BONUS EPISODE

[INTRODUCTION]

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FT: What's your greatest financial concern? For many, the number one source of money stress stems from uncertainties around retirement. Specifically, we're worried that we won't have enough saved or that, you know what? We just can't afford to retire. Welcome to So Money everyone. This is a special bonus episode, part of a four part series we're working on with Charles Schwab where we're doing deep dive conversations about very important financial topics.

If you've been following along this series, you know that we kicked things off with Liz Ann Sonders, Chief Financial Strategist, giving her perspectives on the stock market. Then we transitioned over to financial literacy and how to educate our young ones about money in the conversation with Carrie Schwab Pomerantz, President of the Charles Schwab Foundation.

Today we turn the focus to retirement and retiring well. For this, we welcome Catherine Golladay, Senior Vice President of Participant Services and Administration at Charles Schwab. Catherine has her ears to the ground and understands the issues in complexities surrounding our retirement concerns.

Catherine and I discuss the current retirement landscape and how it compares to say just 10 or 15 years ago, what does retirement really look like today, how can we all catch up and prepare, and what are the specific challenges facing millennials?

As many of you know, I'm working with Charles Schwab to help spread financial literacy to the masses. It's been a really great collaboration so far. I'm a Charles Schwab customer, have been for many years so before we get started, just want to thank Charles Schwab for helping to get this financial education content to you.

Here we go, here's Catherine Golladay.

[INTERVIEW]

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FT: Catherine Golladay, welcome to So Money.

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CG: Thank you so much, Farnoosh. I'm happy to take the time here today to talk about retirement and how folks can plan for that.

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FT: Yeah, you know, I surveyed my audience at one point, I think it was in the last year, and hands down, retirement planning is the number one area of concern when it comes to money for my audience. So, So Money Nation, this episode is really for you. We want to talk about how to best plan for retirement, how much is enough for retirement, what are the various vehicles that can get us to the finish line?

There's a lot of questions that come up every week on this show about 401(k)'s or IRA's and Catherine, you're really on the front lines as Senior Vice President of Participant Services and Administration at Charles Schwab Retirement Plan Services. You have your ear to the ground. I'd love to learn just at the get go from you, what are the various concerns people have about saving for retirement and then share a little bit more about your role at Charles Schwab? It's a very unique and important role.

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CG: Thanks so much. Yeah, I've actually been working in this industry with retirement plan clients, with employers and their employees, for almost 30 years. It's been so fascinating to just work with individuals and see how things have changed over the years.

You know, retirement — saving for retirement that is a real concern for Americans as you've called out. You know, pension plans have all but gone by the wayside. You know what I think is really interesting though and some of the research that we've done is that individuals really understand, I see that sense, I hear that sense of self-reliance. That people know that saving for retirement is important and it's really, the onus is really largely on them. I think that that's kind of a fascinating background before we dig into some of the specifics.

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FT: That's a good thing, right? I think that's a signal that people are realistic at least about what it's going to require for them to get to the finish line.

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CG: Absolutely. You know, and I saw that across all generations. So it isn't something that you know, just the baby boomers are thinking about. In the research that we've done, it's every generation. From the millennials through the baby boomers. So it's top of mind for individuals regardless of what life stage they're in.

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FT: You started serving retirement plan clients three decades ago and you've been with Schwab since 1996. So I would love to learn a little bit more about what does retirement even look like today versus when you started in the industry? Are people really retiring? That's a question for maybe later in the show, but let's just address it now. I mean, what does retirement really look like when we're talking about retirement with clients?

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CG: You know, there's so much of that, that depends on everybody's own hopes and dreams. I think retirement is certainly longer today, perhaps with the length that people are living in retirement. I also see individuals choosing perhaps to work in retirement. So I think that that's another macro trend. But when we talk to individuals and you ask what is it that people are really interested in? What are the questions they ask?

You know, I see really three things. First of all, individuals are looking for and wanting help and guidance and I think that's fantastic. But I could kind of summarize the questions I hear every day: "How much should I be saving?" So people want to understand, "What's my number, how much should I save?" And then the next thing that they will ask is, "How do I invest that? Then of course we get to, "And what should I be spending in retirement? How should I spend and how should I plan for that?"

I think the good news is so many employers, and this is a trend I see as well, are really offering that professional 401(k) advice that perhaps they hadn't done in past years. People don't have to go it alone if they reached out to their employer or online tools. There's a lot of help out there that can help people answer those key questions.

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FT: That's good because Schwab actually did a survey recently and found that the number one source of financial stress is being able to save enough for a comfortable retirement. This was part of a wide study of a thousand investors. What were some of the other key take aways? It touched on savings habits, attitudes, challenges, what from your perspective was maybe surprising or different?

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CG: Definitely number one: financial stress. That popped out. But here's what I thought was interesting; we had the majority of individuals talk about the fact that they wish that they had spent less money in the past, specifically in order to save more for retirement and when we dug in to that, I think that there were some interesting findings. That was particularly true when folks were talking about some of the everyday short term kind of pleasures.

Like spending, you know, money on eating meals out all the time or expensive clothing or new cars and certainly, you know, you've got a balance enjoying life here in the present and saving for retirement but there were consistent themes, especially around those kind of short term things where folks had regrets about how they were spending.

I didn't necessarily see that play out when they were talking about spending on items that maybe traditionally you could tie to long term kind of success and happiness. Things like you know, paying – taking out student loans, paying down student loans, helping their children save for a house or save for college. So I thought that was really interesting.

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FT: I hope that in the next 25 minutes or so, we'll tackle some of your answers to the questions about "How much should I save, how do I invest, how should I spend it in retirement?" But before we get to that, let's touch on the fact that a lot of people feel ill prepared to begin saving for retirement. You talked about student loans and other obligations that we may have on our plates.

What advice do you have for those people who feel they're just not ready to prioritize retirement?

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CG: You know, that one's close to my heart. I've got two daughters and my youngest daughter, Monica, just finished optometry school. As you might expect, she has to some significant student loans coming out of undergraduate and then optometry school and I've had that same conversation with her in terms of, "You know, how do I look at this and how do I prioritize?"

One of the things that I think is helpful whenever you're planning, you know, for the future and kind of creating that financial plan is to have some sort of framework. At Schwab, we have our investing principles but what we also have is a framework that we call our "Saving Fundamentals." What that helps you do is really think through what are your priorities and it also helps you make decisions about what you should be focusing on first and then in what order financially speaking.

So let me give you an example of that, I think it might help. What we would always advise is that someone would consider saving enough in their 401(k) as a top priority to get the full employer match and many companies, you know, it's very common that your employer is going to have some sort of matching contribution and the way I look at that is really an automatic return on investment that you can't get anywhere else.

So that's really the first step and then you start looking at things like really important things like how do I look at debt and not all debt is the same, right? Credit card debt versus student loans. That should be a priority that you have very early on. Also, saving for an emergency fund, I see so many people with the situation where they haven't saved for an emergency. Then unfortunately, they could be looking at their 401(k) in terms of the only place that they can go to solve that. Perhaps taking a loan or maybe stopping their contributions.

So that's a little bit of a flavor of the framework that I'm talking about that will help people make decisions that makes sense, you know, for them.

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FT: I think it's also important, just to add to the great points you made, is like don't feel you have to save all of it today. You know, you even just starting with a few bucks a day, $10 a day, that's better than nothing and form my own experience, I will say that if you have access to a 401(k) and you can automate those payments, yeah, you might feel like, "My gosh, I don't have enough money to go around." You can always turn it off, but try. Give it yourself a chance.

I remember it was our HR manager at our company back when I was first starting at my first job and she said to me, "You've got to do the 401(k), we have a match, I know your salary's not that high right now, but you're going to continue to make more money and you can always dial up or down the contribution, you can even stop contributing, but just do it for a month and actually, see how painful it is. It's not as painful as you think especially again because it's automatic."

I walked away from that job, you know, two and a half years later with something like $50,000 or $40,000 in my 401(k), which if someone had told me two and a half years prior to that I would be able to save that money or that I had to save it on my own. I wouldn't have believed them. So it just goes to show you, I think sometimes we under estimate our abilities and a little bit can go a very long way.

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CG: You are so bright, I would say the same thing and you know what is interesting? You talked about that concept of automatic, that's another change that I've seen over the years. Many employers have programs where you can start very small and then they will automatically increase that. A lot of employers will do it in a way that maybe that increase happens at the same time that you have your review.

If you have a raise, that can, I mean, that can kind of help with increasing your savings. So really, really powerful starting earlier. You have time on your side and kind of that potential for compounding.

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FT: Yes. Let's talk also now about what's enough? There's the "what's enough?" question with regards to you know, the totality of money that you may need at retirement and then there's, "Well how do I know how much to save today incrementally percentage wise from my paycheck?"

You mentioned, at least try to get the most out of your company's match. I always say, good rule of thumb if you're starting early, you know, in your 20's is 10, 15%, including a match. What's your rule of thumb on that and then later, maybe we could talk about like how you actually figure out how much you need, big picture?

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CG: I think you're right. I mean, if you don't have the opportunity to get into any kind of in-depth planning, that's probably a good place to start if you are in your 20's, that 10%. But it's really going to be based on your individual circumstances and I think that's actually a really good thing in that professional 401(k) advice can take in to a lot into consideration a lot of those factors.

You know, how old you are, what your salary is, your marital status, what state you live in, to really then hone in that 10% to something that is really right for you.

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FT: A lot of people on this show who come on as guests, we have some early retirees who like to come on the podcast and talk about their strategy for retiring at 40. I think even 50 is like miraculous. In those cases, they often save half of what they earn and so it begs the question, where do you invest that money? Because your 401(k), there are limits to how much you can invest, same with an IRA.

If you feel like you've exhausted a lot of these "retirement vehicles", where's a good place to put your money if you do want to save aggressively or you know what? Yo do want to retire at 65 but you want to finish with a lot of money.

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CG: Right, that's a question that we hear often if someone's maxing out or saving as much as they can within their 401(k), a couple of things that I would point out. What I see a lot of individuals doing is taking advantage if it's something that is open to them, is investing in a health savings account. So an HSA account, and that's a great opportunity to save and invest specifically for your healthcare needs, healthcare costs. Whether those are expenses that you're incurring today or in the future, there's a couple of r requirements that you have to meet but that's a fantastic thing to look at if you want to save beyond your 401(k).

Then I guess the other thing that I would mention is if you are saving beyond your 401(k) or IRA, perhaps in a brokerage account, that you just take a look at how you make those investments and compare it to what you're doing within your 401(k) because it's really important to know what your risk tolerance is and kind of have an appropriate mix of investments across, you know, both your 401(k) and then any outside savings that you have as well.

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FT: We have so many financial obligations every day, but the people that Schwab surveyed seemed, as you said, really focused on retirement. Did that come as a surprise to you?

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CG: You know, it didn't really. One thing to consider with the survey is we were actually surveying individuals that were participating in a 401(k) plan. So those individuals, it makes sense that it might be top of mind for them, but I see it really across all individuals.

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FT: What about with regards to millennials and other generations, but specifically millennials? What are you seeing in that age group or in that demographic as far as how they're looking at retirement?

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CG: You know, I think that, you know, you've got to realize some of the specific challenges with millennials and how events like the Great Recession, you know, likely impacted how they think about saving or even the fact that many of them entered their career during some very tumultuous times. My older daughter Megan completed her undergrad in 2009. But what I saw with millennials is that there was really this willingness, maybe because of these obstacles, or in spite of these obstacles, to be really proactive about their finances. I think that that really held true regardless of the type of career that they had.

So the proactive piece I think is good news. There are a lot of vehicles beyond your traditional 401(k) plan that you may have in a corporate career. Certainly an IRA is an option that's open to many people. I think the real message that I want to get out is leverage that proactive look at your finances and turn it into some sort of financial plan where you've got a goal for the future and you can really just look at, "How do I take, you know, one step at a time to move towards those things that you're really looking forward to in your retirement years?"

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FT: Just to recap for listeners. I want to solidify some of the great points that you've made about the approach to retirement, the recommended approach, which is like, "Just start." If you are not sure how or where or how much, just start, get – take access, get access of anything you have that's designed for retirement, whether that's your workplace, 401(k) or workplace benefit plan, an IRA, whether that's traditional or Roth and just start. Even with a little bit of money, consistently automatically, that is going to get you closer to your finish line and then you know, try to invest as much as you can to earn the company match that's pretty much free money.

Make sure that you are signing up for automatic contributions but a lot of people have questions also about like, Roth versus traditional IRA and now at work you can even get a Roth 401(k). Sometimes too many choices can feel stifling and then people don't make any decisions. Wo can you navigate us around that as well?

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CG: That is true and it's like so many things you have to start somewhere. It's good to have a plan but you got to take action on it. You brought up the point of Roth, 401(k)'s versus traditional 401(k)'s; I think that that is something that's really important for anyone to look at but probably even more so for the millennial generation and I say that because the differences between Roth and 401(k) really come down to taxes, right? If you fund your traditional 401kk account. That's with pre-tax money. Then you pay taxes in retirement and the Roth is exactly the opposite. So you're funding your contributions with after tax money today so that in retirement, those withdraws are tax free.

So the reason I mentioned millennials is that Roth option can be attractive for younger workers because many of them are thinking about what their tax situation might look like farther on in their career and retirement and many of them anticipates that they can be in a higher tax bracket. It can be confusing, there are many online resources and calculators to help you think about that. The other thing that I see people doing is splitting the contributions that they make towards — in their retirement plan between the two and I suppose you could think of that as a little bit of a diversification strategy but tax diversification.

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FT: Outside of saving money, what are some other ways that we can sort of get ready for retirement, whether that's like a revenue stream that's on top of your income? I know a lot of people are worried about their parents retiring and not knowing what their plan is and how it might impact to the children because mom and dad aren't really transparent about like, what's in the bank and how to access certain financial accounts.

Some people are looking into things like long term health insurance because that could also be a nice benefit in retirement, can save a lot of money since healthcare is a big, big wild card.

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CG: It is, you're exactly right and there is so much more to thinking about and planning for retirement than just – actually, really than just the money aspect of it. When we talk to people about what wealth means, it is so much more than money. You touched on the health piece of it, whether that's planning for healthcare cost with a health savings account or long term care insurance, I think that that's really important. In the surveys we do, people not only think about, "Will I have enough money for retirement but will I have, will I be in good health to enjoy those years?"

So if I were to take it totally outside of the sphere of money, I think there's so much that you can do just to invest in yourself. Whether it's, you know, taking care of yourself, being active in the community, looking for ways to just have a lifestyle that's going to prepare you for retirement.

You know, the other thing that you mentioned are the conversations and too often, this can be a taboo subject and families don't like to, they don't like to talk about money and they don't like to plan. But as uncomfortable as it might be, my family has taken the exact opposite approach. I'm lucky enough to still have my parents but they're in their later years and then my adult children and we sit down and we talk about it. As uncomfortable as it may be to start with, I think if you can kind of tackle that, it's going to prevent, I would expect that it could prevent some heartache or hard feelings down the. So that would be something that I would encourage folks to do is talk with the people whose financial lives might be intertwined, you know, with yours.

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FT: You know, it is a delicate subject as you bring it up but I often say, it's helpful to, if you're the child, an adult child of a parent who is aging and you're worried about their finances are not sure like what their plans are and what your role should be in helping them. I think sometimes it's helpful to have an anecdote at the ready of another family member who may have not been so prepared or transparent and then how it backfired and that's a story that is familiar to your parents.

You know, it kind of puts things in context, you could also say, "Hey, I listen to a podcast and they were talking about this," and like blame us, okay? I think it's sometimes helpful to have something to anchor the conversation with and sort of takes a lot of the finger pointing away or you may feel like you're coming at it kind of like at a left field but, you know, trying to find a way to navigate that is tricky but it can be done. You just have to think about the strategy and come up with like a script. If your siblings are around, like go in as a group and really step forward as your children who we care and like, "We're not trying to be nosey, we just want to like make sure that everyone's taken care of."

On that note, Catherine, thank you for taking care of us, and walking us through some of these retirement questions that we all have and you know, I hope this was helpful. I know this was helpful for many people especially the millennials but even those approach retirement, it's never too late and it's never too early to prioritize retirement. You know, I think the good news is that we're living longer, healthier lives, many of us and so we don't have this necessary deadline, it's age 59 and a half or 65 to just you know, stop working. If you're excited about working, we can, that's helpful, it brings in revenue stream but it's still important to save.

Any parting advice for us or maybe resources where we can get some calculators or other kinds of content around this? We'd love to refer listeners there.

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CG: Yeah, I think you hit it on the head; It’s never too late to start. You know, have a top of mind throughout your life. In terms of resources, there are some wonderful resources that you can find online at Schwab or other financial services firms. Schwab savings fundamentals, there’s a website for that that can kind of walk you through that savings framework. That might be a really good place for your listeners to start.

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FT: Catherine Golladay, thank you so much, it was really a treat to have you on the show and hope your daughters will have more success ahead.

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CG: Thank you so much, it was nice to speak with you.

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