
A Jolly View of Financial Folly

By Editor Test *Tue, Jun 1, 2010*

"Retirementology," a new book by Jackson National Life executive Greg Salsbury, Ph.D., approaches the serious topic of retirement planning in a mordantly funny way.

In his new book, *Retirementology: Rethinking the American Dream in a New Economy* (FT Press, 2010), Greg Salsbury looks soberly at the varieties of financial intoxication that have led so many Baby Boomers to be ill-prepared for retirement.

Yet Salsbury, a vice president at Jackson National Life with a Ph.D. in organizational communication, approaches this serious topic in a mordantly funny way, amusing himself (and his readers) with a nonsense nomenclature of behavioral finance neologisms like "ohnosis," "finertia" and "financia nervosa."

Retirementology, a sequel to Salsbury's *But What If I Live? The American Retirement Crisis* (National Underwriter, 2006), is based on focus groups with affluent Boomers and Salsbury's own strong views. It catalogs the dumb things that smart people do with money they should otherwise be saving. It also points out the path to fiscal redemption.

Recently, Salsbury chatted with RIJ about the book.

RIJ: How scientific or thorough a survey of the American public was the research behind your new book?

Salsbury: It was qualitative research, not empirical. We tried to get a wide swatch of ages, and tried to get typical clients of advisors. We were not particularly interested in the abject poor. They will be at the mercy of the prevailing social welfare systems. We were interested in people who had some savings, who were working toward retirement, who saw themselves as involved in investing.

In the book, you lament Americans' lack of financial foresight. But how can we be in bad shape if Americans currently have \$16 trillion in retirement savings currently invested?

There's a very small percentage who have adequately saved and they control a disproportionate amount of the savings. A massive percentage of those funds are in a very small percentage of hands, if you will. Two-thirds of all investable assets are with the Baby Boomers, and it's growing more that way.

But the Boomers represent a financial puzzle for a number of reasons. Here's a sobering statistic. Every day 10,000 Boomers, a group the size of the population of Sedona, Arizona, becomes eligible for Medicare and Social Security, the unfunded liabilities of which were \$107 trillion before the financial crisis. Those are people who have most of the money to start with but who will be disproportionately draining the system as well.

Just because you have money doesn't mean you aren't making the mistakes that I talk about in the book. It might be someone who is buying too much car or buying a 56-foot sailboat. Folks who had multi-thousand-

dollar credit card balances thought nothing of adding tens or hundreds of thousands of dollars onto their mortgages. The mistakes happen at all economic levels. There are a lot of boomers who have overspent. They were counting on their house or their vacation home to pay for their retirement.

The 401(k) activity is disappointing. The number of active participants peaked in 2005, and enrollment hasn't returned to that level since. People stopped saving. In 2006 alone, people spent \$41 billion on their pets. That's more than the GDP of many countries. Americans went on a spending binge. In the middle of 2005, 40% of all new mortgages were for non-residences. There was an orgy of spending, along with an abandonment of prudent savings.

With the new health care bill becoming law, that will burden the upper end on taxes even further. California is the poster child for the impact of taxes. For four years, more people have left that state than arrived. The wealthy are fleeing the state. The percentage of seven-figure wage earners has been cut in half since 2005. It's one of the most tax punitive states in the country. And now they're escalating taxes even further on the upper two percent. There are not enough of those people to generate enough revenue in the first place, and now you chase them out of the state. That's what they've done.

Why are they having such trouble fiscally? One in five budget dollars goes to public pensions. It's difficult to attack the policies without sounding like you're attacking the professions. But look at the dollar amounts. The average policeman collects a \$97,000 pension. In Vallejo, California, it's up to \$207,900 a year. To fund the average captain's pension, it takes \$3 million.

So what's to be done?

Any retirement plan is doomed by over-expectations. It's not reasonable to expect three vacation homes or to seven luxury cruises. People will have to look at their spending. They will have to reassess their priorities. They will have to re-examine the amount of assistance that they can or will give to children. They will have to reexamine their use of 529 plans. They will have to ask, 'Do I fund my retirement properly or give my kid \$50,000 and blow myself up?' People have to make prudent decisions. A lot of people convinced themselves that they were geniuses during the boom. They had one or two homes that were appreciating. They didn't think they needed a financial advisor.

You recommend the use of 'holistic money managers.' What do you mean by that?

Historically, advisors left people on their own for all of their money matters except for their investment portfolio. But those things can't be as neatly divorced today as they were historically. What you're doing with your vacation homes and your rental properties may have a material impact on your retirement portfolio. People's homes morphed from their largest asset to their largest liability.

How do you handle your own money?

Personally, I have had more conversations with my wife about spending. I re-examined my household spending. I didn't get as carried away as some during the boom, but I've tried to be even more cautious since then. For instance, the other day, when I was still having my first morning cup of coffee, a woman

walked up the back steps of my deck. She shook my hand and said, 'Hi, I'm Lacey.' I said, 'I'm Greg Salsbury.' She said, 'Don't you know who I am? I'm here for the dogs.' My wife, unbeknownst to me, had signed up for a dog-walking service. I cut that frivolity out.

You didn't refinance your house, not even for home improvements?

I refinanced, but I didn't take money out. It was all about getting lower interest rates. I've always maintained a balanced approach on that. I've been pretty involved in behavioral finance, so I haven't been terribly swayed by the momentum of the moment in the market. My 401(k) savings is in a pretty standard allocation. As a 52-year-old male, I have 40 to 45 % of my 401(k) in equities. I have other accounts of similar size that are 100% equities.

What would be your single piece of investment advice to readers? How should they have handled the crash of 2008-2009?

They should have been well diversified to begin with. Getting out in the middle of the crisis would have been an improper response. Those who pulled out at the trough in 2009 and who are still sitting on the sidelines aren't doing so well. But those who stayed the course recovered nicely.

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