Retirement Income
JOURNAL

RetirePreneur: Laurence Kotlikoff

By Jenna Gottlieb *Wed, Jul 15, 2015*

Laurence J. Kotlikoff is an economist, professor at Boston University and president of Economic Security Planning Inc., a personal finance planning software company.

What I do: I'm an economics professor at Boston University and I have conducted research on financial reform, personal finance, tax issues, Social Security, healthcare, pensions, saving, and insurance and other topics. I'm also the president of Economic Security Planning Inc., a company that makes and markets life-cycle personal financial planning software tools that determine how much households should spend and save and how they can safely raise their living standards in a host of ways, including optimizing Social Security benefit collection and retirement account contributions and withdrawals.

RetirePreneur: Laurence J. Kotlikoff
Company: Economic Security Planning, Inc.
Location: Boston, Mass.
Founded: 1993
Niche: Personal finance planning software and calculations

Who my clients are: Everyone in the country is a potential client. We target households directly and we also work with financial planners. We're don't market or advertise financial products. We license our software to individuals starting at $40 per license, and $200 for financial advisors.

My business model: Worry first about quality, second about glitz, and third about sales. Fortunately, I'm well paid by Boston University, so I've never had to rush products to market to meet personal bills.

Where I came from: I received my B.A. in Economics from the University of Pennsylvania in 1973 and my Ph.D. in Economics from Harvard University in 1977. From 1977 through 1983, I served on the faculties of economics of the University of California, Los Angeles and Yale University and spent a year working for the President's Council of Economic Advisors. I joined BU in 1984.

My latest book: My 17th book is "Get What's Yours—the Secrets to Maxing Out Your Social Security Benefits." It's co-authored with personal financial columnist Philip Moeller and PBS NewsHour correspondent Paul Solman. Social Security is incredibly complicated and playing your cards right can mean tens of thousands of extra dollars. The book is a guide to getting every dollar of benefits you've paid for, while avoiding Social Security's myriad gotchas.

My run for president: Politicians from both parties are slowly but surely driving our country broke. Our bureaucracy rivals that in Russia. We need to fix, for real and for good, our healthcare, Social Security, tax, and banking systems. In 2012, I laid out postcard length reforms at www.thepurpleplans.org hoping the presidential candidates would consider them. When politics-as-usual prevailed, I ran for president on the online Americans Elect platform. Unfortunately, after five months, the sponsors of this third party movement called it quits, which ended my candidacy. Running for president was a big step for an academic with little name recognition. I felt I owed it to my kids and all of our country's children to reveal our nation's true and truly desperate fiscal condition and how I and other economists think things should be fixed.

My entrepreneurial spirit: I got into economics because it uses theory and data to resolve real-world economic problems, whether at the level of the globe, the country, the household or the individual. My entrepreneurial spirit comes from a lot of places. But it's primarily from the desire to help people and make economics relevant. Most economists spend their lives describing economic mistakes. I think my profession needs to prescribe economic solutions.

What I see ahead for retirement income: The baby boom generation is woefully ill-prepared for what may be tremendously long retirements. This is thanks to the demise of defined benefit plans, failure to join and contribute to defined contribution plans, the failure to save enough on one's own, and the fact that Social Security, Medicare, and Medicaid are all broke on any reasonable present value calculation.

For its part, the financial industry is far too focused on selling expensive risky financial products. It sets replacement-rate saving targets that are miles too high and then lures people into buying high-yield, but also high-risk and high-fee, securities to make "their" target. There is little real interest in helping people safely raise their living standards. This is why I started my company and produce, with my dedicated colleagues, the software we sell.

The best retirement income plan for most people: Economists have worked on personal financial planning for over a century, starting with Yale's Irving Fisher. Fisher properly explained that people want to smooth their spending power over time—good times and bad times. We economists call this consumption smoothing. It underlies every aspect of the theories of saving, investment, and insurance. In the retirement area, people need spending targets that are sustainable and ways to raise their living standards with no risk. These include working longer, downsizing homes, moving to states with lower taxes, getting Social Security's best deal, considering Roth conversions, timing retirement account withdrawals—and the list goes on.

My view on robo-advisors: I obviously believe in the power of expert financial planning software to do enormous good. But quick and easy software is generally quick and dirty. People need to take planning their finances as seriously as dealing with their health. No one is looking for a three-minute annual health checkup; we need to be equally wary of quick software programs that are simply fancy sales tools. There is a huge conflict of interest in selling financial products and offering financial advice. This is why my company sells no products, recommends no one's products, and takes no advertising. Our software also provides no investment advice. Instead, we do what I think all financial software should do, namely show clients how different types of investments and current spending behaviors will affect the level and spread of their future living standards and then let the client decide how to invest. Robo-advisors don't solicit the large numbers of the inputs needed to produce intertemporal living standard risk-reward frontiers. Nor do they have the consumption-smoothing technology to make these calculations. I'd personally be very wary of anyone or anything telling me how to invest if they can't show me the possible living standard implications—upside and downside with all factors, including all future taxes, taken into account.

My thoughts on the DoL fiduciary proposal: I think it's appropriate—especially if the conveyor of investment advice is also selling financial products or otherwise benefiting from the amount and type of his/her client's investments. In my view, there is financial advice/education/suggestions and then there are product sales. Providing both involves a huge conflict of interest; if you are going to do so, better you should do so in the role of a fiduciary.

My retirement philosophy: I think people should work as long as possible, smooth their living standard through time, take advantage of the many safe ways to raise their living standard, and not count on their risky investments paying off. This is the basis for my company's product line.