EPISODE 468

[INTRODUCTION]

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FT: You're listening to So Money everyone. How are you doing today? I'm your host Farnoosh Torabi and the topic today, the buzz word is retirement, the R word. How's your retirement portfolio going? More importantly though, how do you save for retirement if you don't have a lot of money and your employer doesn't offer a retirement plan like a 401(k)? Apparently that is many of us currently in the United States.

So today's guest, Richard Ludlow, is the executive director of the myRA Program within the US department of treasury and he's here to share more about this particular program and how it can help to serve millions of Americans facing this debacle. MyRA is a relatively new retirement strategy, you may have seen some headlines about it. It stems from the US department of treasury and it boasts no fees, no minimum contributions, and ultimately it aims to lower barriers to saving for workers with zero access to a workplace retirement plan.

Richard himself has experience as a founder and executive in Silicon Valley where he managed the launch and growth of many new initiatives in both the education and healthcare sectors, he's a graduate of Yale and a Harvard business school and now he's working for the government, how is that impacting his finances and how's his retirement plan going? We get a little personal as well with Richard but more importantly, some great advice from Richard about how to save for retirement when you really don't have a lot of resources and the future of the myRA Program.

Here is Richard Ludlow.

[INTERVIEW]

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FT: Richard Ludlow, welcome to So Money.

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RL: Hi Farnoosh, it's great to be here.

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FT: Thank you. So today's show is going to be a little bit different than our typical shows. Normally we have guests on and we dive deep into their financial lives and maybe you'll reveal a couple of things about yours but I think it's more important, since we have you and as you are really at the helm of a very important new government program to help Americans arrive at retirement with more financial security, that we talk about retirement. This is a huge problem, it's not really something that I would call a bright spot.

When it comes to personal finance planning, we know that millions of Americans have very little to nothing saved for their futures and I even get calls in from people who listen to this show and my audience is, I like to think, well prepared for life's unexpected twists and turns. It's still a work in progress for a lot of us and even if we do have a few hundred thousand dollars saved which is not an insignificant amount of money, there is a lot of insecurity around retirement and how much we'll need. There are a lot of unknowns, whether it's healthcare costs, social security of course, it's a big Google search term this days.

But Richard, let's talk first about not a solution but some service that the government is providing around this problem? This is the myRA Program that we're talking about which was a relatively new initiative announced in 2014, president Obama announced at the state of the union and it was launched officially November of 2015. Tell us about myRA because I think still many of us don't know about it or if we do, we aren't sure about how it works.

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RL: Sure. So, as you mentioned, so many Americans haven't saved enough for retirement. Among those are Americans who haven't saved anything at all. It turns out that one in three working Americans have not begun saving for retirement at all, have absolutely no retirement savings. So the administration wanted to see, what can we do to help make it easier for people who start saving? What's getting in the way of individual saving?

It turns out that the most frequent way that people save for retirement is through an employer based plan like a 401(k). But 40% of workers actually don't have a plan like that. It could be part time workers or a small business employees, retail workers, they often don't have retirement plan at work and those individuals are less likely to start individual retirement accounts. And one of the reasons for that is that there are barriers to first time low dollar savers getting started. A lot of brokerage accounts have minimum balance requirements or fees that can be pretty substantial for a low balanced account.

A lot of first time savers are intimidated by a lot of complex investment decisions. So myRA was designed to be a simple way for individuals like that to start saving for the first time. So the government created a Roth IRA that has no fees, no minimum balance requirements, and offers a single, safe principle protected investment option for those individuals who are saving for the first time, to build up a balance and then as they grow their balance, hopefully expand on to other retirement vehicles.

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FT: Right. So this is a plan that I believe once you hit about $15,000, you have to then roll it over into something else, maybe an institutionally managed account.

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RL: Yeah, and so at that point you've got a lot of great options in the private sector. You're beyond the minimums of just about any brokerage account. Really, we plan to start educating people and reaching out well before they reach $15,000, letting them know about different options and that you should consider lifecycle fund or more diversified options. But that $15,000 is just to have a hard stop to reinsure that this is really designed as a starter account for people.

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FT: How do you get access to the myRA?

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RL: Individuals can go directly. It's available at myRA.gov and then anyone who setup an account and people can choose to find it through payroll direct deposit or by making contributions through their checking or savings account. So most people choose to do a recurring contribution once or twice a month and many small businesses that can't afford a plan are promoting it to their employees but it's totally individually based, not tied to your employer so therefore of course completely affordable if you switched jobs or have multiple jobs.

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FT: The community for this, the eligibility for this is widespread. So I think I read it that, half of all workers almost will qualify or 75% of part time workers, those are the folks that will probably be eligible to open a myRA and just to let people know the household income threshold to qualify for this, you have to be making less than a $191,000 a year. I believe that this was a program that had a lot of, there's a lot of hope for it that it was going to be a no brainer, how is it going? Are people really adopting this?

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RL: Yeah. So, as mentioned, we really just went public on last November 2015, we have more than 10,000 savers so far and growing every month. What's really encouraging is, it's seeing the savings patterns that people have. So the vast majority have set up recurring contributions that are $50 to $100 a month. So that suggests that we really are reaching this first time savers that likely don't have the savings built up to start traditional brokerage accounts. As I mentioned we're very early in the program's life and we're working with a number of partners to get the word out there and hope over the years to realize substantially.

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FT: What do you think is really driving the issuer of people not having enough for retirement? There's probably a variety of circumstances that are prohibiting people but what do you think are the main problems?

[0:08:47.9]

RL: Yeah, obviously there are some people in really tough financial situations that aren't in a position to put money away at all. As we were researching this program, we saw that there are also, of the tens of millions that aren't saving, there are tens of millions, a large percentage that do make enough, they could put something away. One of the barriers or one of the things is that because they don't have a program at work, they aren't directly prompted to do so by anyone.

Then the other issue that I mentioned was that maybe they do think they want to open a retirement account and then they look at a brokerage account, look around and see that there is a minimum of, it's often a thousand dollars or there are fees and if they're just starting to save for the first time and want to start putting away small amount, those can be prohibitive. So we wanted to create something where there was, if someone was motivated and they found out and decided they wanted to take steps to start saving that there would be as few barriers as possible for them to get started.

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FT: I'm sure you get a lot of questions about social security, what's your take on that? Can you give us some insider scoop on that? Maybe from the trenches, can we bank on this for millennials today if you're in your 20's or your early 30's, is this something that you can still rely on?

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RL: Well, I'd say it's funny that that actually kind of works to the advantage of retirement savings and a lot of millennials don't think it will be around for them. So that actually gives them more of an incentive to save, but if you talk to people who really know it well, talk to the secretary of treasury, social security will need some reforms but it's much more of a secure position than a lot of people think.

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FT: Yeah, I totally agree, almost imagine that it's hope for it but don't plan for it and in that case you'll be more, you'll have more control over your own security in retirement. Maybe lets talk a little bit more about the details of the myRA in terms of how it works. So it was established to be like a Roth IRA but I guess the advantage is that the money, your principle never gets lost so it is "guaranteed money".

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RL: Yeah, since you're investing in US treasuries, they're generally considered to be the safest, almost the safest investments possible. You're not taking on market risk and while in the long run, obviously it's best to take on some risk and to have equity in your portfolio as you're saving for retirement. But when we did our research and looked first time savers, many weren't interested in taking a risk when they're saving for the very first time.

In scenarios we would see that if people would start saving and then see their initial savings go down, that might discourage them from continuing to save. Once people have built up a balance of a thousand, $2,000, they have that cushion there, then they're much more open to having some risk and the upside that is associated with that. So the goal here is to give people a completely safe way to get started.

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FT: Your background, you went to Yale and Harvard business school, you are very connected with Silicon Valley, in your work experience and in studying maybe human behavior and how it correlates to money and saving, I don't know if your work has taken you in those directions but do you think that a program like this behaviorally works well for us? Because I think one of the, we talked about barriers earlier, it's resources, it's access to saving for retirement. But a lot of it just we don't have the desire to save sometimes. We'd rather live in the now, this idea of retirement being 30, 40, in some cases nonexistent for some of us, we feel like we're going to work forever, what's the point of saving? How does this program help close that barrier?

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RL: Yeah, I think that's one piece of the puzzle and so it's a very good fit for those individuals that in our research shows have the means to save for retirement actually might even feel guilty about it and just need to hear that something like this exist. It's great to get the word out and then we see that the more people that hear about it, the more people to sign up.

As I said, it's just one piece of the puzzle so now not many states are starting to take legislative action to create retirement market places or to create programs that would default individuals and to retirement savings and give them the ability to opt out. So I think it's going to take many different actions for that to help close this gap and savings from what people will need to have a sound retirement and what they're doing now and we're just one piece of that.

[SPONSOR BREAK]

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FT: We all work hard and we deserve a good night's sleep. I've told you about the Casper mattress before, it's the mattress Time Magazine named one of the best inventions of 2015. Casper is something new to the mattress industry, a brand sold directly to consumers. What does that mean for you? It means you can get the Casper, an obsessively engineered mattress that's made in America, at a shockingly fair price and it's comfortable.

Casper combines springy latex and supportive memory foam to create an award winning sleep surface with just the right sink and just the right bounce. Casper ships directly to you for free in the US and Canada, returns are free too. They make it really easy to try the Casper. You can try for 100 nights risk free in your own home and if you don't love it, they'll pick it up and refund everything.

If you go to casper.com/somoney and use my code “So Money”, you’ll even get $50 off any mattress purchase. So rest easy and try Casper today for 100 nights in your own home and get $50 towards any mattress purchase by visiting casper.com/somoney and using my code “So Money”.

[INTERVIEW CONTINUED]

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FT: In developing this program, who consulted you or who consulted the treasury? Maybe you had meetings with private sector, because you ultimately want to be able to create a program that makes everybody happy.

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RL: Yeah, this was many years in the making and actually it was developed before I was working with the treasury and so they certainly saw an input from a very broad base stakeholders including many private sector firms, financial institutions and one of those points of input was seeing, at what point would somebody have built up enough savings that they would be a very attractive customer, kind of regardless of any other circumstances? And that’s why the maximum was set at $15,000 rather than something lower.

There was input from economists, from the private sector, from labor to come up with a program that works for people without really being competitive with private sector offerings. I think one of the great things about this is that it’s going after individuals that likely wouldn’t otherwise be saving in other retirement vehicles in other brokerage accounts but a lot of them develop those savings and actually become a part of the private sector offerings.

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FT: Yeah, and these days with a lot of automated platforms to help you manage your money, whether it’s Wealthfront, which is a sponsor of this show or Betterment or the others, I think, we have now more ways to save you even more when it comes to choosing our investment strategy, we don't have to go and pay high fees. If we don't want to afford it with a financial adviser, we can use something automated and save significantly that way.

Do you feel like you have enough saved for retirement? How do you define that? How do you go about figuring that out?

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RL: Yeah, well once you take a job like this, you certainly are motivated to become educated about what you need. I was actually very fortunate that my dad, a few years or when I was still in high school, gave me the book, *The Richest Man in Babylon* and I don't remember most of the book even though it's really short but the one key point was always save 10% of what you earn and that can become hard to do once, you know, if you don't start that way. But after business school, I adopted that and just paid myself first and have built that in to my planning and I think that, I feel like it's putting me in a good position to build up what most people recommend would be a good amount for retirement.

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FT: What brought you to this role? I'm looking at your LinkedIn right now, I'm doing a little — I'm cyber stalking you right now Richard. We mentioned your academic credentials but also you are a founder in several startups, including The AltSchool, which we just had one open up in Brooklyn not too long ago, Academic Earth. So what drew you to government?

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RL: Yeah, the common theme and everything that I worked on is generally been new startup initiatives where you're trying to make a difference in people's life. In education and done some work in healthcare and with myRA, it's basically running a startup within the federal government. Once again with the goal of making a positive difference in people's lives. It was a great opportunity to use the background that I had and working on web products and reaching people through the Internet and consumer marketing while tapping into the resources of other federal government and kind of having a completely new learning experience but having the chance to potentially make a difference at a very, very large scale.

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FT: Which also brings up the question of, since we do live in an age where Americans were not necessarily working that one job for the rest of our lives or even a few jobs, we're stringing together jobs, there's the gig economy, we go to one place that doesn't have a retirement account, then we go somewhere that does, we dabble in entrepreneurship. We're kind of all over the place when it comes to our careers, and so how do we continue to maintain a consistent investment strategy for retirement?

Because sometimes the money is very volatile, the income is very volatile and I'm asking you because I think you might have some personal experience with this as someone who, for a while, was entrepreneurial. Now you work, and I hope that the Obama administration pays its staff well with enough to save for retirement. The idea being that you're zig zagging a little bit and you're going where opportunity speaks but maybe it's not always the same game when it comes to your access to retirement savings.

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RL: Yeah, so despite saying that I followed that 10% rule after business school, I definitely made a mistake coming right out of college but not saving, really not at all and I started a startup right out of college and like most early founders, wasn't paying myself that much and I had the attitude, "Well, I'm making less than my market salary, I'll certainly be making more either as this grows or as I move on to traditional jobs, there's no real need to save right now."

I think that was a really bad attitude to take that I certainly could have found a way to save something and to be honest, because of that, I was in a really squeeze for a while after closing that startup because it was sold but the payoff was down the road and I was entering school. In retrospect, even though I wasn't making a ton, I certainly could have set aside enough for an emergency fund and even a little bit for the long run.

I think that we need to work on changing the mindset that saving for retirement isn't something you only do when your employer gives you 401(k) or a plan like that but that's just something that you set aside. That you say, "I'm going to say 5%, I'm going to save 10%," and if you're a contractor, if you're self-employed then you do need to take action yourself.

Open a myRA or open a Roth IRA and continue to do that on your own and build that up and so even if you switch the option then you can continue to grow that savings. Yeah, as you mentioned, my generation especially, they switch jobs all the time. So you're going to be in that situation often and so everyone really needs to take it upon themselves to be responsible for their own future.

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FT: Yeah, it's not just being responsible financially but also with your health because that's, I think, the biggest wild card in retirement in how much will I have to pay to take care of myself? What are going to be the unknown health risks that are awaiting me? But I think there's a lot you can do now to make sure that you're doing the best to keep yourself healthy and you're doing a lot of preventative care because that's ultimately going to be money saved for you in retirement, you're not going to hopefully need as much.

[0:23:37.7]

RL: Yeah, so a lot of people recommend that we do a lot more education in schools and in high school and in college that everyone should be taking a personal finance class and taking health class so they do think about those things. So I would definitely be supportive of that because that's going to be such an important piece of everyone's life regardless of the career path that they're going down.

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FT: So I just spoke to one of the cofounders of BarkBox, Henrick Werdelin. I don't know if you are familiar with his work? But he, what you're saying clicked with something that he told me yesterday which is that when you are out there — and we're not talking about retirement right now, we're going to talk a little bit about entrepreneurship because I have you on the phone, I think you have a lot to share. But that if you want to be an entrepreneur, you don't have to take on this ideology that "everything has to be a risk, I have to risk it all".

That you can actually have a relatively balanced life financially, emotionally, resourcefully as you're building your business and what helps is to perhaps keep that day job. Because that is going to give you the financial runway to basically dabble in something experimentally and to experiment with something. So looking back at how you maybe started businesses, what would be some lessons that you would tell the next generation of entrepreneurs or a friend who wants to start a business?

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RL: Yeah, so I think that advice to put yourself in a life situation where you do have a little bit of civility where you have a bit of a cushion, really can be helpful. It lowers the stress of entrepreneurship and allows you to make decisions that are best for your company, that are best for the vision that you're trying to pursue if you don't have to make decisions based off of your ability to pay yourself for the next month.

Some of the smartest entrepreneurs that I've talked to and I learned from and as I was writing my first startup where I think I took a pretty risky approach and then kind of reformed how I approached my next startup, some of the best advice that I got was I saw that several successful entrepreneurs described it not as taking a huge risk but as systematically working to reduce the risk inherent in launching your idea. There are a number of ways that you do that.

Building up the team that gives you a platform for success, networking with investors in advance. Having that base. Being in a — understanding what your personal needs are. So how much do you need to saved away to be comfortable, giving your family situation? Where do you want to live? Kind of thinking through all of those issues to say, "What puts me in the best position to succeed?" And then taking that same approach, being very systematic about doing the same for your company.

It's not that you'll never face challenging times and it still is a risk in some ways but it doesn't have to be as risky as many people think. It doesn't have to be a completely binary situation where it's just success or failure. I see many examples where people build companies and maybe it doesn't have that huge exit but they establish a name for themselves, they build a great reputation, they built contacts and it actually ends up leading to a positive career step following that startup, even though it wasn't the conventional startup success that the people are looking for.

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FT: I think you're absolutely right about making sure that you are, who you surround yourself with as you're building this business is so key. That you want to not just like this people but that there is a real support system there and it's easier said than done because we know that it's hard to find the right people but it is one way to mitigate risk. So what's next for you? What's going to be your next step?

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RL: Well, a lot of people that I work with are part of the administration or political appointees but that the myRA program, including myself, is largely run by people who are not political. I actually, my term is at an end when the president's term ends.

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FT: Oh that's great news.

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RL: Yeah, so I'll continue to working on growing the myRA program and most of the team will as well. Obviously there will be transitioning here in Washington and it will be interesting to see what comes but this was established to, I don't think of this is a political program at all and this is established to be something that can continue to grow, well beyond the transition.

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FT: So it doesn't have any risks of being overturned or ended abruptly, anything like that? We don't have any dramatic headlines in our future?

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RL: I don't have a crystal ball, but as mentioned, you know, I don't see it as partisan at all. I think it's kind of the most conservative possible approach to the social safety net. It's as means of nudging people in the right direction and really helping people help themselves. So I think that if we continue to work on the product and get more and more people benefiting from it that it will be here to stay and that doesn't mean it will stay exactly the same as it is.

We'll continue to, just like a startup would, to look at how do we evolve? What adds the most value compared to what else is in there in the market? How do we adapt to make the product more appealing to people? And hopefully we'll be able to continually do that over time.

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FT: Sure, 10,000 people who have signed up is great, I'm sure you're hoping for millions and so for sure your work cut out for you but I think it's a fantastic mission. I'm so glad you're going to be sticking around. Thank you so much Richard and wishing you best of luck with the program and with your career.

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RL: Great, thank you so much Farnoosh.

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