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INTERVIEW WITH KEN DYCHTWALD

By: Vance Durgin

We spoke to **Ken Dychtwald, Ph.D.** founding president and CEO of Age Wave about a new study from his company that is getting considerable buzz and was picked up recently by The Huffington Post. Dychtwald, of course, has been a leading thinker and visionary on aging issues for decades and wrote the pioneering book, "The Age Wave," published in 1989. The new study is called **"Retirement at the Tipping Point: The Year that Changed Everything,"** and makes for enlightening reading.

Q. A tipping point can be defined as a level of momentum where change becomes unstoppable. What changes concerning retirement do you see as unstoppable?

Dychtwald: I think there are several. First of all, the elevation in longevity, which has always been on the side of people's radar screen, never been taken all that seriously, is a major force that I think all by itself has the power to change everything. When am I old, when am I done, how long will I live? How much can I afford? If I live 5 or 6 years means one thing to contemplate retirement but if it means that becomes 15 or 20 or 25 that's a whole other equation. So point one is longevity.

The second is that we are in the middle of a financial reckoning. I think that what we saw in this study and what we've been thinking about quite a lot is that people have been living sort of a delusion about how ready they were financially for retirement. Lurking around the sidelines have always been the facts, the fact that a third of the boomers' have less than $1,000 in total net assets, (that) the median 401k in America is $38,000 (and) the fact that the savings rate in the 1990s was zero on average, which is tantamount to spending more than you're earning. One doesn't need to be an economist to add that all up and say here you have a generation and more who are highly leveraged and do not have sufficient savings or investments, that's another factor.

I'll mention two more that I think are all sort of heading in a direction that's not going to reverse. The next one is that there was a time after World War II when people could rely on their employer to look after them. Basically it was a lifetime package, employee and employer. That if I work for you and give you my all then you'll look after me the rest of my life. And those began to disappear during the '80s and really washed ashore in the '90s. During an era when the stock market was booming, workers thought it was a reasonable trade to be responsible for their own pension. But then when the market crashed, the capacity to afford retirement had been altered. And I would say that we were already there before this crisis. That large numbers of people, if they really added things up and looked at a lifetime balance sheet, looked at it soberly, would say, 'Boy I'm not sure that I can go the distance financially.' Certainly what's happened this last year has made things worse but also brought to everyone's attention just how thin the ice is for some people.

And the last point is I think extended retirement as a time of non-productive leisure has proven to be a failure.

Retirement never really existed throughout history. There were three reasons why people worked. One was to earn a livelihood and the second was self worth and the third was it brought people together. It wasn't until the 20th century that we began this retirement experiment, and, a little bit like trying out a new medical device or drug, you put it out, give it some clinical trials and see what effect it has. We've now had a generation or two that have been living this retirement event and what we're seeing in our studies is that 4, 5, 6 or 7 years of watching TV -- last year the average retiree watched 48 hours a week -- and older adults have a low volunteer rate, they're increasingly estranged from most modern life. It's turning out that's not what people really want. That that version of life... is just not really that attractive or desirable....

Now it's more clear that (a.) people realize they're going to be living long lives, (b.) that they don't know they can afford such an extensive retirement; although they'd like some time off they don't necessarily think they can pay for that whole life of it. The capacity to rely on either the government or one's employer to fill the nest egg is diminishing. And also, there are better things to do with one's life than simply to live nonstop nonproductive leisure.

It's an odd thing to be on a subject for 35 years as I have and see things and feel things you talk about and write about, things lurking around in the popular mind or popular culture but not quite reaching a critical point of change. My eighth book "The Age Wave" came out exactly 20 years ago, and

I talked about all these things then. The idea that retirement as it was being evoked was unaffordable for many and undesirable for most. And yet it's really taken this economic trauma to shed lots of light on all sorts of aspects of not only the financial side ... but also on what do people really want, what would be good for them.

Q. The biggest financial worry for those 55+, according to the study, is uninsured medical expenses in retirement. Given that we may in the near future end up with a national health care program that insures everyone, what will be the effect of that program on retirement planning?

Dychtwald: The interesting thing that came out of this study is, obviously any study that's been done over the last 10 years, you ask people what they are most concerned about and it's medical costs, especially if people were uninsured. But the insight from this one is that they weren't talking about basic medical coverage. They were talking about things that I'd call outside of insurance. The uninsured dynamics. And let me put this into context. Retirement financing has a lot to do with predictability or non predictability. So if I think of rent or mortgage I can kind of figure out what it's costing every year for the rest of my life .... You can basically build a financial plan, plug in numbers, that will come out being pretty close to right. But what if you get sick and you can't work? That throws the entire formula out of whack. Or, what if you discover, as many older people do, and their families do, that you have a situation or a condition that for which Medicare does not reimburse?

For example, my dad is a diabetic and my mom's got early stage Alzheimer's and serious respiratory disease. It turns out if either of them need an open heart surgery, which they both had, that's covered. But their home-care aides, and their transportation -- neither of them drive -- is not covered. And a good chunk of their medicines aren't covered. EBRI has put out studies indicating that it costs anywhere from a quarter million to a half-million dollars for reasonably healthy people just to pick up the not-covered medical costs. So I think what we saw in the study is that even for people who have Medicare or who may have an insurance plan, it's what might fall on the outside of that's that's terrifying. So to answer your question, not knowing exactly what plan we're going to adopt -- unless it includes long-term care, prevention and home care we're still going to be in trouble.

Q. The study says pre-retirees see themselves delaying retirement by 4.2 years (because of the financial crisis). What might be the implications for boomers in terms of working longer?

Dychtwald: Is delaying retirement a punishment or a wonderful thing? the first inclination is to think: That's a terrible thing. That work is so unpleasant and retirement so delightful that the idea of having to work longer is an unfortunate event. The truth of it is that as we have had an increase in longevity over the 20th century, we went from retirement being 3 or 4 years to 7 to 10 and now it's about 20 .... That's a very long time And so, even if there had not been this financial reckoning, if reasonable people were to sit down and say gee I could live to 80, 85 or 90, how much of a life should be filled with education, and how much should be devoted to work and how much should be leisure, most people would probably come to the conclusion that some additional work and a slight shrinking of retirement is probably acceptable and I would even say makes things more sustainable.

And so the idea of some continued work and a slightly trimmed back retirement, which from today's point of view is still quite long from the point of view of every other moment in history, allows your principal to grow a bit longer, allows you to pay the bills longer, keeps you stimulated and active and is probably also good for the marketplace because when people stop working they become much more frugal in their expenditures and if the entire boomer generation were to stop working, you'd see the marketplace in a death spiral. so some continued work ... now, it doesn't have to be full time, it need not have to be (the) same job, and it could also be even more enjoyable. it may even involve downshifting. a corporate executive who wants to keep working and needs the cash flow, and he decides he wants to be a publisher. or the marketing manager who decides that a full time job is no longer enjoyable and she decides to write a book of poems. so the idea of reinventing work but continuing to be engaged in some way with work and earning some money for a few more years really changes the climate for funding (the) later years in a very favorable way.

A lot of people think retirement was constructed so that older people could be free of worry, relax and have a good time. That's not actually what set retirement in motion. it was the 1930s, the depression was wreaking havoc on the American economy and the unemployment level reached 25 percent. So Roosevelt had a very serious problem. How do we create jobs so that young people could get started with their lives and their families and have a chance of obtaining a piece of the American Dream? And a big part of his answer, his solution was if we move older people out of the work force we could make this happen. So Social Security was partly designed to give a small stipend to retirees but it was also, and I would even argue more definitely set in motion as a way to clear the pipeline. I think one of the unexpected consequences of retirement is that we've taken tens of millions of people who are talented and resourceful and wise and we've set them out to the sidelines. Which, in an era where there's so much concern about efficient use of energy in terms of human capital, human energy, is silly and wasteful.

We at Age Wave have over the years developed slightly different ways of thinking about things. One of the conclusions we reached some time ago, which is confirmed in every one of our studies is that whoever dreamed up the idea that you go to school once for 20 years and then you work like a nut for 40 years and then you spend the rest of your life relaxing and living off of whatever you've managed to have saved ... that's one way of organizing a life. Another way of organizing a life -- for example my daughter just graduated from college. And she just took a job ... and it's a career that did not exist four years ago when she entered college. So the idea that you can learn once and have it lasting forever is old-fashioned and almost becoming laughable.

So some continued education and lifelong learning, multiple careers and I would even argue multiple retirements will become the norm. And people (would) cycle -- rather than a linear life plan you cycle life, where you might learn numerous times. You might step in and out of the workplace. You might retire for a while and perhaps if you find yourself bored or restless you would go to a job fair and next thing you know you're back in the work force again. So we think that the whole idea of retirement as a, you go through that door and then it's behind you, as a permanent leave is becoming obsolete.

And by the way, in order for some degree of fairness for the generation just behind, I think if boomers were go on flex retirement, if they were to relocate, perhaps now that they're empty nesters, maybe I'll go off and help a company set up a mission and follow the poor. or I'll maybe be serving as a mentor, maybe in the training department. in other words, staying involved in work and being of value to an employer but also creating more room for succession of the next generation after you.

Q. Given the finding in the study that 60 percent of respondents lost money in the stock market last year, how will this affect investors going forward?

Dychtwald: I think that there has been a belief that the stock market, while it might go up a bit, down a bit ... year on year it would give you back (a certain return). And i think that's been broken. I don't think people believe that anymore. They believe that the stock market is volatile, that it's influenced by people who may not be trustworthy.

I think you're about to see the whole financial product sweep altered. Something more resembling a fusion between stocks and an annuity. I think potentially people are going to want a financial industry that produces a better rate of return than CDs but also are willing to give up the big upside so that they can go to sleep at night..

Q. The study says Americans have been jolted into living within their means. What will this mean for the economy?

Dychtwald: We noted in our study that people were actually trying to spend less. And that they were saving more, the savings rate has doubled over the last decade and the use of credit card debt was shrinking. Now, the media doesn't report that as a fabulous thing that's taking place in America. People are holding onto their money more than they have for decades. Instead, the media says a terrible thing is happening, people aren't buying as many iPhones and they're not repainting their house or they haven't bought a new car this year. We've come to measure our economy by the degree to which we spend and not all cultures do that.

On top of that, a fascinating thing that came out of the study which is when you do studies you get a chance to see just how diverse people are. so you ask a question. what do you think of that, or what do you think of this law. thirty percent of people are one way, 30 percent are the other way, 40 percent are undecided. every now and then you see 60 percent of the population agreeing. not very often. 95 percent of the American population believe that financial education should be a standard part of our upbringing and it should be required in high school. and then when we looked into it we found that only 3 states in America require financial education for teenagers while 35 states have mandated sex education. so if someone had learned nothing except what they were exposed to in the ads they're just going to be making the same mistakes that people have been making the past 10, 20 years.

In fact, if there is one thing I'd love to say when I'm an old, old man that came out of the study was that as a result of that study laws were passed and financial education came in. I'd love to see that.

The boomers have been criticized for being the immediate gratification generation. have a good time today, let tomorrow worry about itself. we do that same thing with our economic (policies). if people are spending all their money now, that's wonderful, for now, for this term. But 10-20 years down the road those very same people are going to be in serious trouble. so some degree of frugality and caution makes for a better future.

Q. Pre-retirees have said in previous studies that they seek flexible work schedules, the opportunity to continue learning and the ability to to teach younger workers. What will be the incentive for employers to do this?

Dychtwald: "Talent. All too often we talk about work in terms of labor. I think the more important variable is talent. .... What would cause an employer to contemplate more flexibility? Recognition of that talent you can't afford to have leave the room. And (that) you're better off having them 4 days a week if they like a more flexible work schedule than not having them at all.

The comparable is the 1970s when women started flooding into the workforce and wanted -- and demanded -- far more flexible work schedules so that they could take time off ... to look after their children. Back then, employers completely resisted. Now I look at companies, the way they describe themselves, as one of the best places to work for women. Family friendly. There's been a total revolution and I think that moving toward more flexible work schedules, furloughs, part time, job sharing, flex time, longer leaves, sabbaticals, re-careering, is going to be the next revolution as employers recognize that there's just too much talent that will otherwise walk out the door unless they accommodate it.

Read the entire "Retirement at the Tipping Point" study here.

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