...it is very important to step back and think about individual differences before we think about the financial plan, the strategy, and the products to buy to fit that strategy. Who am I? What do I care about? What are my goals? ...I think of it like a GPS in the car – ...[it’s] useless unless you know where you are going. Without actually stopping at the point of retirement and articulating, ‘What am I trying to accomplish?’...I don’t think we can actually have a sensible strategy.”

Dr. Shlomo Benartzi
Chief Behavioral Economist, AllianzGI Center for Behavioral Finance & UCLA Professor

Moderated by Jeffrey H. Snyder, Vice President and Senior Consultant at Cammack Retirement Group, Staying Ahead of the Curve is part of Cammack Retirement Group’s Public Plan Perspective, a proprietary thought leadership series for retirement plan sponsors and industry professionals. To learn more about the series or the services our firm provides, please contact Jeff at jsnyder@cammackretirement or (646) 839-8254. To subscribe, please click here.
Interview with Dr. Shlomo Benartzi, Chief Behavioral Economist, Part II

Moderated by Jeffrey H. Snyder

Vice President and Senior Consultant, Cammack Retirement Group

Jeffrey H. Snyder: You have spent a lot of time talking about accumulation and bringing people into the program. We know that people have to accumulate assets, start early, and contribute at the right rate. But what happens at or near retirement? Taking money out of the program, what does that look like? I think that is something with which the industry is really struggling.

Dr. Benartzi: It is a very difficult problem to solve. The accumulation phase - saving for retirement - is a lot easier. If you take college graduates, for example, the vast majority is healthy, they are excited about the next job, and they have decades to work and save. We can favor the one shoe fits all approach and put them all into the 401(k) plan. If they don’t like it, they can opt out, but they should all probably be saving. We could increase those savings rates over time, so they slowly but surely save more; we could put them in a very well diversified fund that could adjust based on age, with low fees, and eventually on autopilot to a dignified retirement. The point is that individual differences in preferences and circumstances widen, a lot, over a lifetime and at the point of retirement you cannot have the one shoe fits all approach.

Snyder: So what do you suggest in terms of dealing with all these different circumstances on the individual level? What is the appropriate process for these individuals?

Dr. Benartzi: Very often, we rush into actually making choices, to pick something. I think it is very important to step back and think about these individual differences, before we think about the financial plan, the strategy, and the products to buy to fit that strategy. Who am I? What do I care about? What are my goals?

I have actually finished a book called Thinking Smarter, and it has an app that comes with it. The app is meant to help people think about some of these questions. Now it might sound kind of funny, why do you have to think about your goals - you know what they are. But behavioral economists for many, many years have noticed that people are actually really bad at articulating their goals. I often sit with people at the point of retirement and have conversations similar to this:

I want financial independence and I want to travel.
And then I say “What about leaving money to your kids?
Oh, that’s important.
Why did you forget about it? Why did you forget about it? Is it secondary?
No, that’s the most important thing to me.

So actually, we are not very good at generating goals. So we have created a seven-step system that helps people think smarter about their goals – to get a more complete set of who they are, their goals and which goals are more important, in case they cannot actually pay for all of the goals. I think that it is a critical exercise, to first of all figure out your goals. Only then can you actually decide whether a certain strategy and financial product can fit them. Very often, you might want to engage an expert, a financial adviser, to help you find the strategy in a set of financial products that can actually help you achieve those goals.
I think of it like a GPS in the car – you are trying to go somewhere but your very fancy app is useless unless you know where you are going. You need to put in a destination. Without actually stopping at the point of retirement and articulating, “What am I trying to accomplish? Do I care more about traveling or leaving money to the kids?” Without doing that exercise, I don’t think we can actually have a sensible strategy and then pick the right products.

Snyder: Dr. Benartzi, thank you so much for laying out a roadmap for the audience and also discussing your book. We look forward to hearing about the results in the future.

To view the interview in its entirety, please click here. To subscribe to Staying Ahead of the Curve, please click here. For more information on Cammack Retirement Group, please visit us at cammackretirement.com.