

MILLENNIALS AND RETIREMENT

Elliot Schreur

Despite coming of age in a tough economic climate, Millennials perceive their financial prospects to be favorable even in the face of overwhelmingly gloomy evidence about their retirement preparedness.¹ But being financially secure in retirement takes more than optimism. The evidence about Millennials' actual financial status reveals a generation struggling to save for the long-term, a problem complicated by the unique economic and employment situations it faces and by the policy landscape it has inherited.

Current Conditions

Millennials are beginning their working lives at a time when defined-benefit pensions are becoming rarer and Social Security payments are covering a declining share of earnings. Future retirees will have to rely more heavily on individual savings in order to be financial secure in retirement. Most Millennials understand this: 66 percent of Millennial workers expect their primary source of income in retirement to be self-funded.² This expectation is consonant with Millennials' anticipation that Social Security will not be a reliable source of income for them in retirement. One survey found that 81 percent of Millennial workers were concerned that Social Security would "not be there for them" in retirement,³ and another found that 51 percent of Millennials expected that they would receive no benefits at all from Social Security.⁴

Whatever the method by which Millennials hope to save for retirement, they remain confident in their long-term financial security. Eight-five percent of Millennials say they either already have or will have "enough [money, assets, resources] to lead the kind of life they want."⁵ And 68 percent of Millennial workers are confident they "will be able to fully retire with a comfortable lifestyle."⁶ But will they, as a generation, be able to attain their own high standards of savings and wealth accumulation to make this expectation of a comfortable retirement a reality? To answer that, we first have to consider how Millennials think of retirement.

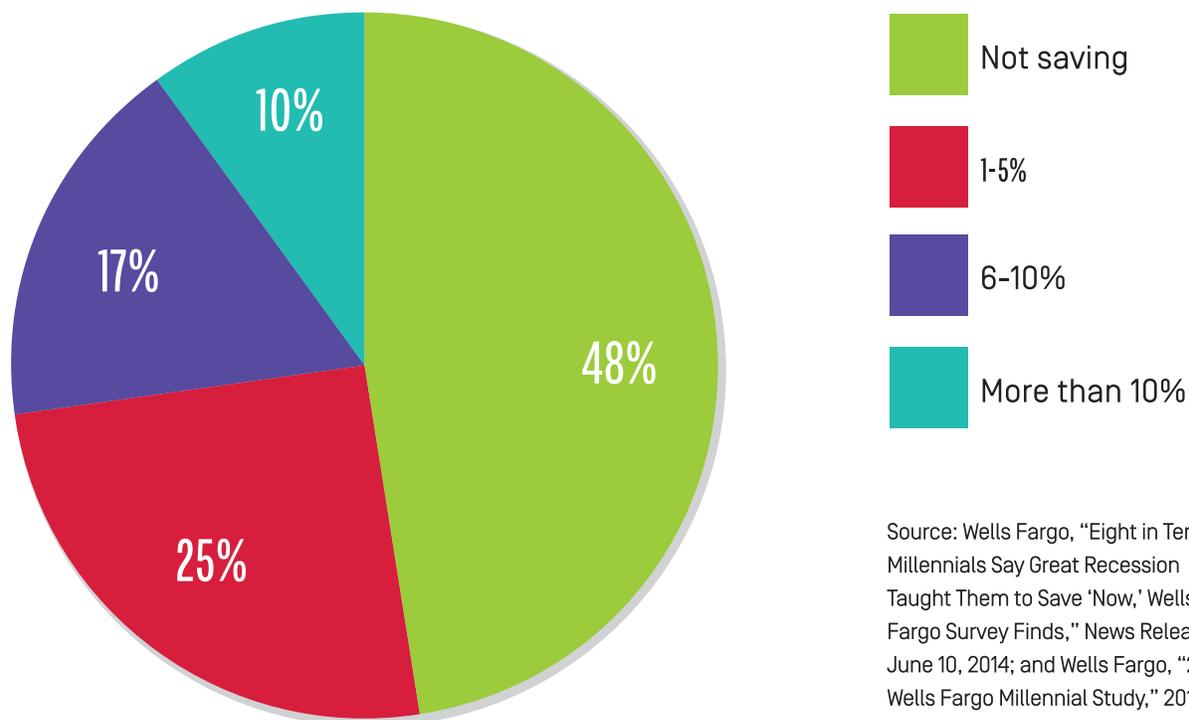
Americans of all ages are beginning to see retirement not as the end of work, as it once was, but as something in between full-time work and full-time leisure. While a majority of

current retirees still hold the customary view that retirement means the end of work,⁷ a large majority of younger workers plan to work in retirement. About six-in-ten employed Millennials plan a "phased" retirement that involves work in some capacity, and about half plan to continue working for a significant time after reaching retirement.⁸ This expectation to work in retirement is not unique to the Millennial generation: an even greater share of pre-retirees over 50 say they plan to work in retirement, perhaps reflecting a change in attitudes about the emotional fulfillment offered by work as well as a recognition of the financial imperative to continue earning income for a longer period of time.⁹ Indeed, Gen Xers and Baby Boomers are significantly more likely than Millennials to say they will work in retirement by necessity as opposed to enjoyment. Millennials' motivation to work in retirement primarily for enjoyment is reminiscent of their desire to seek work they find meaningful, even at the expense of lower pay.¹⁰

Even if Millennials expect to work in retirement, whether by choice or necessity, it remains to be seen how they will cope with unexpected economic hardship. As the experience of the Great Recession demonstrated, relying on employment income alone can be risky for those without other financial resources. Will Millennials' experience of the recession lead to higher levels of saving and a greater demand for expanded social-protection policies like Social Security?

To date, the evidence about the saving habits of Millennials is mixed. One optimistic report did apply the moniker "super savers" to Millennials, suggesting their status as a supposed outlier generation in terms of retirement preparation.¹¹ According to the survey, Millennials started saving for retirement earlier than previous generations,¹² and are putting away a relatively larger percentage of their salaries (8 percent) in retirement savings compared to other generations.¹³ However, these results apply only to Millennials who are currently employed, and, in the case of the reported high retirement-contribution percentage, the results apply only to the subset of employed Millennials who were offered an employer-based retirement plan and opted to participate, so this provides a limited and non-representative picture of retirement preparedness.

Percent of Millennials Saving Indicated Portion of Income for Retirement, 2014

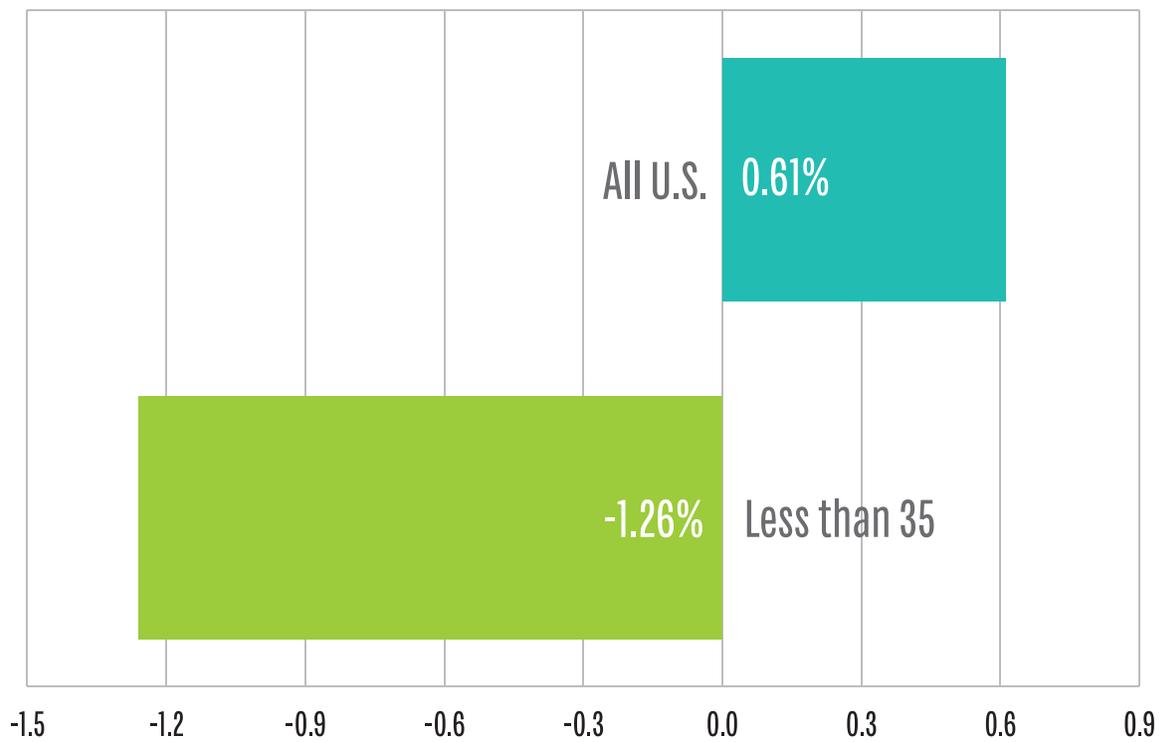


Source: Wells Fargo, "Eight in Ten Millennials Say Great Recession Taught Them to Save 'Now,' Wells Fargo Survey Finds," News Release, June 10, 2014; and Wells Fargo, "2014 Wells Fargo Millennial Study," 2014.

Studies that have used a broader scope in examining a more diverse set of Millennials have found much less promising indications of Millennials' saving habits. A Wells Fargo survey found that only around half are saving anything for retirement, and about half of those who are saving for retirement are saving less than 5 percent of their income.¹⁴ Furthermore, comparing these results to a different survey, conducted by FINRA, reveals that some Millennials may be overly generous about their definition of retirement savings when answering a retirement-readiness survey. The FINRA survey found that only 40 percent of Millennials have a retirement account, suggesting that some Millennials counted by the Wells Fargo survey may be merely saving for general purposes, with an indistinct intention to reserve some of those funds for retirement.¹⁵ Saving in this fashion may not be all bad for Millennials, as building an emergency fund is a necessary step to securely saving for the long term,¹⁶ but it does suggest that Millennials might not be as retirement-focused as some reports have suggested.

Their habit of saving in non-retirement vehicles such as saving accounts, often offering very low-yields,¹⁷ may be an indication of their real or perceived inability to sustainably build long-term savings in the current economic climate. Or it may be an indication of their understandable preference to have access to cash-on-hand to offer short-term financial flexibility, even at the expense of saving for longer-term needs. This second explanation is supported by surveys showing that Millennials are actually more willing to take on investment risk compared to older Americans,¹⁸ which makes sense given that they have a longer time horizon in front of them to consolidate gains and recover from market losses than do older Americans nearing retirement. Still, the choice of many Millennials to forego higher long-term yields in favor of short-term accessible funds may put younger Americans at a severe financial disadvantage decades hence when they look to their individual savings to finance retirement.

Percent Change In The Number Of Households With A Retirement Account, 1998-2013



Source: Board of Governors of the Federal Reserve System, "2013 Survey of Consumer Finances," 2014.

Regardless of their savings preferences, research from the National Institute on Retirement Security found that the median retirement account balance for Millennials in 2010 was \$0.¹⁹ This finding suggests that the ability of Millennials to save has been undercut by their experiences in a weak job market characterized by declining incomes. Forty percent of all unemployed workers in mid-2014 were Millennials,²⁰ though the generation makes up only about 30 percent of the population.²¹ For comparison, the overall unemployment rate during the same period was 6.1 percent, compared to 15.2 percent for Millennials.²² Research from the Urban Institute shows that, as a result of the Great Recession, Millennials have less wealth than previous generations did at the same age.²³ Additionally, the few assets Millennials have managed to accumulate seem to be stuck in a holding pattern, not growing as has the wealth of older Americans over the same period. This suggests that the net wealth of Millennials may be held down by high levels of debt and by the need to hold more assets in low-yield, accessible financial instruments as a precaution against short-term financial exigencies.

These facts do not bode well for a generation that expects to rely primarily on individual savings in old age.

Policy Landscape

Millennials have been born into a complex and largely inefficient retirement-policy landscape. The inability of policymakers to develop a consensus around how to finance Social Security has sowed doubt among future beneficiaries. This in and of itself is creating obstacles for long-term financial planning. Additionally, the policies that are in place to support savings mostly reach higher-income and higher-wealth families. The households that could use the support and might actually respond to incentives to increase their savings are largely left out by current policy. So the very generation that is facing doubts about the viability of current social-protection policies—and therefore must embrace higher levels of savings—is simultaneously confronted with policy impediments to providing for their own retirement security.

To complicate matters, researchers at the Urban Institute have noted that, even beyond the expectation of receiving limited Social Security benefits, the Millennial generation in retirement will be responsible for paying off the debts incurred by previous generations.²⁴ Future tax burdens will be higher to pay for the inefficient and regressive savings policies of today. Since policies like the preferential tax treatment of retirement savings and the mortgage interest deduction overwhelmingly benefit Americans with high levels of existing wealth and lucrative employment positions, they largely fail to serve the Millennial generation still struggling to gain a foothold in the labor market.²⁵

The Challenges to Address

The fiscal pressures that have come as a result of the Great Recession continue to stress commitments to a broad array of public investments, including programs devoted to retirement security. Given the adverse employment situation Millennials have had to face and their limited access to appropriate retirement-savings options, the need for a fully funded Social Security program will be an essential element to providing Millennials a secure retirement.

Policymakers could provide support by taking action to address a number of barriers to building savings in general and long-term savings in particular. They should acknowledge the impediments created by the scarcity of good jobs, which is keeping younger Americans out of work longer and at higher rates than young members of previous generations. They should also take action to ensure that everyone in the workforce is able to participate in a retirement saving plan, whether employer-sponsored or otherwise. Finally, they should reform the current saving incentives to benefit more low-wage workers, the very people who need the most help. This last policy change is especially important for the Millennial generation, whose members are expected to have to rely on individual savings to an unprecedented extent compared to previous generations. Young Americans of the Millennial generation face extraordinary obstacles to adequately preparing for their retirement. Helping them overcome those obstacles will require prudent and farsighted policy solutions.

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Endnotes

¹ Pew Research Center, “Millennials in Adulthood: Detached from Institutions, Networked with Friends,” 2014, p. 41.

² Catherine Collinson, “Millennial Workers: An Emerging Generation of Super Savers,” Transamerica Center for Retirement Studies, 2014, p. 26.

³ Collinson 2014, p. 27.

⁴ Pew, “Millennials in Adulthood,” 2014, p. 37.

⁵ Pew, “Millennials in Adulthood,” 2014, p. 51.

⁶ Collinson 2014, p. 19.

⁷ Merrill Lynch, “Work in Retirement: Myths and Motivations,” Bank of America Corporation, 2014, p. 7.

⁸ Collinson 2014, p. 21-22.

⁹ Merrill Lynch 2014, p. 7.

¹⁰ iOpener Institute for People and Performance, “Job fulfillment, not pay, retains Generation Y talent,” 2012.

¹¹ Collinson 2014.

¹² Collinson 2014, p. 28.

¹³ Collinson 2014, p. 31.

¹⁴ Wells Fargo, “Eight in Ten Millennials Say Great Recession Taught Them to Save ‘Now,’ Wells Fargo Survey Finds,” News Release, June 10, 2014; Wells Fargo, “2014 Wells Fargo Millennial Study,” 2014, see chart, “Percent of Income Millennials are Currently Saving for Retirement.”

¹⁵ Mottola 2014, p. 4.

¹⁶ Reid Cramer, Justin King, Elliot Schreur, Aleta Sprague, “Solving the Retirement Puzzle: The Potential of myRAs to Build a Personal Safety Net,” New America Foundation, 2014.

¹⁷ Penelope Wang, “Millennials Are Hoarding Cash Because They’re Smarter Than Their Parents,” *Time*, July 21, 2014.

¹⁸ Mottola 2014, p. 4.

¹⁹ Nari Rhee, “The Retirement Savings Crisis: Is It Worse Than We Think?,” National Institute on Retirement Security, 2013, p. 12.