

MILLENNIALS AND RETIREMENT

Second Biennial Report on
Millennials and Retirement Planning



September 2017



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Retirement
Institute:**

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MILLENNIALS AND RETIREMENT

Second Biennial Report on Millennials and Retirement Planning

In 2015, the Insured Retirement Institute (IRI) released the first report in a research series on the extent to which the Millennial generation in the United States understands retirement related concepts and risks, and is preparing for retirement.

The report, “Will Millennials Ever Be able to Retire?” (IRI, 2015), found that Millennials are saving for retirement, and in fact saving at higher rates than the Baby Boomers and Generation X, but they underestimate how much they need to save. Most don’t have a plan for how much they need to save or how to turn their savings into income. A surprising finding in the 2015 report was the willingness of Millennials, often thought of as a generation favoring technology over human interaction, to turn to financial professionals for help, and in fact 87 percent cited “meeting in person” as a requirement they would have when utilizing the services of a financial advisors.

For this year’s study, we again asked Millennials about their views toward retirement, how they are preparing, and where they need help to gain insight into how they are preparing for the inevitable day they leave earned income behind. Survey respondents were split roughly equally between men and women, with 62% having at least a bachelor’s degree. More than six in 10 are childless, 73% earn less than \$100,000 a year, and more than 90 percent have less than \$100,000 saved for retirement. But with a quarter century or more in which to build retirement savings, time is on their side. Let’s dive deeper into their retirement expectations, what they can expect to face when they reach their retirement years, how they are preparing, and further explore their views toward obtaining the guidance they desperately need.

The report is divided into five sections:

- 1) Key Insights** – what are the critical, actionable findings from the 2017 survey?
- 2) Retirement Expectations** – what do retirement and retirement planning mean to Millennials, and how do they envision their post-work lives?
- 3) Retirement Realities** – what might Millennials face in terms of income, expenses, medical care, life expectancy, and lifestyle in retirement?
- 4) Retirement Preparation** – what are Millennials doing to prepare for the day they may retire, and how are they going about it?
- 5) Retirement Resources** – where are Millennials seeking knowledge and assistance, and what are they looking for in terms of support?

KEY INSIGHTS

- Millennials want flexibility and choice during retirement. The majority associate the word “freedom” with their feelings about retirement, and 50 percent believe retirement means being able to decide whether, or how much, to work.
- Two-thirds of Millennials believe they will retire, 35 percent at a desired age and 31 percent “eventually.”
- Only one in four Millennials believe Social Security will provide meaningful income during their retirement years, versus 53 percent who believe they will realize meaningful income from a workplace retirement account; among Millennials with a bachelor’s degree or higher this rises to 62 percent.
- Only 18 percent of Millennials plan to put savings into an annuity to create a source of guaranteed lifetime income, compared to 22 percent who do not know how they will use their savings to generate sustainable income.
- Seven in 10 Millennials say Social Security is a major source of income for their retired parents or grandparents, and 60 percent say their retired parents or grandparents are financially secure.
- Millennials are risk-averse: only one in five consider themselves “high risk” investors, and only 22 percent would invest in a financial product that offers a high potential return but carries a substantial risk of investment loss.
- A third of Millennials expect health care costs to be their largest expense during retirement, ahead of housing and utilities (27 percent) and travel/leisure (18 percent).
- More than one-half of Millennials are contributing to a 401(k) or other workplace retirement account, but only 15 percent are saving toward a calculated goal or following a written retirement plan.
- The top three financial areas Millennials want help with are calculating retirement savings goals (32%), paying off debt (32%), and creating a retirement plan (31%). Relatively few (21%) want help calculating potential income from retirement savings, implying that many do not recognize the challenge of generating sustainable income from investable assets or the importance of income as a goal.
- Two-thirds of Millennials have not consulted a financial advisor.
- More than six in 10 Millennials would most trust a referral to a financial advisor used, or recommended, by family members or a trusted friend.
- Four in 10 Millennials cite trust as their top consideration in choosing a financial advisor, versus 21 percent naming the ability of the advisor to provide services they cannot perform themselves as their top consideration.
- Nine in 10 Millennials are open to using their parents’ financial advisor(s).

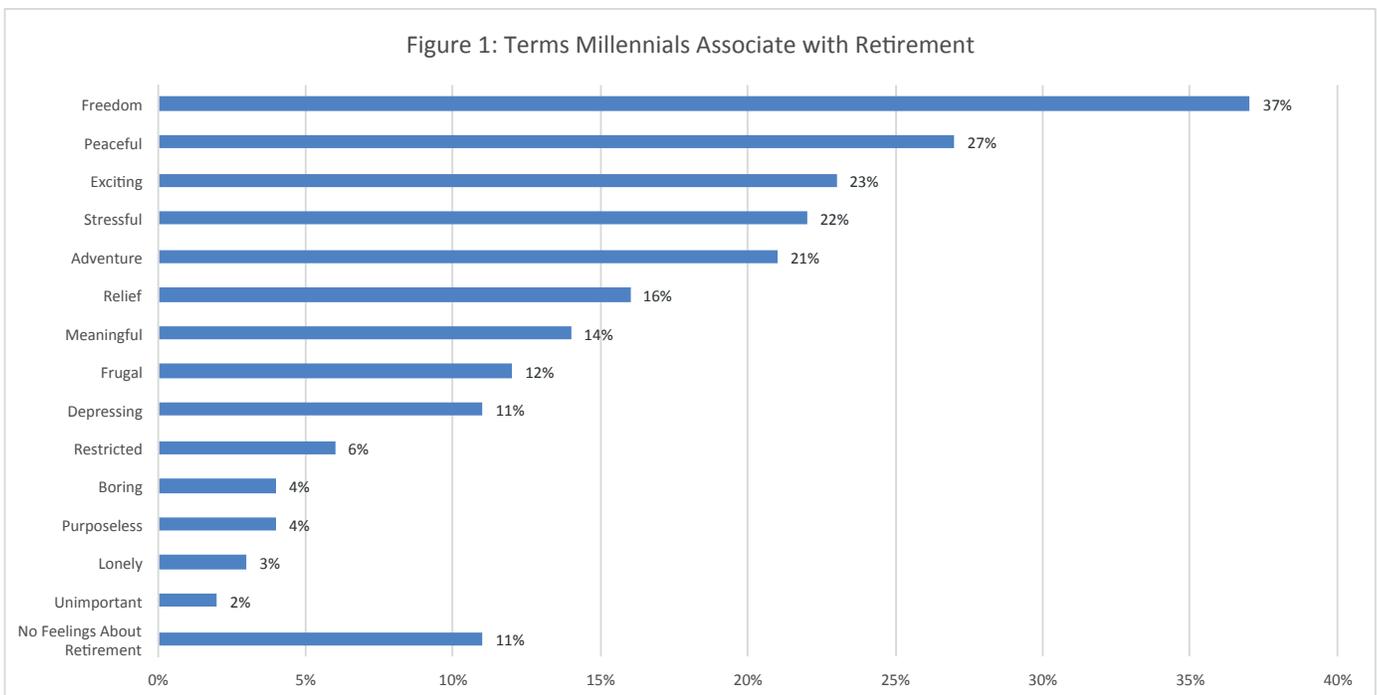
Only 18 percent of Millennials plan to put savings into an annuity to create a source of guaranteed lifetime income, compared to 22 percent who do not know how they will use their savings to generate sustainable income.

RETIREMENT EXPECTATIONS

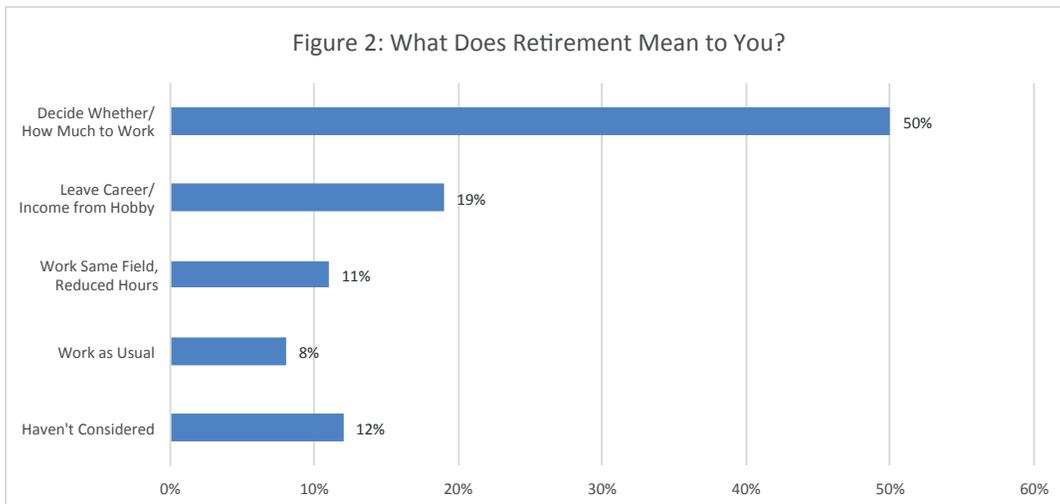
So, what does “retirement” mean to the typical Millennial?

As Millennials age and move through various life stages – school, work, marriage, parenthood – they are observing how their parents and grandparents experience retirement. At the same time they are bombarded with bad news about the prognosis for their own retirement years. A funding crisis in Social Security, the demise of the defined benefit pension, and the investments losses many retirees and near-retirees experienced during the financial crisis are the realities and events that have helped shape their views about retirement. So, what does “retirement” mean to the typical Millennial?

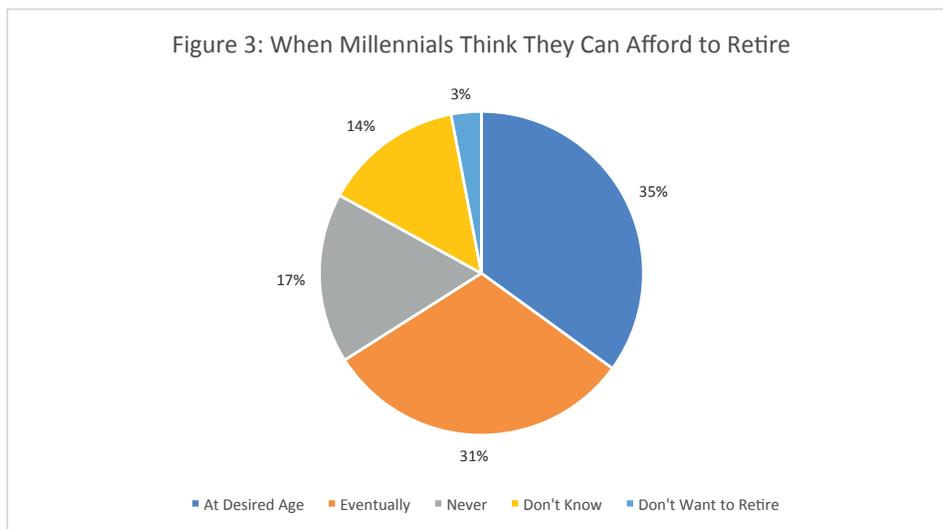
Figure 1 shows that Millennials tend to have optimistic feelings about the concept of retirement, more frequently associating positive terms like “peaceful,” “exciting,” and “adventure” with retirement than negative terms like “depressing,” “boring,” and “purposeless.” But the term Millennials most often associate with retirement, ahead of others by a wide margin, is “freedom.”



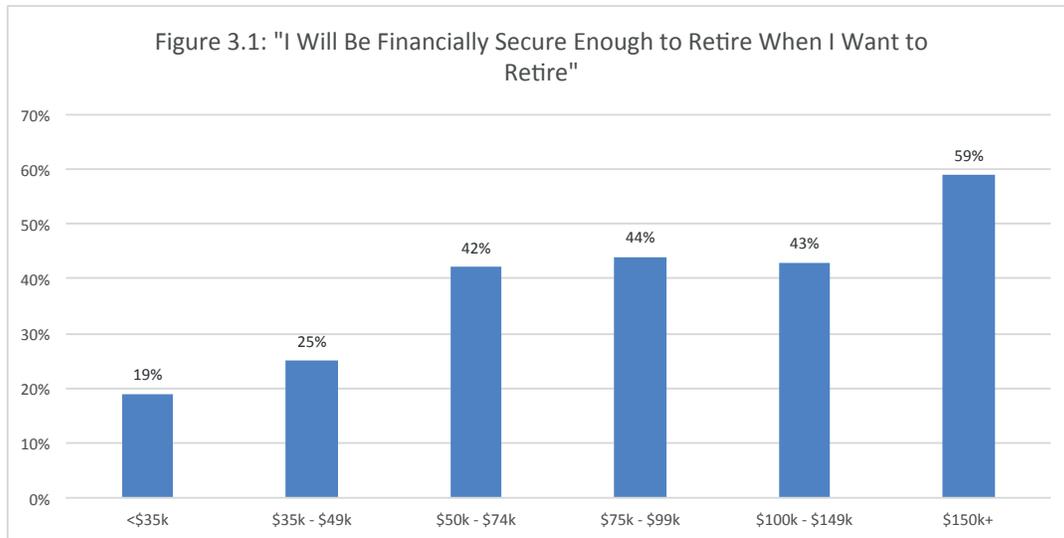
“Freedom” also describes how Millennials define retirement. As **Figure 2** shows, for half of them retirement means being able to decide whether they continue working, or how much they work, rather than deciding in advance that retirement means leaving one’s career. That is, the ideal retirement for most Millennials means the freedom to continue making decisions as their circumstances and priorities change. Perhaps largely the optimism of youth, but this view is shaping their retirement planning.



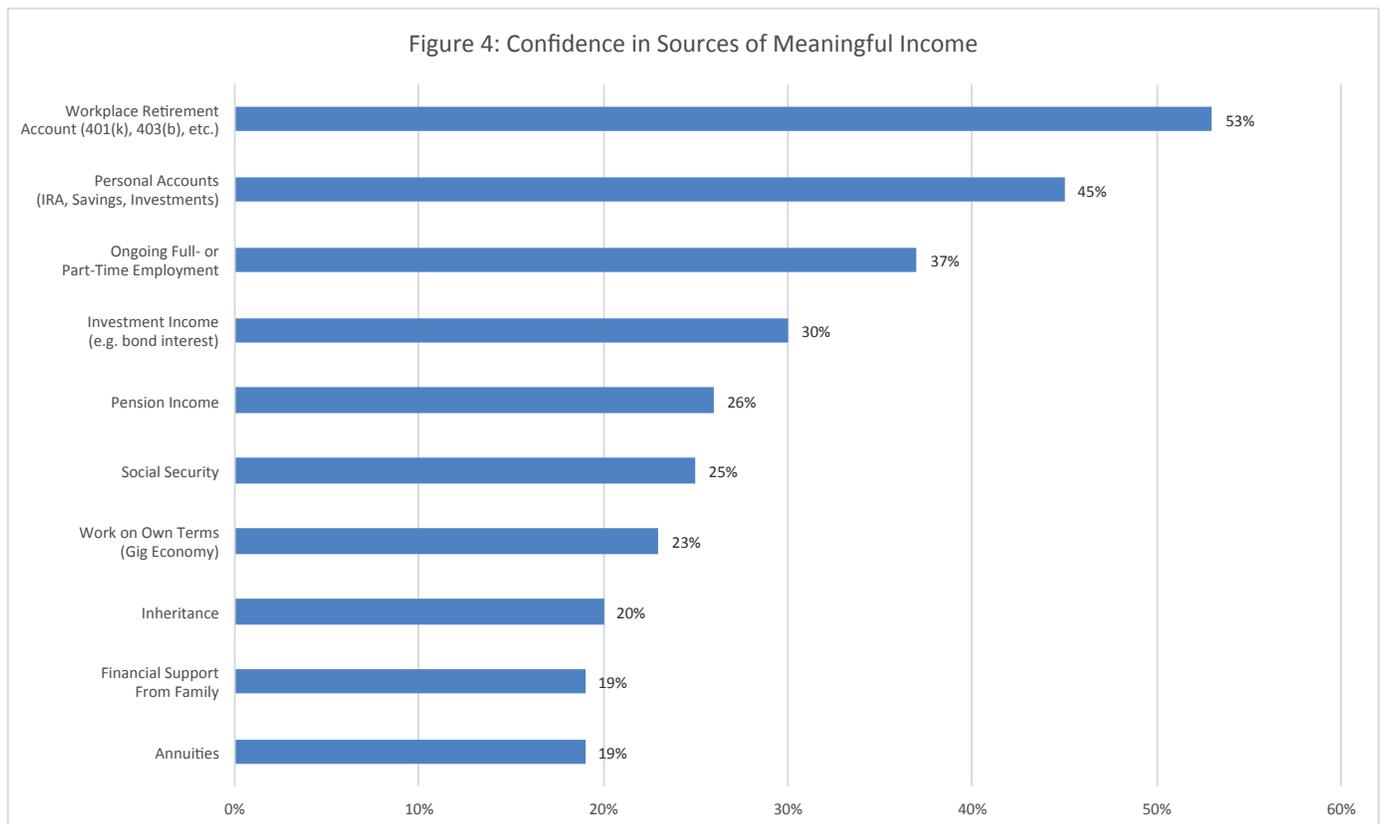
It would be difficult to define a more American sentiment toward retirement, or any goal, than freedom. Freedom to pursue, to obtain, and unfortunately the freedom to fall short of one's aspirations. While many Millennials share the view that retirement should be a life stage marked by the freedom to choose a desired path, many also don't know when, or if, they will reach that ideal. In **Figure 3**, we see that over a third of Millennials believe they will be able to afford to retire at a desired age, but more than six in 10 have doubts. About half of this latter group believes they can retire at some point but are unsure when, and the other half either don't know, or don't believe they can ever retire. For many in this group, the problem may be that they haven't created a plan or tried to figure out how much they need to save to be able to retire.



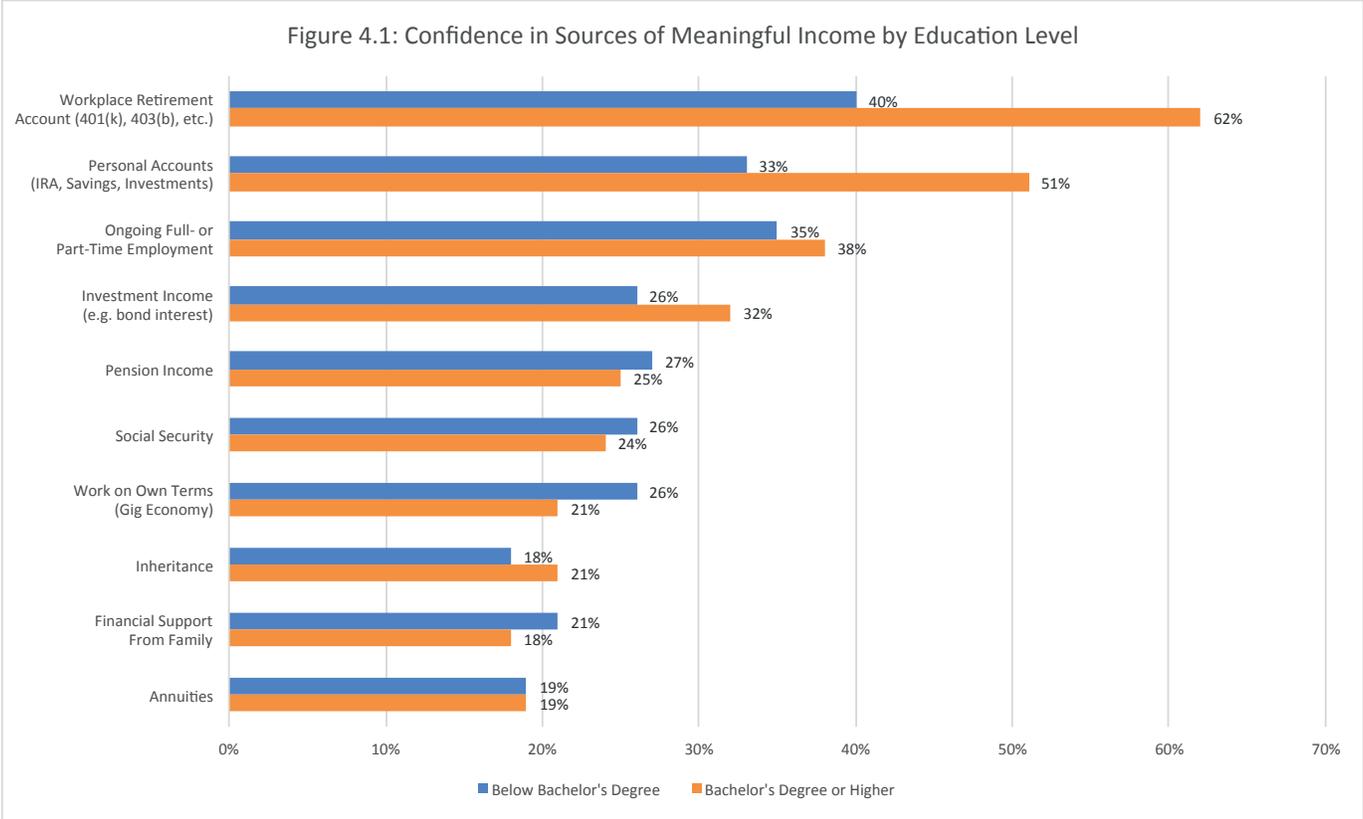
Unsurprisingly, with higher income comes greater confidence in one's ability to retire at a desired age. In **Figure 3.1**, six in 10 Millennials making \$150,000 or more per year believe they can retire at their target age, while those at lower levels of earned income are far less confident.



While significant numbers of Millennials have defined their ideal retirement, their uncertainty regarding timing may, in part, be a function of their lack of confidence regarding their sources of retirement income. **Figure 4** starkly highlights the Millennial mindset about where they think their income will come from during retirement. Millennials view themselves as on their own in retirement, with more than half expecting their meaningful income to come from a workplace retirement account, and 45 percent looking to personal savings. In comparison, only one in four expects meaningful income from Social Security or a pension. About four in 10 also expect regular full- or part-time employment to figure prominently in their retirement income picture.

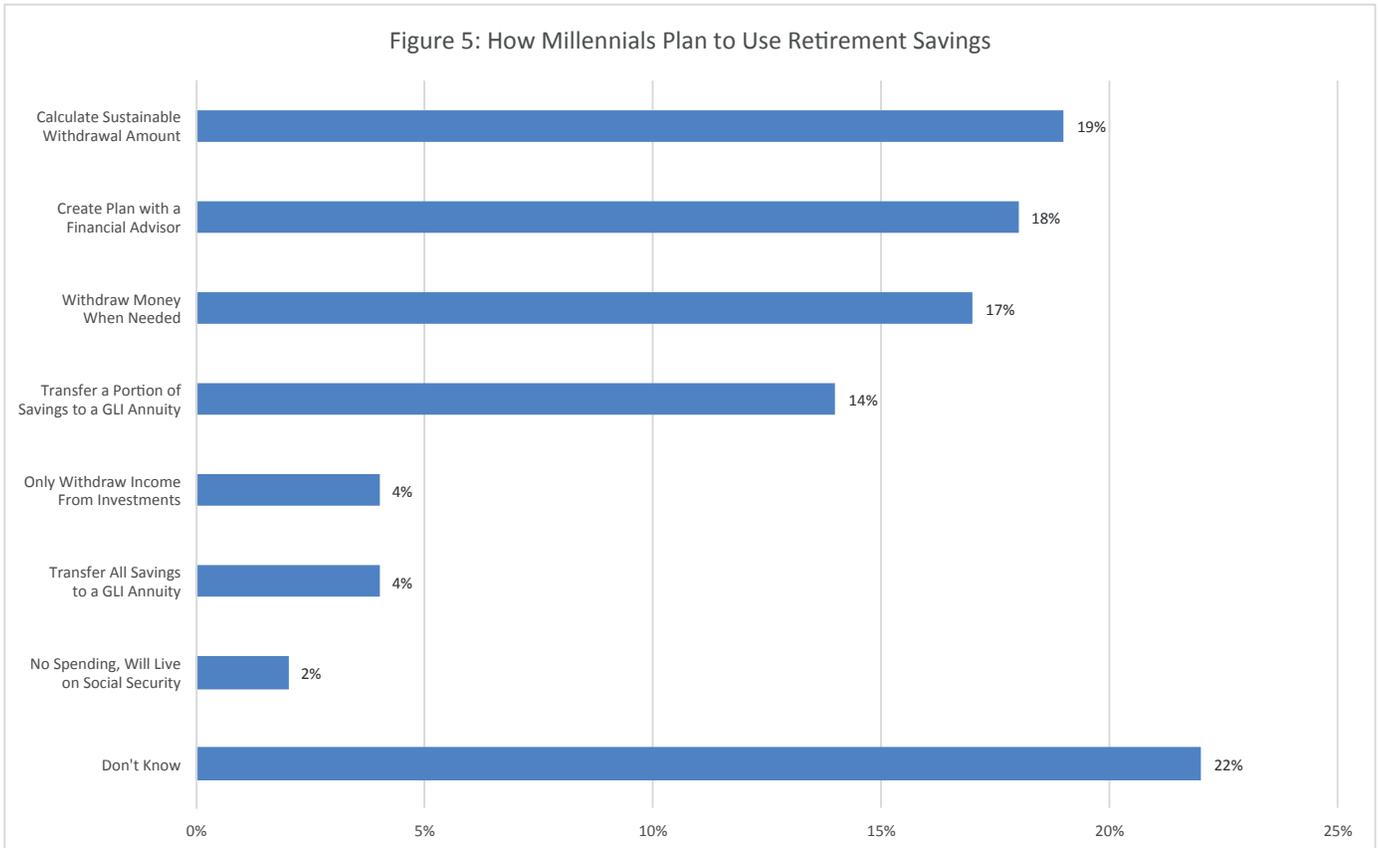


There isn't a tremendous amount of variance in retirement income confidence by current income, age, or gender, but education level is correlated with somewhat lower confidence in defined sources of income like Social Security and pensions, and greater confidence in income from personally held investable assets. **Figure 4.1** shows Millennials with a bachelor's degree or higher are significantly more likely to have confidence in their 401(k) accounts and personal savings as income sources than those with less than a four-year degree.



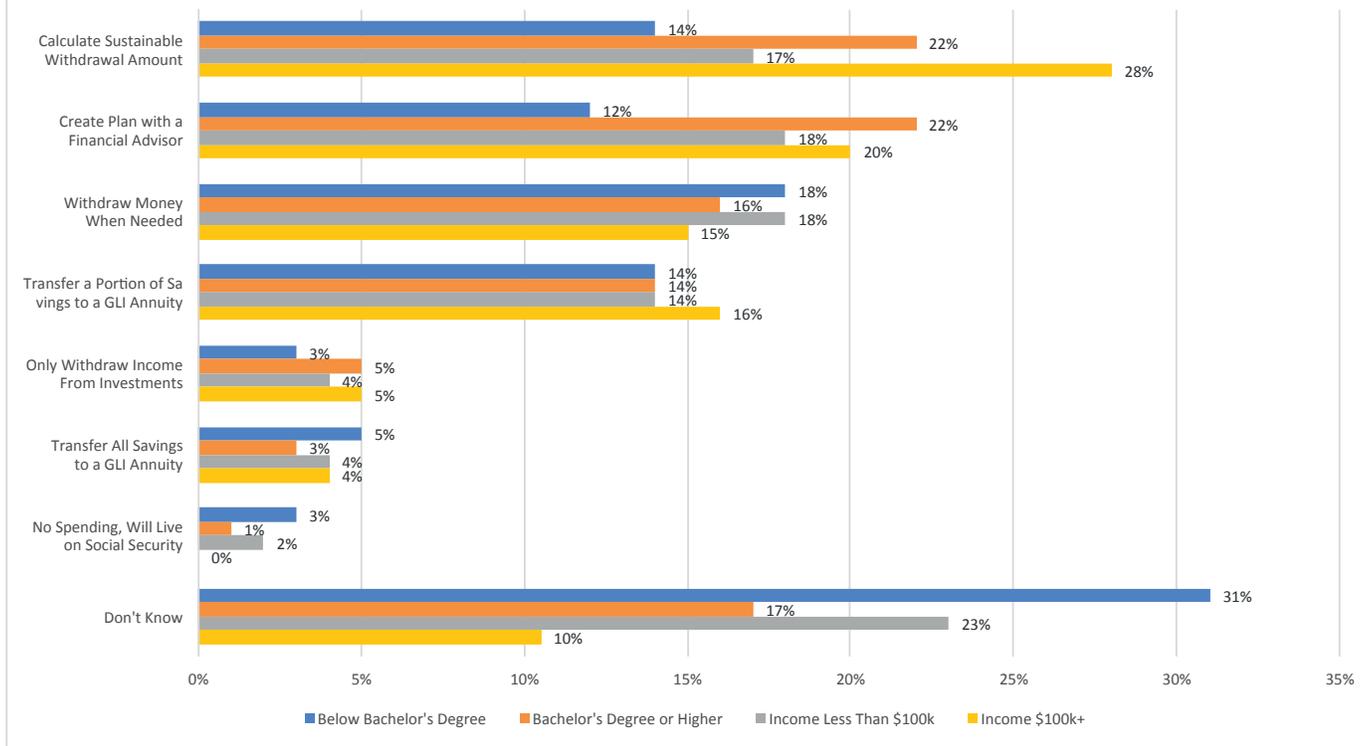
Millennials may have confidence in the ability of their personal savings and workplace accounts to produce income, but many aren't quite sure how to go about it. **Figure 5** shows that relatively few Millennials plan to transfer some assets to a guaranteed lifetime income (GLI) annuity (14 percent), or to work with a financial advisor to create a plan for efficiently using assets for income (18 percent). Far more plan to calculate a withdrawal amount they believe is sustainable for life (19 percent), or the largest single response, they simply don't know how they will tap their savings for income (22 percent.)

Millennials may have confidence in the ability of their personal savings...



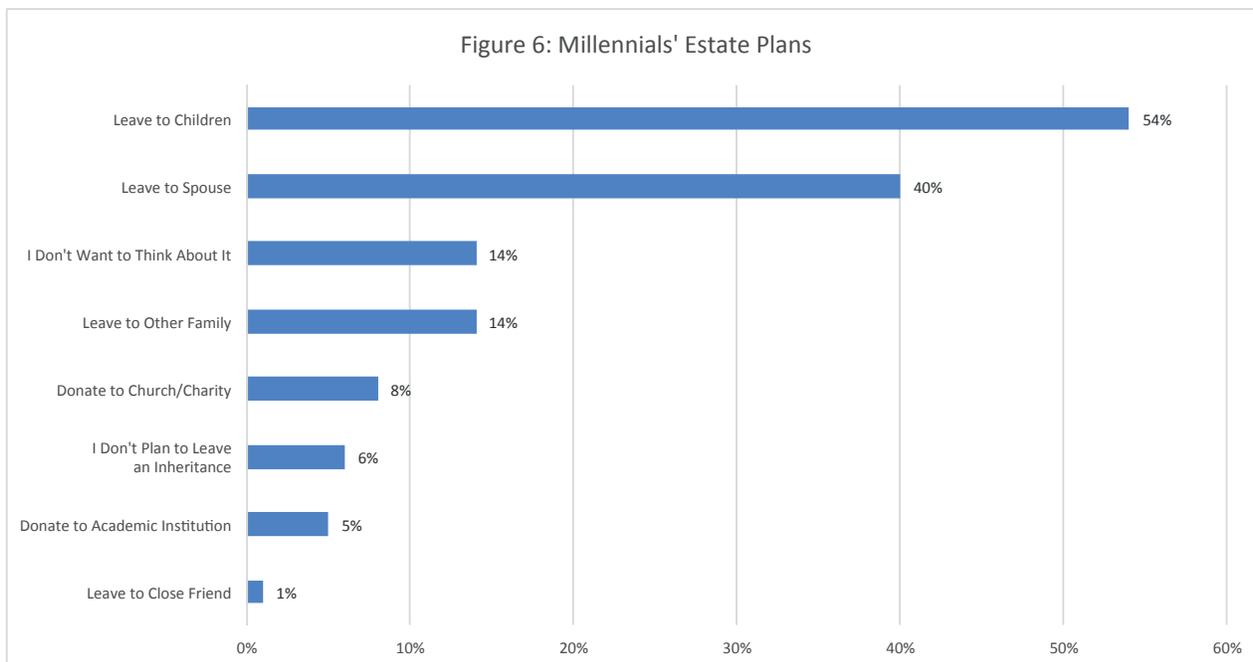
Higher income Millennials are more likely to believe they can simply calculate a sustainable withdrawal amount for their retirement income, while those with less education are far more likely to not know how they will use their savings.

Figure 5.1: How Millennials Plan to Use Retirement Savings
(By Income and Education Levels)



Finally, when it comes to the distribution of remaining assets at death, Millennials share the values of prior generations, with most planning to leave their estates to spouses and/or children.

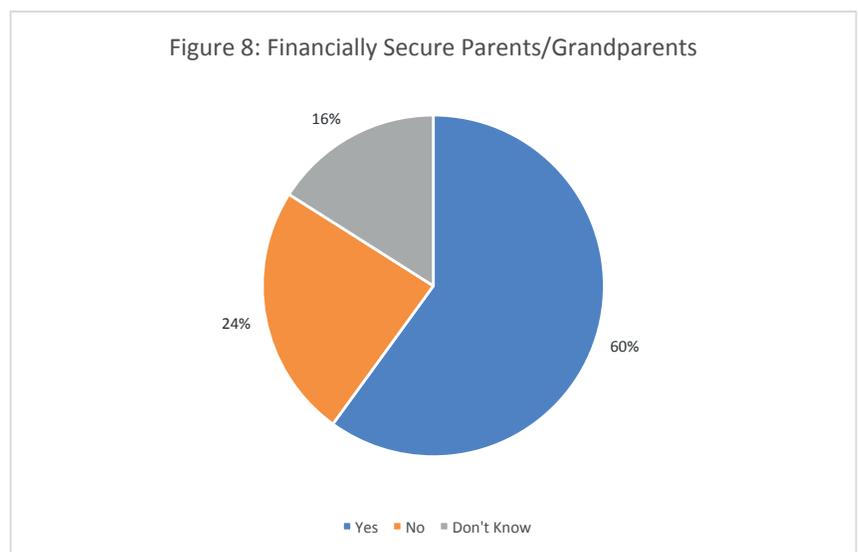
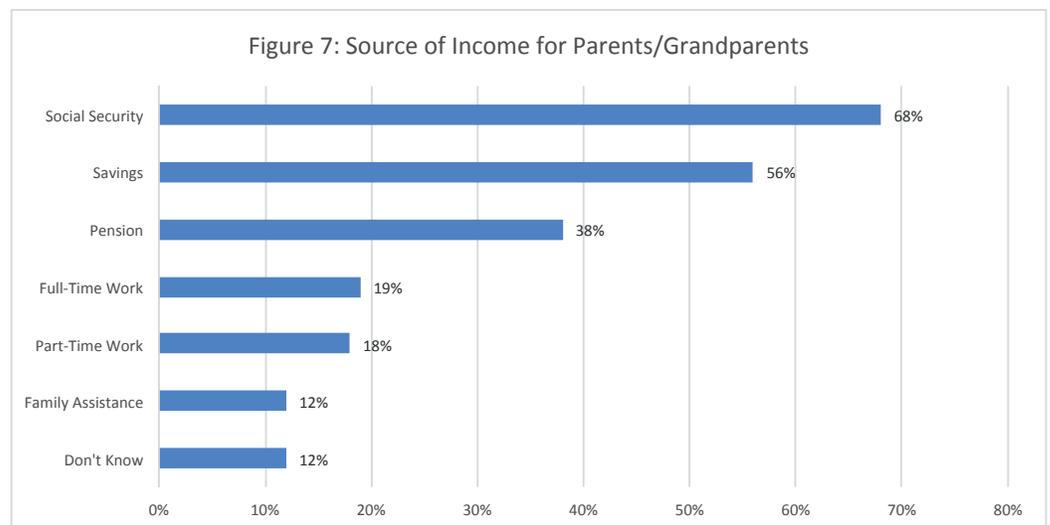
Figure 6: Millennials' Estate Plans



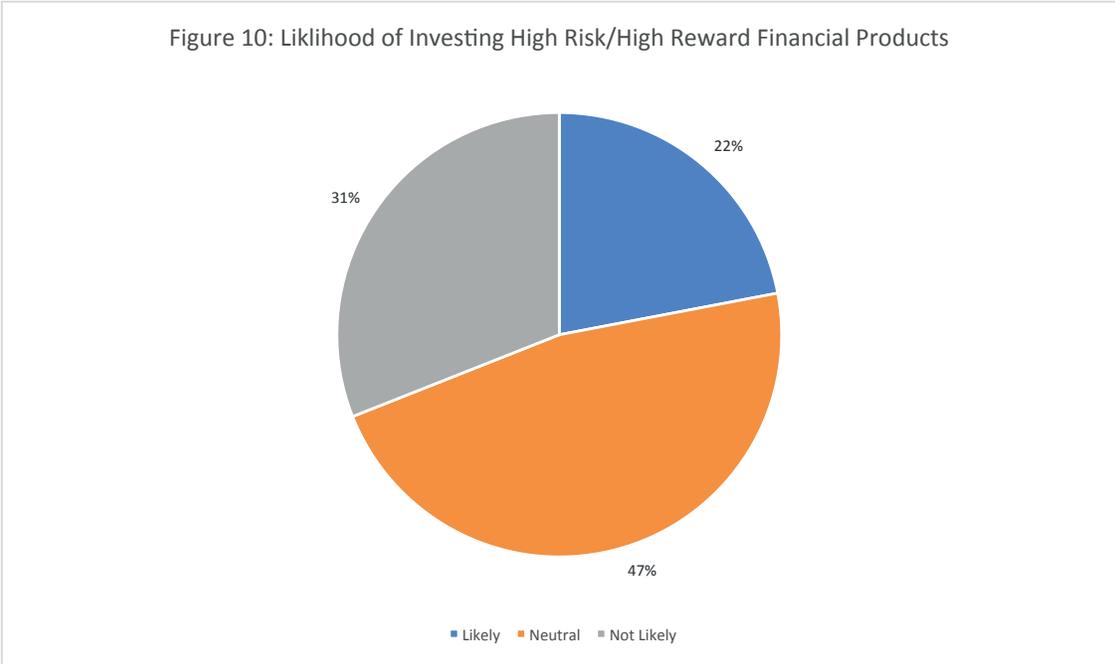
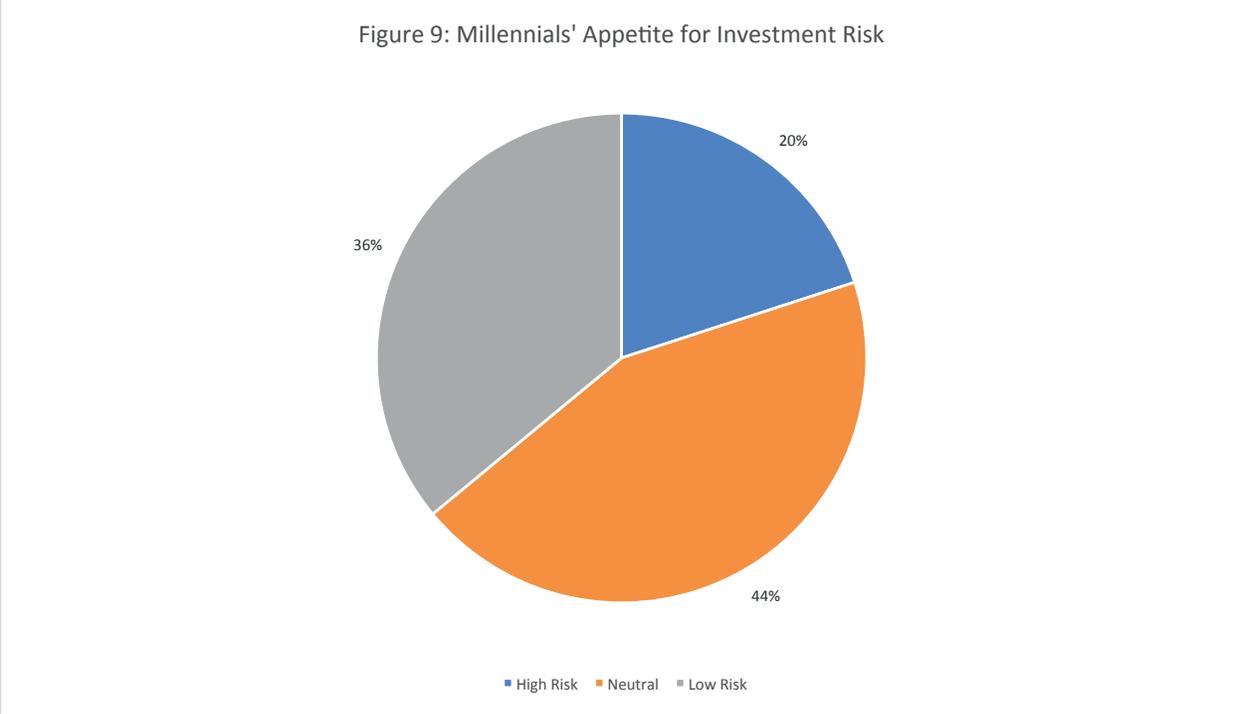
RETIREMENT REALITIES

The Millennial generations, prepared or not, will face daunting challenges in its retirement years. The first Millennials will turn 65 in 2043, and the last will reach that milestone in 2060. Data from the 2016 Social Security and Medicare Trustees' reports indicate that the Social Security Old-Age and Survivors Insurance (OASI) trust fund will be depleted in 2035 and both the Disability Income (DI) trust fund and the Health Insurance (HI) trust fund in 2023 - just five years from now. Restoring OASI to long-term solvency would require a 16 percent reduction in benefits, or a payroll tax increase of 2.58 percent; Medicare benefits would also need to be reduced by 16 percent, or taxes increased by .73 percent, for the program to achieve solvency through Millennials' lifespans and beyond.¹ In the meantime, health care costs are expected to rise 5.6 percent annually through at least 2025, driven by increases in the cost of medical products and services and increasing demand by an aging population.² Social Security and Medicare benefit reductions, higher costs for health care, potential for rising taxes - Millennials will experience the impact of the efforts to fix these struggling programs and systems during their working and retired lives, yet their observations of retired life do not yet reflect the impact of these alarming changes.

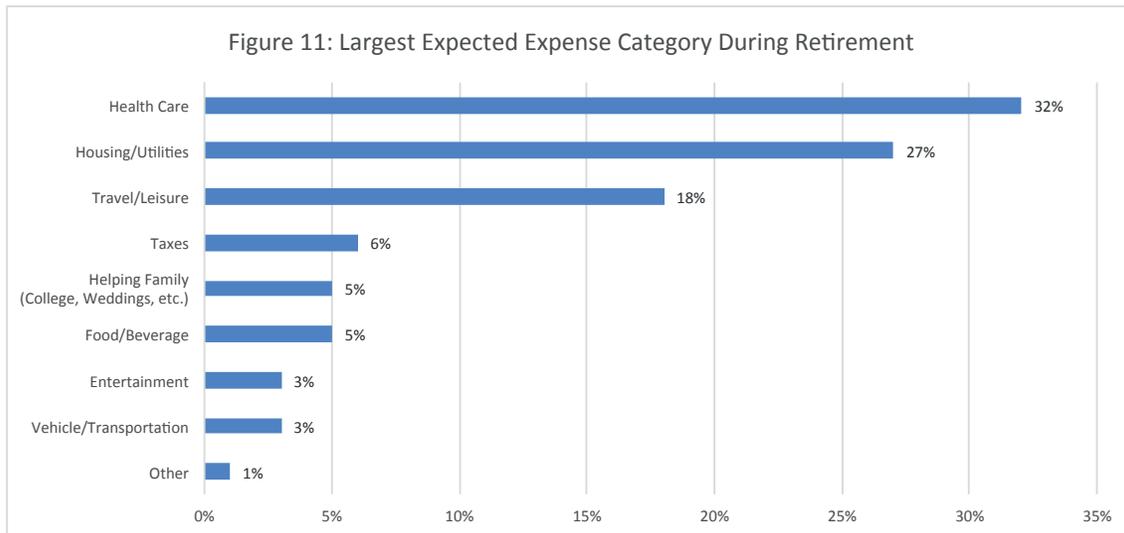
Figure 7 and Figure 8 show that Millennials' perception of their parents' and grandparents' financial lives is quite positive overall. While some might simply be shielded from the truth, and some may have parents and grandparents who are in good shape today but may be on an unsustainable retirement trajectory, six in 10 Millennials believe their parents and/or grandparents are financially secure. Most believe their elders' security is rooted in income from Social Security and savings, with far fewer citing pensions or employment as income sources. Unfortunately, IRI reports on the Baby Boomers and Generation X show low levels of retirement savings. Only 54 percent of Boomers have any retirement savings at all, and of those with savings only one-third have saved \$250,000 or more. GenXers have been somewhat better savers, with 64 percent having at least some retirement savings, but 73 percent of those have less than \$150,000 saved. In other words, the parents of Millennials are not well positioned for the income or expense shocks that would result from cuts in Social Security or Medicare, or for rapidly increasing health care costs.



As their parents and grandparents move through retirement and many begin to exhaust their financial resources in the face of rising costs, Millennials will be keen observers. It may well be that close observation of the 2008 financial crisis and the impact it had on Americans' savings helped shape Millennials' investment philosophies. **Figures 9 and 10** show that only about one in five Millennials consider themselves financial risk takers, or would consider investing in a financial product that offers the potential for big gains but also carries the risk of significant loss.

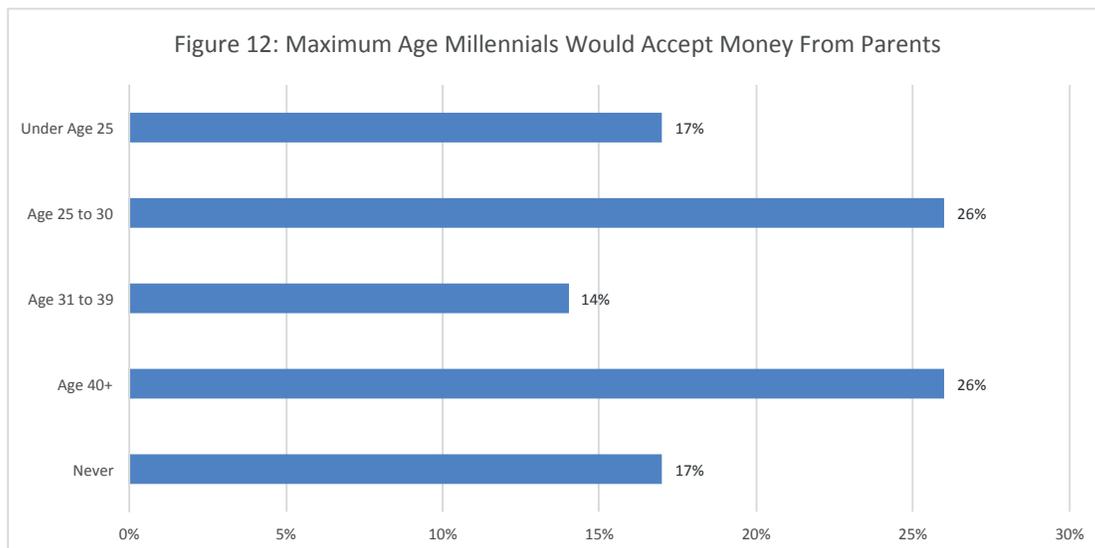


In another sign they are paying attention, Millennials seem to be aware of their expense risks in retirement; in **Figure 11**, one-third cite health care as their largest single expected expense.

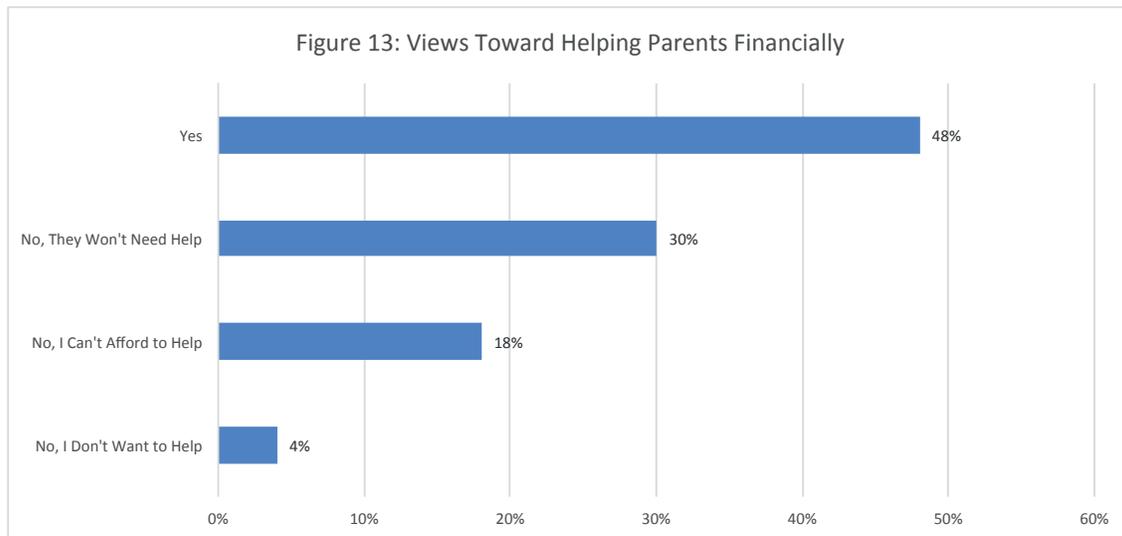


As Millennials age and their financial lives become more complex, their views toward both giving and receiving financial assistance, especially vis-à-vis their parents, will also shape their retirement years by indirectly impacting how much they are able to save – or consume.

In **Figures 12** and **13**, most Millennials show that they are not averse to accepting money from their parents, even at older ages. Two-thirds would accept financial help from their parents after age 25, four in 10 would accept money in their thirties and beyond, and a quarter would still let parents provide financial assistance after they reach age 40.



Conversely, more than one-half of Millennials don't plan to help their parents financially, most because they do not believe their parents will need help or cannot afford to provide assistance. However, almost one-half offer an unequivocal “yes” to the question of whether they would help support their aging parents. This is another factor that will complicate retirement planning for Millennials – how will they support themselves, their children, and possibly their parents and still plan effectively for their later years?



RETIREMENT PREPARATION

With relatively optimistic retirement expectations and ideals, and also dark clouds on the horizon that they demonstrate at least some awareness of, one might expect Millennials to be thinking often about retirement and taking concrete steps toward securing their futures. And indeed, **Figure 14** shows six in 10 Millennials say they think about retirement more than once a year.

Six in 10 Millennials think about retirement more than once a year.

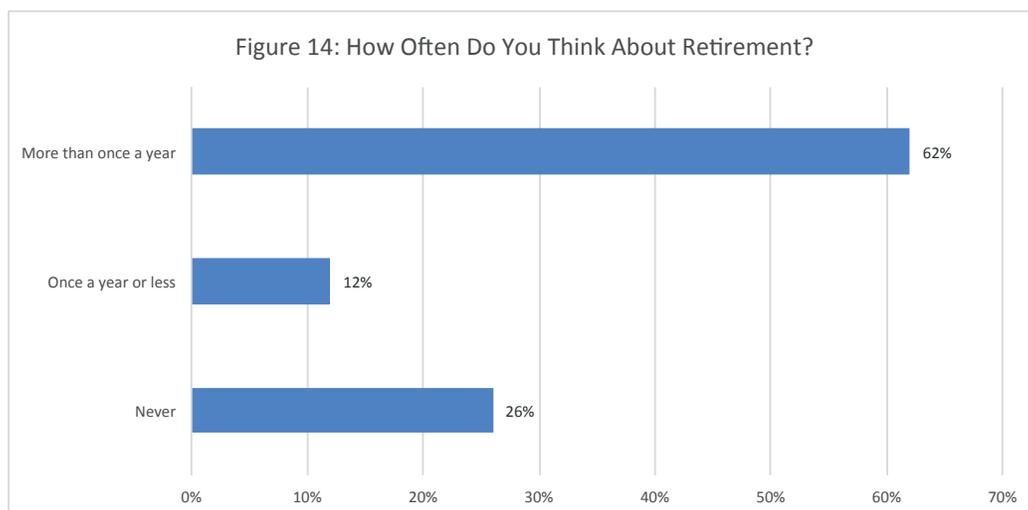
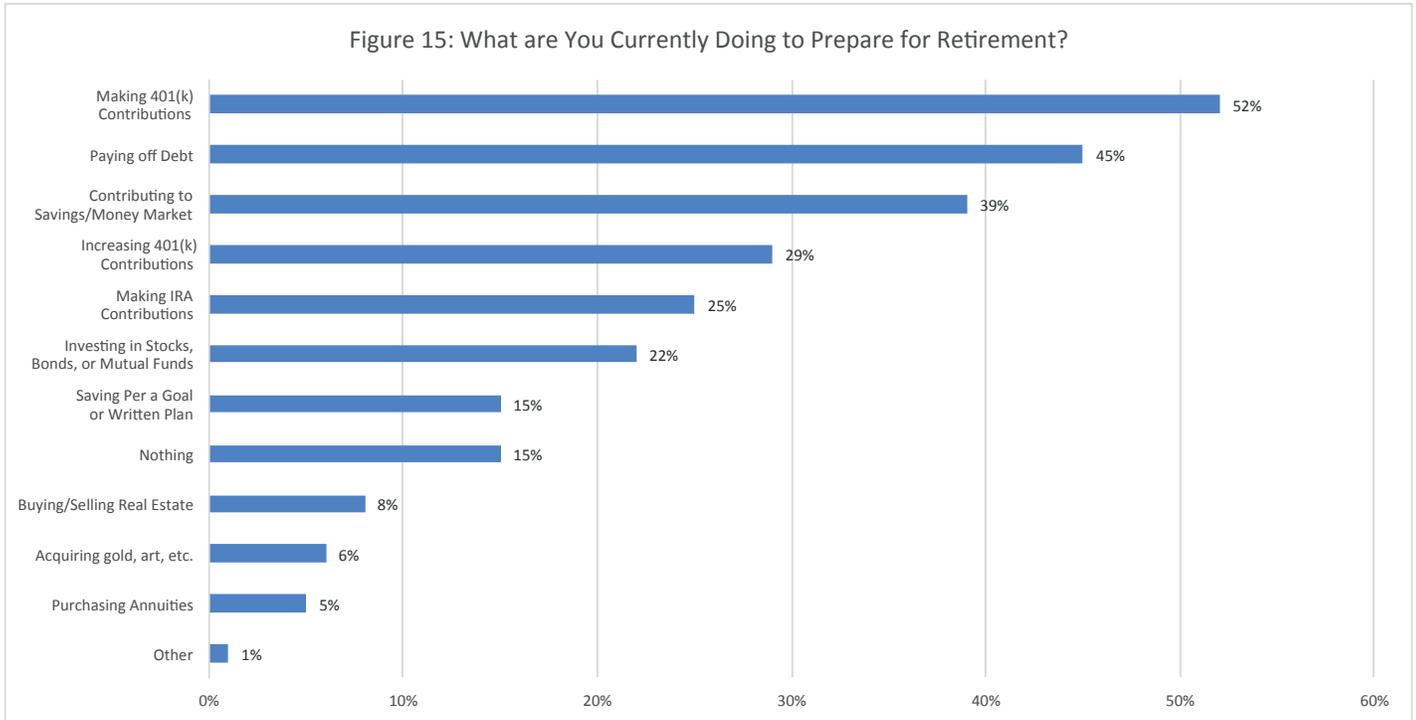
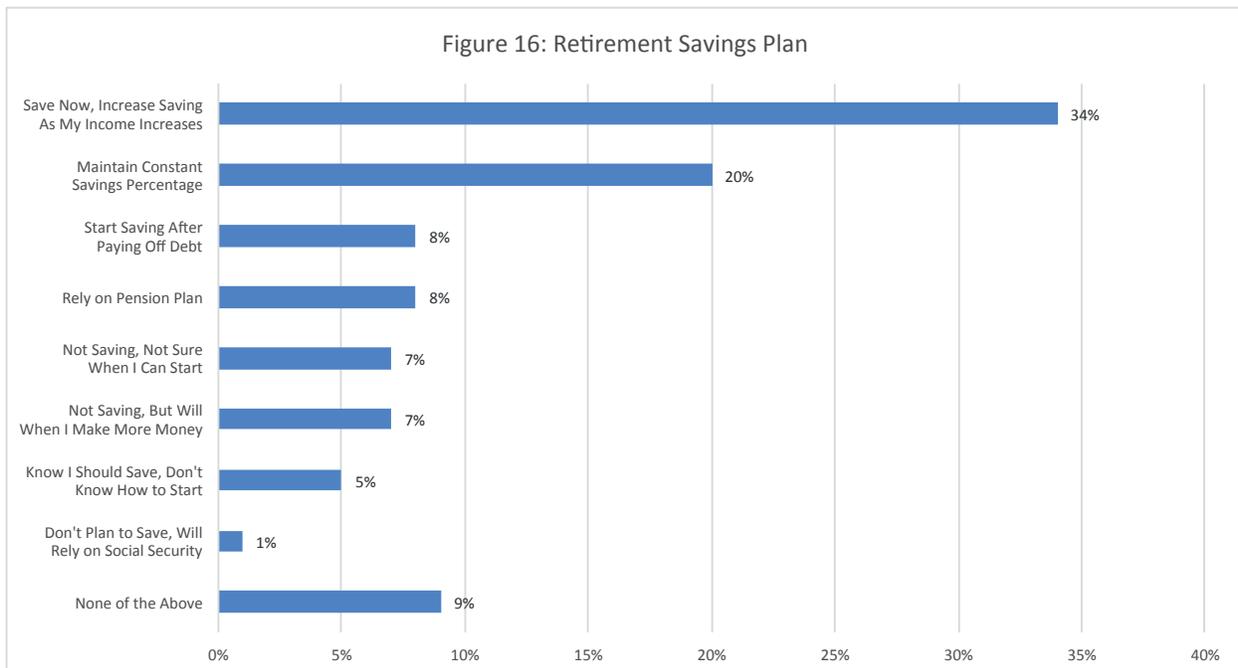


Figure 15 delves into the steps Millennials are taking to ensure they are prepared for retirement. More than half are currently contributing to a 401(k) or other workplace retirement plan, while about four in 10 are paying off debt and/or contributing to personal savings. Encouragingly, three in 10 are increasing their 401(k) contributions; however, only 15 percent are saving to achieve a specific goal or based on a written retirement saving plan.

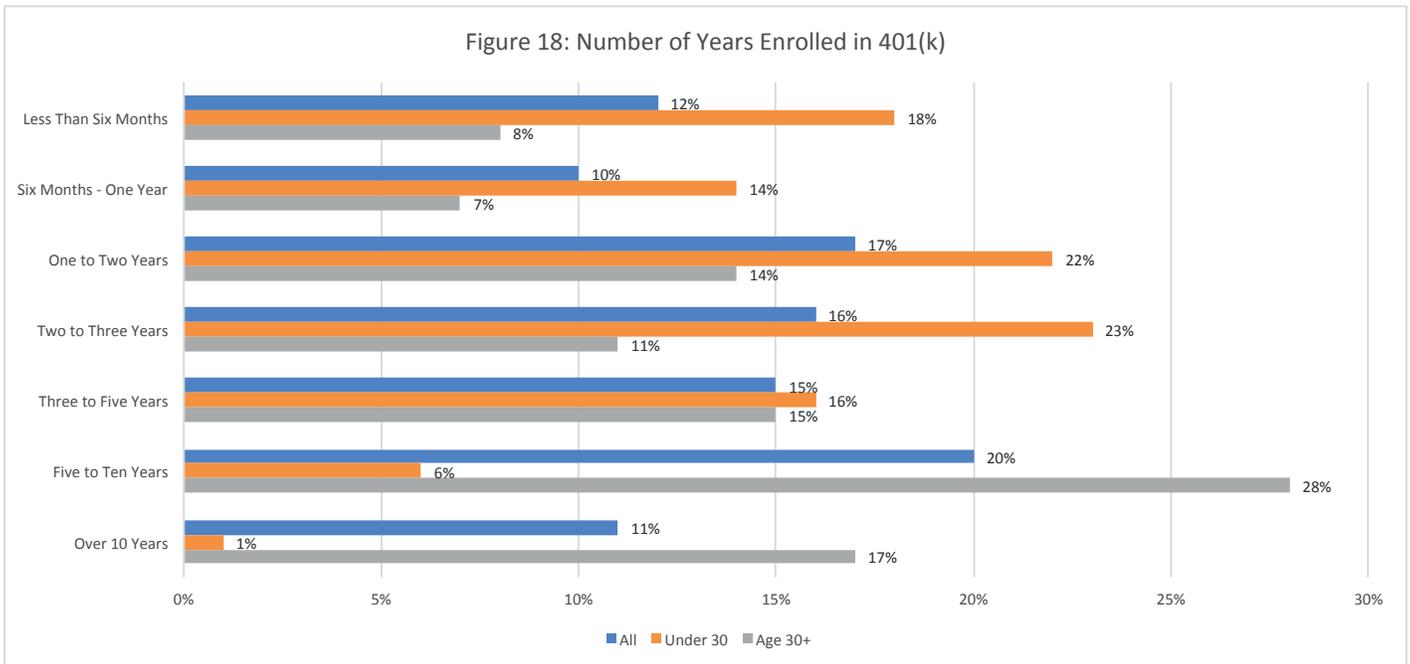
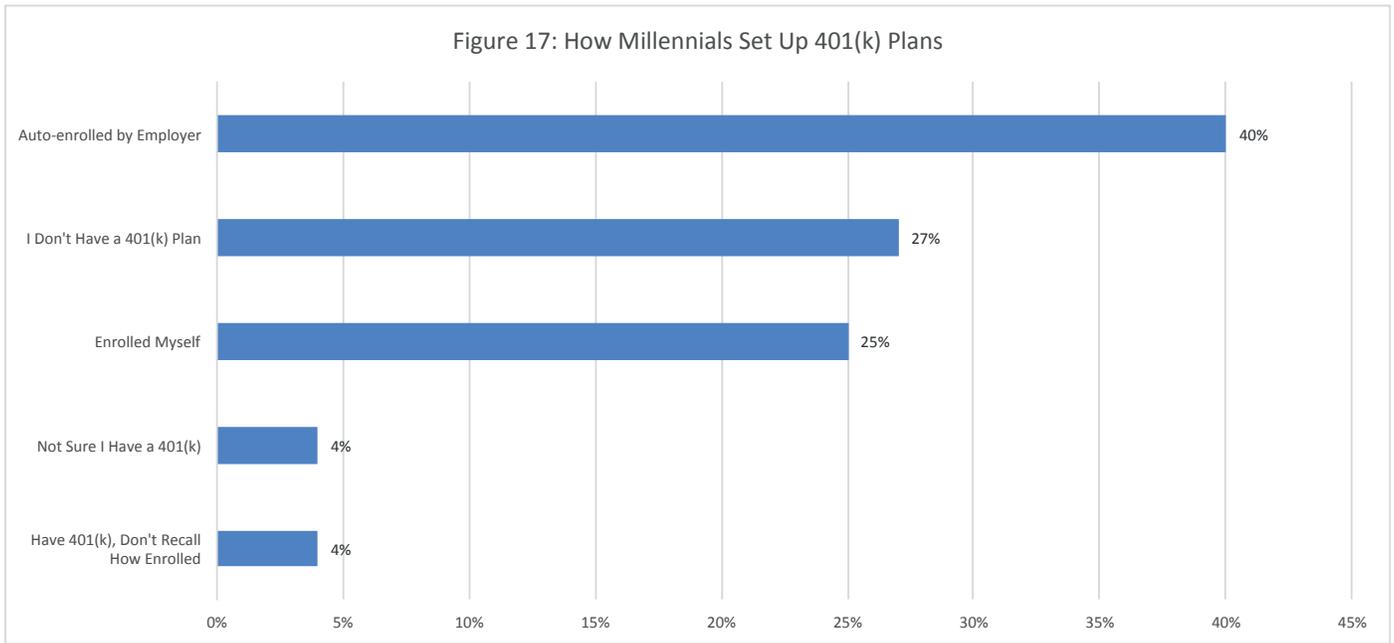


Other positive aspects of Millennials' retirement saving behaviors are revealed in **Figure 16**. A third are saving now, and plan to increase their savings as their income increases (paying themselves before increasing consumption), while another 20 percent plan to continue saving at the same percentage even as their incomes increase. Unfortunately, 46 percent are not saving for a variety of reasons, such as wanting to pay off debt first, or waiting for some other reason. Millennials who are delaying starting to save for retirement would benefit from guidance and illustrations showing the power of starting to save early, even if the amounts are small.



Reflecting the increase in automatic features in workplace plans, 40 percent of Millennials say they were auto-enrolled in their 401(k) plans. Only about one in four lack access to a 401(k) or similar defined contribution plan.

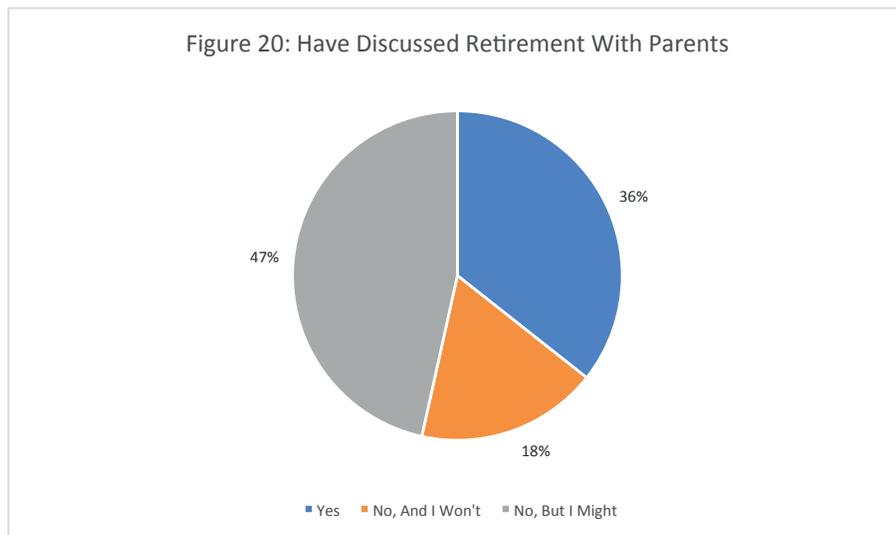
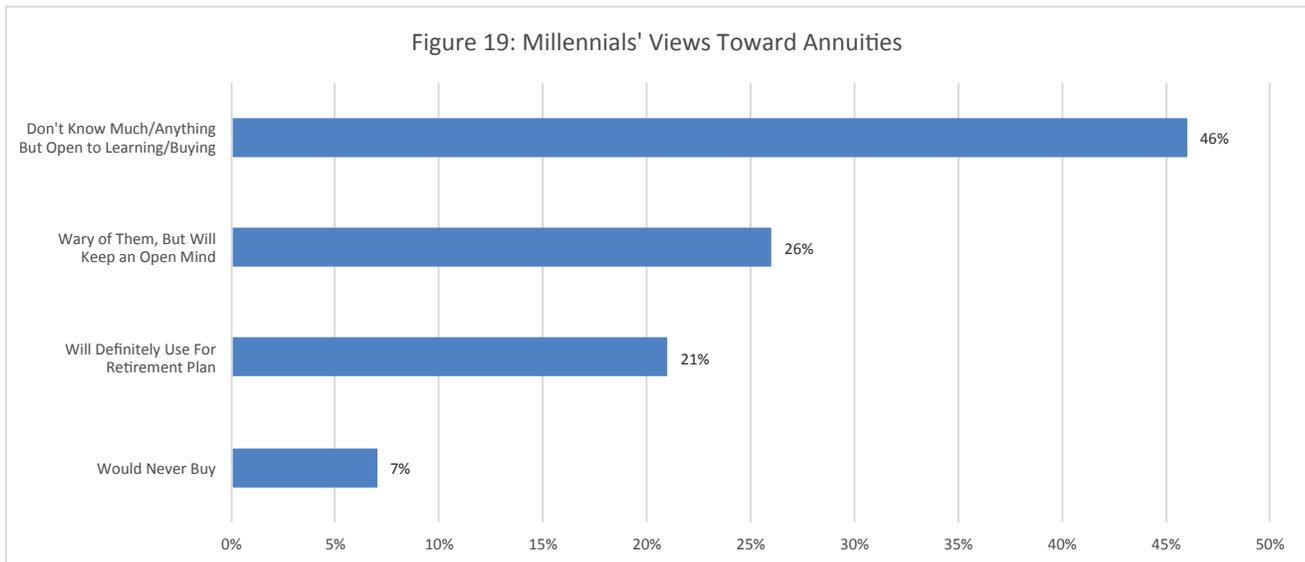
Unsurprisingly, older Millennials have been in their 401(k) plans the longest, but with the oldest Millennials turning 39 this year and only 17 percent of those over age 30 stating they have been in their 401(k) plans for 10 years or more, as a generation they've gotten a bit of a late start. With at least 26 years before reaching age 65 they still have plenty of time to save, but many may find they need to make greater contributions as a percentage of income than if they had started earlier.



In addition to being relatively risk averse, Millennials view lifetime income through annuities very favorably. **Figure 19** indicates that 93 percent of Millennials are potential annuity purchasers, with one in five committed to using the product for their retirement plans and 71 percent open to their use. Their proclivity toward keeping an open mind regarding retirement solutions will help Millennials who save adequately to design the retirement they envision.

Keeping an open mind regarding retirement solutions will help Millennials achieve their retirement vision

An interesting marker for the thought Millennials are giving retirement is their willingness to discuss retirement with their parents. In **Figure 20** more than eight in 10 Millennials have either already talked to their parents about retirement, or are open to doing so.



RETIREMENT PLANNING RESOURCES.....

A few generalizations about Millennials and retirement planning extrapolated from the survey results are:

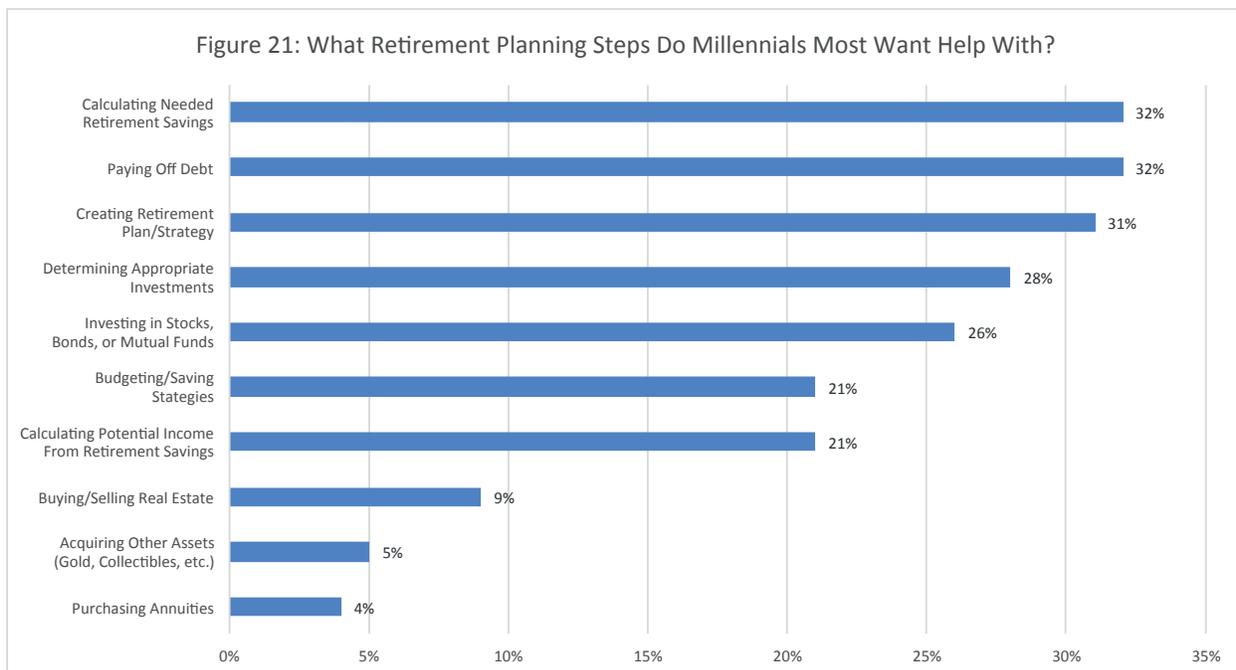
- Millennials know how they want to retire
- Millennials know they will face challenges in retirement, e.g. health care costs
- Millennials know their retirement income is largely up to them
- Millennials are trying to save and take other steps, such as paying off debt, that will help them achieve financial security in retirement
- Millennials ARE NOT preparing for retirement using savings goals or written plans that balance their current needs with the importance of preparing for their later years

It is clear from their responses that Millennials would greatly benefit from the assistance of financial professionals, both in their investing (e.g. helping

them understand the importance of taking on a bit more risk when they are years away from retirement, and teaching them about lifetime income products) and in their planning.

And in fact, **Figure 21** shows the top three planning activities Millennials say they want help with are calculating the amount they need to save to retire, creating a plan to pay off debt, and creating a retirement plan or strategy. Fewer want help with investing and budgeting, and in a bit of a disconnect only 21 percent want help with calculating potential income from retirement savings despite wanting help calculating a savings goal. It's probably fair to say this is indicative of the American view toward wealth, which tends toward thinking of investable assets (he or she is a "millionaire") rather than income as the yardstick by which to measure financial security. Skilled financial professionals can help Millennials connect the dots between assets and sustainable income.

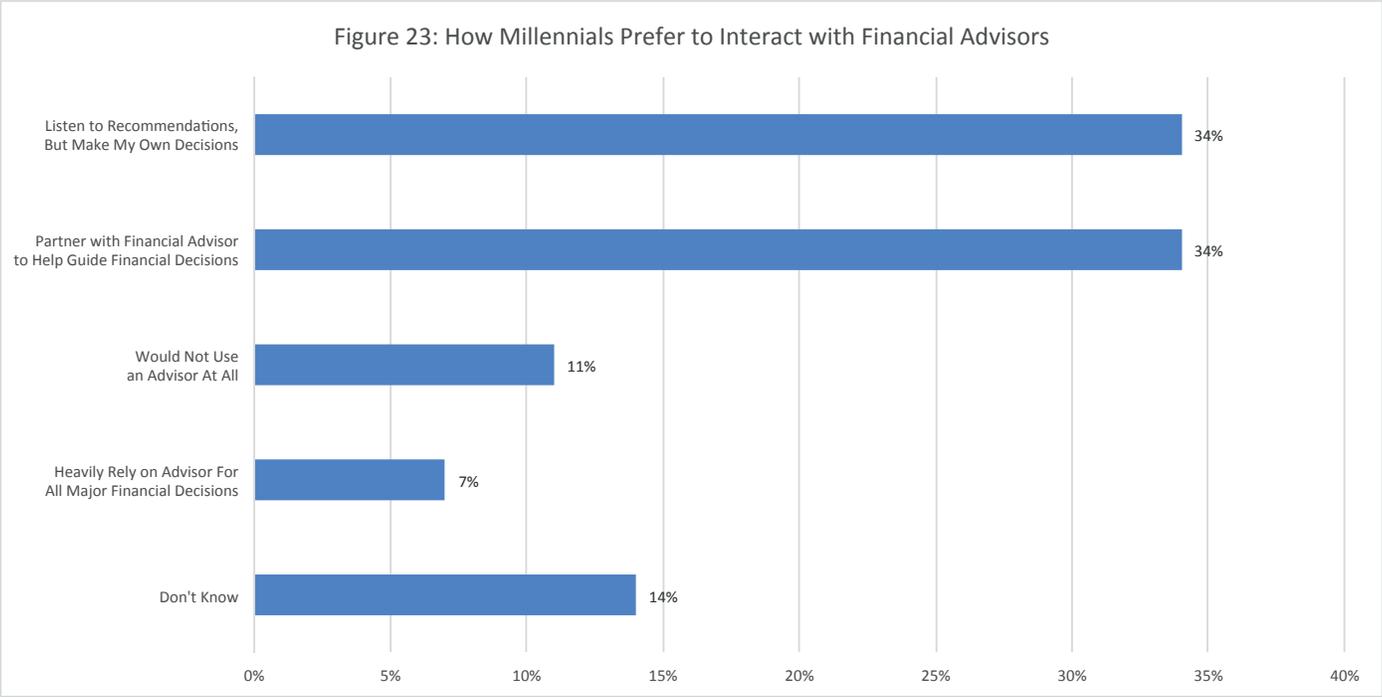
Figure 21: What Retirement Planning Steps Do Millennials Most Want Help With?



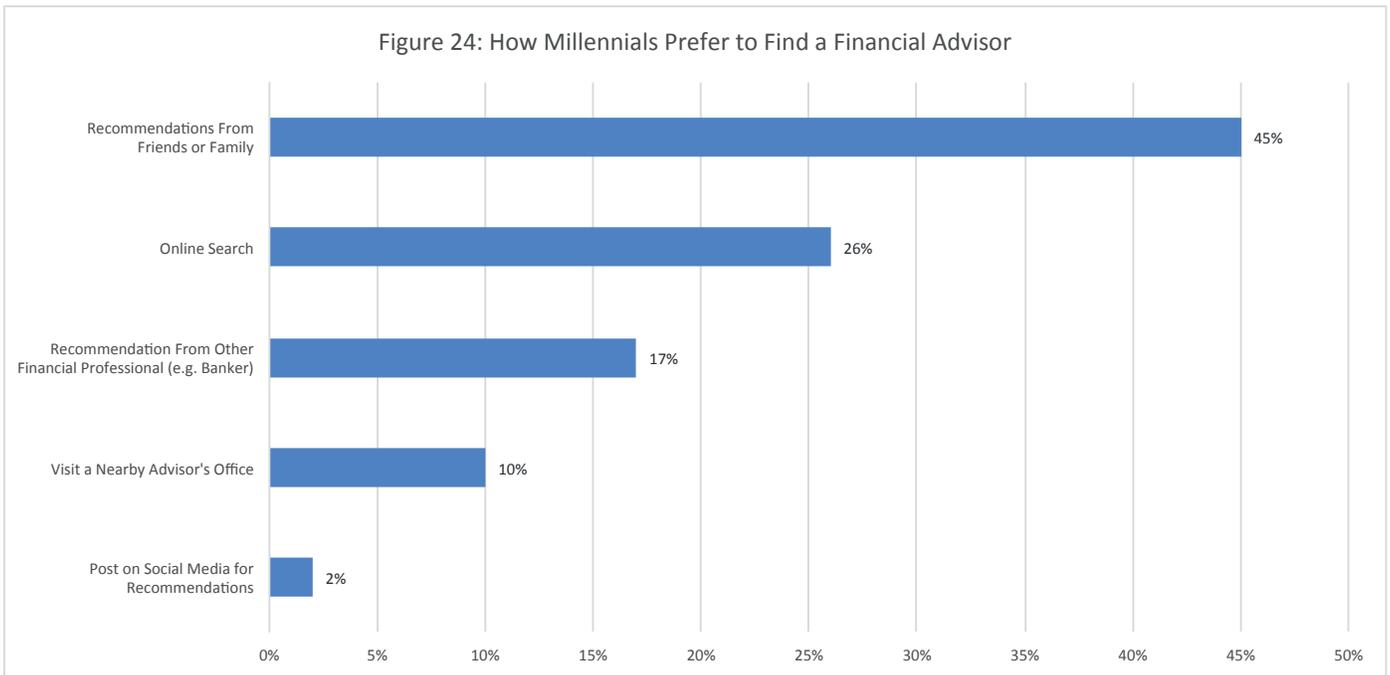
Millennials have largely not consulted financial advisors to help them plan for retirement. **Figure 22** highlights the tremendous opportunity for financial advisors as Millennials increase their wealth and need guidance preparing for their retirement years.



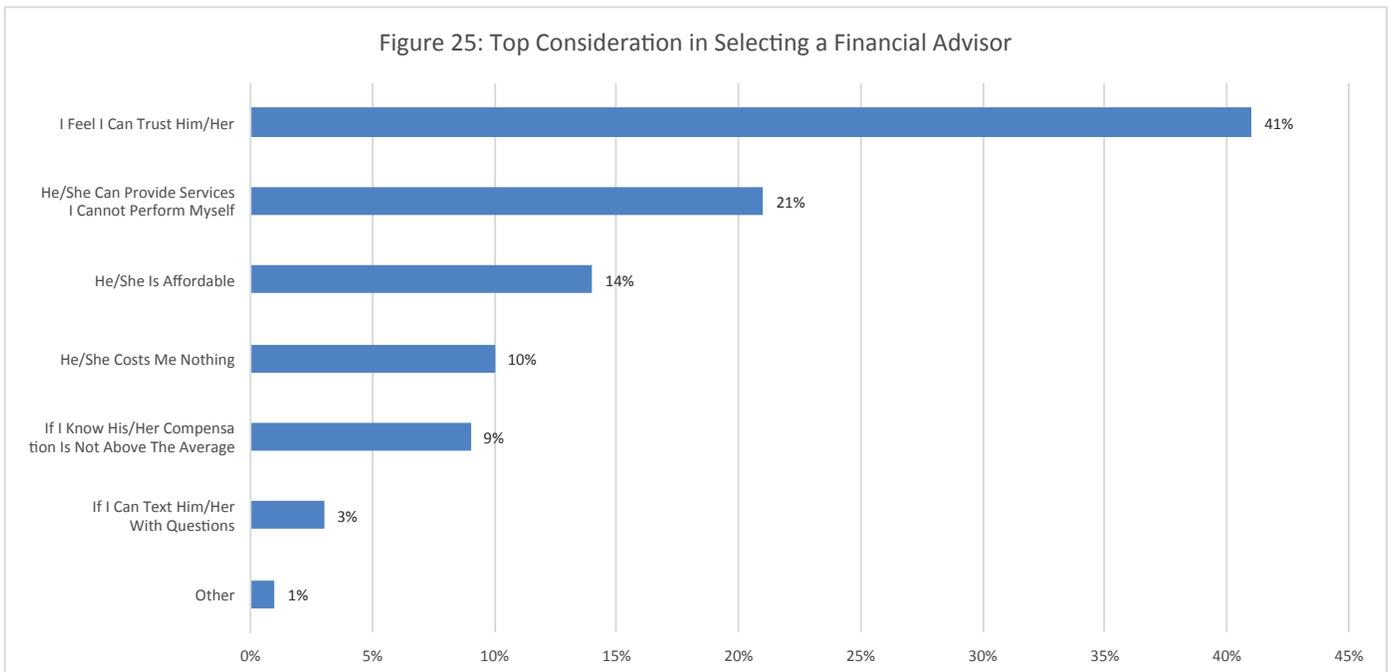
Financial advisors should bear in mind that Millennials, while very open to working with them, are more likely to be fully engaged in the process and have strong views of their own, as opposed to simply accepting recommendations. Fortunately, as shown in **Figure 23**, only one in 10 dismiss the idea of working with a financial advisor.



Millennials may be natives to technology and online comparison shopping, but when it comes to working with a financial advisor 45 percent of them want someone with whom their friends or family have had a positive experience.



With the advent and rise of robo-advice, financial advisors should be thinking about how they will differentiate themselves, add more value to in-person advice, and better understand the needs of current and potential clients. **Figure 25** reveals that four in 10 Millennials name trustworthiness as the top consideration they would have when selecting a financial advisor, followed by value in the form of the advisor being able to do things for them that they cannot do themselves. The advisor's compensation ranks far below these in terms of importance.



Unsurprisingly then, **Figure 26** shows that most Millennials are either indifferent to how their financial advisor is compensated, provided the advisor is honest and effective, or they are not sure.

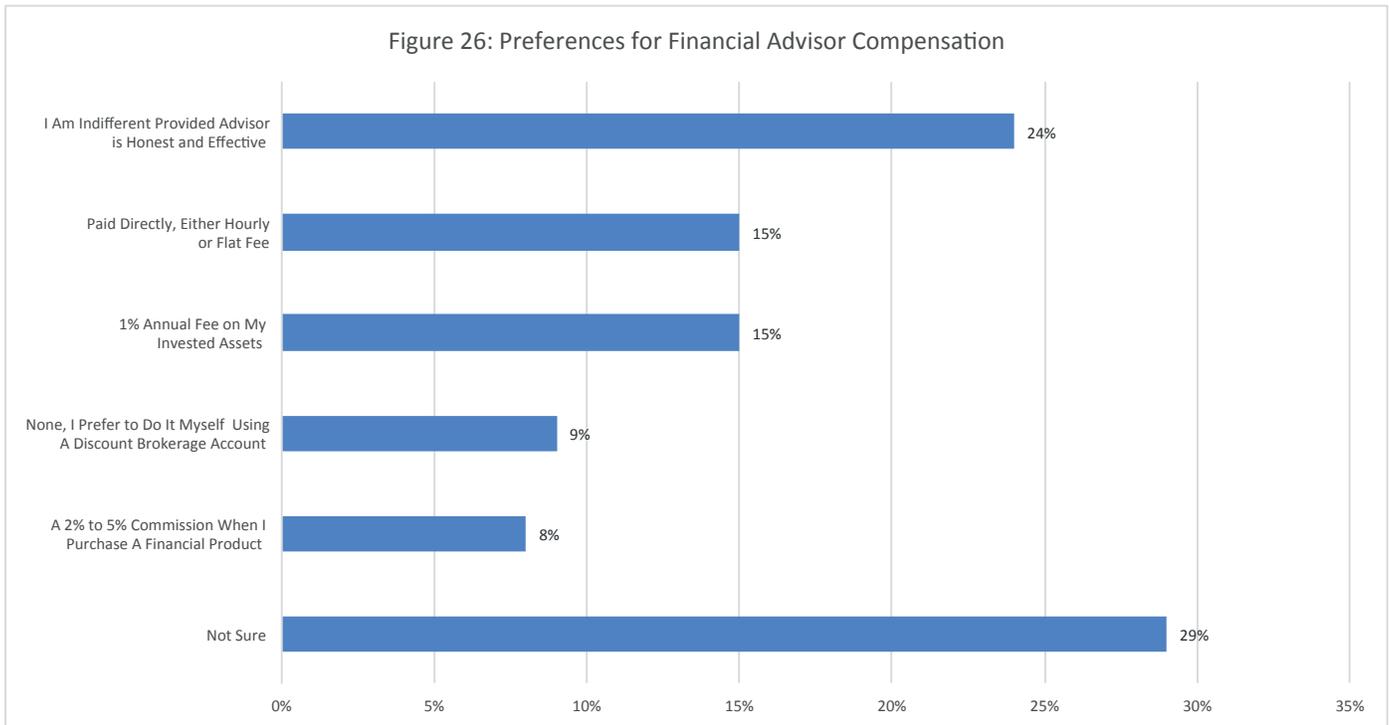
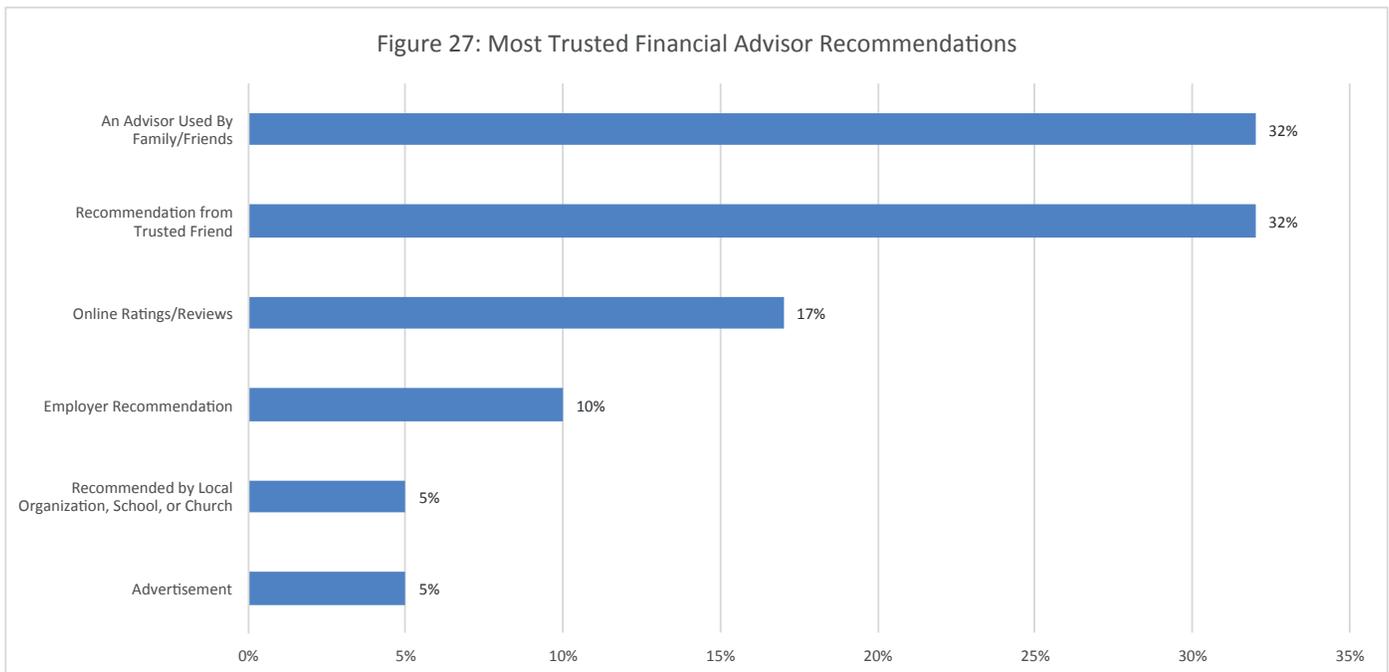
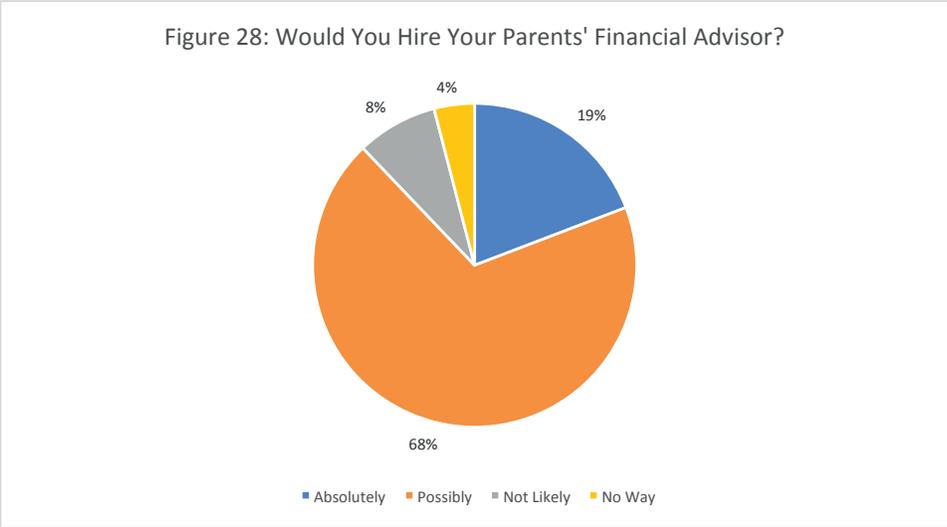


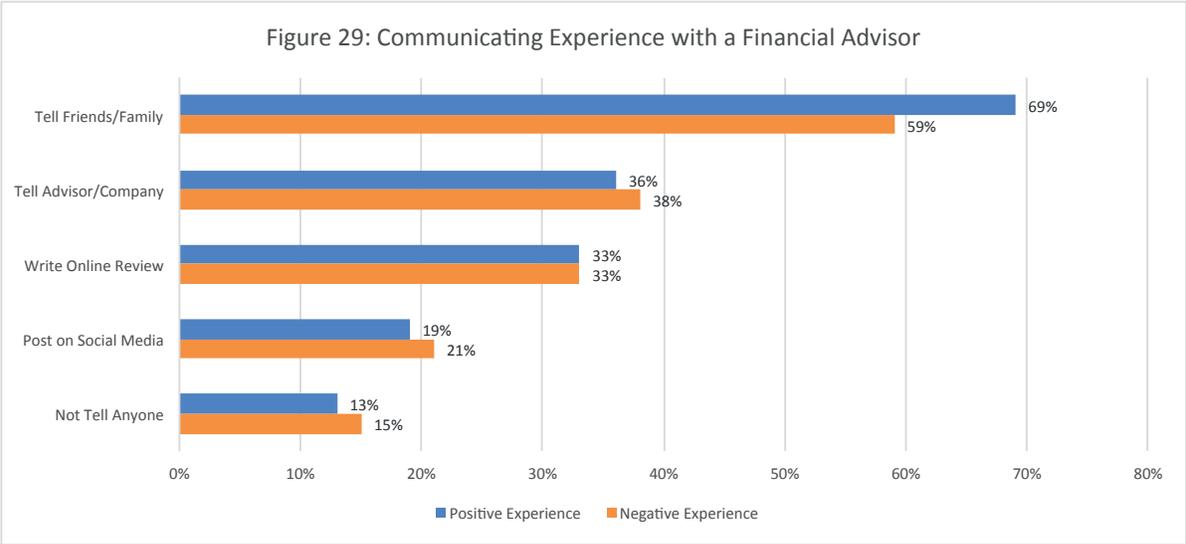
Figure 27 echoes the findings in **Figure 24**; in addition to preferring to find a financial advisor through recommendations by family or friends, Millennials would also trust such recommendations more than online reviews, employer or local organization recommendations, or advertisements.



In addition to being open to discussing retirement with their parents, Millennials are open to using their parents' financial advisors. In **Figure 28**, in fact, only 12 percent of Millennials would be averse to using the same financial advisor as their parents.



When Millennials have a positive or negative experience with a financial advisor, most of them say they would relate the experience to their friends or family. In fact, in **Figure 29** Millennials are twice as likely to talk to friends and family about their experience working with an advisor than they are to write an online review, and three times more likely than to post on social media.



SUMMARY

Summary: Millennials have higher savings rates than either Baby Boomers or Millennials, and a stronger sense that they will be greatly responsible for their own retirement security. They also have a good sense of the expense risks they will face in retirement, and less confidence in Social Security than the other working generations. However, they are largely not saving in accordance with a plan or savings goal. Despite this, most believe they will accumulate enough investable assets to retire, and define retirement as a period when they will be financially secure enough to decide whether and how much they

want to work, and to have the freedom to experience retirement on their terms. Most are unlikely to achieve such goals without a plan for saving that ensures they will have enough income to manage their expenses and enjoy the retirement they want. The majority have also not consulted financial advisors, despite the main areas they say they want help with being precisely the services financial advisors provide. Millennials represent a tremendous opportunity for advisors, provided they engage with them on their terms: as collaborative partners, rather than prescriptive product providers.

METHODOLOGY

Methodology: This report is based on an online survey conducted by The Center for Generational Kinetics. A total of 800 respondents completed the survey between June 30, 2017 and July 11, 2017. Survey respondents were Americans ages 22 to 39, without requirements for income or job, weighted to the U.S. Census for age, gender, and geography. The margin of error for the survey was +/-3.1% at the 95% confidence level.

¹ “The Financial Future of Social Security and Medicare,” (Shaw and Rametta, 2017)

² “National Health Expenditure Projections, 2016–25: Price Increases, Aging Push Sector To 20 Percent of Economy,” (Centers for Medicare and Medicaid Services, 2017)



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