Redefining Retirement in a New Century
Highlights of a 1995 speech by a Cigna Retirement and Investment Management leader before major national employers

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It is 2015.

America's baby boom generation is approaching 70 -- the earliest anyone can begin receiving monthly payments from their company retirement plan or penalty-free IRA payments and Social Security. This also is the first year that only the poorest of new retirees are even eligible to receive a small Social Security stipend. The fund is now solvent, but no longer a meaningful retirement benefit.

Frankly, not many people are even thinking about retiring from full-time work. Too many people withdrew too much from their employer's 401(k) plan -- while they were working to pay for life's necessities. Their financial nest eggs are no more than pigeon-sized. As a result, they have no choice but to keep on working.

Because mandatory retirement is still illegal, employers are looking at new hiring freezes, job restructuring, downsizings and pay cuts. The standard of living for most Americans is approaching historic lows.

Do we really have a savings "crisis" in this country that could produce such a result? Unfortunately, America already may be heading in this direction.

A growing savings crisis

A monthly Social Security benefit, which many people still expect to serve as their financial foundation in retirement, already is smaller than it was. Today, 85 percent -- no longer just half -- of Social Security income is taxable for most Americans. And, as Congress moves to keep the fund solvent in the years ahead, taxation of benefits is expected to further dilute the value of Social Security.

More and more employees also are looking to their employer's retirement plan to provide a sizable source of retirement income. Twenty years ago these plans represented eight percent of retirement income to men and women aged 55 and older. Today, it's 15 percent.

But, 20 years ago, more than half of working Americans were covered by defined benefit plans -- a richer pension than today's popular 401(k) plan. Unlike 401(k) plans, employees covered by traditional pensions don't have to decide how much to save or how to invest their own and the company's contribution to the retirement plan. Because most retirement plans created today are the less-costly 401(k) plans, fewer and fewer working Americans will have access to the richer traditional pensions once common in America.

With less than half of working Americans today -- 43 percent -- covered by traditional pensions, and with the likelihood of smaller Social Security benefits, most, if not all, Americans must save more for retirement on their own. In fact, employers have attempted to encourage employees to save and invest in the company 401(k) plan.

Yet, Americans *aren't* planning and saving for the future on their own. Today, the personal savings rate is at an all-time low of 4 percent of after-tax income, according to government reports. Not enough Americans have *any* personal savings for retirement -- either through an IRA or through a 401(k). Incredibly, nearly one third of American workers with access to a 401(k) don't bother to participate. And, the 66 percent who do, haven't imagined a life after work because they aren't investing adequately even for a reasonably comfortable retirement.

Why Americans don't save

People just aren't getting the message. Why is that? The reasons are many: People have too many household expenses; they want immediate access to their money; they would rather worry about retirement tomorrow; they expect the government and their company will take care of them. It's as if Americans are uncomfortable or unprepared to commit to saving for retirement on their own. It wasn't always this way.

For many years, Americans prepared for retirement. Retirement at 65 was mandatory -- written into law. Social Security and the company pension helped Americans to save and plan for a time when work would stop. When mandatory retirement at any age was abolished in the late 1970s, attitudes about retirement also changed. In one of last year's bestsellers, The Fountain of Age, author Betty Friedan noted that many Americans began to perceive certain losses associated with retirement -- the loss of identity, power, challenge to one's human abilities, social ties and status, of simply being part of the active mainstream.

Many Americans today seem to think about retirement, not as an enjoyable phase of life, but as a time of decline before death. As a result, they don't want to think about it in any great detail or save for it.

A plan to solve the savings crisis

If the country wants to address its savings crisis, America needs the activism of those in the best position to direct change -- workers with income to save. America needs to get employees to dream -- and then to plan. The issue is to overcome barriers to saving. In a word, we need to redefine the word "retirement," so that people can overcome their dread of aging and decline by viewing the future in a new light. We can go a long way toward achieving this goal through four action steps:

1. **Develop a new view of management responsibility for a safe, secure financial future for all employees.**

Many employers have been quite successful at giving employees the tools they need to make educated decisions about retirement investment options. But, more employees aren't participating in 401(k) plans because there seems to be too much focus on the details -- dollar cost-averaging or investment results -- and not enough on the big picture of life after retirement. In other words, every saver's dream... his or her vision of the future.

It is time for management -- from the CEO to the front-line supervisor -- to become more involved in designing and communicating a retirement program that will meet their employees' unique needs.

Employees of Sacramento-based Pacific Coast Building Products, a leading home and office construction supply company throughout the western U.S., have heard company president (insert name) and members of his senior management team promote the value of retirement savings and an aggressive investment strategy.

(name) traveled to 65 office locations in six western states. He candidly described the cost pressures American business faces in offering a complete employee benefit program. (name) also talked about the cost-of-living pressures facing employees, most with an average salary of $30,000, encouraging many first-time savers in the company plan.

This face-to-face communication, with senior management promoting the value of savings, will prove to be an important and effective method of motivating employees to save. Companies with high-quality communications materials and management involvement already are achieving high rates of employee participation in the company 401(k) plan.

2. **Encourage individual accountability for financial self-sufficiency.**

Some employers are taking the time to understand and communicate messages that show employees how their savings action or inaction will affect life in retirement. In California, Grass Valley Group holds regular employee meetings about retirement savings. At these meetings, employees hear their peers talk about their dreams and how saving discipline will help them achieve their goals. A separate "Investors Club" of employees regularly meet to discuss 401(k) plan investment returns and swap stories about favorite stocks and bond investments. The company credits this peer-group counseling on retirement savings with at least a five percent increase in employee personal savings in the company 401(k).

Technology to illustrate the value of savings also is important. Interactive financial planning software disks, personalized by the employer, have been helpful in refocusing employees on how to save. These disks demonstrate the value of aggressive, personal savings beyond the company plan by also anticipating income from Social Security and other assets upon retirement. Assets invested in an employee's home, for instance. The growing interest in home equity loans and reverse mortgages suggests that new, aging generations may have a different view of wealth stored in homes than did previous generations.

Broader investment choices already have stimulated interest in savings. Of particular note are the so-called life-cycle funds, which permit an employee to invest in a single fund-of-funds that is well diversified and matched to the remaining years before the employee's retirement. For example, by investing in a single life-cycle fund, a 20-year-old, as an example, automatically adopts a long-term investment strategy.

3. **Return defined benefit plans to the benefit mix -- so that more employees -- not less -- are covered by these plans in the future.**

A streamlined, more cost-effective defined benefit plan -- not the expensive, rich plans of the days before 401(k) -- can be tailored to meet a company's particular needs. A number of employers have simplified benefit formulas; implemented alternative designs, such as cash-balance plans; used state-of-the-art technology to simplify administration and create paperless transactions.

By the turn of the century, only 35 percent will be covered by these plans -- a decline in coverage that *The Wall Street Journal* editorial page recently characterized as a moral and political abdication of responsibility to care about Americans. More Americans -- not less -- need the important complement of a defined benefit plan to their personal savings.

4. **Advocate for change in federal tax policies concerning retirement savings.**

Debate surrounding retirement savings already is centered on higher payroll taxes, richer benefit programs mandated by Congress or removal of favorable tax treatment accorded group retirement plans. Some argue that by eliminating retirement plan tax incentives, the federal budget deficit would be reduced. The deficit is a problem, in part, because it decreases national savings of which retirement plans are a key component.

But, taxing retirement plans will reduce savings, making our problems worse, not better. In fact, another reason why America has such a low personal savings rate, is that personal savings are subject to income tax. We need savings exempted from income taxes or the return of tax deductibility of IRAs. By allowing retirement funds to grow without taxation until the funds are withdrawn would greatly aid individuals and families to maintain financial independence.

America has a long way to go if we're going to prevent a generation of financially bereft retirees. The greatest challenge facing this country on the issue of savings is convincing the majority of Americans -- those with income from work -- that they control their destiny.

American business has a real stake in creating a society of savers less dependent on a declining share of Social Security funds. Employers already have the resources to create greater personal savings self-reliance by helping employees redefine retirement on their own terms. What is needed is creativity and the desire to do it.