PenTrust
Retire in Absolute Comfort

Your Pensions Letter

REDEFINING THE PROVISION
Of Retirement Advisory/ Pension Planning Services

To create meaningful engagement in pension planning, a plan provider should begin asking employees not about risk but their expectations for income needs in retirement.

Clearly, employees in their twenties, thirties, or forties will not be able to be very specific about this, but they're likely to agree that a reasonable goal would be to have a standard of living more or less the same as they'd be experiencing in the last five or so years before retirement. This would be, in effect, a plausible default option.

Once the working expectations have been agreed on, the provider can calculate the probabilities of achieving each employee's target standard of living for given levels of contribution, expressed as a percentage of salary, and for a given working life

The provider will of course need more information, such as the employee's current salary and the salary levels of retiring employees, estimates of interest and inflation rates, and Social Security and defined-benefit pension expectations. But all these data can be obtained from the employer or other sources, or assumed based on publicly available financial market indicators.

The customer need worry about three things only: her retirement income goals, how much she is prepared to contribute from her current income, and how long she plans to work. The only feedback she needs from her plan provider is her probability of achieving her income goals. She should not receive quarterly updates about the returns on her investment (historical, current, or projected) or about the current allocation of her assets. These are important factors in achieving success, but they are not /meaningful/ input for the choices about income that the customer has to make.

Source: Havard Business Review