

Help Employees Steer Clear of Retirement Crisis

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“**H**ow could we not see this coming?” is what most people want to know when they think about the current mortgage crisis and lingering economic struggles. Looking back, easy credit, overuse of leverage by both consumers and financial institutions, and an overheated real estate market provided all the makings of a crisis.

Is that just Monday-morning quarterbacking? Can it teach us to look for and recognize signs of the next financial crisis? If we looked, we might see one looming on the horizon called “The Retirement Crisis.” The Census Bureau has projected that by 2030, individuals age 65 and older will represent about 20% of the U.S. population, up from 12% in 2000. That’s a difference of about 36 million people. Another Census Bureau report showed that the median employee monthly contribution into a retirement plan was a paltry \$175, or \$2,100 annually. About 75% of employees are putting less than \$400 per month into their defined contribution plans.

Based on calls to our Financial Helpline and usage of our online Financial Learning Center, we are noticing that employees are demonstrating not only poor retirement preparedness but also low levels of knowledge about the basics of retirement planning.

Our research reveals the following:

- Calls on retirement planning declined precipitously in Q1 2009, at just 6% of total calls vs. 14% in Q1 2008.
- Our Financial Learning Center users accessed debt and money management resources nearly three times as often as retirement planning resources, even though retirement planning emerged as their number one financial planning priority based on an analysis of their personal financial situations.
- Employees are tapping their retirement nest egg by taking loans and hardship withdrawals from their plan assets to meet short-term financial needs. Calls about loans and hardship withdrawals increased from 5% of calls in Q1 2008 to 9% in Q1 2009.
- As a reaction to the economic crisis, employees are fleeing to safe investments, which in the long run are unlikely to achieve a rate of return necessary to provide a sufficient retirement nest egg.

- 86% of our online users have no idea if they are on track to retire.
- 72% are not sure if their asset allocation is appropriate for their risk tolerance and time horizon.
- 52% admit they do not have basic knowledge of stocks, bonds, or mutual funds.

These are alarming signs, but, fortunately, we are not in the Monday morning quarterback phase. It's still just prior to kickoff on the retirement planning crisis, so there is time for a game plan.

For Employees: Revisit Your Strategy

Even the majority of baby boomers will still be able to retire, but not without making some changes. There can be many roads to a comfortable retirement, so each employee needs to decide what specific changes to make, which can include:

- How much to save
- How much to spend in retirement
- What age to retire
- Sources of supplemental income

For Employers: Offer Financial Education

- Provide access to unbiased financial experts, so that employees can become better at saving and be able to recognize the value of their employer's retirement plan as a tool to reach their goals.
- Provide worksheets, calculators, and other tools that can help employees determine where they are in relation to their goals and what actions to take.
- Offer workshops and one-on-one counseling for employees, since these offer the highest results in terms of positive behavioral change.

In the first quarter of 2009, 96% of employees who responded to a behavioral change survey indicated that they took at least one step to improve their financial situation within 30 days after attending a workshop or speaking with one of Financial Finesse's CFP practitioners. Some participants took as many as eight steps.

With proper education, employees can find it easier to begin saving now, take several small steps over a greater number of years, and have more clarity on the trade off between adjusting their spending today and a more comfortable retirement tomorrow. We have time to heed the warning signs and make sure that retirement has its rightful place among the financial priorities of the future generation of retirees through education. We will all be grateful that we saw this one coming.

In 1999 Liz Davidson founded Financial Finesse (www.financialfinesse.com), a company dedicated to helping Americans achieve financial independence and security, through financial education that is unbiased and free of any conflict of interest. Financial Finesse has become one of the nation's leading providers of financial education and benefits communication programs for organizations. Liz holds an MBA from the Anderson School at UCLA.