain today for possible future pleasure.
- Has no noticeable group of unsatisfied customers demanding improvements (starting to change?)

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## Retirement World Has Changed

- New traditional DB plans are rare.
- 401(k)s / 403(b)s have popped up all over.
- Retirement lengthens as life expectancy soars.
- Consumer debt up – savings rate low.
- Employees have more retirement responsibility.
- Taxes on retirement benefits are rising (remember 5-year averaging and tax-free Social Security benefits?)

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## Few Savvy Retirement Buyers

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What do most people know?

Not enough to be  
successful  
retirement consumers!

And that's what you need!



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## Few Savvy Retirement Buyers

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- 86% say they know they need 60-80 **PERCENT** of pre-retirement income. (EBRI)

**However...**

- 70% have no idea of the **DOLLARS**. (Public Agenda)
- 55% age **65 and older** (retirement education "graduates") have **no idea** – many others "grossly underestimated". (Roper/Quicken)

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## Few Savvy Retirement Buyers

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- 42% say they have tried to calculate *or guess* how much they need for retirement.

(EBRI)

### However...

- 58% have never even tried – but those who have tried tend to have roughly five times more saved than other employees.
- 32% who tried cannot state any amount.
- Only 32% who tried say they need more than \$500,000.

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## Few Savvy Retirement Buyers

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- Life expectancy soars—15 years longer than in 1936.

### However...

- Half the females who end full-time work at 65 will need at least 19 years of financial independence (males 16). (U.S. Govt./Ways & Means)
- At 65, a \$100,000 account (using past market performance and *reverse dollar cost averaging*) will assure roughly \$400 a month for the retiree's lifetime.

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## Few Savvy Retirement Buyers

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- 79% of Baby Boomers say they will be the same or better off financially in retirement. (ING)

### However...

- Employees in their 60s with 30 years at same employer average \$162,042 in a 401(k). (EBRI)
- 50% age 55-64 have \$55,000 or less. (Dallas Morning News)
- 45% of workers have saved under \$25,000. (EBRI)

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## Few Savvy Retirement Buyers

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- 95% say they know to start saving early. (Money)

### However...

- 46% under age 29 are not saving for retirement – missing the “miracle” of compound earnings. (Hewitt)
- 50% of 401(k) participants under age 29 took the cash when changing jobs. (Hewitt)

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## Few Savvy Retirement Buyers

- 70% expect to retire by age 65. (EBRI)
- 50% of current retirees retired by 63½.  
(U.S. Gov./Ways & Means)

### However...

- 40% of current retirees retired earlier than they expected (health/job/etc.). (EBRI)
- 70% of employees intend to work for pay in retirement – only 28% of retirees do (health reasons). (EBRI)

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## Cost of Ineffective Retirement Education

Ineffective retirement education techniques will not change how much people need... only how much they'll have.



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## **Cost of Ineffective Retirement Education**

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What can employees do who reach retirement age with too little money?

- Keep working.
- Lower their standards and expectations.
- Pursue “deep pockets”.
  - **Vote for government benefit improvements.**
  - **Sue previous plan sponsors.**

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## **Cost of Ineffective Retirement Education**

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New, adult learning-based approaches are needed to create more savvy retirement income consumers  
...and more good prospects for annuity sales.

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## Cost of Ineffective Retirement Education

### Adult Learning—sequential steps

Step 1...**Awareness**—Help me see that I'm in control of my retirement destiny **now**.

Step 2...**Motivation**—Help me discover my good and bad choices, and see my penalty for not doing what's right for me **now**.

Step 3...**Understanding**—Help me acquire the knowledge I want to know.

Step 4...**Use and Appreciation**

Ask any teacher, "Can you teach the unaware and unmotivated?"

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## Cost of Ineffective Retirement Education

- Nearly all retirement education approaches skip **awareness** and **motivation**...that's why they don't work.
- In teaching adults, a **personally motivated learner** an essential component of learning.
- However, the retirement industry usually uses the "expert approach"... "just have an expert tell them what to do."  
**Too bad telling hasn't worked.**

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## Why "Telling" Does Not Work

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"Retirement educators" are eager to **tell** employees what to do for their personal retirement...but they'd never consider telling them what to do for a personal vacation (even though it's far less expensive and shorter).

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## Why "Telling" Does Not Work

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*Am I on the right track to get where I need to be to have an enjoyable...?*

### Retirement

"You should target 80% of your pre-retirement income."

### Vacation

"You should take Interstate 70."

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## Why "Telling" Does Not Work

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*What's the best vehicle  
for me to get there?*

### Retirement

"You should have a diversified portfolio of 60% equities and 40% bonds."

### Vacation

"You should have a 4-door sedan."

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## Why "Telling" Does Not Work

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*How much should I be putting away  
to have an enjoyable...?*

### Retirement

"You should save nine percent of your pay."

### Vacation

"You should save \$185 a month."

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## Why "Telling" Does Not Work

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*How much should I spend  
to have an enjoyable...?*

### Retirement

"You should  
withdraw 4%  
of available  
funds each  
year."

### Vacation

"You should  
spend \$2,220."

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## Why "Telling" Does Not Work

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Stop telling...start  
helping people use  
***their own values*** and ***their own projections***  
...thus providing ***awareness***  
...that creates ***motivation***  
...all based on what is personally  
meaningful and important.

***A motivated learner is the most  
powerful ingredient in learning.***



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## Other Techniques That Don't Work

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### “Here's Your Replacement Ratio Target”

- Assumes everyone should keep current lifestyle – an antique, paternalistic concept.
- Leaves people clueless about dollars.
- Hides how to set savings targets, what sources of income are available, and how to take control of future finances.
- Ignores the largest risk of all – **longevity**.

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## Other Techniques That Don't Work

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### “Know Your Risk Tolerance”

- Focuses on “market risk” – ignores risk of 20-30 years of too little retirement income or out living it.
- It's a generally accepted concept...but often used as sales approach – “Which of the funds that I'm offering do you prefer?”

Many of today's “retirement education” approaches were borrowed from mutual fund sales techniques...to sell to the already motivated and somewhat financially savvy.

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## Other Techniques That Don't Work

### "Here's Your Inflation-adjusted Projection"

- Teach people "today's dollars" basics – they'll ask about "inflated future dollars".
- What do people do after being told a six pack will cost \$30 when they retire...is that motivational or disheartening?
- Haven't most of the selected investment options kept up with inflation over time?

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Here are four things  
you can do to help  
promote the  
participant  
"learning"  
approach...and sell more  
annuities.

1. Help people see that there's no universal right answer to "how much do I need"...they can have the best answer that question.

### Destroy the Illusion of Planning Precision

"How much money will I need to retire?"

**If you're run over by the party bus at your retirement celebration, you'll need around \$0 retirement income.**

Or, it could be more than that, for example...

## Destroy the Illusion of Planning Precision

“How much money will I need to retire?”

**If you want to have generally the same standard of living that you have now ...and you retire at age 60 and live to 102, you will need more money than you made in your entire working career.**

*One million Americans in their 50s today are expected to reach age 100. (National Institute on Aging)*

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## Destroy the Illusion of Planning Precision

“How much money will I need to retire?”

- It's your life and your dream.
- You have the opportunity to choose the retirement lifestyle you want.
- For example, do you want a fishing shack...or several beach condos. Do you want to stay put...or stay on cruise ships?
- Start with a picture of your goal...then we can begin estimating the cost of your dream.

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## Destroy the Illusion of Planning Precision

- Retirement lifestyle can be planned with some certainty.
- The length of retirement is less certain, but significantly influences the price.
- Savvy retirement consumers will discover that annuities are a powerful tool in helping manage the uncertain of longevity.  
(66% age 55-64 have never heard of annuities ...only 9% say they would use one.) Prudential

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2. Help the "not-yet-sophisticated" people see that retirement is much like any other purchase...they've got to know the price and how to pay for it.

## Join The Campaign

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Join Ackley's  
**Create Your Own Retirement  
Dream Campaign**  
to turn people into  
**retirement income consumers.**

They get better consumer-oriented information when buying tires, refrigerators, or Snickers bars...because retirement is not considered a consumer item.

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## Your Dream Campaign...It's a Start

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Explain retirement like making a purchase  
...using consumer-oriented terms:

- **Retail price** – total needed if “fast forwarded” to retirement today.
- **Discounts** – amounts already paid (current savings, projected pensions, saleable assets, and Social Security).
- **Layaway payment** – additional amount needed to purchase your retirement dream.

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## Your Dream Campaign...It's a Start

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### Your estimated retail price of retirement

$$\begin{array}{rclcl} \underline{\$55,000} & \times & \underline{25} & = & \$1,375,000 \\ \text{annual spendable} & & \text{years} & & \end{array}$$

### Your estimated discounts – what's already paid

- Current single sums (401(k), personal savings, etc.) – \$385,000
- Lifetime payments (pensions and Social Security at retirement)

$$\begin{array}{rclcl} \underline{\$30,000} & \times & \underline{25} & = & \underline{\$750,000} \\ \text{annual benefit} & & \text{years} & & \end{array}$$

$$\text{Your estimated additional layaway} = \$240,000$$

Not a panacea – simply a springboard to learning ...  
motivating them to use sophisticated projections.

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## Your Dream Campaign...It's a Start

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Get people to **think** like consumers and ask questions – **motivated to get answers**

- Future government-sponsored benefits?
- Future health care expenses/Medicare?
- Future taxes on sheltered income?
- Future investment performance?
- Future impact of inflation?
- Future home ownership arrangements?
- Outliving my retirement income?

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3. Help people see the value of annuities by comparing their potential retirement income to what's real.

### Help Make the Right Comparison

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Here's a starting point...

“If you were retiring today and expecting to receive payments for 20 years (for example, from age 65 to 85) – assuming your investment performance and inflation are the same – your 401(k) balance of \$100,000 could pay \$5,000 worth of income each year ...that's \$417 a month...and then your account is \$0.”

### Help Make the Right Comparison

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On average “...stocks returned about **7%** above inflation for the past 200 years.”

Jeremy Siegel, “Stocks for the Long Run”

“...stay fully invested in stocks forever  
...withdraw a constant amount of money equal to **7%** of the original investment –  
**without losing principal.**”

Peter Lynch, “Worth”, September 1995

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### Help Make the Right Comparison

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What’s your response to...

“If Peter Lynch, legendary stock picker who managed the Fidelity Magellan Fund from 1977-1990 – and beat the S&P stock index by a compound average rate of over 10% – says a 7% annual withdrawal is OK, why shouldn’t I just take out 7% a year and leave the principal for my kids?”

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### Help Make the Right Comparison

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- “Averages” can be dangerously misleading ...as Peter Lynch found out.
- The stock market moves every business day ...when market is down, more stocks/bonds must come out to make withdrawal...leaving fewer stocks/bonds when market goes up.
- After a barrage of letters, Peter Lynch issued a retraction, sort of...

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### Help Make the Right Comparison

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“...it’s not safe to withdraw \$7,000 from a [\$100,000] stock portfolio or stock mutual fund if you had the bad luck to buy on the eve of a 40% correction leading to a 10-year bear market. ...5% withdrawal plan seems to work well...”

“Worth”, April 1996

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## Help Make the Right Comparison

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- If Peter Lynch didn't understand how to determine the real value of retirement income, don't expect the rest of us to get it either.
- The "Trinity Study" – withdrawing same amount each month without going broke – added more valuable insight. (reviewed all periods from 1926 to 1995 -- Cooley, Hubbard and Waltz, © 1997 Published by AAll, February 1998)
- **It's dollar cost averaging in reverse!**

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## Help Make the Right Comparison

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### Trinity Study: Portfolio Withdrawal Success

	years	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>
100% stocks (S&P 500)	20	<b>100%</b>	98%	96%	94%	92%	84%
	25	<b>100%</b>	98%	96%	91%	87%	78%
	30	<b>100%</b>	98%	95%	90%	85%	78%
100% bonds (US Corporate)	20	<b>100%</b>	<b>100%</b>	<b>100%</b>	96%	47%	35%
	25	<b>100%</b>	<b>100%</b>	98%	52%	26%	7%
	30	<b>100%</b>	<b>100%</b>	51%	27%	0%	0%
50/50 stocks & bonds	20	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	96%	88%
	25	<b>100%</b>	<b>100%</b>	<b>100%</b>	98%	96%	70%
	30	<b>100%</b>	<b>100%</b>	<b>100%</b>	98%	90%	51%

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### Help Make the Right Comparison

Help people see what they can expect from a \$100,000 stock fund account balance.

- ✓ At 7% – \$ 583 a month...85% success
- ✓ At 5% – \$ 417 a month...95% success
- ✓ At 4% – \$ 333 a month...98% success

A male age 65, can expect roughly \$640 a month from an annuity...with 100% success. That's 93% more income than a 4% withdrawal...but no \$ for the kids.

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4. Help plan sponsors develop performance measures that matter for retirement education.

## Participant Mastery Approach

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Only four things savvy retirement consumers do with 401(k)s/403(b)s

**Price** – the targeted amount for the retirement lifestyle they want.

**Contribute** – the amount needed to attain that lifestyle.

**Invest** – the way to help attain that lifestyle.

**Receive** – the way they use the money – only for retirement income that will last a lifetime.

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## Participant Mastery Approach

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- They're all important – but which is the most important content element for people to know...which is the least important?

**Price**

**Contribute**

**Invest**

**Receive**

- Which do people usually learn about the least in retirement education programs?
- Which is emphasized the most?

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## Participant Mastery Approach

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Investing matters... but not as much as knowing:

- **Price** – no target, no personal motivation.
- **Contribute** – nothing to invest.
- **Receive** – no rollover at job change, no understanding of how long lump sum will last.

Even Professor Harry Markowitz, Noble Prize winner and inventor of Modern Portfolio Theory (*smallest risk for level of expected return*) may agree...

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## Participant Mastery Approach

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When Dr. Markowitz was asked how he invested for retirement ...

“I should have computed the historic covariances of the asset classes and drawn an efficient frontier. Instead, I visualized my grief if the stock market went way up and I wasn't in it – or if it went way down and I was completely in it ...so I split my contributions 50-50 between bonds and equities. I wanted to minimize my future regret.” (TheStreet.com)

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## Participant Mastery Approach

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Big  
Idea!

You can help plan sponsors  
set minimum standards for  
retirement educators...requiring them to  
provide measures of  
**individual employee's success.**

Retirement educators should show they are helping  
individual participants create, pursue, and achieve  
**their personal retirement income lifestyle target**  
...gaining real participant mastery.

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## Participant Mastery Approach

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Price – *I know how much money I need for the  
retirement lifestyle I want.*

Contribute – *I know the amount I'm  
contributing is on track for the retirement  
lifestyle I want.*

Invest – *I know the way I am investing today is  
on track for the financial future I want.*

Receive – *I know I will use the money only for  
retirement income that will last for as long as  
I live.*

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## Participant Mastery Approach

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You can improve retirement education by helping plan sponsors:

- Require learning outcomes that cover the four things employees can do.
- Stop benchmarking (there are no “best practices”).
- Ignore plan averages...pay attention to individuals (especially non-participants).

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## Summary

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- Provide *inciting* (personally motivating) and *insightful* learning (constructivism/assimilation) – building upon what people already know.
- Use techniques that instill trust & credibility.
- Create individual success measures.
- ***Make retirement income a consumer item – something people want to learn to buy ...so you can sell them what they're buying.***

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## Test of Basic Retirement Savvy – Answers

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1. **D. \$1,000,000**
2. **D. All of the above**
3. **B. \$1,500 a month for life** – According to actuaries, at age 65 the \$1,500 a month for life provides nearly 50% more value for typical retirees than \$100,000 in a lump sum.
4. **B. \$800** – At age 65, \$100,000 used to purchase a life-only, single premium annuity from one of the major life insurance companies will provide about \$800 a month. Rates vary based on sex, competitive practices, economic conditions, and other factors.

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## Test of Basic Retirement Savvy – Answers

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5. **A. \$400** – At age 65 with \$100,000 in an invested fund (assuming 50% in an intermediate government bond fund and 50% in large company stocks), a retiree should expect to be able to withdraw the same dollar amount each year equal to about 5% of the initial lump sum amount. So 5% of \$100,000 is \$5,000 – about \$400 a month. Why only 5%? This is based on research of every 25-year period of market performance beginning in 1929. The concept is the same as dollar-cost averaging – except it is in reverse. When the market goes down, a larger number of bonds/shares must be cashed in to provide the monthly payments. When the market rebounds, there are fewer bonds/shares to participate in the market gains. This is an over simplification the explanation provided by Scott Burns ([www.scottburns.com](http://www.scottburns.com) – click on 'The Spender's Portfolio'). Key assumptions are that the stock market will act much like it has in the past and the retiree takes out the same amount each month.

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