

Engaging the head-in-the-sand investor

October 4th, 2012

Sophie Gilbert,
Director, Capital
Markets Insights



There's no doubt about it, planning for retirement is complex. Estimating future spending needs, future tax rates, inflation, life expectancy, medical costs and **making risk-return trade-offs can be bewildering** - especially in today's volatile markets. A portfolio that was on track to achieving its goals five years ago may look very different today.

Trying to plan for a future self 10, 20, 30 years out can feel a lot like science fiction to many. In the same way that we as **individuals have changed substantially** over the last three decades, we'll change again in the decades ahead. Little wonder then that saving for retirement can feel to some like "a choice between spending money today or giving it to a stranger."¹

Plus, the world is changing so quickly, it's hard to predict what life will be like decades from now. Heck, a decade ago **neither the iPhone, iPad nor Facebook even existed** yet². Consider how much those three products alone have changed how people communicate, interact and access information in such a short time. Maybe all this complexity helps explain why people generally spend more time planning a vacation than they do planning for their retirement³; why 33% of pre-retirees would rather clean their bathroom than spend time planning for their retirement⁴; and why only one in three adults in their 50s has ever tried to devise a retirement plan⁵.

And yet, being engaged in retirement planning is necessary. Research has shown that **those who don't plan are likely to wind up with less** wealth than those who do⁶. It may well be statistics like that one that have 61% of baby boomers saying they're more afraid of running out of money than they are of dying⁷.

It doesn't need to be that way though. There are easy steps investors can take to assume more ownership of their retirement - and having the support of an advisor can be key. As you'll read in the latest Investor Newsletter, engagement means the advisor and the investor participate, coordinate, anticipate and recalibrate together.

What does that mean, in brief?

Participate : help your client picture themselves in the future by exploring what their future self might want, desire or need. Where might their future self want to live? What activities will engage and challenge their future self? What would be possible for their future self if their needs and wants were fulfilled? The more the investor can relate to their future self, the easier it will be to make financial sacrifices today.

Coordinate: help your client determine whether they're on track to be able to finance the lifestyle they envision. How does their current wealth compare with the cost of the life their future self desires? Do any adjustments need to be made?

Anticipate: all good plans foresee contingencies. Markets move, tax rates change, health care options and life expectancy may adjust. Help your client insulate their plan from unforeseen events.

Recalibrate: windfalls and shortfalls comes and go, but disciplined engagement in retirement planning is a way of life. Develop an ongoing engagement plan with your client.

¹ Hershfield H., Goldstein, D., Sharpe, W., Fox, J., Yeykelis, L., Carstensen, L., Bailenson, J. (2011). Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self. *Journal of Marketing Research*. American Marketing Association, 48, S23-S37. ²The iPhone was released in 2007, followed by the iPad in 2010 and Facebook was launched in 2004. ³Willett, Mary. (2008). A new model for retirement education and counseling. *Financial Services Review* 17, p. 105-130. ⁴National survey by Aetna and Financial Planning Association. Telephone survey was conducted October 20-24, 2011 among a random national sample of 2,031 adults aged 45-75, from which 1,009 individuals with health insurance other than Medicare or Medicaid were identified. ⁵Lusardi, A. & Mitchell, O. (2011). Financial Literacy and Planning: Implications for Retirement Wellbeing. NBER Working Paper No. 17078. ⁶Lusardi, Annamaria. & Mitchell, Olivia S. (2007). "Baby Boomer Retirement Security: The roles of planning, financial literacy, and housing wealth." *Journal of Monetary Economics*, Elsevier, vol 54(1), p. 205-224, January. ⁷Allianz Life Insurance survey cited in Ignites.com article, Boomers Dread Retirement Shortfall: Survey, June 21, 2010. RFS 9317-b

Disclosures

Russell Investments does not control, endorse or accept responsibility for content, services, security or privacy on third-party sites.

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Russell Investment Group, a Washington USA corporation, operates through subsidiaries worldwide, including Russell Investments, and is a subsidiary of The Northwestern Mutual Life Insurance Company.

The Russell logo is a trademark and service mark of Russell Investments.

Copyright © Russell Investments 2013. All rights reserved. This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

Russell Financial Services, Inc., member FINRA (www.finra.org), part of Russell Investments.

Not FDIC Insured • May Lose Value • No Bank Guarantee

Read this post on our blog: <http://blog.helpingadvisors.com/2012/10/04/engaging-the-head-in-the-sand-investor/>