

Keeping clients on track for retirement

Job losses, pay cuts keep them focused on short-term woes

By Mark Bruno

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For millions of Americans and their advisers, the shrinking value of retirement accounts is the \$4 trillion elephant in the room.

With the accounts having lost about one-third of their value over the last year, countless investors are so frightened they can't stand to look at their monthly statements.

You know that and I know that, so why harp on it?

The issue of investors tuning out is important, because the problem could be an early symptom of endemic indifference to long-term retirement planning. If people start ignoring retirement planning — either because they choose to avoid a painful subject or because they feel they can't afford to save for the future — we could well be staring at an unfolding crisis.

"When people get scared and are on the verge of panicking, they tend to stop thinking long-term," said Liz Davidson, founder and chief executive of Financial Finesse Inc. in Manhattan Beach, Calif., which provides retirement education services to employers. "And they start making rash decisions that could compound their financial problems for years to come."

Financial Finesse, which fields questions from hundreds of thousands of employees at more than 400 companies, found that only about 6% of the calls they received in the first quarter were about retirement planning. That's down from about 14% last year, as more individuals than ever dialed in with questions about managing their immediate debts and their budgets.

That makes sense, of course, as millions of jobs have been eliminated in the past few months, while foreclosures and unemployment have surged to their highest levels in years. But no matter how dire current economic problems may become, no one will get a free pass on managing their own retirement.

To help, advisers should implement a mandatory “retirement reality check” for every client.

This will involve more than just looking at the aggregate total of deflated retirement accounts. Advisers need to take this number — no matter how ugly it may be — and put it into some practical perspective for their clients. It’s the only way to assess the damage that’s been done to accounts accurately, and to persuade clients to stay committed to planning for retirement.

Ask clients when they want to retire. Then, ask when they actually think they will retire. Ask if they plan to work at all during their retirement. And then — perhaps most important — ask clients what they think their lives, and their expenses, will really look like during retirement.

As basic as these questions may sound, it’s alarming how few advisers even bother to address these issues in meetings with clients. The answers to these questions can help advisers give clients a decent idea of whether they’re on track to retire anytime soon, and if they are on track, just how sustainable their retirement may be.

Both of these points are much more significant than just the bottom lines on 401(k) or individual retirement account statements. Asking a wider range of retirement-related questions gives advisers and their clients an idea of just how much additional retirement planning and saving must be done to recover some of the losses sustained over the last year.

That leads to the next critical retirement planning issues for advisers and clients: investment risk tolerance.

Having gone through the latest downturn, many individuals have discovered the hard way that they’re actually much more risk-averse than they ever realized. Given this insight, advisers should reassess just how much retirement-account volatility clients can actually stomach. Only then can advisers attempt to pick up the pieces and rebuild a client’s retirement portfolio.

The retirement reality check is a simple starting point, but it’s a necessary first step for the growing number of individuals who appear to be disengaging from retirement planning.

Sadly, Americans are woefully unprepared to retire. Only about 25% of those recently polled by the Employee Benefit Research Institute of Washington said they’re very confident they’ve saved enough money to cover their basic expenses during retirement. That’s down significantly from the underwhelming 40% of Americans who told EBRI in 2007 that they saved just enough to keep the lights on and put food on the table once they retire.

Believe it or not, these numbers could stand to sink even more if we continue to turn a blind eye to our financial future.

A comfortable or even modest retirement is no longer a certainty for many. It’s the result of prudent planning. And the longer we wait to acknowledge this, the louder the \$4 trillion elephant will trumpet.

Mark Bruno is a reporter with Investmentnews. He can be reached at mbruno@investmentnews.com