Retirement Readiness Report

Helping older employees get ready to retire successfully

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

December 2012 – Issue no. 44

RetirementWORKS
a subsidiary of Still River

15 December 2012

Welcome to the forty-fourth 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 #42:

They're available at: http://www.retirementworks2.com/support.asp?id=newsletter

Employees in the middle

The focus of this issue is ñmiddle incomeò employees. Chances are, if youõre with a large employer or a pension fund, the majority of the employees are middle income. If you represent a union, virtually all of them are.

But what does ñmiddle incomeò mean, exactly? There are lots of different definitions out there, some focusing just on wages and salary, some including other sources of income, and some relying instead mostly on assets or net worth. We take a different approach.

When you are thinking about people getting close to retirement or already there, and if your motivation is to think about what they need and how you can help them get it, then it makes more sense to distinguish the middle income folks from the high income people this way: ask yourself *whether they are in significant danger of running out of money* before they die, or of having to seriously cramp their lifestyle in order to prevent that from happening.

This test usually gathers most rank and file employees into the middle income group, but not all. Middle-class and even lower-middle class people who have learned to live prudently within their income may not be in much financial danger during retirement, especially if theyõre entitled to a decent pension, or if they have savings of their own. But even these employees are seldom completely immune from potential catastrophic outcomes, particularly long-term care needs. An illness or a degree of disability requiring five or ten or more years in assisted living or nursing care will more than wipe out the savings that even most good middle class savers could accumulate.

With professional and managerial people, itõs even harder to determine where they fit, until you know more about them (or, more likely, until they self-identify, having done some soul-searching, or preferably some actual analysis, on their own). A lot of people who are affluent, and even some who are genuinely wealthy, have higher expenses, too. Or they are exposed to unusual risks because of where their assets are located (especially if most of their wealth is in company stock, or in speculative ventures of other kinds).

So, you can make a good guess but you canôt tell for sure just by looking at someoneôs paycheck whether they are ñmiddle incomeò or not ï all the more so since you probably donôt have access to information about spousesô income or wealth.

One thing we do know, though, is that more and more people approaching retirement are concerned about where they will fall on this scale. A brand new study by Mercer of 401(k) participants (who are not, by the way, the employees worst prepared for retirement), found that by a small margin a majority of them expect to have to work part-time after they retire. A larger majority say they expect to delay their retirement in order to strengthen their financial situation.

So this ñmiddle incomeò group is a big one, and a troubled one.

What can you do for them? Well, you probably canôt make them wealthier, and you probably canôt reduce their needs. What you can do, though, is to make sure they have access to the knowledge and tools they need to make wise decisions about their own unique financial situations.

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We can be more specific about that.

Most providers of 401(k) and other defined contribution plans, and most financial companies that offer products to the public, already provide information and software tools intended to help.

For the most part, though, the information is fluffy or biased or both, and the tools are too simplistic to actually do the job that needs to be done.

There is a fascinating study that will be coming out of one of the key professional organizations in the financial industry in the next few months (we canôt tell you which one yet, but we have seen a draft copy of the study).

This report examines the various models (mostly software models, but also others that do not rely on software) that are currently used to help people make financial decisions about their retirement. It lumps them into four main categories, and about three times that many sub-categories, according to the overall approach that each model takes. The study evaluates each category, not based so much on the specific tools and strategies that populate the category as on the underlying intent and thought process that goes into those tools and strategies.

This evaluation proceeds mostly by listing which financial or finance-related issues people face as they retire and as they move through retirement, and then identifying the effectiveness of each category of tool or model in addressing those issues. (It also looks at costs, usability, and a smattering of other such relevant characteristics.)

The results are surprising, but only because nobody has looked at the various retirement advice strategies in such an organized way before.

The overall result is that *the most commonly used strategies have the least value* to middle income people who are retired or getting ready to retire.

Models that follow these strategies ï models that are probably being offered currently to your older employees ï mainly focus on the management of investments. They answer questions like: How should those investments (especially the ones inside a 401(k) or other similar plan) be allocated? Or, How much can the employee safely withdraw on a regular basis from the plan once she or he is retired?

Although there is *some* demand among middle-income consumers for answers to these questions, this demand is actually pretty modest, because the level of investment assets that most middle income own is modest. So these models better suit the affluent.

Meanwhile, these same old models and strategies fail to address the questions that are important to middle-income employees who face retirement, questions such as:

Can I afford to retire when I would really like to?

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At what age should I sign up for Social Security?

Do I need to move to a less expensive home, or otherwise reduce my expenses, when I retire?

If I need long-term care down the road, am I going to be able to afford it?

é And many others of this broader nature.

It will be interesting to see whether this study has an impact. We hope that it does, and we are alerting you to it in hopes that you and your organization will be in the forefront of those who know about it and take it seriously. And that you will start to examine whether your organization, and the company administering your pension plan (if there is one) are giving your retiring employees what they need, or something they donôt really need ï including sometimes a false sense of security or (at other times) a false sense of insecurity.

When this study is officially out, weôll provide you a link to it.

About RetirementWORKS®, 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 retireeôs 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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