BONUS CHAPTER:

STAY FOCUSED
for
RETIREMENT *GAME-CHANGERS*

STEVE VERNON, FSA

Rest-of-Life Communications
Oxnard, California

ALSO BY STEVE VERNON

Retirement Game-Changers: Strategies for a Healthy, Financially Secure, and Fulfilling Long Life

Money for Life: Turn Your IRA and 401(k) Into a Lifetime Retirement Paycheck

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The following bonus chapter supplements the book *Retirement Game-Changers: Strategies for a Healthy, Financially Secure, and Fulfilling Long Life.* It is intended to provide readers with additional insights to help implement the strategies that are discussed in *Retirement Game-Changers.*

For more information:

- *Retirement Game-Changers:* www.retirementgamechangers.com
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BONUS CHAPTER:

STAY FOCUSED

SUPPLEMENT FOR *RETIREMENT GAME-CHANGERS*

DON'T MAKE THESE MISTAKES:

- ⊘ Ignore the influence of emotions on decision-making.
- ⊘ Be unaware of your blind spots, such as social norms, inertia, confirmation bias, and unrealistic optimism.

TRY THESE GAME-CHANGING STRATEGIES:

- ➔ For each important decision you face, decide the best way to describe, or frame, each decision.
- ➔ Identify your blind spots, and take steps to mitigate them.

Use the power of psychology to help you succeed

If you could learn about the "secrets" to living a healthy, financially secure, and fulfilling long life, would you be interested? *Retirement Game-Changers* shares many strategies for your finances, health, and lifestyle that will help you achieve these goals. It also describes significant trends and challenges that might work against you. As a result, you'll want to obtain all the help you can to ensure you succeed. This bonus chapter describes some helpful strategies from the behavioral sciences that many people overlook.

Because the choices and decisions you have to make regarding your retirement are so critical, it's most likely going to take you many hours and days to understand the strategies in *Retirement Game-Changers*, do your own homework, and then implement your decisions. It seems logical that you'd be willing to spend a lot of time planning the remaining 20 or 30 years of your life. However, we're not talking about logic in this bonus chapter. Instead, we're discussing the human nature that's often been ignored when making important life decisions.

Chapter 2 of *Retirement Game-Changers* shares ideas to motivate and inspire you to carry out your planning. This bonus chapter provides even more ideas on how to use recent research in behavioral economics and psychological science to help you succeed with your retirement planning and avoid common pitfalls. You'll learn about mental biases you might have that can influence your decision-making, and how to balance rational arguments with "gut feelings." This will help you wade through potentially confusing information and reconcile the conflicting opinions of relatives and close friends.

Be your own person — don't be unduly swayed by social norms

Advertisers know about the power of social norms, and they put that power to work when they tell you everybody's buying their product.[1] As social animals, we're constantly looking for clues to fit in with our friends, relatives, and community. When people similar to us buy specific products or make important decisions, we take it as signals for "normal" behavior and tend to follow their lead.

Retirement decisions are significantly impacted by social norms. For example, many retirement plans specify a "normal retirement age," sending a powerful signal about when you should retire. Or you may have friends and relatives who retired at your current age, so it only seems normal that you should retire at that age as well.

Be aware that you can be swayed by the actions of people who are close to you, including when they retire, their spending habits, the investments they pick, whether they work during retirement, when they claim Social Security, and so on. That's how Bernie Madoff built a huge Ponzi scheme that defrauded influential people of millions of dollars for many years, until 2008 when he finally turned himself in. He came highly recommended by successful people, and his new victims thought "He must be good if so many smart people invest with him."

With any important decision, don't be unduly swayed by the action or recommendations of close relatives and friends, even if they mean well for you. Carefully do your own homework; the chapters in *Retirement Game-Changers* are a great starting point. Analyze the pros and cons of important decisions, and seek skilled help if you need it (more on this topic in the bonus chapter *Get Help*).

Beware of the endorsement effect

Many people seek short-cuts when they're faced with making complex decisions, and they often look for implicit or explicit advice from others. That's one reason why advertisers often use celebrities to endorse their products, knowing their endorsement might influence you. For example, several years ago, "the Fonz" (actor Henry Winkler) pitched reverse mortgages on TV.

In addition, you might receive advice from well-meaning people you respect, such as older friends and relatives, your boss, or your neighbors. Here are examples that range from not-quite-right-for-you tips all the way to downright bad advice:

- Start your Social Security benefits as soon as you can!
- Take your pension benefits in a lump sum.
- All annuities are bad — don't buy them.
- Retire as soon as you can — you aren't getting any younger.

When you're faced with these type of endorsements, ask yourself, "Do these celebrities or friends really know what they're talking about?" Distinguish between experts who know their subject matter, celebrities who are being paid to pitch a product, and well-meaning but uninformed friends and relatives who are spouting off with their opinions. Think of the latter two as retirement UFOs — uninformed false opinions! *Retirement Game-Changers* will help you more easily spot these UFOs.

Don't be locked in by inertia

Many people often don't make the effort to initiate change from their current situation and are subject to inertia.[1] Inertia can also cause people to stick with their current beliefs, often because it takes mental effort to change their minds.

Indeed, many employer-sponsored savings plans use the power of inertia by automatically enrolling employees to save for retirement, demonstrating the positive power of a default decision. But inertia and defaults can work against you in other decisions. For example, when you retire from your career employer, your employer's retirement plan might designate the default payment option to receive your money in one lump sum. However, this might not be the best choice for you, as discussed in Chapters 6 and 7 in *Retirement Game-Changers.*

Another example of inertia at play is the decision you need to make about where you'll live when you retire. Often the default decision is to stay where you are, even if there's compelling evidence that you might benefit by moving, as discussed in Chapter 13 of *Retirement Game-Changers.*

The first step to countering inertia is to be aware of its effect on your decisions and to be honest with yourself about whether you're unduly swayed by inertia.

Understand loss aversion

Loss aversion refers to the phenomenon that people often feel the pain of losses more than they feel the joy of gains.[1] As a result, they're more motivated to avoid a loss of a certain amount more than they want to seek a gain of the same amount.

For example, suppose someone offers you a bet based on the flip of a coin. If you'd win $100 if the coin turns up heads, $50 is the most that many people would be willing to lose if the coin turns up tails.

Of course, there's nothing wrong with loss aversion if that's truly how you feel. However, you should use loss aversion to work for you rather than against you. In the next section, we'll discuss how to combine it with framing to understand the loss that you truly want to avoid.

Carefully frame your decisions

Framing refers to how you define a specific challenge or problem.[1] An important aspect of framing is whether you define potential outcomes in positive or negative terms. For example, when buying milk, people often make different choices if the milk is defined as 98% fat-free vs. containing 2% fat, even though the end result is the same.

Framing and loss aversion jointly come into play with many retirement decisions you'll make. For example, consider the decision about whether to retire as soon as possible or wait for a few years:

- Some of you may view the decision to delay retirement as a potential loss of fun years that you could have enjoyed had you retired right away. In this case, loss aversion would influence you to retire as soon as possible.
- But if you delay your retirement, even for a few years, then you'll ultimately receive a significantly higher income compared to retiring right away, as discussed in Chapters 4 through 8 in *Retirement Game-Changers*. In this case, the potential loss from retiring right away is the extra income you would have enjoyed had you delayed your retirement, and loss aversion would influence you to delay retiring.
- Carefully consider which loss would be more painful — that's the loss you want to avoid.

For another example, consider the decision about whether you should start collecting your Social Security benefits at age 62 — with the smallest possible monthly income — or delay starting benefits to realize a larger monthly benefit. Waiting until age 70 to start benefits results in the largest possible income. And Chapter 5 of *Retirement Game-Changers* explains that you don't need to start Social Security benefits just because you've retired from your present job.

In this situation, how you define the potential gains and losses can influence your decision:

- Some people define the potential loss they want to avoid as the possibility they might die between ages 62 and 70 and, as a result, not receive any income if they delay starting Social Security. The perceived gain is the money they'd receive if they start benefits right away at age 62. In this case, loss aversion would influence you to start Social Security at age 62.
- On the other hand, you might define the potential loss you want to avoid as being very poor in your later years. If you had started at age 62 with the lowest possible monthly benefit, then you might regret this decision when you reach your 80s and 90s because you'll have wished

you'd delayed Social Security to realize a higher monthly income. The perceived gain is knowing that you'll have better financial security in your later years. In this case, loss aversion would influence you to delay Social Security.

Of course, in these examples, the tension between immediate and delayed rewards also comes into play, as discussed in Chapter 2 of *Retirement Game-Changers.*

Be aware of confirmation bias and anchoring

Confirmation bias describes the phenomenon that people tend to look for evidence that confirms their beliefs but overlook evidence that contradicts their beliefs.[1]

Anchoring is a cousin of the confirmation bias. If you acknowledge that you might need to change a belief, then you make minor adjustments to your belief, rather than start over to reconsider your position.[1]

Let's look at an example of how confirmation bias and anchoring might influence your decisions in a counterproductive way. Suppose you decide that you want to retire at age 62 for a variety of reasons: Your friends and relatives retired by age 62, and the terminology Social Security uses when describing its benefits and associated matters sends a powerful message to also start benefits at that age (see the next section). However, starting Social Security benefits too early is a big mistake, as discussed in Chapter 5 of *Retirement Game-Changers*. As you read about the pros and cons of retiring early, confirmation bias would cause you to focus on the positive reasons to retire, and you'd ignore the reasons that might argue for postponing.

Then suppose you finally become convinced that it might help to postpone your retirement. If you're influenced by anchoring, then you might just add one year to your target retirement age, rather than start over and analyze the age that makes the most sense for you at which to retire.

Confirmation bias and anchoring can also rear their heads with other important life decisions, such as whether to buy an annuity, whether to take a lump sum from a pension plan, and beliefs you may have about healthy nutrition and exercise habits.

The first step to countering confirmation bias and anchoring is simply to be aware of the phenomena and be honest with yourself about whether you're influenced by them. Another good idea is to do your retirement planning with your spouse, or a small group of close relatives and friends. Vow that each of you will "cover your backs," and be on the lookout for these influences. Form your own group that creates positive social norms — it really helps to discuss the pros and cons of important decisions with people who care about you.

Don't let terminology derail your retirement planning

Does the language that Social Security uses encourage poor retirement planning decisions? Possibly!

Retirement Game-Changers shares some powerful reasons for delaying the start of your Social Security benefits in order to increase your lifetime retirement income and retirement security. Now let's see how Social Security's descriptive terminology may unintentionally encourage people to claim Social Security early, reducing their retirement security in the process, and how different terms might result in more effective decisions.

First, let's review some basics about Social Security. Chapter 5 of *Retirement Game-Changers* explains that Social Security's benefit formulas calculate a monthly benefit at your "full retirement age (FRA)." Your FRA ranges from ages 66 to 67, depending on your year of birth. If you start benefits before your FRA, then Social Security reduces the income you could actually receive. On the other hand, if you delay starting your benefits beyond your FRA (but no later than age 70), Social Security increases the income you will receive. By the way, Social Security also refers to the FRA as the "normal retirement age."

Now let's examine how the terminology that Social Security uses might influence your decisions:

- The term "full retirement age" is very misleading, since your benefits will be increased if you start your Social Security income after your FRA. In reality, age 70, not age 66 or 67, should be called your full retirement age because starting your income at age 70 produces the largest possible monthly income. The term "normal retirement age" also sends a message that it is normal — a social norm — to start benefits at that age, but the fact is, you'd receive a smaller monthly income if you start at age 66 or 67 instead of age 70.
- If you start your Social Security income before your FRA, then as far as Social Security is concerned, you've retired "early." In our society, the term "early" has positive associations (the "early bird gets the worm," for example). If you start your Social Security benefits early, that could imply that you're successful and have figured out how to retire early.

But the reality is that you'll receive a permanently reduced retirement income if you start your benefits before age 70 or even age 66. When it comes to retirement income, early isn't better.

- If you start your benefits after your FRA, then you've retired "late" and you receive a "delayed retirement credit." The words "late" and "delayed" often have negative associations, suggesting a failure to complete a task on time. But the reality is that delaying the start date of your Social Security income produces a larger retirement income. So it's not really a failure to delay retirement — with your retirement paycheck, being late is better!

Now let's look at some alternative terms we could use to describe Social Security benefits that more accurately describe the calculation process. These words may also result in more effective framing to influence the decision as to when you start your Social Security benefits.

- If you start benefits before your FRA, then you'll receive "reduced retirement benefits," and you've started benefits at a "reduced retirement age." If you start your income at age 62, then you'll receive the "fully reduced benefit" or the "smallest retirement income." Nobody likes to have their benefits reduced or wants to receive the smallest retirement income, but that's actually what happens when you start your benefits well before your FRA.
- Instead of calling age 66 or 67 the "full retirement age" or "normal retirement age," think of it as the age at which you receive an "unreduced benefit," and age 66 or 67 is your "unreduced retirement age." These terms are neutral and hopefully wouldn't influence claiming behavior one way or the other.
- If you start your benefits after your FRA, then you'll receive "increased retirement benefits." Everybody likes increased benefits! After your FRA, your retirement age could be called your "increased retirement age." If you wait until age 70 to start your benefits, then you'll receive "maximum retirement benefits" at your "maximum retirement age." Hopefully this term will encourage people to "take it to the max!"

I don't expect Social Security to change the terms they use to describe benefits any time soon – after all, it's in their interest to encourage you to begin benefits as early as possible so they pay out as little as possible. But you don't need to wait for that to happen if you want to make more effective retirement planning decisions. Instead, you can use framing and loss aversion to your advantage — just start thinking about your Social Security benefits using the terminology described here.

Don't let emotion cloud your Social Security decision

It's important to acknowledge the role that emotions might play regarding your Social Security claiming decision. I've heard some people say, "I'd be mad if I decided to delay my benefits and then died before they started or before I'm money-ahead compared to starting my income earlier." Actually, what you'd be is dead, and we're pretty sure you wouldn't be mad about anything.

On the other hand, if you start your Social Security benefits as early as possible, which earns you the lowest possible amount of benefits, you can easily imagine that you might end up very old and very poor; in fact, you might know some older friends and relatives in this exact predicament. So wouldn't you rather protect yourself against the possibility of being old and poor than against the possibility that you might die young and being mad in heaven! Even in this case, if you're married, you might take some satisfaction from heaven that delaying the start of your income improved the financial situation of your surviving spouse.

Plan ahead to overcome unrealistic optimism

Unrealistic optimism occurs when you think that unfavorable outcomes won't happen to you — that they only happen to "other people."[1] It's particularly influential when the potential negative outcomes might unfold many years in the future, like outliving your savings or incurring expensive medical conditions late in life. Why worry about it today? You might think, "I just want to enjoy life. I'm sure that something will work out."

But there's a delicate balance between optimism and pessimism — you don't want to go to the other extreme and be so paranoid about potential negative outcomes that you don't enjoy life. For me, the right balance is to adopt reasonable strategies to address common retirement risks, then go enjoy life knowing I've done the best I can to protect myself and my family. *Retirement Game-Changers* provided the ideas and strategies you need to develop *realistic optimism*!

As you read *Retirement Game-Changers*, be aware of your own biases and beliefs about the ideas and strategies that you learn. Pay close attention to your initial reactions, and be open to considering new insights. The strategies described in this bonus chapter will help you make more effective decisions for planning your retirement. They'll also go a long way to inoculate you against the devastating financial fraud that was discussed in Chapter 15 of *Retirement Game-Changers*.

Given the serious challenges that many of us face when planning for our retirement years, we'll need all the help we can get. We'll do best to consciously strengthen our resourcefulness and resilience. Harnessing the power of our emotions is a smart way to help ourselves.

ACTION STEPS:

- Think about the potential losses that are most important for you to avoid and how you might frame the most important retirement decisions you need to make, such as when to retire, when to start your Social Security benefits, and how to deploy your retirement savings. Write them down so you remember them when it's time to develop your retirement strategies.
- Identify any beliefs you may have about retirement that subject you to confirmation bias, anchoring, social norms, or unrealistic optimism.
- Discuss these concepts with family and close friends who might "cover your back" and help you see your own foibles about retirement planning.

HELPFUL RESOURCES:

- *Decisive: How to Make Better Choices in Life and Work,* by Chip Heath and Dan Heath. Crown Business, 2013.
- *Willpower: Rediscovering the Greatest Human Strength,* by Roy Baumeister and John Tierney. Penguin Books, 2011.

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ABOUT THE AUTHOR

For more than 40 years, Steve Vernon, FSA, has analyzed, researched, and communicated about the most difficult retirement topics, including finances, health and lifestyle. He had a 30-year career as a consulting actuary with Watson Wyatt and Mercer, helping Fortune 1000 employers manage and communicate their retirement programs. During that time, he worked on the front lines of the extraordinary shift that's taken place in retirement plans, as employers switched from traditional, defined benefit pension plans to 401(k) and other defined contribution plans.

Steve has served for more than five years in his encore career as a Research Scholar at the Stanford Center on Longevity. He's also president of *Rest-of-Life* Communications, a company he founded that delivers retirement planning workshops and conducts retirement education campaigns. He has never sold insurance, annuities, or investments; this enables him to be unbiased in his writing and recommendations.

Currently, Steve writes a regular blog column for CBS *MoneyWatch* where he addresses the critical topics facing people in retirement. His previously published works include:

- *Retirement Game-Changers: Strategies for a Healthy, Financially Secure, and Fulfilling Long Life. Rest-of-Life* Communications, 2018.
- *Money for Life: Turn Your IRA and 401(k) Into a Lifetime Retirement Paycheck. Rest-of-Life* Communications, 2012.
- *Recession-Proof Your Retirement Years: Simple Retirement Planning Strategies That Work Through Thick or Thin. Rest-of-Life* Communications, 2009-2014.
- *The Quest: For Long Life, Health and Prosperity* (a DVD/workbook set). *Rest-of-Life* Communications, 2007.
- *Live Long & Prosper! Invest in Your Happiness, Health and Wealth for Retirement and Beyond.* Wiley, 2005.
- *Don't Work Forever! Simple Steps Baby Boomers Must Take to Ever Retire.* Wiley, 1995.

A Fellow in the Society of Actuaries, Steve graduated summa cum laude from the University of California, Irvine, with a double major in mathematics and social science.

Steve lives in Oxnard, California, with his wife, Melinda, where they're following the advice in this book for their own retirement and rest-of-life. For more information, visit www.restoflife.com.