Motley Fool's *Rule Your Retirement* Newsletter

How Much Do You Need to Retire?

Robert Brokamp, CFP

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Most Americans have only a vague idea of how much they should be saving. Jeannie Thompson, Head of Workplace Solutions Thought Leadership at Fidelity Investments, explains the company's age-based savings guidelines, the cost of healthcare in retirement, and how retirement planning can present more challenges for women.

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Transcript

Alison Southwick: This is *Motley Fool Answers*. I'm Alison Southwick and I'm joined, as always, by Robert Brokamp...

Robert Brokamp: Hel...lo.

Southwick: ...personal finance expert here at The Motley Fool. In this week's episode we're joined by Jeanne Thompson from Fidelity. We're going to talk about trends in retirement and what else?

Brokamp: That's the most important thing in the world, really, so that's all you need to say.

Southwick: That's all Bro cares about. All that and more on this week's episode of *Motley Fool Answers*.

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Brokamp: So, Alison, what's up?

Southwick: Well, Bro, for as long as I've been working at the Fool I've heard about stock buybacks, aka stock repurchases. The typical public relations line goes that it's the best use of the company's capital because the stock is undervalued, or the company wants to control its own destiny. Our analysts generally greet them with like a shrug. But because debt, right now, is so cheap and tax cuts are so deep, companies are allocating record levels of capital to stock buybacks.

Is that good for investors? Is it bad? Let's dig in.

Brokamp: Let's do it!

Southwick: And we're going to do it with a bunch of metaphors, so here we go. Metaphor No. 1. The simplest way to explain a stock buyback is to picture a pie. (Like I said, it's our first metaphor.) If a company is a pie, a single share represents one slice of that pie, and as a shareowner you get to eat more pie if the whole pie grows (such as if the company becomes more profitable), or if the pie is cut into fewer pie slices (or you can think about it as pizza, if pizza is more agreeable to you).

Brokamp: Quiche? How about quiche? Will that work?

Southwick: Yeah. Rick's making a gross face. He's not a fan of quiche.

Rich Engdahl: I like some quiche. It depends.

Southwick: OK, we're going to have to do an episode on quiche in the future. I can see this is a hot topic that our listeners can't wait to hear more about. So with a stock buyback, most commonly a company takes some of its own cash and buys its own stock, taking it out of circulation and absorbing it into the company. As a result there are fewer outstanding shares or quiche slices, so the individual share price goes up because there's only one pie, but it's now sliced into fewer pizza. Pieces. Slices.

Brokamp: Pieces of pizza.

Southwick: Anyway, it's math. Like a dividend -- bottom line -- it's a way to give cash back to shareholders. Oh, that's so nice of them! But, you might be thinking, aren't they manipulating their own share price? Yeah, they sort of are.

So up until 1982, companies couldn't buy back their own stock except under special circumstances and then in 1982 safe harbor rules (this is kind of another metaphor, a short one, though) by the SEC made it easier to navigate those waters without landing in choppy seas, or something like that.

Brokamp: Sure.

Southwick: It's not my best metaphor.

Brokamp: No, it's good.

Southwick: OK, there we are.

Brokamp: There we are.

Southwick: We're in the 1980s. Picture it. This crazy idea really started taking hold in the 1980s and I blame cocaine. By the way, I realize I am putting on the rosiest of rose-colored glasses, but before this crazy idea in the 1980s, it was generally believed that companies had lots of stakeholders and that they needed to act in the interest of many different parties, which meant investing money back in the business, back in employees, back in innovations. Longer-term thinking. And again, I realize this is very rose-colored glasses.

But, in the 1980s an idea emerged that companies exist solely to do what, Bro?

Brokamp: To increase the value of the company for the benefit of shareholders.

Southwick: *YES!*

Brokamp: Thank you.

Southwick: That's great! To deliver a profit to shareholders and that the managers should make decisions to maximize those profits at all times. What is the most important time? *NOW!* Very short-term thinking. And so this resulted in companies increasingly issuing dividends to shareholders rather than investing that money back in the business. If a business laid off a ton of employees, the share price would rise because, hurray! Reduced labor costs. And the hurdles to stock buybacks, again, were lowered by the SEC.

So if you believe that the only purpose of a company is to increase its share price for shareholders then, yes, share buybacks are great. But mostly for short-term shareholders, which you and I, dear Fool, are not. Right?

Brokamp: It's true.

Southwick: There we go. A study by the research firm Fortuna Advisors found that five years out, the stocks of companies that engaged in heavy buyback performed worse for shareholders than the stocks of companies that didn't. That sort of makes sense. I mean, after all, investing money back into the business, back into making employees happy, and to innovation and long-term growth... Instead of doing that, these companies are literally giving it away. And yes, as shareholders, we get some quick cheddar, but the ones who benefit the most are...? Who do you think?

Brokamp: The executives.

Southwick: *YES!* That's right, Bro. Did you do your homework?

Brokamp: I didn't. I just read a thing or two about investing, but I think this is a fascinating topic.

Southwick: In an article in *The Atlantic* by Jerry Useem, he points to research done by the SEC to "look at how buybacks affect how much skin executives keep in the game," by which we mean, of course, how much company stock they hold in the companies they are actually leading.

The SEC found that, "in the eight days following a buyback announcement, executives, on average, sold five times as much stock as they had on an ordinary day. Thus," deduced the SEC commissioner, "executives personally capture the benefit of the short-term stock-price pop created by the buyback announcement." The reporter goes on to say that executive "abuse of stock buybacks is so widespread [...] it's like singling out snowflakes for ruining the driveway." But he does call out a couple of executives by name.

The first one is Craig Menear, the chairman and CEO of Home Depot.

Brokamp: Wow.

Southwick: The day after announcing a $4 billion buyback on an investor conference call back in February 2018, the CEO sold over 113,000 shares netting $18 million. The following day, he was granted over 38,000 new shares and promptly unloaded a bunch of those shares for a total profit of $4.5 million. "Though Menear's stated compensation in SEC filings was $11.4 million for 2018, stock sales helped him earn an additional $30 million for the year."

Oh, here's another example. Merck. As Useem writes, "Merck insists it must keep drug prices high to fund new research. In 2018, the company spent $10 billion on R&D and $14 billion on share repurchases and dividends." [This includes] "CEO, Kenneth Frazier, who has sold $54.8 million in stock since last July."

How does it look by industry? Well, let's head over to a July article in *The New Yorker*entitled, "The Economist Who Put Stock Buybacks in Washington's Crosshairs." Harvard business professor and longtime critic of stock buybacks, William Lazonick "found that between 2008 and 2017, the largest pharmaceutical companies spent three hundred billion dollars on buybacks and another two hundred and ninety billion paying dividends, which was equivalent to a little more than a hundred per cent of their combined profits."

And then there's the poster child of buybacks, which would be Apple. Since the death of its founder, Steve Jobs, in 2011 Apple has distributed $325 billion to its shareholders while spending only $58 billion on research and development. I know saying *only* $58 billion is kind of [weird], but still we're comparing numbers, here. And it's pretty obvious, right? I mean yes, I did buy a new Mac and I just bought a new iPhone last week, but when was the last really amazing innovation to come out of Apple?

Brokamp: I have no comment on that.

Southwick: OK, well, anyway.

Brokamp: There you go. That's the answer!

Southwick: Apple lovers, go ahead and *at* me. That's fine. Apple would say that all of those stock buybacks were a success. After all, their share price has doubled since 2015. Meanwhile, Apple's net income this fiscal year is projected to be almost exactly equal to what the company booked four years earlier.

Hey, let's look at Boeing. From that same *New Yorker* article, "between 2013 and 2019, Boeing spent more than seventeen billion dollars on dividends (forty-two per cent of its profits) and an additional forty-three billion dollars on buybacks (a hundred and four per cent of its profits) rather than spending resources to address design flaws in some of its popular jet models, or even to develop new planes." We all know how well that's going for Boeing right now, unfortunately.

Fun fact. Do you know who doesn't like buybacks? It's Amazon. They've only done one in seven years.

Brokamp: Oh, that's interesting.

Southwick: I know. Anyway, let's zoom out from the individual company and industry level and look at what could be a serious problem brewing for ... *everyone*. Duh! Share buybacks are expected to approach $1 trillion this year, says Goldman Sachs. For the first time since the financial crisis, companies have given back more to shareholders than they are making in cash, net of capital expenditures and interest payments or free cash flow. That's according to Goldman Sachs, as well. Ready for a stat to really blow your mind?

Brokamp: I am so ready.

Southwick: According to the Federal Reserve (again, this data is also from Goldman Sachs), over the past nine years, corporations have put more money into their own stock (an astonishing $3.8 trillion) than every other type of investor combined: individuals, mutual funds, pensions, foreign investors.

Brokamp: Wow. That's amazing.

Southwick: I told you that was going to blow your mind. *Boom!* Going back to the Lazonick and *The New Yorker* article, he argues that "stock buybacks deserve most of the blame" for wage stagnation in this country because executives are putting a priority on lining their own pockets with stock buybacks rather than investing in their own workers through raises and increased benefits. And, according to Reuters, companies are increasingly using cheap debt to fund stock buybacks. That can't be good, right?

Brokamp: When you think about that, that's kind of crazy.

Southwick: Reuters quoted an analyst from Pictet Asset Management who said, "If you look at the cost of equity versus the cost of debt, the incentive to issue debt and buy back equity has never been higher." So again, companies are increasingly using cheap debt to fund share buybacks. It can't be good. Dare I say the "b" word? I'll let Lenore Palladino, economist with the Roosevelt Institute, say it. Here's a quote from *The New Yorker:* "I think there's a real danger of stock buybacks topping out the market, and then the bubble bursting." That was the "b" word.

Brokamp: There were two "b's" there. That was good.

Southwick: "We know who gets hurt when the bubble bursts. It's the majority of us." [Lenore Palladino again].

So what's the takeaway? On the small stage, the research does seem to show that stock buybacks don't usually benefit long-term investors like you and me, but everyone's doing it, so it's not like you can avoid investing in those companies.

You can also take an agnostic approach that stock buybacks are a tool. A tool used properly can be good. For example, stock buybacks can be used to systematically buy back shares from employees to level set outstanding shares. And if they are a tool, can you really blame the hammer if the builder uses it to install a light switch plate? But when you think about hundreds of builders using hammers to install light switch plates, that leaves everyone in the dark. That was my last metaphor. That was a good one. Thank you.

Brokamp: That was a good one.

Southwick: Anyway, I have a lot more reading to do on this. Jason Zweig over at *The Wall Street Journal* -- we have a lot of respect for him -- defended stock buybacks and he thinks all this fuss is overblown. Did I say Aswath Damodaran close enough?

Brokamp: Yes.

Southwick: I just tried to say it as quickly as possible.

Brokamp: Business professor at NYU.

Southwick: He's written about everything and so, of course, he's also written about this. He admits "that there are value-destroying buybacks," but he also believes "that collectively buybacks make far more sense than dividends as a way of returning cash." So good, bad, or agnostic, what we do know is that stock buybacks aren't going away so long as tax cuts and low interest rates are leaving companies with more money than good ideas. And that, Bro, is what's up.

Brokamp: Retirement is the number one financial goal for most Americans, and the most common way that Americans are preparing for retirement, according to the Federal Reserve, is by contributing to a defined contribution plan such as a 401(k). It would be pretty helpful to know how much Americans have managed to amass in these accounts and, more importantly, if it is enough.

Well, one company that is particularly well-positioned to answer those questions is Fidelity Investments, which administers 17 million 401(k) accounts across 23,000 plans that collectively own $1.84 trillion in assets. A lot of money.

Southwick: That is a lot of dough-re-mi.

Brokamp: That's right. And here to share some of the firm's insights is Jeanne Thompson, head of workplace solutions thought leadership at Fidelity. Jeanne, welcome to *Motley Fool Answers*.

Jeanne Thompson: Thank you. Glad to be here.

Brokamp: Let's start with the question of how much people need to save for retirement. Fidelity has published research that provides some age-based guidelines as a multiple of household income, so let me go over those very quickly.

According to these guidelines, someone who is 30 should have saved an amount that is one time their income, so if they make $50,000 a year they should have $50,000 in their 401(k) or IRA or whatever they're saving. Those factors jump to three times income by age 40, six times by 50, eight times by 60 and then 10 times by retirement assuming a retirement age of 67. Those are the guidelines. Why don't you tell us a little bit about what's behind those numbers?

Thompson: Sure. When we started to think about creating guidelines, we really wanted to understand how much people needed to consume in retirement. So you start by looking at their pre-retirement income. At the end of the career, if someone was making $100,000 are they going to need that $100,000 annually in retirement? And we call that *income replacement rate*.

We found that most people need between 55-80% of their income in retirement. Now some of that will come from Social Security, and that really depends. If you're making around $300,000 Social Security is probably only going to replace 10% of your income, but if you're making a lot less, like $50,000 it's going to replace a lot more.

So when we looked at how people are consuming their assets in retirement, we found that across incomes from $50,000 to $300,000 most people needed 45% income replacement rate of their pre-retirement income for retirement.

Brokamp: And that 45% is what's coming from the portfolio and Social Security is making up the rest of that difference.

Thompson: That's exactly right. So across all of that income range, $50,000-300,000, 45% was a common asset-based income replacement rate with Social Security covering the rest. That's where we started.

When we realized that most people are going to need 45% income replacement rate, we said, "How do we get them to that replacement rate?" And so we did the math and found that if you start at age 25 and you save a total of 15% of your income, it will put you on that path to replace 45%. But for most Americans the income replacement rate is kind of complex. We wanted to find a way to take that number and distill it, and that's where we came up with the multiple of income and then broke that down to age-based guidelines.

Brokamp: And that 15% also includes the employer match, right? If you get like a one-for-one dollar match in that first 5%, that means you put in 10%, the employer puts in the 5% and you hit that 15% goal.

Thompson: That's exactly right. And it does seem high, but when we look at the average savings rates today, on average (employee and employer combined), people are saving about 13.5% and that's across all ages. As you get older, you see people saving even more.

Brokamp: The interesting thing about the guidelines is the way you have it initially published is at a retirement age of 67...

Thompson: Yes.

Brokamp: ...which is, at least in terms of Social Security, the full retirement age for anyone who was born in 1960 or later. The truth is that most people in America, at least at this point, are retiring sooner than that and if you read into the report, you provide a little more granular information on that.

For example, you say that if you retire at age 62, you have to have 14 times your income. If you retire at 65, you have to have 12 times. So I think that's very helpful, but what's particularly interesting about that is not only do you have to have more saved, but the sooner you retire the smaller your Social Security is going to be, which means more of your income has to be replaced by your portfolio.

Thompson: That's exactly right, because you're going to be in retirement longer, working less, so save less; so, the amount that you need to replace is much higher. And people that are retiring at 62 and 63 also have to account for healthcare, because healthcare is going to be one of the biggest expenses that people have in retirement and for many people, Medicare doesn't kick in until 65 and many don't have retiree medical. Even if they're taking an early retirement from their employer, they may not have that retiree medical figured out. So they're going to need potentially even more than if they waited until they were 65.

Brokamp: And I'll just point out, too, that in the guidelines it says if you wait until age 70, you only need eight times your income...

Thompson: That's right...

Brokamp: ...to retire. I often say on the show 70 is the new 65, especially for the people who are not saving enough just waiting until age 70 to retire is going to do wonders for your retirement security.

Thompson: That's right. It's hard to think when you're young that you're going to be working until you're 70, but we find in a lot of our research that we've done with the Stanford Center on Longevity that oftentimes people want to stay a part of society. They want a community. Maybe not in their main career; but, working part-time or going to a different type of job is a great way to build that transition. We're not saying you have to stay in the same career where you might be stressed out or burnt out, but you can make different choices as you get closer to retirement.

Brokamp: Early last year MarketWatch did an article on these guidelines and then sent out a tweet. The tweet said, "By 35 you should have twice your salary saved, according to retirement experts." Well, that got a lot of people riled. A lot of outrage from people saying, "How could I possibly do this?" Do you even know any real people? A lot of snark. The hashtag #by35 became a thing.

Thompson: Yes.

Brokamp: What's your take on that and Fidelity's take on it, in general?

Thompson: Well, there's lots to say, there. I think the first and most important thing is that it started a conversation. When we created these guidelines it was really about engaging people, because the biggest question we always get is "how much do I need to save" and before that we would say, "Well, you need to replace 85% of your income" and that's not a good answer. And so the goal of this was to give a simple rule of thumb.

If you're 35 years old and making $50,000, the guideline is telling you that you need $100,000 saved for retirement. But again it's a guideline. Just like the doctor tells you to exercise five days a week and eat five servings of fruits and vegetables -- I don't do that every day, but I'm sitting here before you having this conversation and I'm probably pretty healthy.

So it doesn't mean if you're not at the guideline that all is lost. There's a lot that you can still do and everyone's situation is different. We have a lot of planning tools and there's tons of people out there that can help figure out your personal situation. But the first step is to get people even interested in talking about it.

Now from a millennial perspective, we see that many people are coming out of college with student debt. They have credit card debt. They're sometimes delaying marriage because they don't have the money for the wedding. They don't have the money for a house. We understand that it's not that easy to get there, but I will say when we look at millennials and we look at the average balance for a millennial that's been in a 401(k) for 10 years (so say from 25 to 35), the average balance is $135,000 and the average income is $62,000.

Brokamp: That's pretty good.

Thompson: Yes. So on average, people are getting there. Now, not everyone. With an average there's people on either side, but it is doable. And what was really interesting about the social media firestorm around this is that you had two camps. You had people that said, "That's what it's going to take and you should be aware," and then other people said, "I could never get there." I think this is why a lot of employers are now starting to focus on financial wellness and really putting in programs that not just talk about saving and investing, but debt, budgeting, and protection. Emergency fund is a hot topic for us, too.

Brokamp: Those are the guidelines.

Thompson: Yes.

Brokamp: That's where people should be.

Thompson: Yes.

Brokamp: What's the information that you have [as to] how well people are doing in terms of meeting those guidelines?

Thompson: When we look across and see how people are meeting those guidelines, it's about 50% of the people are doing well. Of those, 32% are on track and the other 18% are close and if they made one or two tweaks, they would probably get there. The other 50% -- there's 28% that need attention and there's probably five or six things that they might need to do to get back on track. And then there's about 22% that are fair. So it's sort of fifty-fifty, I think, in terms of where people are at. And then within the averages, there's different things that they can do to get themselves back.

Southwick: Are we talking purely with Fidelity account holders or is this a broader survey that you guys did of everyone in America?

Thompson: This is based on a broader survey of everyone that we did in America. When we look at our 401(k) accounts, it's very possible that people may have old 401(k)s with someone else or IRAs, so this survey looked at how people are doing against the guidelines.

Brokamp: So that's pretty much in sync with a lot of other research, for example, the Center for Retirement Research at Boston College. Their evidence is that basically about 50% of people are on track to retire at their current lifestyle. The other 50% are going to have to cut it back. If they wait until age 70 to retire, 90% will be on track. So again, it gets back to if you just put retirement off for a few more years, you're probably in good shape.

Thompson: That's right. And when we looked at our data from our survey -- when we looked at people that wanted to retire at 67 -- more were on track. If you look at the people that want to retire at 65 or 62, all of a sudden there's a lot more that are off track. That retirement age -- and I know you are a big believer in this -- makes a huge impact on how much money you'll have.

Brokamp: One thing that Fidelity does is a little bit of research on the folks who are doing things well, like the 401(k) millionaires...

Thompson: Yes.

Brokamp: ...so the people who do have $1 million in their 401(k); what are they doing right?

Thompson: So to some extent they're basically following what it takes to reach the guidelines. They're starting early. They're saving a lot. Taking full advantage of company match. For the most part, especially when they're young and investing for long-term growth they held, on average, 75-78% equity in their 401(k). They don't cash out when changing jobs. They typically don't take 401(k) loans or hardship withdrawals. They get in, they stay in, and they save as much and invest for that long-term growth.

I will say it takes a career for many people to save to get there. On average, it's about 27 years to reach that status, but there's limits to how much you can put into a 401(k) and that restricts how quickly you can get there. But we looked at people who make even less than $150,000 and over the course of their career they were able to get there.

Brokamp: That's great. One topic that you touched on previously -- one of the biggest expenses in retirement and one of the few that actually keep going up throughout retirement -- is healthcare.

Thompson: Yes.

Brokamp: And for several years Fidelity has published an estimate of how much retirees need to have saved to cover medical care. What does the latest report have to say about that?

Thompson: The latest report says that for a couple who's retiring today at age 65, they would need $285,000 to cover their medical expenses. On average, we estimate about 15% of your retirement income will go toward healthcare expenses. But when you break that number down, the $285,000 that's needed, between women and men it's different. For women, it's $150,000 for an individual woman retiring today. That's how much she would need to cover and for men it's $135,000. And the big difference, there, is longevity.

Brokamp: One of the things that you highlighted or one of the Fidelity reports highlighted is basically ignorance about Medicare. When we're working we're all used to our employer choosing our medical plan for us and we just go with it, and if you have a good plan, most of your expenses are covered. And then you get to retirement. You have to [decide] which Medicare you're going to choose, and a lot of things are not covered. Eyewear. Dental care. All kinds of things I think people assume Medicare is going to cover are not actually going to be covered.

Thompson: No, that's true. And the other thing that a lot of people don't realize is that you actually have to pay for Medicare -- that there's Medicare premiums -- and that oftentimes, on top of Medicare you may want supplemental insurance, as well. And so factoring in the cost of those premiums, cost of prescription drugs, and cost of co-pays is all part of what makes up that $285,000.

Brokamp: One way to prepare for these healthcare expenses is by taking advantage of health savings accounts, which are becoming more widely used these days. What's your take on those?

Thompson: Health savings accounts are available to people who are in a high deductible health plan. Just like your car insurance, you can choose to have a $500 deductible with your car insurance or a $1,000 deductible. Many employers are moving to these high deductible plans where the deductible for the year may be $3,000. So with that employers can offer a health savings account. The benefit of that is you can save in that. Your premium is potentially lower so you're not paying every month, say, $300 a month for healthcare. Maybe it's only $100. You can take that difference and put it into an HSA. So it goes in tax-free, grows tax-free, and comes out tax-free. It's a triple-tax savings benefit. And unlike a flex spending account, you can actually roll it over, so you don't lose it at the end of the year. And if you have any money left at the end in that account, you can actually invest it in mutual funds so it can achieve that long-term growth.

Brokamp: That's actually an interesting point and something that I learned by reading one of the Fidelity reports, is that most people actually aren't doing that. That stat I read was that more than 91% of Fidelity HSA-funded account holders held all of their savings in cash. Now on the one hand I would say that makes sense. Any money you need in the next few years should be in cash. You don't want the market to drop 50% and then you need to cover some medical bills. On the other hand, once you've built up some of that money, it does make sense to invest some of it for the longer term.

Thompson: Yes. We suggest that if your deductible is $3,000 you can keep that amount in cash. Or whatever your anticipated health expenses are for the coming year keep that in cash because it's short term and you may need the money. For money that you haven't spent in a given year, that's the money that you can start to invest.

And for someone who's young, typically we see a lot of people don't get into their employer health plan until they're over 26 because they can stay on their parents' health plan and many opt into that so they use that money for student debt and things like that. But if you're 26, 27, or early 30s, single, and independent you can put $3,000 into that health savings account every year.

If you're only going to the doctor for a well visit once a year, you're probably not going to tap into that and if you're, instead, in like a PPO or HMO and paying a high premium, you're almost over-insured. And so you're better off, actually, going for the high deductible while you're young and healthy, putting that money in and then you have 20 or 30 years of growth.

When your kids are young they do go to the doctor a lot, so you'd have built up that cushion and it depends. I'm in a high deductible myself. Some years we hit it by March. My son broke his arm and then there's all kinds of things and that was the end. And then other years, you don't touch it at all. So I think it ebbs and flows, but over time it is a long-term play. If you need the money for healthcare current, you should; but, if you have the opportunity to save it for the long term and invest it for the long term, that's definitely the way to go.

Brokamp: You highlighted that women should have more saved to cover healthcare in retirement, and I think that highlights something very important and that is retirement planning can present more challenges for women. I'll just cite a few of the unsettling stats.

According to the National Institute on Retirement Security, income for women age 65 and older is 26% lower than men, and women are 80% more likely to be impoverished in retirement. One stat from Ellevest that I read is that women make up 56% of college students but owed 65% of the total student debt. What's your take on that? What's a woman to do given that there are some unique challenges?

Thompson: I think the biggest thing they can do is pay attention to where they're at. Especially women that are either married or in a partnership [the best thing] is not to disengage from their finances. Because if you don't know what's going on -- if something was to happen to a spouse or partner or if at that point years have gone by -- it's really hard to get in the game, especially if they're no longer there. I think that's one of the most important things, is to stay engaged and keep tabs on it. There's so much free help available to people.

I do think part of the challenge for women that makes it harder is they come in and out of the workforce when they're young. Even myself, as an example. I stepped out for a few years when my children were young. [They may] go through a divorce. If they suddenly have to take care of aging parents oftentimes some of that falls to the daughter. Not only do they take care of the parent, oftentimes they may have to become trustee or power of attorney on their assets, and so not even knowing how to manage their own and now all of a sudden they have their parents. It's very important for them to stay engaged.

Brokamp: According to the Social Security Administration, the average woman spends 12 years outside of the workforce taking care of kids. Taking care of parents. Sixty-one percent of caregivers are female and it is usually the oldest daughter.

Thompson: Yes.

Brokamp: Another issue is that in most married couples the wife is younger. The husband retires. The wife feels like she should retire, too, but she may be retiring too soon.

Thompson: Yes, retiring too soon. And then depending on when the husband retires; again, that healthcare piece comes in and oftentimes it's just such a longer time period for her that she has to have more saved.

Southwick: Can you talk a little bit more about the research or what Fidelity has come to understand when you're reaching out to people who aren't as involved in investing in their 401(k)? Women? People who are from other cultures?

Thompson: A lot of it comes down to the messaging and the framing. We have behavioral scientists on the team and we're starting to do some a/b testing where, when you're talking about numbers, does it work better if you use a percent, a number, or you just words and say "half the people," versus "one out of two" versus "50 percent." We can start to understand how language changes.

Because we do find in certain cultures if we focus on "self versus family," we get a very different response rate. So if we say that it's really important, Robert, for you to save for the future because it will help your family, versus you should save for the future because it's going to help you. When we look at Asian and Hispanic cultures focusing on the family, we get much more of a reaction than if we just focus on [self]. So we're looking at things like numeracy. We're looking at self versus family. We're looking at gain versus loss. And then the last one is time horizon. Do it today because it's important versus do it today because it will help you in the future.

When you think about trying to reach women versus men, it's not about dumbing it down or putting pink on it. It's about using language that will resonate with their mindset -- their state of mind -- and how they see the world. And it's not just about women versus men. It's about engaging people of all different cultures and all different ages.

Southwick: At The Motley Fool our big focus is investing, and buying great stocks, and you can beat the market. There's a lot of language in there that's very competitive and *grrrr* and very alpha male. Get in there and buy this stock and it's going to go through the moon.

Brokamp: And keeping score.

Southwick: And keeping score. That's all fine. Keeping score is important. Being transparent. All these things are important. But I can understand as a woman -- because I am one -- if I see these ads that's just not what I'm here for. I'm not here for that.

Thompson: And if they took that same idea and reframed it in a way that was meaningful to you, you could get the same message and maybe take the same action. It's just how it's positioned is very different. So we're doing a lot of work in that space to not only engage women but people of all different cultures and backgrounds.

Brokamp: To go back to a previous topic since you mentioned behavioral, I think one thing that you are learning at Fidelity and (and probably other places [are learning], as well) is how important it is to nudge people to do the right thing. The biggest example of that is auto enrollment and auto escalation into the 401(k). Because if you just leave it to people to sign up on their own, [there's a] much lower participation rate, right?

Thompson: Yes. I would say before the big advent of target date funds (most employers use a target date default fund), people were either 0% equity or 100% equity. And today 50% of people are on their target asset mix because of target date funds and getting defaulted into them and 75% of millennials are 100% invested in target date because of the default. And participation rates in plans that have auto enrollment are like 85%. Plans without auto enrollment, it's 50%. That type of behavior -- making the decision and having to opt out -- has gone gangbusters.

Brokamp: Yes.

Southwick: Is that a growing trend? That more and more companies are auto enrolling? We don't auto enroll here, at the Fool.

Brokamp: Yes we do.

Southwick: We do?

Brokamp: Yes, we do.

Southwick: Oh, so we do have a very high participation rate, but there are very few people that opt out.

Brokamp: Yes. At the Fool it's a 93% participation rate, so 7% of the people have opted out, or they were here before we had auto enrollment. It's relatively recent...

Southwick: Can you imagine someone being here before we had auto enrollment? It's hard for me to understand how you can work at The Motley Fool and not be enrolled in our 401(k).

Brokamp: Oh, let me tell you. And I'm saying this just because I want everyone to know that even if you work at The Motley Fool you're not perfect. We all make mistakes.

Southwick: We all make mistakes.

Brokamp: When I first started at the Fool, we didn't even have a match, believe it or not. And then the first match was like fifty cents on the dollar up to 6% and then we moved it to 8% and 9%. But there were people who had signed up and gotten that 6% and then were like, "Oh, I'll go to 8% or 9% eventually," and they never did. Which is then why we eventually did auto escalation, so it will get you up to the 9%.

It's not because people are ignorant. It's not because they're horrible people. It's just time. It's not often the number one thing on your list of things to do. It's easy to put it off. I think the more companies, like The Motley Fool, that can push you to do the right thing, I think the better off you're going to be.

Southwick: Often on this show, a certain somebody will talk about how if you don't like what's being offered in your company's 401(k) you should lobby. Try to talk to your plan provider. Do you have any examples of people where they've actually been successful in changing what they're being offered and getting better options?

Thompson: Many plans today have a brokerage window or a self-directed brokerage option. For most 401(k)s, these are working Americans out there. They don't have a lot of time to look at fund lineups and stock picks and all that, so the employer curates the set of mutual funds for them. If they're a big-enough employer they may have company stock.

But then there's something called a brokerage window or self-directed brokerage where you can go in, essentially, to the window and then you have everything available on the open architecture platform. I think that's the way a lot of employers have gotten around that.

Now I would say among the 401(k) investors that we have, not a lot utilize that, but we do have a small set of active traders within the 401(k) that do utilize it and that gets around having to add 50 funds to a fund lineup that might overwhelm the majority of the investor base.

Brokamp: We're almost out of time, here, but there's one thing I wanted to touch on that's a little off topic, but I thought it was interesting when I learned about it and that is Fidelity is among the minority of employers that offer student loan assistance and you also offer it basically as a service [where] other companies offer it as a benefit. Do you see this is a growing trend, or do you think this will mostly be just a handful of companies that are helping out kids who just came out of college?

Thompson: Every year we do a survey with the National Business Group on Health for employers and in that survey 30% said that in 2019 they already offer the benefit or are planning on implementing it in 2019. Another 50% are thinking about it for 2020. I do think attracting and retaining millennials is such a top priority for many employers that if that's a key demographic that they want to reach, we will see more of this.

Today 70 employers have adopted the student loan benefit and we actually just did a release. Raytheon and Travelers are two of the biggest companies that just adopted it. So I do think it is going to be a growing trend. Especially if they have an aging workforce and need to replace that talent with young talent, it's a key benefit to keep people there. Many employers were saying they found millennials who would change jobs just for an extra thousand dollars in pay to pay off their student debt.

So providing this benefit has been a great [thing]. And even within Fidelity's employee base who they offer that to, it's really helped with attraction and retention.

Southwick: What does a typical benefit look like in this case? How is it structured?

Thompson: The way that Fidelity structures it is you can get up to $10,000 over five years, but it's strict in the fact that you're just not given the money and it's assumed that you're going to pay. It goes directly to the student loan provider toward the principal. The employee still has to pay their monthly so it helps them pay it off faster and reduces interest payments.

Brokamp: I think it's time to wrap things up. If you, dear Answers listener, would like to read any of Fidelity's extensive library of research for yourself, visit Fidelity.com/viewpoints. Jeanne, thanks for stopping by. This has been great.

Thompson: You're welcome. Yes, this was great. It was really good to be here.