

# Retirement Readiness Report

Helping older employees get ready to retire successfully

A free report for employers, unions, and pension funds, produced by RetirementWORKS®, Inc.

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Welcome to the fourteenth issue of the *Retirement Readiness Report*, offered as a free resource, to help you think about how your organization supports the transition into retirement.

We encourage you to contact us at any time if you have ideas, criticisms, or other comments about this publication, or wish to update your email address (or be added to or removed from the list).

*If you missed issues #1 thru #13:*

They're available at:

<http://www.retirementworks2.com/support.asp?id=newsletter>

*Next month:*

Retirement issues specifically for women.

## Why older employees and retirees rarely get good financial advice

Most of the financial *information* your employees get is correct. But most of the *advice* is not correct, or at least not right for *them*. There are two main reasons for this: the nature of advice providers, and the nature of the financial situation older employees and retirees are in.

Few providers of financial advice really understand the needs of the typical older consumer, because the people who train and support financial professionals do not understand them. What financial professionals do understand is the person whose main need is investment performance. This is the case for wealthy people (of any age) and of ordinary younger people who are still saving for retirement.

But for the majority of retirement-facing folk who actually have some risk of running out of money before they die, asset growth and wealth management are secondary issues. Financially speaking, retirement doesn't mean (as the vast majority of today's financial professionals appear to believe) that we simply have to adjust the way we view our finances. Rather, we face an entirely new kind of problem.

Meanwhile, when you hear financial professionals emphasizing investment or asset management, or talking about "retirement income planning," these are signs that they grasp the lingo but not the reality. For most people dealing with retirement, assuring life-long financial solvency is fundamentally a *cash flow* problem, not specifically an *asset* problem or an *income* problem. All areas of one's finances are critical to understanding the real issues, and advisers of older consumers need to be competent in all of them. Some are, but not the ones the majority of your employees are likely to be able to afford.

In addition, there is bias. Financial advisers may or may not be biased by the way they are compensated for what they do (usually selling fi-

nancial products or managing money), but almost all of them, and the big companies who support them, are biased by their very expertise, whatever their specialty may be.

If you live and breathe investment management, for instance, everything starts to look like an investment problem. Never mind that other decisions might have a bigger impact: how you spend your money, when you start taking Social Security, where you live, what option you take from a pension plan, whether you have appropriate insurance for catastrophic or long-term health problems, and so on. You know the old saying: when all you have is a hammer, everything looks like a nail. To almost all financial companies, and to most financial advisers, your employees look like a nail of some kind, when in fact they are much more than that.

The other main reason why we rarely get reliable financial advice, even from those rare people who have shaken themselves free of the limitations already mentioned, is that the problems are too complicated, and no fi-

nancial company we have ever heard of has the tools to give people the right answers. Here's an example.

Should you convert an IRA or 401(k)/403(b) account to a Roth account (Roth plans require paying taxes up front, but then all future growth and withdrawals are tax-free)? The correct answer mostly depends on whether you will be in a *higher tax bracket* later than you are now – if so,

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then a Roth conversion usually makes sense. So advisers try to guess, or might even ask, what the future tax situation is likely to be. But it takes intricate analysis to answer this correctly.

For instance, if a retiring employee were to sell a \$400,000 mortgage-free house and purchase a \$200,000 house with a mortgage, several hundred thou-

sand dollars would be generated. Investing it would in turn create taxable income that could put them in a *higher tax bracket* than had been expected.

But few advisers dealing with Roth conversions will ask if someone is selling a house, and even if they do, the retiring employee might not know the right answer, because unless current and future cash flows are carefully analyzed, it may not be apparent that someone even needs to be thinking about “trading down” to a smaller home. We have yet to hear of a financial advisor who approaches the Roth question with this kind of rigor.

And that is just one example of dozens. Since virtually no advisers are prepared to investigate and understand all the ways in which current and future financial circumstances and decisions affect one another, any advice they do offer is based on incomplete information, which is another way of saying “bad information.”

A little knowledge is a dangerous thing. It's dangerous for advisers, and it's dangerous for your employees.

This does not mean that employees should go it alone, of course, but only that given the weak state of the art today in the realm of financial planning for retirees, the options are usually poor.

This is particularly true for your rank and file and middle-management people, who are most likely to be at risk of actually running out of money someday. Your top level people are better served by traditional financial advisors, because this is the population that most advisors have been trained to serve.

We have other ideas for your lower to mid-level people, but this isn't an advertisement, so we will leave it at this: be cautious about offers to provide advice, free or otherwise, to your general employee population – whether those offers come from local financial professionals, or from your qualified plan provider. Your near-to-retirement employees may well receive advice that does them more harm than good.

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## Recommended Reading for Employees Getting Ready to Retire

*The Joy of Retirement*, by David C. Borchard with Patricia A. Donohoe.

\$16.95 (American Management Association, 2008)

**Notice: We do not sell books, or have any financial stake in recommending them.**

*The Joy of Happiness*, according to its subtitle, is about “finding happiness, freedom, and the life you’ve always wanted.” And it does a pretty good job of it.

This book is not about saving or managing money. Borchard, the primary author, is a long-time career counselor, and his specialty is helping people through career transitions, including the transition beyond one’s current career into whatever’s next.

He approaches this in a detailed and systematic way. He also tells a lot of stories to illustrate his points, which keeps the book interesting (and also makes it a lot longer than it really needs to be). But interspersed amidst all the verbiage you can find a lot of insight that comes from real ex-

perience, good ideas about how people can understand, stretch, and motivate themselves, and a good number of self-tests, some of which are very useful indeed.

Books of this kind tend to select their own best audience: the sort of people willing to find and pay for them are the kind of people who have at least some concern and initiative. Even so, Borchard realizes that actually transforming one’s life is a hard slog, with many pitfalls along the way. He does not take for granted that his readers are, to borrow a recent phrase, “fired up and ready to go.” He keeps giving us good reasons to continue the process, and seems to know when our energy might be flagging.

He is also attuned to practical issues and obstacles: the difficulties of redefining ourselves, of imagining something totally new, of transcending our old roles and finding new ones, of perhaps redefining our relationship to our significant other, and both the benefits and difficulties of finding a whole new place to live, if that is part of what we need to do.

*The Joy of Retirement* will be of help to employees who know that the time to retire from their present employment is approaching, but who have not yet thought through where they want to take their lives next.

If someone is interested enough in that problem to read this book thoroughly, complete the exercises carefully, and follow through with the thinking and discussions that would have to happen in order to make a real success of their retirement, they very likely can, in fact, get there.

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## Featured Website

### **eons**

<http://www.eons.com/>

Eons, Inc. is a social networking website “for spirited BOOMers,” founded by Jeff Taylor, creator of Monster.com.

As the site itself explains, at eons.com your Baby Boom age employees can express themselves through their Profiles, join Groups around their own passions and interests (or start their own groups), share photos and

videos with friends and family, play games to keep their brains sharp and challenge others, and to have fun with other friends on the network.

Increasingly, people of this generation are joining Facebook or MySpace, but many, perhaps most, feel uncomfortable using social networking sites their kids are on, or that cater to a younger demographic. Meanwhile, professional sites like LinkedIn also seem off-target, at least for those getting close to retirement. Eons.com fills the gap.

Its main advantage is a certain amount of generational homogeneity. But it's not just about comfort level. Eons.com has over 4000 groups that its members can join, following interests in health, love, learning, finance, travel, recreation, and anything else that might be of interest. The blogs and even the advertisements are “age-appropriate.” So is the “longevity calculator” (which is not just a quiz, but also generates a to-do list for the member to go over with his or her physician, and a list of local resources to promote health).

The trivia, word, and other games are also suited to this age group.

To the extent that retirement should be about fun and about staying connected with friends (and making new friends), eons.com is a site worth knowing about.

The Eons Team, they say, is eager to answer questions, respond to comments and help get people started quickly.

### **About RetirementWORKS<sup>®</sup>, Inc.**

We are the consumer subsidiary of Still River Retirement Planning Software, Inc., of Harvard, Mass., which has specialized in retirement plans and retirement planning since 1994.

Our philosophy is that retirement needs to be viewed from the retiree's point of view, in all of its complexity. So we offer the most powerful and useful financial software available anywhere for retirees and near-retirees, and advice concerning non-financial aspects of retirement. But we do not sell any financial products or services other than software, and have no financial stake in any advice that is offered.

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