LET'S HAVE SOME PERSPECTIVE

By: Michael Steinhardt CLU, ChFC, AIF

What's all the buzz about

I recently read an article that was highlighting the fees in retirement plans and it stated that most Americans don't understand the fees, don't understand how retirement plans work and don't know what they are paying for. Some, even think that there are no fees in retirement plans. Hmm.

Let me start with this … I think it is perfectly acceptable and prudent to understand costs and fees for something we want to buy, acquire or participate in. This is not the battlefield I am seeking to find myself trenching through.

My focus is on the real problem. Not a symptom and not something that is so miniscule that often it doesn't register.

What the buzz is NOT about (but should be)

Reality is, for most …, they can retire the word "retirement" because they won't be able to retire. The problem is "Americans" will have a tremendous shortage of resources and assets come "retirement" age.

Let's begin by defining the end goal, which is to have enough assets and resources so one does not have to work to generate income. Income will then come from the so called "nest egg" one has saved and invested.

There are many factors and variables to consider when trying to calculate such a figure, including: years TO retirement, years IN retirement (how do we really know how many), growth rate of assets, inflation rate, can one continue to work (full time or part time), health, debt, desire and more.

Focus on the real issue

The primary issue is lack of money in retirement. Most people don't have enough resources and are left with difficult decisions when perhaps their health is an issue that will impact employment or a lack of jobs that meet their needs.

And still, the bulk of articles, webinars and seminars are about "fees". If only the focus was on education and promoting the real issue of saving for retirement, then the subsequent issues would seem more in line. But to espouse that the "real" or "major" issue is fees - seems a bit out of "whack".

The Time to Address the Issue

The bigger problem of saving for retirement is what really needs more attention. And the time to address this issue is not when you have 5 - 10 years to "normal" retirement age. This is something that needs action early on in your career.

The power of compounding works on the back end, not so much on the front end. Money can be made by you and money can be made by your money. The more money you have, the more money your money makes. Having 30 years to accumulate and compound assets … those last 5 years or so, will produce huge results. But you need to have the 25 years getting there.

Accumulating money for retirement is a "results oriented game". And results are dictated by many factors – some in our control and some out of our control. Let's take a look at some of these.

In our control

- <u>Discipline</u> – necessary for saving money, but not so in a retirement plan. Contributions can be scheduled automatically, coming out of pay before it hits the employee's pocket. Arguably, the most critical and the best feature.
- <u>Commitment</u> – stick to the long term plan in "good markets and in bad markets". The reality is there is no good and bad. There is only one market and it is either rising or falling … one must be committed to making contributions.

- Budgeting – having a good handle on spending increases the ability to fund savings and investments. When expenses are on a runaway train, the first cut is often the retirement plan contribution, with the idea that "we will retire in 33 years instead of 30".
- Debt – living above your means seems to be the norm rather than the exception. Mortgaging your future is no way to live.
- Diversification / Allocation – we can control the portfolio make up and how funds are allocated to different investments.
- Prudence – we can take responsibility for acting in a prudent manner.

Out of our control

- Market performance – we cannot control outcomes, only inputs.
- Interest rates – speaks for itself, not in our control.
- Company plan, features, contribution – benefits vary from company to company. However, some employers don't offer a plan, which leaves the sole responsibility to the employee/consumer.
- Some fees – there are costs: the cost to manage investments, cost to have an advisor, platforms, recordkeeping and more. But more importantly, there are costs to NOT save or invest and those ramifications are steep, painful and can be irreversible.

Fast Forward

Today, the employee is essentially left to fund their own retirement lifestyle. It is not the responsibility of the employer or even government to do so. And given this tremendous task, it really requires almost all of a working life horizon to accumulate "enough." So, it is really up to each of us to set aside "enough" to get there. But often, we fail. Not because of fees.

When one is at or near that "bewitching age", and when many people are looking at their entire accumulation that may be in the 10's of thousands or maybe even $125,000 or so …, they won't be saying "geez, those quarter of point fees really affected my growth." What will be most painful to acknowledge is the simple fact that THEY did not take enough responsibility to fund their own retirement. Plain and simple.

When I ask my 401k groups "what is the biggest purchase of your life", the common and almost exclusive answer I get is "my house".

The correct answer today, for most is actually their retirement. You see, you need to fund your retirement and candidly, adding $50 a pay or $125 a month, just won't "cut it" for most. The failure to fully realize what it takes, for how long and to then increase that amount annually falls on deaf ears.

Can you imagine what kind of house you would be living in if you were paying $125 a month for rent or a mortgage? Having a shortfall in retirement, we don't actually "see" what that means. We don't see the second rate housing, the car we need to keep 8 years … we don't see the vacations we don't take. By not having that visual, we aren't able to fully process the problem and the gap.

Part of the Problem

Our level of consumption is expanding rapidly with more options in the market place and much easier access to spending. Put these conditions in a vat and stir and the result is damaging to savings and long term accumulation. Couple this with debt and the real problem is people don't have money, or they aren't prioritizing the money they have.

But allow me to highlight the crux of this writing. If fees are excessive then it is a problem, but the focus needs to be on the big picture. A half of a percent return on little or no contribution still nets underfunding.

Getting back to the Point

For most of us …, we have a limited dollar chasing an unlimited want, need or desire. This becomes a battle that is fought every day. And more often, the victor is the devil on your shoulder saying "upgrade your car, get a better flat panel, new golf clubs will allow you to hit it farther," and the other shoulder is drowned out wanting to do the "prudent, right, rational, reasonable" thing. We can all agree that a European vacation is much sexier than dropping $5,000 into the 401k, correct?

In Summary

Fees are important, but they are not the problem. Far from it, from my perspective. Although you are not the enemy, you are more likely the problem in terms of commitment to saving, cutting debt, wanting to have the latest and greatest. Be wary of believing that reducing fees will magically remedy your shortfall. Grasp what is important, be diligent, stay focused, establish a goal and plan … and then understand what it takes to accomplish that goal. And then from year to year, monitor and review.