Awakening the Super Saver in Pursuit of Retirement Readiness

Overcoming the challenges of longevity, consumerism, and debt to increase Americans' ability to retire.

By Stig Nybo

If you're anything like me you'll have found that there are many opportunities to describe *what* it is we *do* in the retirement services industry. What is much more rare are those moments when we talk about *why* — perhaps even to know what it is that personally motivates us. Ironically enough, such an opportunity came to me a few years ago as I went to buy coffee with my two sons.

I'd just taken the boys — Andreas, then 14, and Torsten, 10 — for haircuts and had stopped by Starbucks with mochas in hand, about to drive them home. As I made my way back to the car I noticed an elderly woman emerging from an older model Volvo that was so full of stuff, including the blanket that she was now folding neatly and placing in her trunk, it was immediately apparent that she was homeless. Like any parent who wants to keep the unpleasant realities of life away from his children, I secretly hoped my boys hadn't noticed her. No such luck! There was silence in our car for maybe three blocks before one of them asked the question I was dreading: "Dad, does that lady live in her car?" The entire way home we talked about what we'd seen and how we felt about it, but none of us was satisfied with the outcome. How could we be? This woman was someone of retirement age who reminded me a little of my own mother. Except that she was homeless and reduced to living out of her car.

It is times like these when we're provoked to look beyond the facts and figures our industry puts forward, to re-examine the concept of retirement today. Certainly I'll be sharing some statistics with you as I outline why my purpose is focused on changing how Americans spend, save, think about, and prepare for their retirement. But to truly change such outcomes we need to factor in the human emotions that determine whether or not we — individually and collectively — are willing to pick up the baton and adopt a different approach. That is what I aimed to do in my book, *Transform Tomorrow: Awakening the Super Saver in Pursuit of Retirement Readiness* (John Wiley & Sons, 2013), and what I sincerely wish to persuade you to do as you read on.

But first, what do we mean by "retirement"?

The definition of retirement, once characterized by Eleanor Roosevelt as sitting, "… in the same old chair you sat in for a great many years, to see the same picture that you always looked at" — has changed fundamentally over the years. By the mid-twentieth century entire industries had sprung up to help retirees enjoy the fruits of their labor. Retirement communities were mushrooming in Arizona, California, and Florida, where the weather was conducive to enjoying the sports, recreational facilities, and other entertainment now on hand for the over 60s. Retirement back then conjured up images of relaxed days on the golf course, visiting grandkids, and traveling to exotic locations around the globe. Maybe, for you, that's still a picture you hold. But that's not the case for the millions of Boomers who have saved insufficiently for their later years.

Arguably 2008–2009 was the time when we received our biggest wake-up call. That was when the Global Financial Crisis saw the stock market and long-term interest rates drop significantly and many people came to realize that what money they had saved was not going to allow them to comfortably "retire" at age 65. What was left to do but point fingers at the "broken system" that had failed us?

The Retirement Savings Challenge

There are forces at play in our culture that — like the water a goldfish swims in — we take so much for granted that we fail to see their impact until the metaphorical bowl tips over and the water pours out. So it is with the three primary elements that make up "The Retirement Savings Challenge," factors I believe have the greatest detrimental impact on our ability to retire with any kind of dignity: Longevity, Consumerism, and Leverage or Debt. Yet it is only by fully understanding how these forces play a significant role in our day-to-day lives that we can hope to solve the underlying problem of retirement readiness.

Longevity

When President Theodore Roosevelt signed the Social Security Act of 1935 into law, the average life expectancy was 61.7 years and the retirement age was 65. That's certainly one way to ensure a sustainable system, when a good many people are expected to die before they even come close to collecting. That's not the case today, however. Figures provided by the National Center for Health Statistics in 2012 show our life expectancy is close to 80 years and rising. Of course, that doesn't mean *everyone* living today can expect to have to fund 15 or more years of retirement, because factors like infant mortality need to be considered. The fact remains that in the twenty-first century we can all expect more years in "retirement" than was the case less than a century ago.

But that's not even the real story. What makes it especially difficult to plan for retirement today is *joint life* expectancy. For example, according to the Society of Actuaries' June 2012 report *Key Findings and Issues: Longevity,* a married person has a 72% chance of living to age 85 and an 18% chance of living to age 95. As such, our longevity ranges anywhere from 70 to 95 — perhaps beyond that. As leading biomedical gerontologist, Aubrey de Grey has posited, the first person to reach the age of 150 is already alive. Imagine how much you would need to save in order to retire from work at age 65 and live for another 85 years.

Longevity is not just a powerful force that we need to account for when funding an ever-increasing retirement timeframe; it also influences the notion of phased retirement and just what it is we choose to do — or are even *able* to do — in those later decades of life.

The next factor we often fail to consider when thinking about retirement readiness is that we live in a consumer-driven society requiring expenses both of our own choosing and those we almost feel forced to adopt.

Consumerism

Pundits typically point to what's called the "latte factor" when bemoaning the fact that current savings rates are not nearly high enough for the average working American to maintain a reasonable post-employment lifestyle. That can obscure a very real issue, which is the perceived need to spend money on things we deem essential today that were not around 20 or 30 years ago.

Consider, for example, the combination of smart phones, Internet, landlines, and cable TV. Conservatively, that bundle alone can end up costing the average person $250 a month, or $3,000 a year after tax. You might question how "essential" a smart phone really is, but when you take into account the comments from one of the twenty industry experts I interviewed for *Transform Tomorrow,* you'll see that this issue isn't as cut-and-dried as we think. As he pointed out, purchasing the latest smart phone benefits his life by allowing him to work anywhere, anytime. That's consumerism in disguise and a very real force we must contend with, as is the fact that much of our discretionary spending is funneled into essential maintenance like health care.

How far do we prioritize saving for tomorrow when our consumer-driven society is predicated on so many must-have, unavoidable costs in order to live easier, more pleasurable lives today? How much do we even believe this is possible?

Then there is the third of the core factors impacting savings today, one we are all too familiar with: debt.

Leverage or Debt

The ready availability of credit (leverage) in our society has had a profound impact on our spending and saving habits. Just cast your mind back to your first day of college. You're on campus, an 18-year-old with little or no income, being offered your first credit card. But that's just the starting point, isn't it? Then comes the bigger mortgage for that larger house we feel we absolutely need, or the car loan for the latest model we covet. Credit cards and all other forms of debt are — like consumerism — now an integral part of our day-to-day lives, offering the opportunity to buy whatever we want, when we want it, rather than having to wait until we have saved up enough money, as our parents and grandparents once did.

We are swimming in so much debt and the figures we see are so large that it's often hard to make them real to the average American. For example, in a report entitled *The Retirement Crisis and a Plan to Solve It* released by Senator Tom Harkin, the Chairman of the U.S. Senate Committee on Health, Education, Labor & Pensions, the retirement income deficit was deemed to be $6.6 *trillion.* While there is spirited debate about this statistic, there is little debate about our need to reform our savings habits.

Now that I've thoroughly depressed you by pointing out these three "obstacles" to retirement readiness, allow me to introduce you to a cohort who are not only retiring comfortably on time, but often in advance of what is considered normal retirement age. Meet the Super Savers.

The Super Savers

No, this is not the name of a group of comic book characters but real, ordinary people. In 2011, when the nonprofit Transamerica Center for Retirement Studies® (TCRS) issued its report entitled *A Source of Inspiration: Future Early Retirees,* the term Super Savers was used to describe a group — similar to that identified in Thomas J. Stanley's book *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* — who believe that if you want to be in control of your life, it helps to have a plan. This includes being disciplined about spending in a way that contradicts what we've just examined around consumerism, debt, and how much money they might realistically need to live out their later years in comfort and dignity, not out of the back of a car that might fail them at any time.

Which brings me back to my personal *why* for doing what I do, in helping answer the question: How do we create more American Super Savers? In particular, how do we create solutions for the average American worker — including the self-employed — in the one place we *know* that people will save, if offered the opportunity to do so: the workplace.

The current workplace system isn't "broken," it simply needs revising. We see statistics such as the average 401(k) balance of around $64,000 and ask: if workplace savings was so successful, why is that balance so low? However that's a flawed statistic, one that takes into account everyone in a company retirement plan, including the 19-year-old in their first position who hasn't accumulated any assets.

The median American works for a company for about 5.5 years, resulting in what our industry calls a lot of "yapping dogs," such as occurs when a person has worked for 27 years and has five different balances spread across five different employers and institutions. Judging the health of the retirement system by looking at the average account balance, however, is a like someone looking inside your wallet, expecting to determine your net worth — it just doesn't work. So what happens when you broaden the lens a bit and consider consolidated savings at a time when that person has had time to accumulate a meaningful balance at, say, 65 to 69 years of age? Their aggregate balance would likely to be closer to the $342,407 that Employee Benefit Research Institute (EBRI) identified as the average retirement assets for this cohort in 2011. Even so, when you consider that experts predict that the cost of healthcare alone for a couple during their retirement years could be as much as $240,000, that balance still isn't where it needs to be.

Changing Behavior

We need to change the way the average American thinks about retirement savings; we need to change *behavior*. While not wishing to minimize the challenge of achieving change at an individual, let alone a societal level, I believe I've identified three factors that can help make retirement readiness a reality in the U.S. changing context, financial literacy, and changing beliefs through visionary thinking.

Think back to the 1950s and early 60s. Even if you're too young to have lived then, consider an episode in *Mad Men* when Don Draper and his family go to the park for a picnic. When they leave, their litter is left strewn on the ground; no one cares. That was the norm in those days: the concept of environmentalism and pollution hadn't yet taken hold in the public consciousness. But on Earth Day 1971 the Keep America Beautiful (KAB) campaign launched a television commercial that helped profoundly to change American behavior around littering. The sponsors didn't bore everyone with facts and figures — they aimed directly at what we know more effectively changes attitudes and behavior: *emotions*. The video, which can be accessed on YouTube as Iron Eyes Cody or The Crying Indian, featured a Native American figure to represent the values the campaign was aiming to exemplify, namely respect for the environment. He watches as cars speed by, their occupants throwing bags of trash out of their windows that land at his feet; in the background, factories belch clouds of poisonous smoke. At the end of that 60-second commercial a single tear rolls down his cheek as a voice intones: "Some people have a deep abiding respect for the beauty that was once this country…and some people don't."

By tapping into viewers' emotions, not the least a sense of national pride, the KAB campaign saw visible litter decrease between 1969 and 2009 by a remarkable 61%! But it wasn't just by understanding that emotions change attitudes and behavior more than facts and logical reasoning that helped KAB change our national landscape for the better. It was also by understanding the power of the environment and the need to change the *context*.

Tackling "Context"

One creative example of this came from Walt Disney who recognized that if he was going to successfully create the happiest place on earth, his parks needed to be litter free. When deciding on the spacing of trash cans within his parks, he grabbed a hotdog and, as he ate it, counted the number of steps — 17 paces — that it took him to finish eating it. In order for there to be a trash can into which he could conveniently place the wrapping rather than throwing it on the ground, that distance became the maximum spacing between trash cans, and is still the standard across Disney's empire today.

The context in which the average American worker is encouraged to save for retirement also needs to change otherwise we'll continue to drive the wrong behavior. Take auto-enrollment that most frequently starts at 3% and may escalate every year for five years, the median employee tenure I mentioned earlier. Over that period this worker is only deferring at an average of 5%, which we know is not enough to build sufficient long-term retirement savings. Instead, should we not be setting the right context by starting auto-enrollment at 6% with 2% annual auto-escalation, to help participants arrive at a 10% average savings rate over that same period? While this might not be the ideal figure, that's not the point. By doing this as part of a broader social movement we'll be sending a clear, strong message to plan sponsors and workers alike that benchmarking 10% can, and indeed will, change the retirement planning environment for generations to come. Agreed?

However, such efforts alone cannot achieve the outcomes we want. We also need to consider financial literacy.

Financial Literacy

Did you know that, according to a 2014 study from The Council for Economic Education, only 19 states require students to take a course in personal finance? Yet few who read *Transform Tomorrow* can fail to be moved by the results showcased in the chapter entitled *Financial Literacy* that are being achieved by a single high school teacher in Dallas, Texas. He has devised a game to make personal finance *fun* for 11th and 12th graders. These are students who otherwise might end up contributing to current statistics, like the fact that the majority of college graduates leave with an average $25,250 of school loan debt. They now have the hope of getting ahead of consumerism and debt because someone is teaching them the importance of saving, and of buying the latest technological gadgets only when they can afford to do so.

Luckily for those students, that Dallas man once worked for a mutual fund company before becoming a teacher. What if the retirement services industry empowered all financial professionals with a simple and effective curriculum to similarly teach such life-empowering lessons? Would you be willing to join that aspect of our movement? What beliefs do you hold as to the importance of training young people in good money management?

Which brings me to the third and final factor I want to share that will profoundly shift us off the lemming-like path we are on: Changing beliefs.

Changing Beliefs, Determining a Vision

How was it that millions of American housewives were enticed to exchange ovens for furnaces and spatulas for wrenches during the Second World War, in order to populate the factories and assembly lines essential to the war effort in the absence of the men who had previously managed them?

How is it that most people today are appalled by the thought of the mountains of trash that once so "naturally" littered our beaches, our rivers, and our streets? Or who have helped reduce an area the size of the state of Maine from being devastated by forest fires? Or who automatically click their seat belts before driving off — not just because they're afraid of being ticketed? We achieved profound behavior change in this country through a series of inspiring Public Service Announcements like Rosie the Riveter, Iron Eyes Cody, Smokey the Bear, and Click It or Ticket, each of which was inspired by a vision predicated on beliefs of what is possible for the average American to help achieve.

The United States of America was founded by just such a far-sighted vision when, on August 2, 1776, delegates of the Second Continental Congress in Philadelphia — in a spirited, revolutionary act against a mighty adversary — signed the Declaration of Independence. Two centuries later, on May 25, 1961, President John F. Kennedy laid out his inspiring vision of space exploration that had a profound impact on space travel over the ensuing decade. But where is our vision around savings rates in the U.S.? We simply don't have one. But if we did, what might that look like? What if our vision was as simple as a National Savings Rate of no less than 10%, rather than the current 3.8%?

Which is where you come in, because achieving any such vision and taking it beyond anything we can conceive of today is the responsibility of every one of us. Certainly, it's my personal *why*. And how do we make that happen? If you've ever seen the movie *Dead Poets Society* starring the late Robin Williams as John Keating, you'll be aware that there is a scene that perfectly outlines how social movements start and grow.

Williams' former students are sitting in English class, being force-fed poetry by their headmaster, when Keating returns to the schoolroom to collect his belongings. Throughout the movie it's become apparent how Keating is more than their teacher: he's been their mentor, their Captain. Despite the authority figure now in charge of the classroom, one student — driven by his emotions and unwilling to let the moment pass — stands on his desk and chants words written by Walt Whitman to memorialize President Abraham Lincoln: "O Captain! My Captain!" One by one the students rise up similarly, many of them looking pained at the thought of standing in defiance of the school's topmost authority. Until there reaches a point — the *tipping point* — at which there is greater risk in staying seated than in joining the others in honoring Keating.

I am standing, metaphorically, on a desk right now looking to ***you*** — a key influencer in your network — to join me in declaring that a secure retirement should not depend upon the average American worker having investment acumen or retirement planning savvy. The right to retire with dignity should be available to anyone who works hard and saves diligently for it. With a clear focus, it is within our reach in the context of our current system, so let's make *that* the number one priority in our industry. Because when people ask me why I do what I do I can't help but think back to that woman living in her car.

"Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has,"®* are words attributed to American anthropologist, Margaret Mead. We can change the face of retirement readiness in the U.S. — if you join us!

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