How to Build Retirement Income That Lasts: Prudential's Phil Waldeck

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And I was very happy to see both their employers auto-enrolled them. And that's where I see where the psychology of this is so powerful, which is if you are hearing this message for decades and seeing your balance grow, in one sense, you take pride in the success that you're watching this balance grow.

But another sense, you feel a sense of loss if you start to take it out and you see it go down as you are now in retirement. And I think the art of this is to get the idea that this isn't about a balance of success. It's about having a way in which you can draw down your retirement savings into income that you won't outlive.

Steve Odland: In today's conversation, we're gonna talk about the new retirement reality and financial security in an age of longevity.

It's a lot of words but what it means is that we're living longer-- making great progress there-- but that's exposing issues in our retirement system. So joining me today to talk about all this is Phil Waldeck, head of businesses in the US at Prudential. Phil, welcome.

Phil Waldeck: Steve, thank you, and thanks to The Conference Board.

Steve Odland: Yeah. It's apropos that we're having this conversation because we are in National Retirement Security Month. I presume that you didn't describe it that way. It's some congressional designation, but it's a great initiative because it's meant to highlight where we are in our retirement system and what people should be thinking about, right?

Phil Waldeck: Retirement security is one of the defining themes of our time, so this month it's helpful to have focus on it. As longevity is increasing, as you described, and as a significant population moves into retirement, this matters more not only for the individual lives, but for our economy and for society more broadly. This is becoming a bigger and bigger need in terms of getting it right.

Steve Odland: Yeah, and here we are, the baby boomers are coming to the end of their careers. This generation has been the pig through the python on every aspect, because they're just so big. Boomers are the ones that were born between 1946 and 1964.

But you also see the beginning of the next generation, which is Gen X, are starting to retire too. So you've got a couple of generations here, and people are living longer. So you got a lot of people who are retired right now.

Phil Waldeck: There will be 75 million people over the age of 65 by the end of this decade in the US. And at the same time, you described how you've got multi-generations. You've got people in the middle that are the sandwich generation that are navigating the lives of their children, often adult children, and their parents, and taking care of their own retirement needs. That's a lot of wants.

Steve Odland: That's a lot, yeah. You got elder care, you've got children, you got grandchildren, you're retired. A lot of pressure on this generation, and hence, the subject, which is retirement security, right?

Phil Waldeck: Yes, and I would say there's pressure on our federal government and our fiscal resilience, given the state of the economy in terms of the size of debt compared to our GDP, 100% of GDP.

The ability of the government to do more to help in that situation has some limits given the scale of the obligations we already have and a need to secure those. But increasingly, individuals and employers will have to do more to make that system work better.

Steve Odland: Yeah, it's really true. The Conference Board has written a lot about this, where for over 40 trillion dollars in debt is way over 100% debt to GDP, but we're running 2 trillion dollars in deficit every single year, mostly because of Medicare and Social Security. So that's putting even more pressure on the system as you have more retirees going into all of that.

Phil Waldeck: And servicing that debt, I'm sure, is increasingly challenging as rates have risen. And to the extent that rates are greater than your rate of growth, that's a really tough squeeze play in terms of crowding out the rest of the budget. So yes, getting Social Security and Medicare, that's job one, but being able to do more than that in terms of the federal government, pretty challenging when it comes to retirement security.

Steve Odland: So in terms of what is the new reality, which is what you've been talking about, it is this growing population in this group. It's the cost of servicing it from a federal

and a state standpoint. But retirement funds are not returning as much and it's not as powerful with inflation as high as it is. So you've got declining buying power, all of this leading to some level of insecurity.

Phil Waldeck: And you don't have the structure that prior generations benefited from in terms of number of people under defined benefit plans that solve that collectively, and there's a reason why that became challenging for employers. But the reality is that's less and less likely to be providing the answers for employees who have workplace retirement in terms of defined contribution plans, but it's not the same in terms of their resilience to the risks that they face.

Steve Odland: So you've just completed a new survey just recently, the Retirement Pulse Survey, looking at retirement savings and all. Talk about some of the headlines from your survey.

Phil Waldeck: I think the headline here, and this is the 28th year we've done this survey. This survey's intended to identify financial, behavioral, and emotional challenges that Americans face. And right now we have what you just described, increasing longevity, a cohort that is facing those challenges, and a need to get prepared to navigate the uncertainty of retirement.

One of those uncertainties is how long will you live? And because of that, people often lack confidence in terms of entering retirement and the complexity of, gee, I built this account balance, but now how do I draw it down? Am I gonna take it out too fast and run out, or am I gonna take it down too slow and live more modestly?

So there is a significant cohort that has been successful through the workplace but that now is facing a new challenge in which they lack confidence and have a level of fear that's not good for them individually and not good for our society.

Steve Odland: You read, Phil, in the newspaper that this generation of retirees is the wealthiest ever, and it makes it sound like they're eating caviar every night or whatever it is. But that's not everybody. And there's a whole lot of people who are kinda living paycheck to paycheck, as it were.

Phil Waldeck: Yeah, so there's a few things going on. On one hand, there has been great progress on building retirement savings. That's been one of the successes over the last few decades in terms of employer-based plans and where there are defaults, auto-enrollment, auto-contribution, auto-allocation into investments.

So there is a segment of America that has done pretty good, meaning that's made real progress and built up a lot of retirement assets at the workplace and in IRAs. Then there is a group that doesn't have sufficient access, and they are vulnerable, that we need to get into some version of auto savings.

And for those that were relatively successful, that have built these balances, they're now

paralyzed often in terms of what do I do? How much do I draw down? And they have what we call FORO rather than FOMO-- meaning fear of running out rather than fear of missing out. And even those that have been successful see that balance and they're afraid to use it. And that's not good for them individually and it's not good for the economy overall in terms of spending and the dynamics that could otherwise occur.

Steve Odland: Yeah, I had a grandmother that lived to be 99, and I asked her, I said, " What wisdom do you wanna pass on?" And this was a few years ago. She said, "Well, don't outlive your retirement savings."

Which she was joking. She still had her sense of humor. But it's not a joke for a lot of folks who really have run through it very quickly, and particularly in high inflationary times, it's not covering the costs.

Phil Waldeck: And I think they are right to be concerned, meaning if there is a longevity pool of one where I've got to save for, is it 10 years or is it 30 years? Is it 40 years? That's a great variation in terms of how much do I need. And if it's a large population, that's what pension plans do, that's what Social Security does, that's what annuities do in terms of pooling longevity risk.

But if I'm an individual, I want to prepare for the worst. And so your 99-year-old grandmother had some logic in what she was saying that she appropriately didn't want to run out.

Steve Odland: But the baby boomers have been told from the beginning of their adulthood, "Don't count on Social Security 'cause there's, it's not gonna be around. You're gonna pay in your entire life and you're gonna get nothing out of it." It hasn't come to fruition, but you can see in a very short period of time where that might happen. And so it does mean that there's gonna be greater pressure from a private standpoint and from a self-assurance standpoint on making sure that people can cover their own.

Phil Waldeck: Yeah, I would be astonished if our society let that happen. I think we obviously-

Steve Odland: But it could be means tested.

Phil Waldeck: It could be means tested. There could be a variety of solutions that could change Social Security. But it is a great success in terms of protecting elderly against poverty.

But to the broader point, we are gonna be debating that over the next few years knowing that the point with which there will be insufficient Social Security funds to meet obligations that is coming, and it's not that far, 2032. That will put this in the spotlight, and that will increase anxiety for baby boomers and others which is, all right, what can I count on and how do I protect myself?

And that's where I think having some portion of one's retirement capabilities being protected lifetime income is an important dynamic, and that's part of what the private sector, employers, financial institutions, insurers can be a part of.

Steve Odland: And you think of this as a challenge, and we've been talking about it in terms of the baby boomers, early Gen Xers, but if you're a Gen Z or even a Gen Alpha, it might be even worse. You really have to be thinking about retirement from the very beginning of your adulthood.

Phil Waldeck: Yes, and I have in-laws and a parent who are in their 90s, so I see one side of it, and then I have kids in their 20s. My kids have heard that debate many times at the table, which is you need to be in at the beginning.

And I was very happy to see both their employers auto-enrolled them. Both their employers have contribution escalation and auto allocation into target date funds. Those are the types of solutions that work, and that's part of how you get that generation on the right track. It also needs some version of auto income as a way in which they can safely draw down and have pooled longevity, and I think that's the missing part of that auto equation, either at the workplace or through individuals.

Steve Odland: Yeah, so talk about that because one piece of it is collect the assets. The other piece of it is make sure that the assets produce enough income so that you can live year to year without depleting all those assets, right?

Phil Waldeck: And that's where I see where the psychology of this is so powerful, which is if you are hearing this message for decades and seeing your balance grow, in one sense, you take pride in the success that you're watching this balance grow.

But another sense, you feel a sense of loss if you start to take it out and you see it go down as you are now in retirement. And I think the art of this is to get the idea that this isn't about a balance of success. It's about having a way in which you can draw down your retirement savings into income that you won't outlive.

And that's a mindset shift that can be helped at the workplace and in other varieties of environments in which you start to see your balance as an income stream, what it produces as opposed to just a balance.

Steve Odland: And then there's the mix. When you're more junior in your career or your lifetime actuarially, you try to produce growth and then later on you try to reposition for income. And this is something that Prudential are experts at.

Phil Waldeck: Yes. So I think yes, you do need both, and you're gonna need some element of that growth into the decades that you may live after retirement. So I'm not implying that 100% of somebody's balance should suddenly be an income, but a portion of it is appropriate.

And communicating what that might produce in income along the way, every single statement, every single communication, that's how you change the orientation so it's not just about the balance and what does the balance accomplish for you.

Steve Odland: , Phil, there used to be this magic thing. You do X amount in equities, X amount in fixed and, yeah. And that didn't work for about the last 10 or 20 years. What do you do now?

Phil Waldeck: I think there is uncertainty that people face, whether it's inflation, whether it's health care costs, whether it's concerns about the economy, and that's where diversification is valuable, where some version of protection is appropriate, meaning having your basics covered.

And our survey demonstrates that people really value having their basics covered so they then have the license to spend on things beyond their basics. So I think some level of pooling of risks, both market risks and longevity risk, is a helpful solution for people.

Steve Odland: Yeah, now risk is something else that your study looked at and there's the risk you just talked about but there's also just risk in life. Which is what you try to insure for. There's risk of catastrophic loss. There's risk of a market crash, which seems to happen, you know more regularly than you'd like. Financial crises. But also personal issues like health issues that can deplete your capital base, right? So you've gotta balance all of that risk and backstop for it.

Phil Waldeck: It's a very complex undertaking when you think about when I referenced the pension plan before. It took care of a lot of that for someone. But I think that's why ultimately people need to be in early on retirement savings, the autos.

People need a structure that gets them on the right path that they could default out of. And then they're gonna need advice and guidance on how to then move into retirement and have a portion that's protected and a portion that's flexible, both to either grow or to be used for larger exposures like long-term care or a big health care expense.

And that's why you need to have a balance of both income that's protected that you can't outlive but also an investment account that could be drawn on for the types of risks that you referenced.

Steve Odland: Yeah, now what we were told coming up is save as much as humanly possible. Put it away. You don't know about the future and it's uncertain. All that. But now you hear the politicians saying people have too much. There's no reason why you need more than whatever your favorite number is in an IRA, and we're gonna start seizing assets in the IRA.

You probably heard some of this as well. And so the cynical people say why should I bother doing this when all the politicians are gonna take it away? How do you respond to that?

Phil Waldeck: I think that we've done a lot very well in terms of building the savings base and I think the security of those assets, I would have confidence that the existing retirement system, both individual and workplace, will be preserved and protected, in part because what we started our conversation on in terms of debt to GDP, the scale of the problem, and the efficiency that the economy gets when things are pooled.

It costs a lot more if every individual has to save to 100 as opposed to having the pooling of risk. I don't think the politicians will be tapping the piggy bank the way that you just described.

Steve Odland: You never know, but that's the prevailing wisdom. Now, then you have the whole pre-tax versus post-tax debate about savings. You have a point of view on that?

Phil Waldeck: There are benefits to young people going the route of Roth and paying their taxes up front. So it depends on your age and your time horizon.

Steve Odland: And your tax rate.

Phil Waldeck: Exactly.

Steve Odland: Yeah. Yeah. And it's a balance and this is why if you don't have the expertise on your own, you really should seek the expertise, right?

Phil Waldeck: And that's another one of the themes that is emerging from our survey, which is roughly a quarter of people have advice-- which means three quarters don't-- and roughly a quarter of the people have a plan in terms of some sort of withdrawal strategy. And people need more advice, need more access to financial advisors, need that in a objective way that aligns with their interests. And it needs to happen at the workplace and outside of the workplace because these are complicated topics for people to navigate.

Steve Odland: How do you know who to trust? I have my own point of view on that but how do you advise people? 'Cause you hear these stories about well, they're making their money on the churn. They're putting you in the kind of investment vehicles where it's good for them but it may not be good for you. Just give us some themes on what our listeners should look for.

Phil Waldeck: I think for most Americans, they have a lot of trust in their employer and the employer has fiduciary responsibilities for their workplace plans, and they're gonna want to do the right thing for their workers, and they'd wanna do so in a way that doesn't expose their firm.

So I think whatever can be delivered via the workplace is a really effective platform. And having unbiased advice or guidance is valuable in that setting. Beyond that, fee-based advice is particularly valuable where-

Steve Odland: Meaning, meaning pay the fee up front rather, it be, than-

Phil Waldeck: Rather than the commission.

And there are commission products that can support advisors as well, but I think understand what the economic model is of the advice provider. I think we will see more through AI, that can be a useful tool. Now, our research shows that people really use those tools today and will do so increasingly, but they're gonna expect human judgment as well as the AI digital resources.

But that will bring costs down in terms of the ability to deliver advice, complement that with people. There's many sources. Prudential, for example, has Prudential wealth advisors that provide fee-based advice. That's one arena.

Steve Odland: And the benefit of that, Phil, is that you're paying them a fee to give you the advice. They make nothing more off of any trade, rapid trading, or what they put you in. So it's the advice alone that you're paying for rather than making it on some sort of churn.

Phil Waldeck: And if there is a product, it should be explicit that there is a product with commissions associated with it. And when I described our version of it, but it's not unique to Prudential, having that fee-based advice separate from products I think is a way to align interests.

Steve Odland: John Bogle was the expert at indexing and the low-cost funds. Talk about the importance of that.

Phil Waldeck: I think fees matter. But probably in addition to having the right diversification of assets that are properly allocated and appropriate for your time horizon and your liquidity needs, making sure that they're efficient. Once again, that's a good thing about the workplace. You have an institutional buyer that is making those choices that includes significant levels of indexing.

However, getting the asset allocation right if you are not able to do the drawdown part of it and have it last a long time, there are exposures that you gotta make sure you're protecting against. So it requires a balance of each of these issues.

Steve Odland: You had talked a little bit about the responsibility of the employer. And some of that is legal. ERISA and another rule. We have a lot of listeners who are human capital professionals and C-Suite folks. It really is a different world, and the role of the employer and the trust in the employer is absolutely critical.

So it's a benefit, but it's part of the whole relationship with your employees, right?

Phil Waldeck: Yes. Employers consistently care about their workforce. Now, they have business to run, so this is part of their economic model, but I think it is sincere that employers are doing and want to do the right thing.

Ensure there's governance around what they do in terms of their fiduciary obligations. But employers are a real force for good in this system, and I think how we get policymakers, employers, financial providers, academics on the same page to help employers have the either legislative and/or regulatory support to do this properly. That's how we can get to a better place both for workplace plans, for communicating income, for making income solutions defaults that can be a part of a plan for a portion of the assets.

But that role of the employer has been part of the success that has gotten us to where we are today.

Steve Odland: It is a frustration that we hear over and over again from CHROs that employees don't value the benefits component of their total rewards. They look at base salary 'cause they know they can count on that. They can see it in their paycheck, however frequently that is. Even an annual bonus, it's a black box. They don't count on it. It doesn't motivate employment. And so more and more you hear, "Gosh, I should just start getting rid of the benefits because there's the people aren't valuing them. They're job hopping based on getting a bump in the base when you've got all this huge amount of compensation that's really in the benefits side." How do you advise CHROs and other executives to to deal with this in a way that is salient to their employees?

Phil Waldeck: They will know their own workforce better than you or I will. Health care is probably the issue that is most challenging there. It costs more than employees think, and that is squeezing the employers more and more given the rate of health care inflation.

But I think ultimately, this is part of the glue that sticks with employees, particularly when we have economic downturns and periods of stress in the economy. I think this is part of the value proposition that gets long-term stickiness, which is valuable for employers given the cost of turnover.

Steve Odland: Yeah. Now, we're in the US, we're not in Europe, but you read about the UK system where they've lengthened the retirement age to 68. At the same time, you've got France at 62 and rioting when they try to move it up by a day or two. It's really remarkable. And you have some of that debate still here in the US, and you have people who say, "Oh, I can't wait, I'm gonna retire at 55." Shouldn't people be thinking about keeping the income stream going longer as well?

Phil Waldeck: There's a variety of reasons as an individual, as an employer, and as society, where it is beneficial to have people working longer. We're gonna have that demographic upside-down pyramid, lots of baby boomers, not that many workers, harder for the economy to grow and harder for those workers to support this system.

But we recently sponsored a survey earlier this year with the Global Aging Institute that looked at five different countries-- UK, US, Japan, Netherlands, and Australia-- and the US has a voluntary system where employers choose to offer plans, so we have to make it attractive to employers to wanna do so.

And I think that's part of the balancing act. Sure, if you could just mandate outcomes that would create results on paper, but politically that wouldn't work in our society. So this voluntary system that we have has done a lot really well. The increase in coverage, the effectiveness at building those balances that we discussed earlier.

But I think if you're potentially gonna have a 30 or even 40-year retirement, that age 55 retiree doesn't make a lot of sense.

Steve Odland: Yeah. Now you mentioned AI a little earlier. Is AI really gonna be a helpful tool to individuals through this process and/or is it gonna be helpful to employers in this process as well, or is it still a lot of hype?

Phil Waldeck: I think it ultimately will be helpful to individuals and to employers. You know, what activity did you take in the last week in which you purchased something where you started with AI? Probably the way you used to Google it, now you use an AI engine. When you approach that interaction, you've got some foundation of knowledge.

When you go to the doctor, etc., people are tapping it as a way to get up to speed. Employers will do that, individuals will do that, and in this space that has great opportunity to make things more effective and cost efficiently effective that has an opportunity, and I think that can be good.

Steve Odland: And you would think that individuals would be able to put in enough information about where they are in their life, what their income level is, what their asset base is, what their plans are, and do scenario planning essentially and you still are relying on actuarial data. Nobody knows how long they're gonna live and what their needs are but it ought to be pretty instructive in terms of, "Hey, this is how much you gotta save. Here's how you should be thinking about it," all the things you talked about in order to get to the end successfully.

Phil Waldeck: Yes, and I think individuals will do this, companies will do this for their workplace plans, and advisors that are advising those individuals inside and outside of the workplace, those advisors have their own AI engines that are helping them be more efficient and effective. In our survey we identify that individuals want the AI engine and they want the human advice. So I think it's gonna be an and, not an or.

Steve Odland: Yeah. It's really important 'cause you can't just turn this thing over to a tool that doesn't have an overlay of human judgment on it.

Phil Waldeck: Yeah. There obviously has to be a regulatory overlay here to make sure it's done right, and there needs to be human judgment to help people. And sometimes it is helping people know what they need to do and actually do it. The challenge often is one of access, where people need access to that extra coaching and discipline to get it done because left to their own devices they often avoid complicated decisions.

And when you avoid things associated with retirement, time is not your friend. Starting

early, getting it in place right, is way better if you do it early, including these income solutions.

Steve Odland: Any final thoughts here that we haven't covered or any other insights from your survey that you wanna share with people?

Phil Waldeck: I think I would ask employers to take the next stage in terms of making sure income is understood and visible in terms of translating those balances. Work to have income solutions in your plan, and then if I'm an individual, you need to build a plan. And that means use the tools from your workplace and individually to understand how to build this plan, including a withdrawal strategy.

And then I think probably for everybody, we need to support policy that makes this more likely to happen, which is why I keep hammering on the default aspect of it 'cause I think that's how we get better outcomes as a society.

Steve Odland: And the reason for a National Retirement Security Month, which we're in, is to raise awareness of this and really give permission and remind employers that you need to do a little education here for your employees about the importance of all of this.

Phil Waldeck: Exactly, Steve. There is a whole generation of people that are approaching retirement or just starting retirement that have been savers, and how do you turn them into effective spenders? That's a very different dynamic for this next stage of their life.

Steve Odland: Phil Waldeck from Prudential, thanks for being with us today.

Phil Waldeck: Great pleasure. Thank you, Steve.

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