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Prevailing Wisdom Says You Don't Save Enough ... Don't Believe It

by

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Yes, you're saving too much for retirement. But isn't that counterintuitive in today's uncertain world, where more is never enough? No, because there's some powerful new research to prove it.

Yeah, I know, you're going to insist on telling me why you really need a million bucks invested at 6 percent to generate \$60,000 annual cash flow in retirement. But I already know why: Because that's what all those fancy online financial calculators tell you, right? Oh, wake up, a sixth grader could calculate that number without breaking a sweat.

Warning, you're being hypnotized: Wall Street insiders, bankers, brokers, advisers and their buddies want you to pile up assets. Why? Not for your own good, but because the more securities you own, the more money they make in fees! Get it?

This ingenious game caught fire in the mid-1990s when Wall Street began a historic revolution:

First: [business](#) model. The 1995-96 SEC's Tully Commission articulated an industrywide strategic shift from cyclical commission income to a more stable fee-based business model. Shortly afterwards **Goldman-Sachs** released its famous report on financial industry mergers and consolidations. Tully was also Merrill's CEO. In 1998 I interviewed one of Merrill's top lieutenants who said the company's business plan called for a doubling of assets under management within five years. Second: ethics and image. Simultaneously, Wall Street was under pressure to clean up its act. Studies revealed "brokers" had the ethics of used-car-salesmen. So Wall Street's gave "brokers" new name tags, as "advisers" managing assets.

As a result, Main Street is now in a no-win situation. Jack Bogle's famous "Iron Law of the Markets" puts this assets-based monster in context with his new "Little Book of Common Sense [Investing](#):" "Trying to beat the stock market is theoretically a zero-sum game (for every winner, there must be a loser), but after the substantial costs of investing are deducted, it becomes a loser's game."

*Bogle has had a consistent solution to the "Iron Law" dilemma for three decades: "The simplest and most efficient investment strategy is to buy and hold all of the nation's publicly held businesses at very low cost. The classic index fund that owns this market portfolio is the only investment that guarantees you with your fair share of stock market returns." We've put this strategy into action with our lazy indexed portfolios.

Unfortunately, Wall Street understands the "Iron Law" better than Bogle! Wall Street knows it cannot charge big management fees off low-cost index funds. So Wall Street is relentlessly hypnotizing investors into believing that actively managed funds beat the indexes even though about 80 percent fail to do so, largely because their average expense ratios are 10 to 15 times the fees charged by index funds.

New [research](#) challenges online calculators

In other words, Wall Street and friends have a substantial unstated self-interest in encouraging you to invest more than you need for retirement. I've been making this argument for years and finally it's being documented in research by economists who also aren't buying into Wall Street's hype.

The leader of this counterintuitive challenge is Larry Kotlikoff, a Boston University economics professor and co-author of "The Coming Generational Storm," an analysis of dire solutions necessary to cover future unfunded Social Security and Medicare benefits. His co-author is financial columnist Scott Burns of the Dallas Morning News. Kotlikoff's research says investors should focus on income while working to figure out retirement needs.

Saving too much? You bet. A [New York Times](#) review of Kotlikoff's numbers "showed that Fidelity's online calculators typically set the target of assets needed to cover spending in retirement 36.4 percent too high. Vanguard's was 53.1 percent too high. A calculator offered by TIAA-CREF, one of the largest managers of retirement savings, was 78 percent" higher than the calculations generated by Kotlikoff's ESPlanner.

As expected, they were quite defensive about this challenge. The Times says: "The financial-planning industry prefers to characterize itself as cautious. William Ebsworth, chief investment officer of Fidelity Investments' Strategic Advisers division, which runs retirement programs, said, 'We take a very conservative approach,' preferring to err on the side of having money left over at death rather than risk running out before then."

While their reaction is understandable, it's a diversion: They fail to deal with their own conflict of interest and motives in overstating assets needed in retirement.

So let's repeat it again: You are unnecessarily investing too much of your hard-earned money into too many assets for retirement. As a result, you're sacrificing too much of the present, under the highly questionable and misleading assumptions about piling up excessive savings for an uncertain future.

In [planning](#), forget assets, focus on income

Conversely, Burns tells me that "most people are actually better off than they think because they've never lived at the 70 percent to 85 percent of preretirement income living standard that conventional financial planning espouses. And the reason is simple: if you have a family, having children is a long-term suppressant on your adult standard of living."

The fallacy with Wall Street's logic is also simple: They focus on assets, the exact same strategy Goldman-Sachs, Merrill Lynch and Wall Street's insiders have been focusing on since the mid-1990s. Why? Because it's making billions. Between 1995 and 2005 this strategy has roughly tripled assets under management for Wall Street and mutual fund firms, according to the Bogle Research Institute, with annual revenues also tripling to over \$350 billion by 2005, while returns to Main Street investors have actually declined in the past decade.

So please, forget assets. Here's another example to prove our point: Suppose you retire from government or corporate life, with a pension generating \$60,000 annually, with no assets! Ergo, those silly asset-based calculators are misleading. I encourage you to go back and review our earlier, detailed example of the elements included in an income-based formula.

Focus on income: Pensions, **Social Security**, **IRAs**, and a new career, business or some part-time work. And remember, savvy families also quietly build wealth in home equity. Pay off the mortgage, live debt-free. Downsize. Maybe cut costs moving to a cheaper region. Go for a reverse mortgage. Be creative. Add up these pieces of income and you'll see how to reach whatever you need to live comfortably in retirement.