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The Future of Retirement Planning is Already Here, It's Just Not Evenly Distributed[1]

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The 28,000 members of the Society of Actuaries are good at quantitatively understanding risks and planning for the future. Unfortunately, most people aren't and avoid planning for retirement for several big reasons:

- It's off in the future and there are more pressing immediate problems to solve.
- It's scary to think about since it seems complicated and there's no fixed goal to achieve. Unlike saving for other financial goals like a house down payment, people planning for retirement are planning for the unknown and face big complex risks involving longevity, inflation, how to save, how to invest, how to be tax efficient and uncertainty surrounding the future of big social programs like Social Security and Medicare.
- They don't know who or which resources to trust.
- Most financial education and marketing is focused around accumulating assets vs. decumulating and generating lifetime income from assets.
- Across the population at large there is a very low financial literacy rate (even among wealthier cohorts); most people don't understand the components or goals of a holistic retirement plan.

There are 120 million Americans over age 45 and only a small segment of society takes advantage of all the latest product and techniques to plan for and achieve a secure and efficient retirement. It requires a lifetime of good decision-making, saving, wealth building and access to experts across financial planning, investing, insurance and tax planning. Consequently, only a very small percent of the population achieves an optimal outcome today. The components of an integrated solution that allow many more people to achieve a much better retirement outcome exist today, but they need to be brought together into an integrated solution.

Some historical context:

- The concept of "retirement" only came into being around the late 1800s;[2] before that, you just worked until you dropped. Social Security was introduced in 1935 with a retirement age of 65 when men lived until about 58—no one anticipated that life expectancies would climb by 25 years during the next eight decades.
- Pensions (defined benefit plans) were the primary retirement vehicle for several decades, but private company pensions have been in decline since the 1980s[3]—mainly because life expectancies have been increasing. (Side note: Underfunded public pensions are a looming financial crisis.)
- Since they were introduced in the late 1970s, 401(k)s (defined contribution plans) have been growing, effectively shifting the retirement funding risk to individuals. However, it turns out that asking everyone to act as their own personal CFO is hard and the outcomes aren't great (70% of people 55 to 64 have less than $100,000 saved for retirement[4]). Why is it hard?

1 This article presents my view that many of the innovations and methods required to significantly improve retirement security are here today but have not been effectively pulled together into an integrated solution at scale, which is why retirement security remains at risk for a majority of the population (See Center for Retirement Research at Boston College's National Retirement Risk Index at *http://crr.bc.edu/special-projects/national-retirement-risk-index/*). The title of this essay is a take on cyberpunk author William Gibson's quote "The future is already here, it's just not evenly distributed."

2 Sarah Laskow, "How Retirement was Invented," *The Atlantic*, Oct. 24, 2014, *https://www.theatlantic.com/business/archive/2014/10/how-retirement-was-invented/381802/*.

3 Barbara A. Butrica, Howard M. Iams, Karen E. Smith and Eric J. Toder, "The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers," *Social Security Bulletin* 69, no. 3 (2009), *https://www.ssa.gov/policy/docs/ssb/v69n3/v69n3p1.html*.

4 Stephen Chen, "NewRetirement: A Holistic Approach to Retirement Planning," Computerized Investing, Aug. 20, 2016, *http://www.aaii.com/computerized-investing/article/newretirement-a-holistic-approach-to-retirement-planning*.

- **Accumulation phase.** People need to budget, save and invest efficiently[5] and in a tax optimized way over their entire lifetime—while avoiding bad actors and ideas in the financial services market[6] bent on taking their money through high fees and poor investments.
- **Decumulation phase.** This is even harder. People need to solve for big risks like longevity, inflation, market volatility, health care, sequence of returns risk and tax optimization[7] (including required minimum distributions) and come up with a plan likely to generate enough income for themselves and their spouse.

Most of the financial services industry has been focused on helping people accumulate, or save and invest. Many of their business models are built on a foundation of assets under management, which may dis-incent them from thinking creatively about how to help their clients spend down those assets—creating a conflict of interest. How to decumulate or drawdown and generate retirement income tax efficiently is a complex topic starting to get more attention.

Overall, I believe we'll continue to see rapid increases in productivity and health care, which will enable people to work fewer hours per week and find work they are more passionate about. We may also see people working longer during the course of their careers to stay engaged during longer lifespans. It wouldn't surprise me to see some form of a universal basic income emerge during the next 10 years, but that is another essay.

Big Challenges and the Five Whys

Now let's dive into one of the major problems around retirement using the five whys[8] technique.

Core problem: Retirement outcomes aren't good. More than 25 million Americans age 60+ are economically insecure.[9] Based on recent Census data,[10] there are about 65 million people over age 60 in the U.S., so 38% of that population is financially insecure.

- **Why 1.** Many retirees don't have enough lifetime income to cover the necessities of life and be financially secure.
- **Why 2.** They didn't save enough and aren't making the most efficient use of the assets they do have. According to a 2015 Government Accountability Office study[11] of households approaching retirement, the breakdown of savings looks roughly like this for households age 55–64:
  - 70% have less than $100,000 saved
  - 10% have $100,000 to $200,000 saved
  - 10% have $200,000 to $500,000 saved
  - 10% have more than $500,000 saved

  Further products like reverse mortgage and annuities that could help people live more securely aren't that efficient or well understood and have poor adoption rates.
- **Why 3.** There aren't simple and easy solutions that default users into efficiently saving and investing, and decumulation is an immature industry.
- **Why 4.** Consumers don't push for solutions in their best interest across employer savings programs and direct-to-consumer solutions (for example,

5 Kathleen Coxwell, "How Much Should You Save for Retirement? Orman, Ramsey and Other Financial Gurus Answer," New Retirement, Nov. 10, 2016, *https://www.newretirement.com/retirement/how-much-should-you-save-for-retirement-financial-gurus-answer/.*

6 Bud Hebeler, "The Unlucky 13: Bad Investments for Your Retirement," New Retirement, March 28, 2017, *https://www.newretirement.com/retirement/bad-investments-for-your-retirement/.*

7 Kathleen Coxwell, "What are the New Rules of Retirement? 10 Guidelines for Financial Security," New Retirement, Sept. 6, 2017, *https://www.newretirement.com/retirement/10-Rules-for-a-New-Retirement-Guidelines-for-Financial-Security/.*

8 Wikipedia, s.v. "5 Whys," accessed March 11, 2018, *https://en.wikipedia.org/wiki/5_Whys.*

9 National Council on Aging, "Economic Security for Seniors Facts," accessed March 11, 2018, *https://www.ncoa.org/news/resources-for-reporters/get-the-facts/economic-security-facts/.*

10 Jennifer M. Ortman, Victoria A. Velkoff and Howard Hogan, "An Aging Nation: The Older Population in the Unites States," U.S. Census Bureau Current Population Reports, P25-1140 (May 2014), *https://www.census.gov/prod/2014pubs/p25-1140.pdf.*

11 U.S. Government Accountability Office, "Most Households Approaching Retirement Have Low Savings," report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor and Pensions, U.S. Senate, GAO-15-419 (May 2015), *https://www.gao.gov/assets/680/670153.pdf.*

many 401(k) programs have high fees and don't use good default options). Some parts of the financial services industry also lobby to slow down or kill things like the U.S. Department of Labor Fiduciary Rule[12] that are clearly helpful to consumers.

- **Why 5.** Financial literacy and education is very low[13] (about 65% of adults can't pass a basic financial literacy quiz), and the financial services industry has and continues to make a lot of money from uneducated consumers (although this is changing).

The components required to solve this problem exist today but aren't yet assembled into an integrated solution.

I bet that 10 years ago almost no one would have predicted we'd have self-driving cars on the road today. Big leaps in technology capability come about based on incremental improvements of underlying systems and the integration of those systems into a cohesive solution. We have self-driving cars on the road now because of improvements across sensing systems (lidar, radar), mapping and navigation systems, processing power, artificial intelligence and control systems, and regulatory changes.

I would posit that many of the components required to solve for much better retirement outcomes exist today but they haven't been assembled into a cohesive package that can be used by an average person. If you are wealthy and have a good team of advisers, you can take advantage of these elements. Most people don't have the wealth or financial literacy to efficiently address retirement planning.

These are the elements that need to come together into an integrated solution.

- **Education.** The core issue is one of basic financial literacy across the board—I recommend making a personal finance course a requirement to graduate high school. Today, only 16.4% of students are required to take a personal finance class in high school.[14] Further, it would be ideal if employers offered financial education as part of an overall financial wellness offering.

- **Fiduciary standard.** Embrace product and practice principles in line with a fiduciary standard—have all products be efficient, low fee, simple, transparent and designed to be in the best interest of users. Thankfully, many consumers have gotten this message as reflected by the movement toward low fee and index investing.

- **Increase access to savings and investing vehicles.** Incentivize employers to offer better retirement savings options and provide a government-supported alternative if there is not an employer option. (MyRA[15] was a good idea but is being phased out.)

- **Default best practices for retirement savings vehicles.** There is a lot of data that shows features such as setting appropriate defaults in retirement plans make a huge difference in outcomes.[16] Features like auto enrollment into a 401(k), defaulting the savings rate and defaulting an appropriate portfolio allocation can materially move people toward retirement security.

12 Investopedia, "DOL Fiduciary Rule Explained as of August 31, 2017," Aug. 31, 2017, *https://www.investopedia.com/updates/dol-fiduciary-rule/*.

13 Madeline Farber, "Nearly Two-Thirds of Americans Can't Pass a Basic Test of Financial Literacy," *Fortune*, July 12, 2016, *http://fortune.com/2016/07/12/financial-literacy/*.

14 Jeff Desjardins, "Most US High School Students Never Have to Take a Personal Finance Class," *Business Insider*, Oct. 2, 2017, *http://www.businessinsider.com/most-us-high-school-students-never-have-to-take-a-finance-class-2017-10*.

15 MyRA (my Retirement Account) was sponsored by the U.S. Treasury Department. It was a Roth IRA—an individual retirement account in which earnings and withdrawals are tax-free under certain circumstances—that invested in a U.S. Treasury retirement security which is guaranteed to never lose dollar value. These accounts were phased out at the end of 2017.

16 Lori Lucas and Marla Kriendler, "Best Practices When Implementing Auto Features in DC Plans," white paper, Defined Contribution Institutional Investment Association, June 2013, *http://c.ymcdn.com/sites/dciia.org/resource/collection/044CF8FF-07F1-4A52-8038-D778C0ECBED4/06-2013-_White_Paper%E2%80%93Best_Practices_Auto_Feature.pdf*.

- **Enable anyone to create and manage their own retirement financial plan,** a portable living plan owned by the consumer that can be reviewed and managed over time. Other experts and I think the key features of planning tools[17] should:
    - Be extremely simple and easy to use; the user should completely understand their plan
    - Help you get organized and feel in control of your future
    - Include educational content and tools
    - Be comprehensive and personalized and help users find the best way to use all of their retirement building blocks[18]
    - Be universally accessible; a core version should be free so that anyone can use it and it should be built on a scalable technology platform that brings together consumers, experts and solutions
    - Highlight opportunities and alert people to issues
    - Help you make good decisions through collaborative planning with an expert, "artificial intelligence" and/or "big data"
    - Enable budgeting and cash-flow planning
    - Support tax-efficient drawdown planning
    - Be a platform that includes the major rules and methods for planning and the ability to update them; for example, the system should help people make good decisions based on current tax law and help people easily update their plans as laws, regulations and major program like Social Security or Medicare change over time
    - Allow users to forecast what is likely to happen based on Monte Carlo simulations and enable users to stress test their plans and create multiple scenarios
    - Provide real time updates to the current value of all assets through account aggregation
    - Be open architecture and support a marketplace of vetted high quality third-party solutions
    - Be extensible to take advantage of emerging technologies like blockchain[19] and machine learning[20] that promise to bring significant future advances to the financial planning and products space

There is a big opportunity to enable collaborative planning between consumers and expert advisers who are fiduciaries and who can coach and support people and help them effectively take action—ideally a digital/human hybrid solution to maximize effectiveness while minimizing cost.

The good news is that many of the elements of a complete solution are known and consumers are pushing the financial planning industry to get more efficient and lower costs for many core products. The next phase of the evolution involves doing the same thing for guidance and advice.

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17 Michael Kitces, "Differentiation the Next Generation of Financial Planning Software," *Nerd's Eye View* (blog), Kitces.com, Sept. 28, 2017, *https://www.kitces.com/blog/differentiating-next-generation-financial-planning-software-advisor-fintech-differentiation-focus/*; Kathleen Coxwell, "8 Tips for Building a Useful Retirement Plan—Not One With Just a High Think Value," New Retirement, June 8, 2017, *https://www.newretirement.com/retirement/building-a-useful-retirement-plan/*.

18 Kathleen Coxwell, "The Building Blocks of a Secure Retirement Plan—How Tall Does Your Tower Need to Be? Will it Topple?" New Retirement, Aug. 12, 2017, *https://www.newretirement.com/retirement/the-building-blocks-of-a-secure-retirement-plan/*.

19 Investopedia, s.v. "blockchain," accessed March 11, 2018, *https://www.investopedia.com/terms/b/blockchain.asp*.

20 Investopedia, s.v. "machine learning," accessed March 11, 2018, *https://www.investopedia.com/terms/m/machine-learning.asp*.