Jane Walstedt: And now I’d like to ask Cynthia Dawkins, a member of the Women’s Bureau team that plans these calls, to introduce our third speaker. Cynthia.

Cynthia Dawkins: Thank you, Jane. Dallas Salisbury is President and CEO of the Employee Benefit Research Institute, EBRI, in Washington DC. EBRI provides objective information regarding the employee benefits system and related financial security issues to researchers, policymakers and the media.

Dallas regularly testifies at Congressional and Commission hearings on economic security topics and appears in print and broadcast media around the world. He has served on the Secretary of Labor’s ERISA Advisory Council, Presidentially-appointed Pensions Benefit Guaranty Corporation Advisory Committee, Board of Directors of the Society for Human Resource Management, and others.

His most recent books are: Retirement Security in the United States: Current Sources, Future Prospects and Likely Outcomes of Current Trends; The Future of Retirement Income in America; The Future of Social Insurance: Incremental Action or Fundamental Reform; IRA and 401(k) Investing; and Money - excuse me - Managing Money in Retirement.

He holds a B.A. degree in finance from the University of Washington and an M.A. in public administration from the Maxwell School of Citizenship and Public Affairs. Welcome, Dallas.

Dallas Salisbury: Cynthia, thanks so very much. It’s a pleasure to be with the group today. I think in honor of this call and the topic “Economic Turbulence and Planning for 2009,” I think it’s in honor of this call that the markets are actually flat so
far today, even though of course we have that wonderful hour between 3:00
and 4:00, which seems to be very active.

The turbulence issue really we find in our work is causing people to focus in
ways that they don’t always choose to. We have judged that by a dramatic
increase in traffic on our choosetosave.org Web site and a dramatic increase in
the number of people who are completing the Ballpark Estimate worksheet on
that Web site.

And our friends at the Office of Personnel Management have reported
increased usage of the Federal Ballpark Estimate at opm.gov and at the TSP
Web site. We’re also finding a lot of interest in the video segments that go to
some of the key things that individuals should be doing.

One, in our past surveys we find that only about 30% of American adults say
that they have ever in their life attempted to do a budget for their own income
and expenses. And we’re strongly recommending to people that in times of
turbulence like this it’s a particularly important time to think about doing a
budget, making sure you’ve budgeted in savings and your contributions and
building an emergency fund if you don’t already have one, and then very
clearly sticking to that.

Second item--which we have video education segments on and is something
that people need to do a lot more of--is credit management at a time when
coming across new credit is getting tougher and tougher and part of that
budgeting process is making sure one has budgeted in to get those debts paid
off as interest rates on credit cards have been going up by several percentage
points in spite of the fact that general interest rates are going down.

In terms of income and planning, we also urge people to take a look at--as
they think about retirement--what they’ll have in that, if you will, floor of
financial security that comes from Social Security on the retirement income side and Medicare on the health side.

Amazingly to us, in our survey work we find that over 60% of those who hit retirement report that they actually make the decision to retire without knowing how much income they’re going to have in retirement, if you will, never even having done a retirement budget of how much am I going to spend, how much I’m going to need to do that.

One area that surveys indicate people overestimate what will be there is people overestimate what they’ll have in Social Security, and, as critically, they overestimate what will be paid for by a program like Medicare. Over 70% of Americans think that Medicare pays for all their medical expenses, and over 80% think that it pays for a major portion of nursing home and long-term care expenses; in fact it pays very little for nursing home.

And if one looks at Medicare and the data from the CMS - the government agency that runs it - Medicare for the average retiree covers about 50% of the average retiree’s medical expenses. In covering that 50% for a couple that retires at the age of 65, that 50% is still worth almost $300,000. Put another way--which most people don’t think about--in order to cover what Medicare doesn’t, a couple would need $300,000 in savings at the point of retirement to cover Medicare Part B premiums, Medicare Part D premiums, co-pays and deductibles, and to pay the premiums on Medigap insurance.

For example, a retired federal employee would need a substantial amount of money simply to pay the premiums the government collects on the Federal Employee Retiree Health Insurance, which supplements Medicare. And for people that are long-lived--my father recently passed away just short of 94; my mother is doing well at 92--for people that are long-lived that amount
needed for medical expenses can easily exceed $1 million, as living longer means you need a lot more money.

Then if you look at the income side for people like federal employees that have the federal program either, the old civil service retirement system for old folks like me who worked for the federal government prior to 1984 or for those in FERS who went to work for the government ’87 and later, is they’re in good shape, and for FERS people they have to look to Social Security as well.

[For] a couple in America [the] average income is about $43,000. You look at Social Security for a couple retiring at the age of 65, income of $42,000, they’ll get a benefit of about $25,000 per year, which is a replacement of about 60% of that $42,000. Move up to higher income levels, for example somebody at the maximum wage base of just over $100,000--and even for a couple--Social Security only replaces about 35% of that couple’s final income, which leaves a big gap for people to make sure they’ve been saving for the long-term and saving often.

So there’s a tremendous need to budget. There’s a tremendous need to worry about credit management. Nearly 40% of those moving into retirement today, for example, report that they still have a mortgage on their home when they enter retirement. And having to make that monthly mortgage payment means you have to have saved all the more in order to have enough monthly income to continue paying for that mortgage.

If one thinks about the Federal Thrift Plan or Defined Contribution Plans in the private sector--the dominance now of 401(k) plans -- is in order…. Over a working career if you only have Social Security plus a defined contribution plan, individuals need to contribute as much as 20% per year if they’re going to have a mixed portfolio of returns in order to make sure they have the
money they need to supplement Social Security, and that’s assuming they don’t need all this money for retiree medical because they work for some enterprise that will pay for all of it like my father’s company did.

If they need to save for retiree medical in addition, then somebody that only has 25 years to accumulate that money--for example they wait to start saving aggressively until their mid 30s or they’re about to turn 40--to get for healthcare plus savings they’d actually need to be saving close to 30% per year.

So this underlines and the turbulent times we’re in underlines for people the importance of a final point of reference before I conclude--the turbulent times really underlines the advantages of planning, the advantages of having a cushion, and the advantages in your investments to remember what my professor at the University of Washington told me decades ago: The stock market is a form of gambling, and if you can’t afford to lose the money, be very careful where you invest it and how you invest it..

And with account balances for 401(k) plans just since January 1 of this year being down in excess of 24%, it’s the type of time that it really hits home. The final point--that for those who are within 10 years of retirement, they need to be especially careful of remembering that the stock market can decline, and has over time on a number of occasions, 30% to 40% in one year. When you’re going to continue working, there is time to save more and make up for that.

Once you’re in retirement, there’s no new money coming in, and if you had money in the market that you can’t afford to lose, then probably the money shouldn’t have been in the market in the first place. So budget, choose to save, and do those estimates, and think ahead with emergency funds, and times of turbulence will be times that you can survive quite nicely.
Thanks again for having me today.

Jane Walstedt: Thank you, Dallas. And those are some sobering statistics. I think before I turn the floor over to the operator to give us instructions on how to ask a question I’m going to throw a question to you, Dallas. And that is, according to a July 9, 2008, press release by Hewitt Associates, Hewitt predicts that women on average will need to replace nearly 130% of their income at retirement, seven percentage points more than men.

And I wonder if you could comment on that. I mean traditionally we’ve heard like 70% and 80%, and that figure stopped me short when I saw it, but they’re talking about because of inflation, because of longer life spans, because people are spending more than they’re earning. So I wonder what your take on that survey is or on that?

Dallas Salisbury: Well, number one, if anything, I think their numbers are low. We don’t…we try to even avoid telling people to plan against replacement rates, the reason being that everybody’s circumstances are different, and it almost…the replacement rate approach almost discourages individuals from thinking about longevity and thinking about how important it is for every individual to focus on what their life— their family life history is— how long their grandparents lived, their parents lived. It’s what I mentioned about saving for retiree medical.

If your history is that you’ve never had anybody in your family live as long as let’s say 70, then what you need to save for these things is likely to be far less than if you have had generations that have lived into their 90s. And because, other than Social Security, most individuals’ savings get eaten up by that terrible thing called inflation is part of the reason that Hewitt would have that type of number.
Longevity is the reason they would say women need more than men. And the second is women have generally higher health expenses than men. And so that would also mean [the need for] higher savings. But in most of the analyses and the number that gets deemphasized generally is nowhere near what for individuals, for example, if you know you use a lot of pharmaceuticals, a lot of drugs, is that automatically says you’re going to need a lot more than even that type of average replacement rate.

And that’s what I’d really emphasize in concluding on this--those are average replacement rates, and most people aren’t “average,” and so that’s the reason that one needs to really plan carefully. If that 127% serves as a wakeup call to people, then it’s a good number, as long as what it motivates them to do is to do something like the Ballpark Estimate worksheet and having done some longevity calculators and create their own personal financial plan.

I can’t emphasize enough this really is personal and individual.

Jane Walstedt: That’s a very good point too, and bringing in the healthcare expenses, because I know Jim mentioned flexible spending accounts, and I participate in one at work. I set aside $3000, and you have until the following April to spend it or you lose it. And by July I’d already spent all of it, and I consider myself a pretty healthy person, so it was quite a surprise.