Dallas Salisbury on How Planners Can Serve the Average Worker's Needs

by Richard F. Stolz

Who: Dallas L. Salisbury

What: CEO of the Washington-based Employee Benefit Research Institute since 1978.

What's on his mind: "People do not have any understanding of what they need to save for retiree medical. Why? Because over 80 percent of the population believes that Medicare pays for everything. Over 70 percent of the population believes Medicare pays for nursing home care. Financial planners can serve the public by educating them on this issue."

Just try to get Dallas Salisbury to venture out on a limb with a prediction, or to shoot from the hip with an opinion on any issue related to his vast storehouse of knowledge. Many journalists, hoping for a provocative headline, have tried, only to be frustrated by his response: First, a few moments of silence, followed by a thoughtful and articulate monotone reply that typically begins with a phrase like, "Well, what the data shows us is…."

Yet the questions keep coming to Salisbury (and his staff) from the media, as well as legislators, lobbyists, business executives, and academics. Salisbury has been the president and CEO of the Employee Benefit Research Institute (EBRI) since its inception three decades ago. EBRI describes itself as "the only accepted neutral authority promoting the understanding and furtherance of employee benefits national policy"—perhaps the only statement EBRI will make without an accompanying rigorous survey to back it up.

Given his statistically aberrational longevity in the role, EBRI's presidency appears to be the job Salisbury was born for. He holds a master's degree in public administration from Syracuse University's Maxwell School of Citizenship and Public Affairs. Salisbury's pre-EBRI professional life included stints at the Washington State Legislature, the U.S. Departments of Justice and Labor, and the Pension Benefit Guaranty Corporation.

Salisbury's level-headed, just-the-facts approach has indeed established his (and EBRI's) credibility as the preeminent Washington thought leader on issues related to the economic security of American citizens. But those subjects are of more than academic interest to Salisbury; his discourses on private pensions, health care, Social Security, and Medicare often feature illustrations of their implications for his parents and his personal finances.

Recognizing that citizens' grasp of personal finance issues are as critical to their ultimate economic security as the actions of policymakers and legislators, Salisbury guided EBRI over a decade ago when it branched out from its public policy research mode to launch the American Savings Education Council.

ASEC's mission is not unlike that of financial planners: to "raise public awareness about what is needed to ensure long-term personal financial independence," and to "make saving and planning a vital concern to all Americans." ASEC's ongoing "Choose to Save" publicity campaign and consumer resources have earned accolades from media critics, and over half a million Americans have completed ASEC's Web-based "Ballpark E$timate" retirement capital needs projection tool.

Salisbury recently shared his thoughts with the *Journal* about the intersection of financial planning and employee benefits, the economic needs of Americans, and what financial planners can do to better address them. Highlights of that conversation follow.

1 *How would you contrast the role of employers and financial planners in motivating Americans to save adequately for retirement and make appropriate investment decisions?*

The employer's role is largely a role of facilitation. With that facilitation role, it's education to some level of why individuals should be planning for the future, why individuals would find it advantageous to accumulate money. But as a practical matter, the employer is not in a position to go through everything one should go through if one is going to give somebody good financial advice.

Employers aren't in a position to regularly assess, as a financial advisor should and would, an individual's overall expenditure, asset, and income situation, or to assess whether that individual has a budget or a level of financial and investment literacy, and to help mitigate that or balance for that.

Another clear difference is that the financial advisor is able to do a fairly thorough assessment of the risk tolerance of the individual, and help the individual through an assessment of differential decision-making for a level of assets and ultimately income, on top of Social Security, that will meet their individual needs.

2 *What have you learned from the "Choose to Save" public education program that might be of value to financial planners?*

We're finding several things. One is that Americans continue to be an extraordinarily confident people. Even when one compares their assets and their prospects vis à vis pension income, they are still exceedingly confident that somehow their situation is going to be able to change radically for the positive in the period ahead.

In analyzing how to get through to people, we've learned the importance of keeping it simple and to the point, to recognize that one needs to educate people on the basic concepts. People are not willing to take the time to do extraordinarily detailed worksheets.

Also, from the survey data, it's clear that people need and want direction—they want a very clear action step. The action step we can offer is using our "Ballpark E$timate" tool and to get an assessment of what it is they need to be doing. We end up with about 40,000 people a month completing the online calculator, and an additional 30,000 a month downloading the single-page paper version.

But when you ask people what they want, it comes back to that one-on-one counseling and the ability of a financial planner to walk through the process with an individual to get all of that assessment of where they are, and put together a package that responds to their individual needs.

3 *How can financial planners better serve the public interest?*

Planners can do pro bono work in low-income communities or in schools. And whether that means going to those places or making yourself available on the phone, this is the type of help that people at the low end of the scale desperately need. I know a lot of planners do that, but the continuing need for that type of help is tremendous.

I'm not just talking about debt counseling, but true planning and investing. An awful lot of small enterprises have 401(k) plans where people are accumulating money and have a range of investment options. But what they're able to do in employee education is generally minimal; most small employers aren't able to pay for it.

4 *EBRI's latest "retirement confidence" survey paints a fairly bleak picture—only 18 percent of Americans say they're "very confident" that they'll have a comfortable retirement. What's behind that number?*

If you look at the historical data for the last 35 to 40 years, you find that the top 25 to 30 percent of the population by retirement income were able to be certain of covering their basic expenses above those covered by Social Security because they had an annuity from a defined-benefit plan. The numbers among the over-age-65 retired population, of those who were getting that type of supplemental income, reached a peak in 2001. If you look at 85-year-olds versus those now 65 and retiring, twice as many of the 85-year-olds have pension income, compared with 65-year-olds retiring this year.

When you move from the world of pensions to defined-contribution accounts, employees generally have a portfolio that's subject to fluctuation, where they have to manage it themselves—it is natural for that to lead to lower levels of confidence.

5 *As baby boomers begin retiring, will employers' need to compete for workers lead to a return to the "paternalistic" employment model, and to a resurgence of the defined-benefit plan?*

I don't believe there is ever likely to be a movement back in that direction. The principal reason is that enterprises have lost their own confidence that they will be here 30, 50, or 100 years from now under a consistent management flow. Every enterprise today seems to have the attitude that even if the whole enterprise is not for sale, parts of it are always for sale. And parts of it are always being added—new acquisitions. Get rid of, add to. That creates an environment in which the principal notion of a defined-benefit plan is far less compatible.

You add to that a second factor, the cultural acceptance of recruitment from outside, even for top managers. Also, those employers that have maintained pensions over the last 25 years have increasingly moved from final pay to career-average plans.

A career-average plan does not do much good for the 50-year-old new hire. And a defined-contribution plan is likely to do better for that late-stage hire. So if you've got a labor shortage or shrinking labor force, from the survey data we know that people coming out of college place very little value on a defined-benefit promise. They respond very well to a defined-contribution promise.

And we know that the older worker does an economic calculation. If you gave them three choices—a 401(k), a cash balance, and a final pay plan—they would win the most with the final pay plan if they were going to stay ten years or more. But most workers don't stay for ten years or more anyway, so they would favor defined contribution.

6 *What have you learned from your research about what it takes to get younger people to assume responsibility for their finances?*

With Gen X and particularly Gen Y, there's a tremendous necessity to have that message be in a far more interactive or visual medium than what has historically been necessary. They don't want to read long treatises. The short videos we have done have been popular. There is tremendous power in using examples they can identify with.

At one level, those generations are easier to deal with; our surveys suggest they have the highest levels of "I can't depend on anyone." "I shouldn't count on Social Security." "I really don't think my employer is going to do it for me." All of that expresses the highest level of "If I don't do it for myself, it isn't going to happen."

Gen Y-ers are coming into 401(k) plans voluntarily at higher rates than Gen X-ers, and far higher rates than baby boomers did at similar ages.

Are they doing as much as they should be? No. But still, the trend lines are positive. They do "get" the fact that they are responsible for their financial futures. The key is knowing how to get them to take action.

The easiest way is to make that automatic and easy: payroll deduction and automatic-contribution escalation. They respond well to automatic pre-diversification investment alternatives. This is not something they want to spend a whole lot of time on. It is something they want to have happen.

7 *What is the "Ballpark E$timate Monte Carlo"?*

This is our newest financial projection tool that we're launching on our Web site. It will allow people to get a very clear picture of how much money they need to save for that basic tier of income. How much for that semi-luxury tier. And how much for retiree medical, how much for long-term care.

Essentially, how I can adjust how much I need to save, relative to the degree to which I'm willing to introduce risk-mitigation techniques like annuitization or partial annuitization.

We're seeing more financial models that, far more readily than in the past, allow people to build in this component of a base annuity, allowing them to have a higher risk portfolio in investing their non-annuitized assets because they have protected themselves against running out of money. The Ballpark E$timate will demonstrate those things and give them what they like: a way to get that information without a lot of data inputs. And it will be free.

8 *Are people getting a grip on what they'll be paying for medical care in retirement?*

No. People do not have any understanding of what they need to save for retiree medical. Why? Because over 80 percent of the population believes that Medicare pays for

Talking Point:

Paying for Health Care in Retirement

EBRI's CEO, Dallas Salisbury, predicts Medicare benefits eventually will be cut. He also states that most Americans believe Medicare already pays for more than it actually does, potentially setting them up for a financial disaster in retirement.

- Do you agree with his assessment on the future of Medicare?
- Before you get into the subject with them, do your clients have a realistic understanding of what they'll be paying for health care when they retire?
- Do you try to project your clients' health care expenses in retirement in terms of an amount of capital they'll need at the beginning of their retirement to cover those expenses for the rest of their lives?
- What approaches do you take to help your clients prepare for those expenses?

Discuss it with your colleagues. Go to **www.fpajournal.org** and to the August Talking Point in the Community Forum.

everything. Over 70 percent of the population believes Medicare pays for nursing home care. Financial planners can serve the public by educating them on this issue.

But we recently published a set of estimates of the amount of money individuals and couples will need to cover these expenses, based on different levels of probability. For example, for males reaching age 65 in 2008, depending on their situation, if they're willing to take a lot of risk and their employer is going to help subsidize retiree medical, they only need to have saved \$64,000. But if their employer doesn't provide any subsidy, and they want a 90 percent probability that they'll be able to cover their medical expenses, they'd need \$196,000.

9 *Are employers continuing to give employees more discretion over how to spend their employee benefit dollars? Do financial planners have a role in helping clients make decisions in this area?*

The movement of flexible benefits has not been great. It's been at about 10 percent of the labor force since the 1980s. While employers continue adding voluntary benefits that can be purchased through payroll deduction with after-tax dollars, they have been reducing benefits that are purchasable with pre-tax dollars.

You could argue that an exception is high-deductible consumer-driven health plans, but even there, it's relatively limited in terms of what is actually built in. To the degree that an employer is using a health savings account, as opposed to a health reimbursement account, then there's a role for planners. There are decisions about how to invest that HSA money and about whether to contribute to the HSA or the 401(k) plan.

The average worker will spend 20 minutes maximum making their health plan choice, and generally going it on their own, or with some conversation with family. That is an area where financial planners clearly can be of help. For a moderate-income worker, that out-of-pocket maximum might represent 20 percent of his annual income.

10 *You've been watching the federal government for a long time. Has your assessment or optimism about its capacity to improve the economic security of average Americans risen or fallen since you came to Washington?*

I don't think about it that way. Am I more understanding about the absolutely vital importance of the Social Security program? Yes. Am I even more sensitive to the vital importance of the Medicare program? Yes.

The Social Security program is in reasonably good financial condition. I am optimistic that the federal government will maintain it, and in the process maintain that lynchpin of financial security for most American families across the age spectrum. Social Security is most assuredly going to be there, and I think people can count on it.

As my parents moved into their nineties, I became more sensitized to the importance of that age spectrum. My dad is gone now. My mom is 92, and Social Security represents 100 percent of her income. The payroll taxes I am paying are going straight to Mom, without any loss of dignity for my mother.

Medicare is a far bigger problem. The trustees' report said you either need to cut benefits by half, or triple taxes. I don't think either one of those is likely. But it means that taxes will go up, plus benefits will be cut.

If people haven't even saved enough to accommodate the limitations of Medicare today, they'll really be up the creek. I don't think the financial planning community has yet woken up to that. That's an area where the planning community needs to grow and expand its emphasis, both with respect to its paying clients and those who can't pay.

But on the overall matter of retirement income, I'm significantly more optimistic, because of what technology has done to allow the financial community to deliver information and knowledge easily and effectively, and the ease with which a financial planner can deliver very sophisticated and comprehensive analysis that just wasn't possible even 10 and 20 years ago.

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