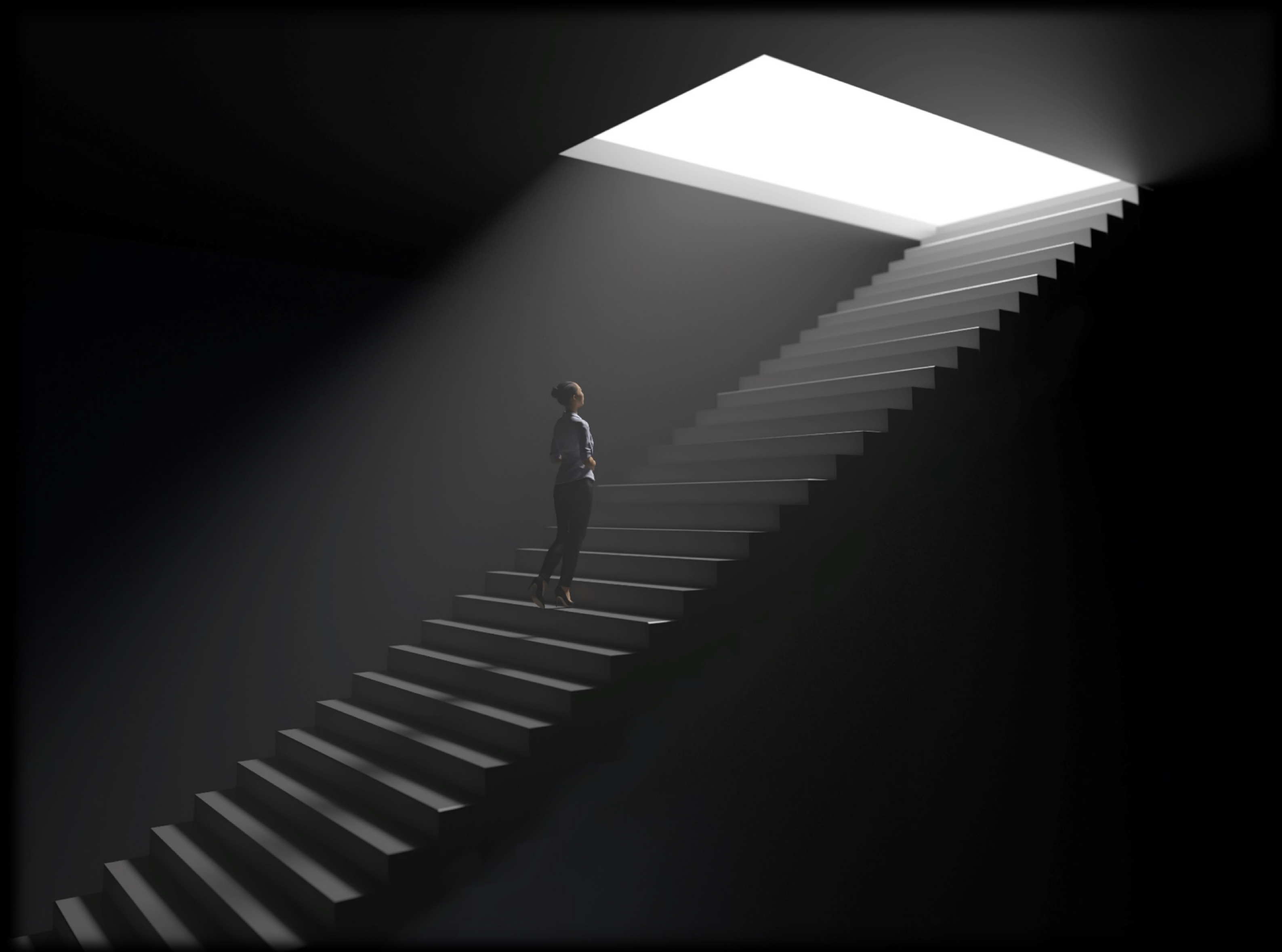
Retirement Planning as We Know it is a Lonely Pursuit of Capital, it Shouldn't Be So



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Moving From Labourer to Capitalist

In Charles Farrell's book *Your Money Ratios*, he argues that there is a fundamental theory that should link all decisions relating to personal finance. He calls this *The Unifying Theory of Personal Finance*. This theory posits that, all decisions a person makes should focus on moving one from being a labourer to a capitalist. He emphasises looking beyond the political connotations of the words "*labourer*" and "*capitalist*". A labourer receives wages/salary for services provided, so labour here means working to earn an income. A capitalist is not paid for labour provided, but for the use of money (capital) owned. This payment can be in the form of interest, dividends, or capital appreciation (capital gains). At retirement, we leave the labour force and ideally, would have accumulated enough capital to generate the income we need. So, at retirement, we move from a being labourers to a capitalists.

The process from moving from labourer to capitalist is what retirement planning is about, and the most common approach projects your contributions over time to estimate whether you will achieve your retirement goals. This is usually a targeted replacement ratio of say 75% of current income. This approach focuses almost exclusively on financial security, assuming that the only (or main) risk in retirement planning is running out of retirement savings as it fails to address the psychological and social risks.

A Socio-financial Process of Risk Sharing

Retirement should not be viewed as a destination where one plans to reach with enough saved, so, planning for retirement must evolve from merely saving for the future, to include, 'investing' in relationships now. The concept of retirement should be reframed as a continuous process, one that addresses both the present and the future, ensuring that one is not only prepared financially but socially and psychologically. The social and psychological elements entail building meaningful connections today as a proactive way to mitigate the psychological and public health burdens of loneliness now and/or later in life.

Our ancestors, starting off as hunter and gatherers, then as farmers, worked to provide for the needs of their offsprings and in their old age, their offsprings took care of them. This is arguably the oldest 'retirement planning strategy' and has been in existence for some thousands of years now. Although this is not the most effective approach to retirement planning, there are some inherent benefits to this approach which can be incorporated into modern retirement planning. The family structure in itself is a retirement tool which is barely accounted for in retirement planning. And this 'family structure' can be seen in a more advanced form in pay-as-you-go pension systems where current workers' contributions are used to fund the benefits of current retirees[1].

Families in some cases (and in many developing economies with under-developed pension systems), tend be partial substitutes for private retirement annuities markets. Laurence Kotlikoff and Avia Spivak, in a study in the Journal of Political Economy, titled *The Family as an Incomplete Annuities Market*, suggest that arrangements of implicit risk-sharing within marriage and the family can serve as a substitute for buying retirement annuities. The philosophy of Ubuntu shows that implicit risk sharing

[1] The Old Age Pensions system in SA and the Social Security system in the US and the Algemene Ouderdomswet in the Netherlands, are examples of pay-as-you-go pension systems.

is part of South African culture, and Black Tax[2], and the Sandwich Generation[3] further strengthens this implicit risk sharing arrangement. Retirement planning in this instance becomes a socio-financial process of risk sharing.

The Challenges of Sharing in a Hyper Individualistic World

Undoubtedly, Black Tax and the phenomenon of Sandwich Generation come with financial stress, and this stress is exacerbated by our exclusive focus on the pursuit of capital, which makes us view these issues from the perspective of *having*, and not from the perspective of *being*. Harvard Professor of Sociology, Michèle Lamont, in her article in the British Journal of Sociology, *From 'Having' to 'Being': Self-Worth and the Current Crisis of American Society*, for example, argues that the focus on material success, competition and self-reliance, is creating a mental health crisis.

In his book *Lonely at the Top: The High Cost of Men's Success*, Thomas Joiner, Professor of Psychology at Florida State University, argues that men sacrifice emotional connections in pursuit of external success, and this can lead to a sense of isolation and emotional emptiness. This 'trade' for success leaves men without the skills or support networks to cope with loneliness. But loneliness is not peculiar to men. Renowned public health expert Dr Jeremy Nobel, in his research, captures the rising loneliness and metal health crisis in the United States and the broader public health crisis emanating from disconnection from oneself and others. Michèle Lamont suggests that one possible way forward is to broaden the criteria of self-worth from 'having' to 'being', which entails valuing oneself (and others) based on their relations to others, experiences, moral and other qualities rather than on what material resources one has.

Pockets Half Empty or Half Full?

Black Tax, and the Sandwich Generation phenomenon is an implicit (albeit inefficient) risk sharing arrangement. But how we view it can make a difference on how it impacts us psychologically. For example, every breath we draw in, is one more breath exhausted, thus one more breath closer to death. Waking up every day is one more day closer to death. But on our birthdays, we don't mourn our increasing progression to death. We celebrate life. We celebrate being human. We celebrate being alive. And in most cases, we would prefer celebrating it with people close to us.

Reframing the associated responsibilities of Black Tax and the sandwich generation as an implicit risk sharing arrangement and investments in social connection, can shift their role in retirement planning. Supporting others in their old age is essentially paying for (a part of) their retirement, but it also forges intergenerational bonds and ensures that social connections persist, reducing loneliness both for the payer and the recipient. Research from the University of Michigan found that older adults with strong family ties – whether they live close by or not – reported better mental health and social participation compared to those without such connections. Supporting parents for example, foster ongoing relationships and creates a sense of purpose and belonging. Studies have shown that people who provide financial and emotional support to family members often experience higher levels of life satisfaction and emotional wellbeing. The act of giving is tied to feeling of responsibility, compassion and connectedness which reduces loneliness and enhances one's social network.

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[2] Black Tax in the South African context refers to the financial support that employed Black individuals provide to their extended family members, often due to historical socioeconomic inequalities, creating an added financial burden.

[3] The sandwich generation refers to individuals who are simultaneously responsible for supporting their aging parents and raising their own children, often leading to financial and emotional strain.

From Human *Being* to Human *Having*

An accumulation drive which ignores other social and psychologically important factors, is increasing pushing us from [human] *being* to [human] *having*, which is in turn pushing us into a sad reality. Think about a lion in its prime. It is untouchable until old age sets in. Once a great lion, now not strong enough to chase and catch its prey, it starves until a pack of hyenas snatch it away as prey. At any given day, its offsprings, now in their prime, could have easily fed and protected it from such sad end. But they are busy with their own lives, until they also meet this sad end. We plough on in life to accumulate wealth to meet our financial goals despite increasing loneliness, only to reach that goal and be prey to a pack of hyenas[4].

Comfortable retirement includes financial, social and psychological comfort. We must not only plan financially, but socially and psychologically. The nonfinancial factors are just as important as the financial factors. Modern retirement planning looks at not just the money, and not only focused on the future but the present. After answering the question: am I saving enough for retirement, it must also seek to answer: how healthy are my relationships today? What work (paid or otherwise) will I do when I retire? And ideally, the plan should include a seamless transition into a new phase of work[5]. Planning towards this new phase of working life is important because an abrupt transition from a structured work environment to retirement may lead to loss of social interaction, routine, a sense of purpose, and sometimes, loneliness, which is now a public health crisis[6].

Behavioural Biases to the Rescue!

Although it is mainly the negative side of behavioural biases that are reported in financial planning textbooks, there are some positive elements which can be roped into retirement advisory strategies. Diane Garnick, Chief Income Strategist at TIAA[7] for example, points to the use of mental accounting to boost attitude towards retirement savings. Social Comparison Theory suggests that individuals evaluate themselves in relation to others. Referencing social concerns like Black Tax and Sandwich Generation to highlight a common social challenge may motivate people to act to avoid being considered as contributors to this social challenge as social identity plays a role in financial behaviour.

There is a psychological drive to maintain independence, especially as people age. Studies show that the fear of losing financial independence to become financially dependent after several years of independence, is a strong motivation for retirement planning. The framing effect, for instance, can thus have a positive impact on retirement savings by reframing the question from an accumulation's perspective to a loss perspective to kick in the loss aversion bias. As humans, we are more motivated to avoid losses, than to acquire equivalent gains[8].

Moving From a Lonely Pursuit of Capital to A Socio-financial Process of Risk Sharing

Modern retirement planning focuses on efficient risk sharing, and risk mitigation/minimisation. The pursuit of capital helps avoid the financial risk of running out of funds to live on during retirement, it also helps reduce the challenge of Black Tax and Sandwich Generation. The social element of forging

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[4] Loneliness, and its associated costs including cognitive decline, etc in old age makes the aged prey to various form of scams, abuse and health risks.

[5] Work is part of human life and gives us a sense of meaning. This new phase of work could be remunerated, partially remunerated or non-remunerated at all (most likely not full-time), but with the main focus of reaping the psychological and social benefits that come with work. Financial benefit in this phase ideally, should be secondary.

[6] Several studies have found that loneliness can be as harmful as smoking 15 cigarettes a day, and linked to increased risk of stroke and heart disease, weakened immune system, higher rates of depression and anxiety, cognitive decline and premature mortality.

[7] Teachers Insurance and Annuity Association of America.

[8] This is confirmed by the Prospect Theory

intergenerational bonds and planning towards a transition into a different kind of work life help reduce the risk of loneliness and help in crafting a sense of purpose.

Are you saving towards a golden age of loneliness? Are you saving up to the time to finally lookback with regret for not spending enough time with family and people close to you? Retirement planning must shift from the rigid focus on wealth accumulation, to laying emphasis on how to harmonise wealth, time and life purpose. It must expand beyond the financial focus to factor in the social the psychological elements.

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Prof Sarpong is an Associate Professor of Finance at the School of Financial Planning Law, University of the Free State and the Founder and Director of the Centre for Financial Planning Studies. In January 2024, he joined AI2030, an Artificial Intelligence Think Tank based in Washington DC, as an Advisory Board member.

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