



MILLENNIALS & RETIREMENT 2020

UNDERSTANDING, SAVING, AND PLANNING



INSURED RETIREMENT INSTITUTE

JANUARY 2020

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INTRODUCTION

Saving for retirement is likely not the most pressing financial priority for most millennials. The oldest are in their late 30s, focused on their next career move, or maybe with children in elementary or middle school, and the youngest are just starting their careers in a very challenging employment environment, many saddled with student debt. Retirement may be the last thing most of them are thinking about on a day to day basis or planning for, but they do have a vision of what retirement will look like when they get there.

This report will explore how “on track” millennials are to achieve a secure retirement, their expectations and attitudes toward retirement saving and retirement planning, and their views on retirement products and

working with financial professionals. With these findings as a backdrop, the report will offer recommendations for steps millennials can take now to help ensure they are financially secure when they retire in 25 to 40+ years.

THE BIG PICTURE

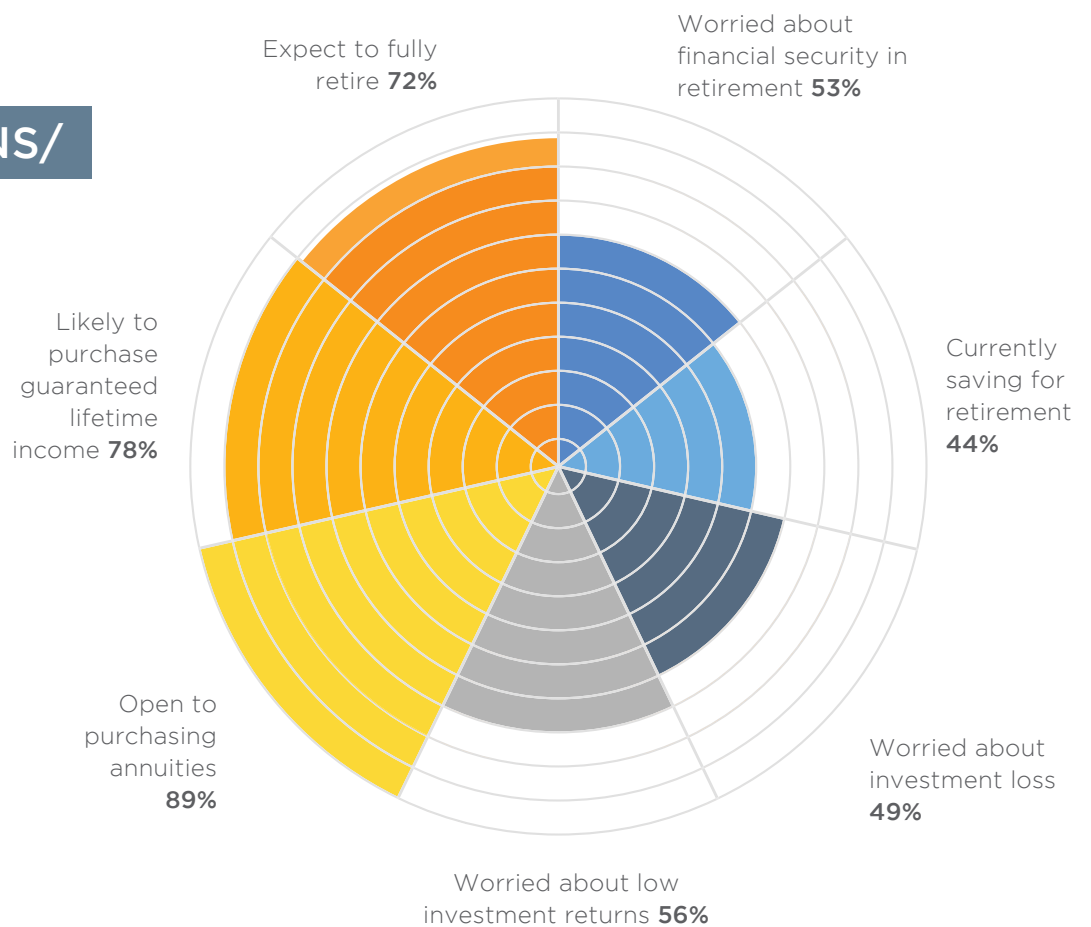
Millennial retirement expectations are not well aligned with the planning steps they’ve taken to date, but they are open to annuities in general, and guaranteed lifetime income in particular, as solutions that can help them plan to have lifetime retirement income and alleviate their concerns about investing.

RETIREMENT

EXPECTATIONS/

ACTIONS/

ATTITUDES



DETAILED FINDINGS

- Only **55 percent** of millennials are confident that Social Security will provide them with meaningful retirement income.



- Despite this, more than **seven in 10** millennials believe they will be able to fully retire, either at the age they want to (42%) or at some point, even if not at their desired retirement age (30%). Only 16% believe they won't be able to retire due to a lack of financial security.



- Eight in 10** millennials have money saved for retirement, but nearly half have saved less than \$10,000



- Sixty-five percent** of millennials believe they will generate meaningful retirement income from savings in a retirement plan, but 50 percent are not currently contributing to a plan.



- More than **four in 10** millennials are delaying saving for retirement so they can accomplish another financial goal, such as paying off debt or buying a home.



- Eight in 10** millennials would invest in an investment option that provides guaranteed lifetime income



CURRENT STATE OF MILLENNIAL RETIREMENT SAVINGS

Millennials, perhaps more than any other generation, understand that a prosperous and secure retirement is largely up to them. More millennials have at least some money saved for retirement than any other working generation (**Figure 1**), and they are far less likely to view Social Security as a major source of retirement income (**Figure 2**).

Figure 1: Percentage of Each Generation with Retirement Savings

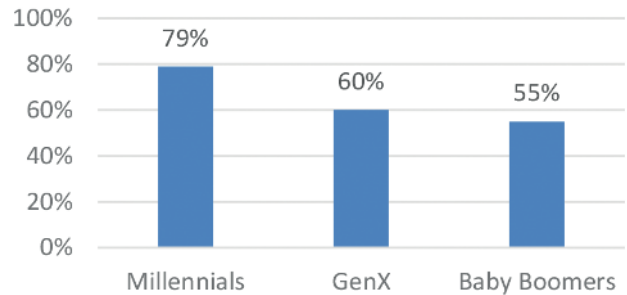
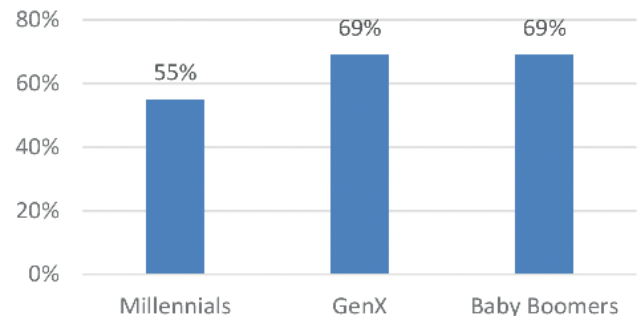
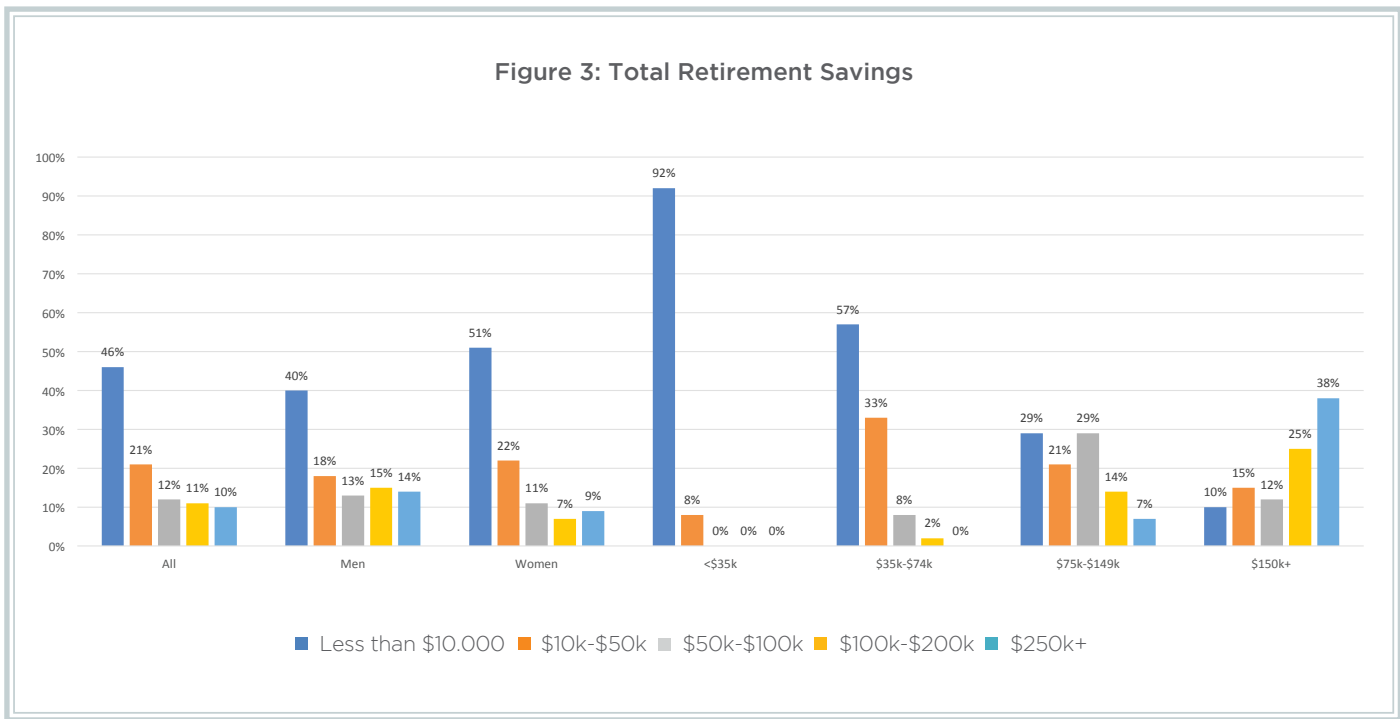


Figure 2: Expect Social Security To Be a Major Source of Retirement Income



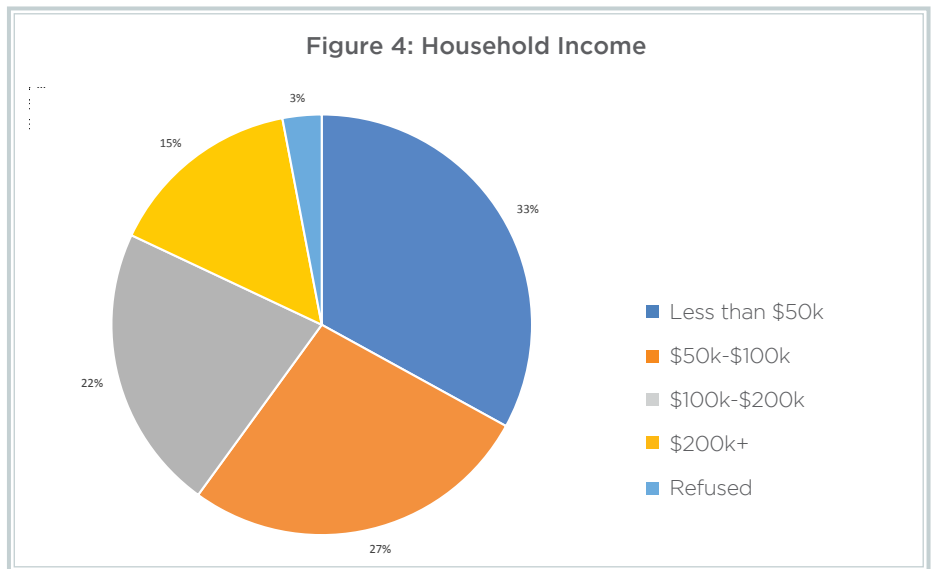
Despite eight in 10 millennials saying they have money saved for retirement, 46 percent have saved less than \$10,000. This is, of course, not nearly as alarming a statistic for millennials as it would be for baby boomers, as even the oldest millennials have 25 or more years to build their nest eggs. **Figure 3** shows, intuitively, that those at higher income levels are more likely to have built up significant savings, while almost all of those earning less than \$35,000 per year are at the lowest level of savings. In **Figure 4**, meanwhile, we see 60 percent of millennials with household income of less than \$100,000 per year, and one-third with annual household income of less than \$50,000.

Figure 3: Total Retirement Savings



Other recent research on millennials validates these findings. The Transamerica Center for Retirement Studies found the median millennial retirement fund balance was \$36,000 in 2017, and a Pew Research Center analysis of census data calculates median household income at \$69,000 annually for millennials.¹

Figure 4: Household Income



But how much of their income are millennials saving, and will it be enough to grow their nest eggs to a level that will produce enough income during retirement to provide them with financial security? **Figure 5** breaks down the percentage of income millennials are contributing to their retirement plans by gender and annual income. Men are slightly more likely to contribute to a plan than women, and women who are contributing are more likely to contribute a lower percentage of their incomes. Higher percentage contributions are observed at higher levels of income, but at income levels of \$75,000 and up the variance is more pronounced, and the percentage not contributing at all drops significantly.

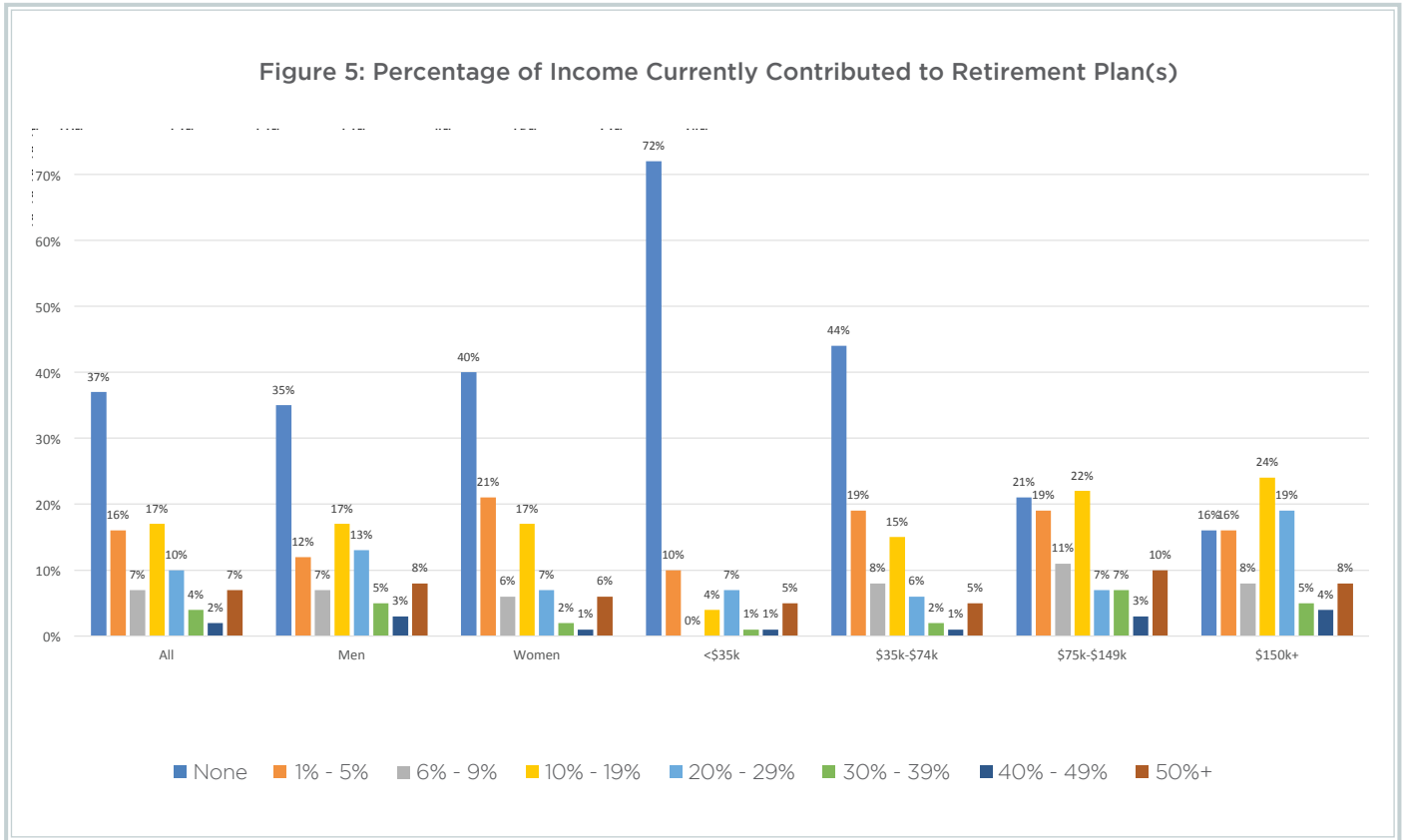
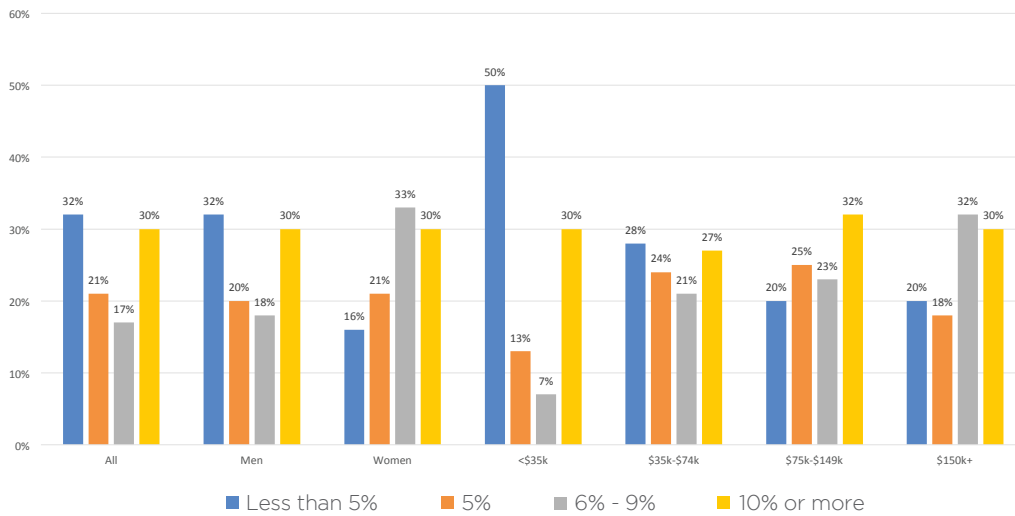


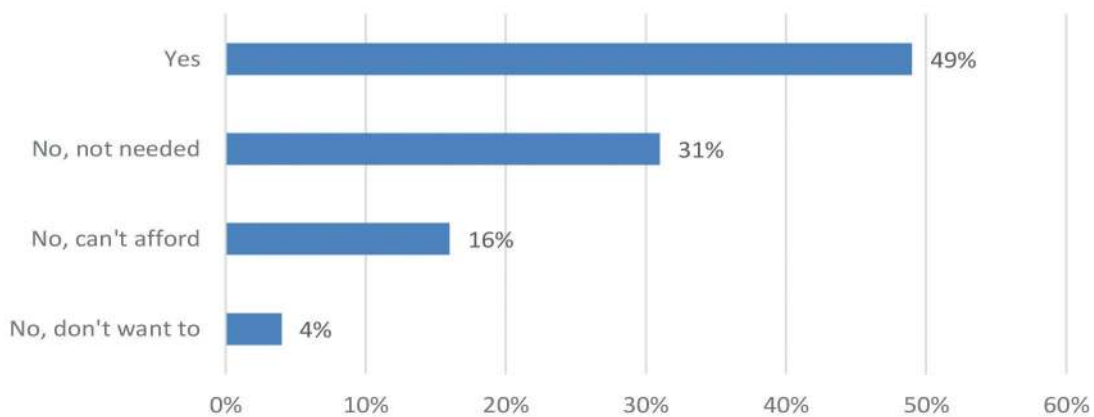
Figure 6 shows the difference, expressed as a percentage of income, between what millennials are currently saving and what they would like to save. For example, 32 percent of millennials with \$75,000 and \$149,000 in annual income would like to save an additional 10 percent, or more, of their income, whereas 50 percent of those at the lowest level of income say there is less than a 5 percent difference between what they are saving now and what they would like to save. At less than \$35,000 in annual income, necessities tend to consume a larger percentage of income than at higher levels, so this is likely a realistic view toward what might be achievable. At higher levels of income, the desire to save more signals an opportunity to positively influence saving behavior through education.

Figure 6: Percentage of Income Difference Between Current Retirement Saving and Desired Retirement Saving



A shocking finding in this year's study is the extent to which millennials believe they will need to provide financial assistance to their parents when they retire. **Figure 7** shows that one-half of millennials expect to be helping their parents financially during their retirement years - years when most of them will be building their own families and trying to save for their own retirement years. This will be challenging to say the least.

Figure 7: Do You Plan to Help Your Parents Financially When They Retire?



Using the observed findings from this survey and the median income and savings of millennials based on empirical examination of defined contribution plan and census data, a theoretical projection of the financial resources a typical millennial may have at age 65 can be constructed. The values in Figures 8 and 9 represent potential outcomes for a 30-year-old millennial couple using different combinations of income and savings levels, and comparing the lifetime guaranteed income that might be generated by retirement savings to the gap between projected Social Security payments and estimated annual expenditures at age 65. Importantly, these projections incorporate the 21% cut in Social Security benefits that will be necessary in 2034 in order to keep the system solvent through 2090, absent action by Congress to increase Social Security funding. Figure 8 assumes a contribution rate to a retirement savings plan such as a 401(k) or IRA at 5% of annual income, while **Figure 9** assumes a 10% contribution rate. The income from savings assumes 60 percent of the retirement plan balance is invested in an annuity making guaranteed lifetime income payments, with 40 percent reserved for discretionary and emergency expenses.

Figure 8: 5% Contribution Rate³

Scenario	Annual Expenditures	Social Security	Income Gap	Retirement Savings	Income from 60% of Savings	Shortfall/ Excess
Low income, low savings	\$91,995	\$44,328	-\$47,757	\$274,830	\$8,760	-\$38,997
Low income, high savings	\$91,995	\$44,328	-\$47,757	\$589,615	\$18,792	-\$28,965
Median	\$91,995	\$44,328	-\$47,757	\$631,640	\$20,124	-\$27,633
High income, low savings	\$91,995	\$44,328	-\$47,757	\$996,603	\$31,764	-\$15,993
High income high savings	\$91,995	\$44,328	-\$47,757	\$1,768,845	\$56,376	\$8,619

Figure 9: 10% Contribution Rate³

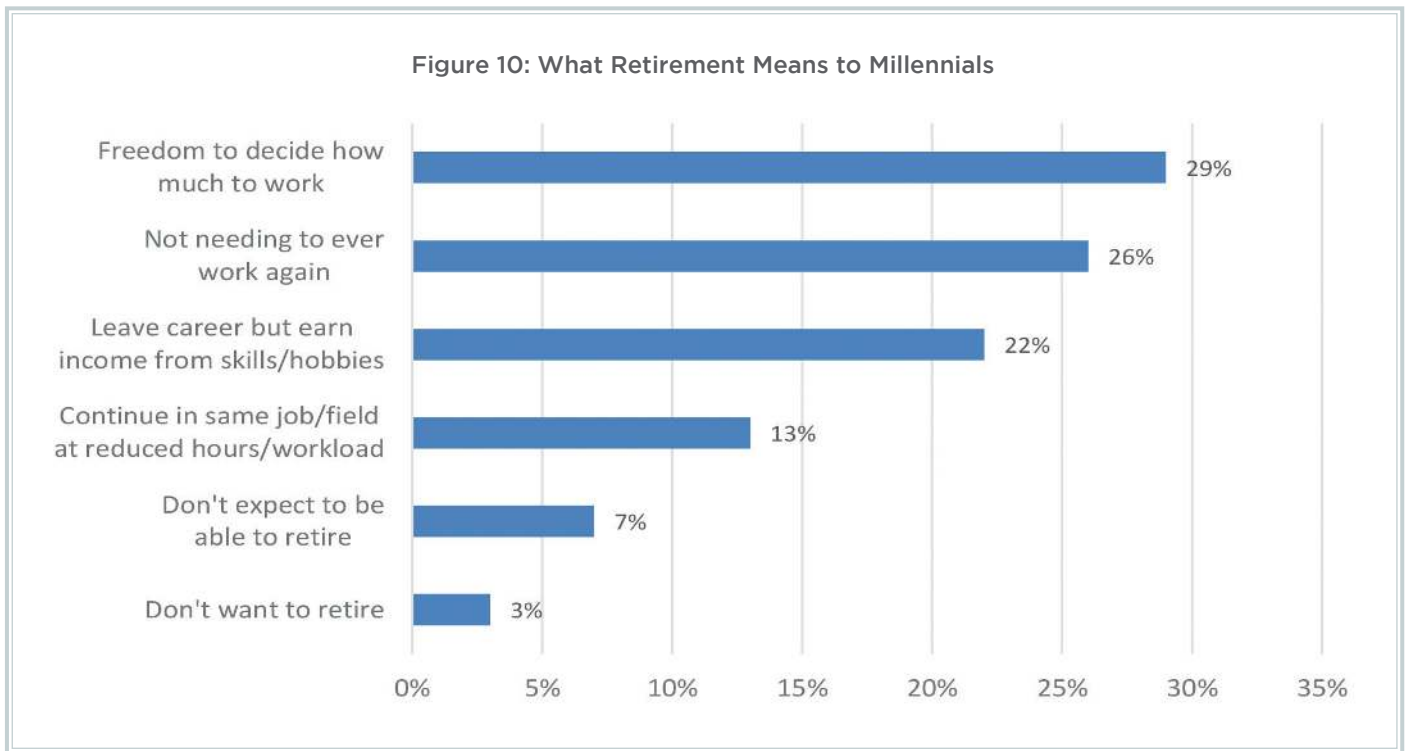
Scenario	Annual Expenditures	Social Security	Income Gap	Retirement Savings	Income from 60% of Savings	Shortfall/ Excess
Low income, low savings	\$91,995	\$44,328	-\$47,757	\$494,500	\$15,756	-\$32,001
Low income, high savings	\$91,995	\$44,328	-\$47,757	\$903,429	\$28,788	-\$18,969
Median	\$91,995	\$44,328	-\$47,757	\$1,064,704	\$33,936	-\$13,821
High income, low savings	\$91,995	\$44,328	-\$47,757	\$1,162,827	\$61,764	\$14,007
High income high savings	\$91,995	\$44,328	-\$47,757	\$1,626,173	\$86,376	\$38,619

In reality, of course, every situation is different – a given household may spend more or less than the average, and Social Security benefits are also variable. However, Social Security benefits are based on income while working, and those with higher benefits are likely to be accustomed to a more expensive lifestyle, i.e. if Social Security income is higher, expenditures are likely higher as well so the income gap would be similar. Therefore, both expenses and Social Security benefits are held constant across all scenarios for simplicity, and taxes are also ignored due to their variability – but both are important variables to solve for when planning for income during retirement. For most millennials, based on current income, savings, and saving behaviors, a shortfall is likely that will result in a standard of living below what may be desired, having to work longer than desired, or both. For the relative few, pension income may fill the shortfall, but only 17 percent of private sector workers have access to a defined benefit plan today, and this is likely to fall in the future.⁴ Increasing savings today and having a plan for how to use savings during retirement can help millennials achieve the retirement they want, but balancing retirement saving against other priorities – paying off debt, raising families, and as noted above providing financial support to aging parents – will be quite challenging.

The remainder of the report will examine what millennials expect, what they are (and are not) doing to realize those aspirations, and how they can make positive changes that will put them on track for a secure retirement.

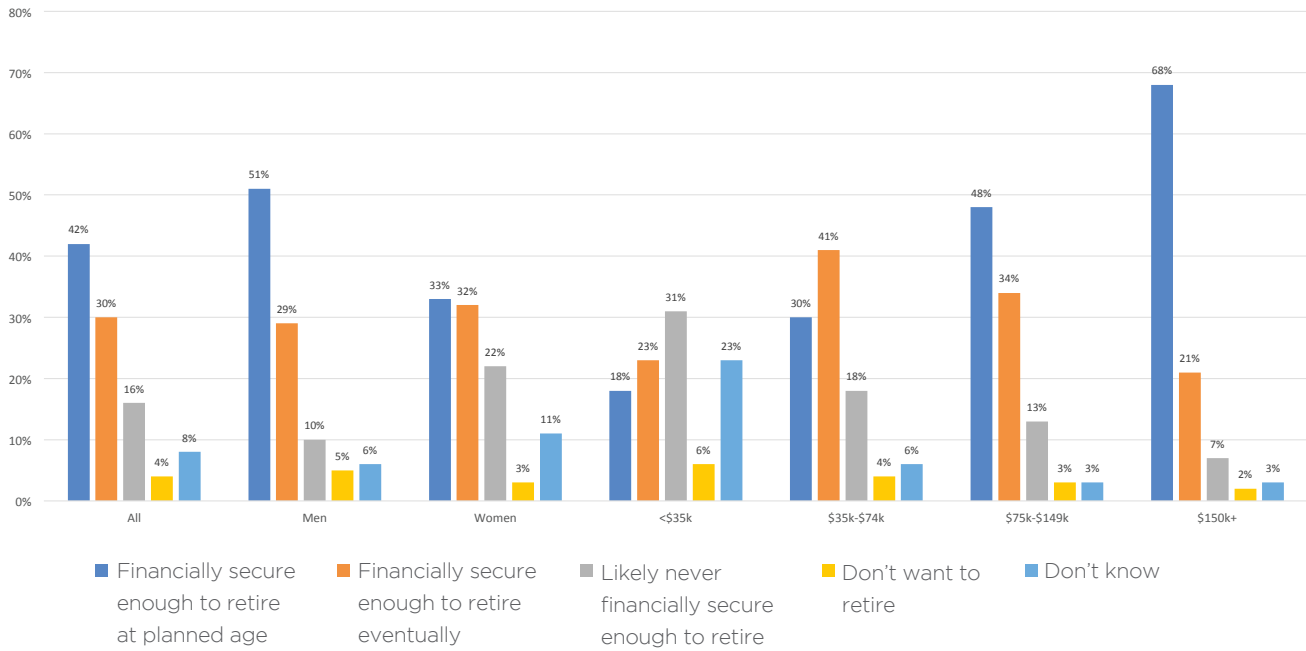
RETIREMENT EXPECTATIONS

Millennials view retirement in much the same way as baby boomers and GenXers; that is, most anticipate reaching a point in their lives where they can either choose how much they want to work or become financially secure enough to never need to work again. Some plan to leave a primary career but continue to earn income from their skills or hobbies or continue to work in their chosen fields at a reduced capacity, but as **Figure 10** shows, only seven percent believe they won't be able to retire.



In **Figure 11**, the financial expectations of millennials are a bit at odds with their view of what retirement means. Overall, 72 percent of millennials believe they will reach a point of financial security that will enable them to retire, either at the age they plan or eventually. However, 16 percent believe they will likely never be financially secure enough to retire, as compared to the seven percent in Figure 10 who do not expect to be able to retire. Men are more confident than women, and intuitively those at the highest income levels are the most confident that they will be financially able to retire when they plan to do so.

Figure 11: Expectations of Financial Ability to Retire All and By Gender & Annual Income



While most millennials believe they can retire, many are worried they won't be financially secure throughout retirement. In **Figure 12**, more than one-half of millennials say they are very or somewhat concerned about their financial security during their retirement years. Women are more likely to be worried than men, and while those at higher income levels are less likely to be worried the percentages are still significant - more than four in 10 millennials with at least \$150,000 in annual household income are worried about their financial security after they retire, but six in 10 of those at lower income levels are worried.

Figure 12: Concern About a Financially Secure Retirement All and By Gender & Annual Income

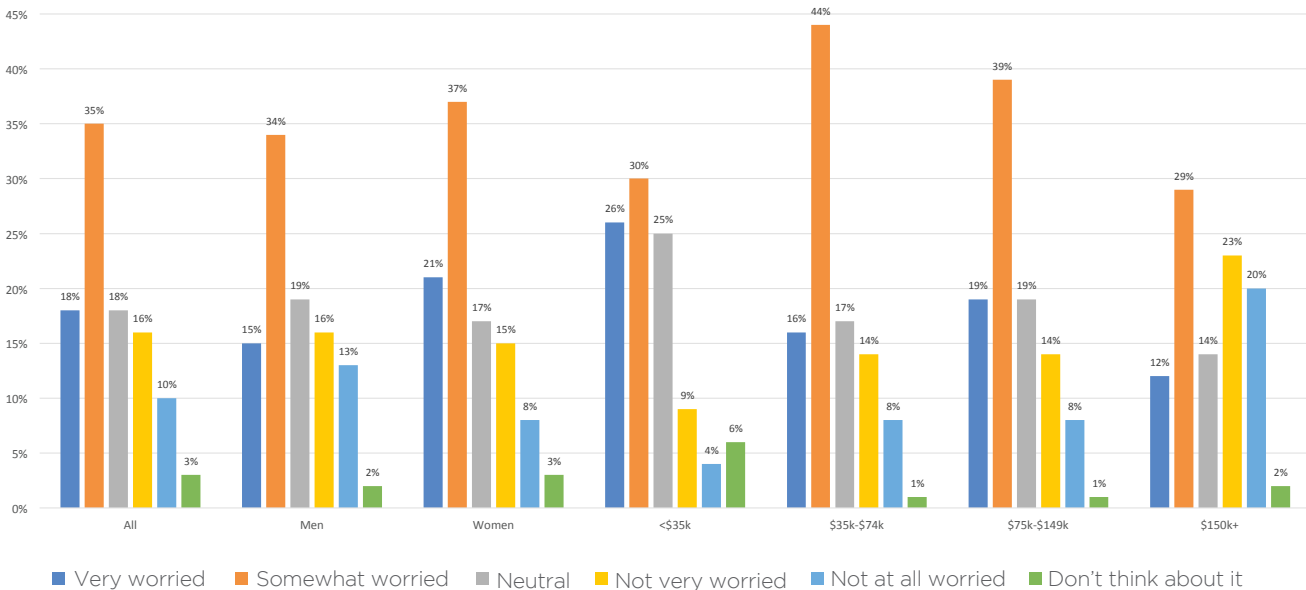
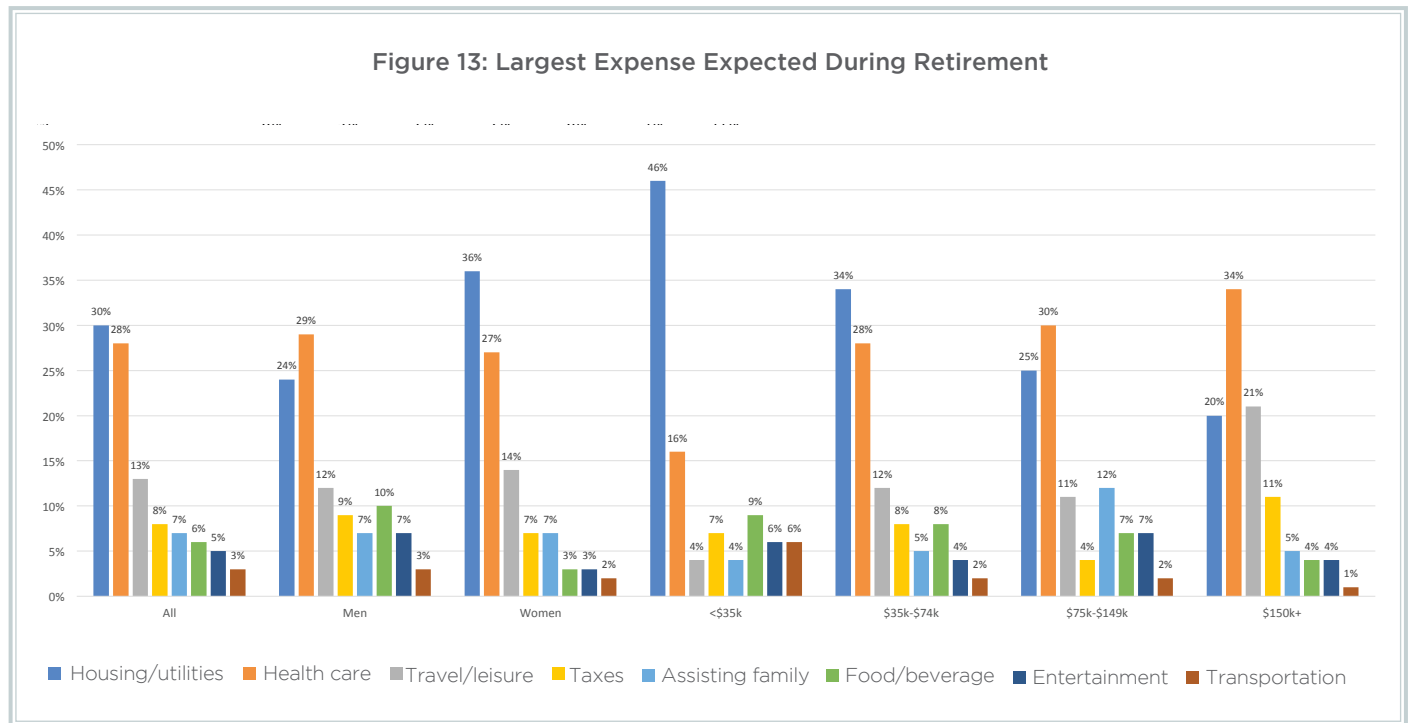


Figure 13 shows that housing and health care are the largest expenses millennials expect to incur during retirement. Housing is less likely to be selected as the greatest expected expense by those at higher income levels, as they are most likely to have an expectation that they will own their homes and be mortgage-free when they retire, while those at lower income levels may be more likely to expect to continue to rent. Importantly, millennials recognize that they will be responsible for a significant level of health care expenses, which should make them generally open to discussing the future use of products and strategies that can help mitigate these costs, such as Health Savings Accounts and long-term care insurance and riders.



RETIREMENT SAVINGS

Millennials have traditional ideas about retirement, they are worried about their financial security during retirement, and they directionally understand what their expenses are likely to look like in their later years. This section will look at how they are saving, and the actions they are taking to prepare for retirement.

Figure 14 shows the various investment options millennials are using to save for retirement. The options are not mutually exclusive, and with 79 percent of millennials having at least some money saved for retirement but only 39 percent contributing to a 401(k), IRA or other qualified plan the implication is that a relatively high number of millennials have either stopped saving, or are using other means to accumulate wealth for retirement. This is likely part of the reason over four in 10 millennials have less than \$10,000 saved for retirement; lack of access to employer-based plans, i.e. not having savings automatically deducted from paychecks, can make it much harder to save. Further, fewer than one in four are saving based on a calculated goal, and even at the highest income levels only one-third have tried to figure out how much they should be saving to achieve retirement security. The youngest millennials have time on their side, and many would find that a modest increase in saving - or getting started at a manageable level - will help them avoid the need to save at an unrealistic level later in their working lives.

Figure 14: Saving Actions Taken to Prepare for Retirement

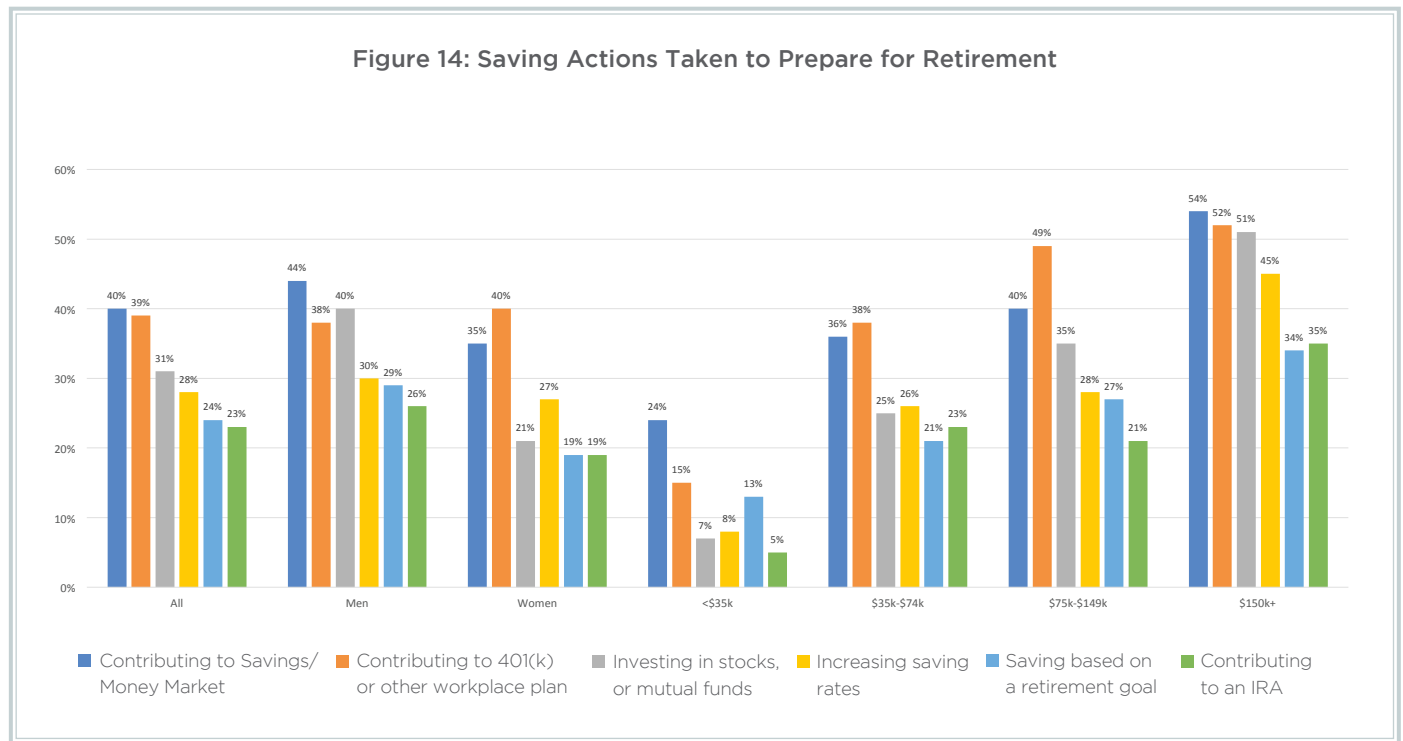


Figure 15 divides millennials into savers and non-savers and breaks down the reasons cited for not saving. A relative few say they are not saving because they see no need – perhaps they are expecting an inheritance, or they believe they can get by on Social Security. Most, however, are not saving because they are trying to achieve some other financial goal first – for example, paying off student loans or other debt, or buying a first home. While these are certainly important goals, they need to be balanced against the long-term advantage of starting to save for retirement early and realizing the benefits of compounded investment earnings. Seeking financial advice to balance these competing priorities is critical.

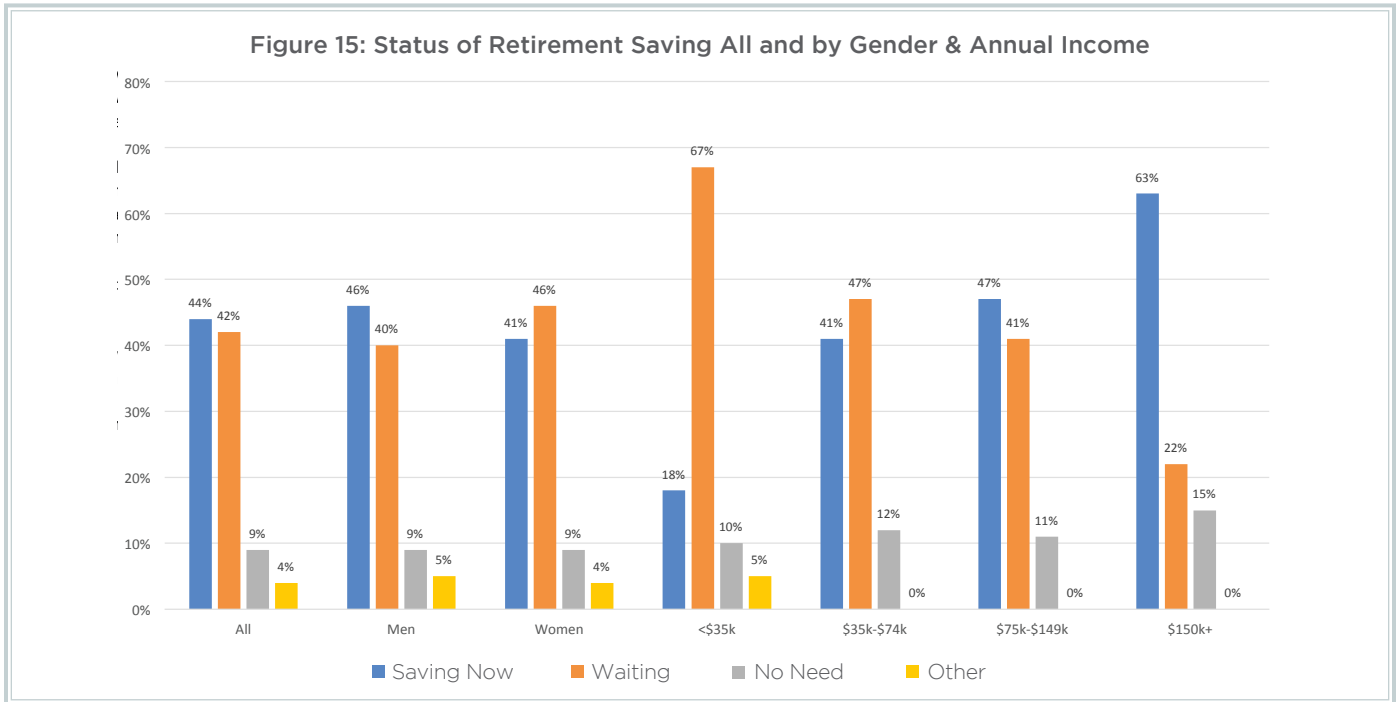


Figure 16 looks a bit deeper into the “waiters” and when they plan to start saving. Within the 46 percent who are waiting, not having a plan or clarity around when they’ll start and wanting to pay off debt are the top reasons for putting off retirement saving. These are both areas where financial advice can be invaluable by helping millennials put plans in place to get started accumulating wealth for retirement.

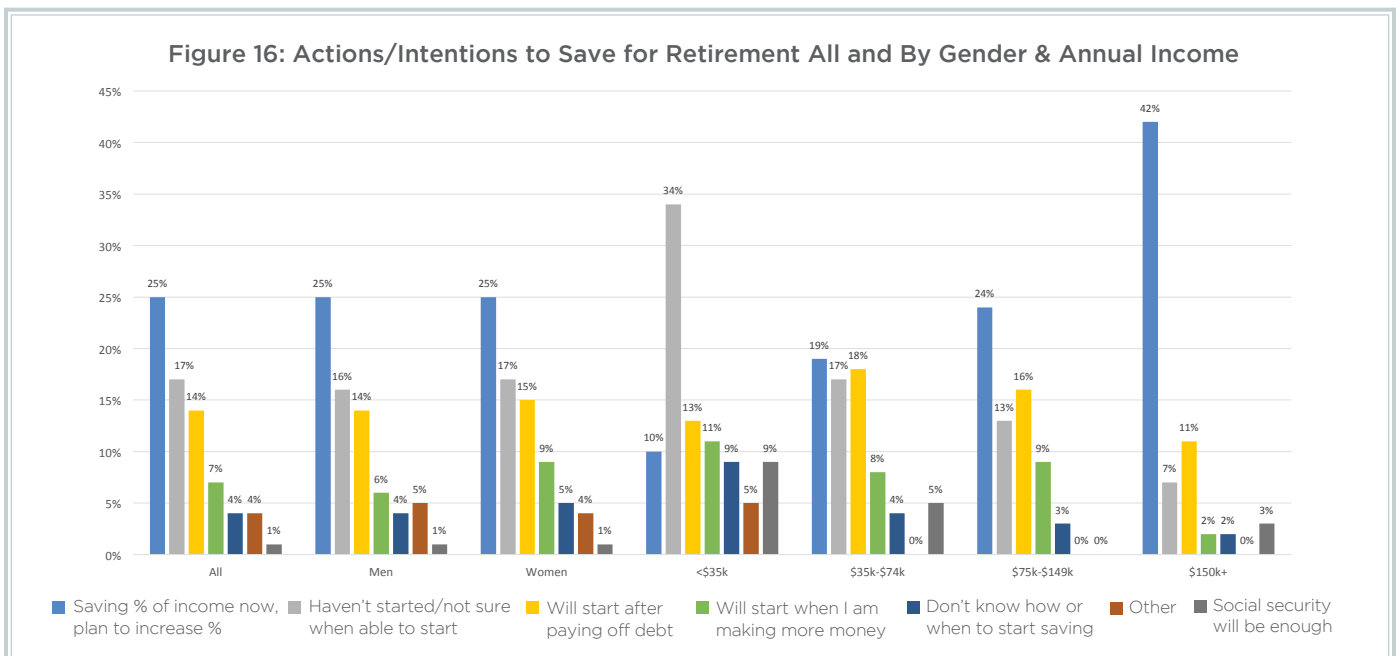
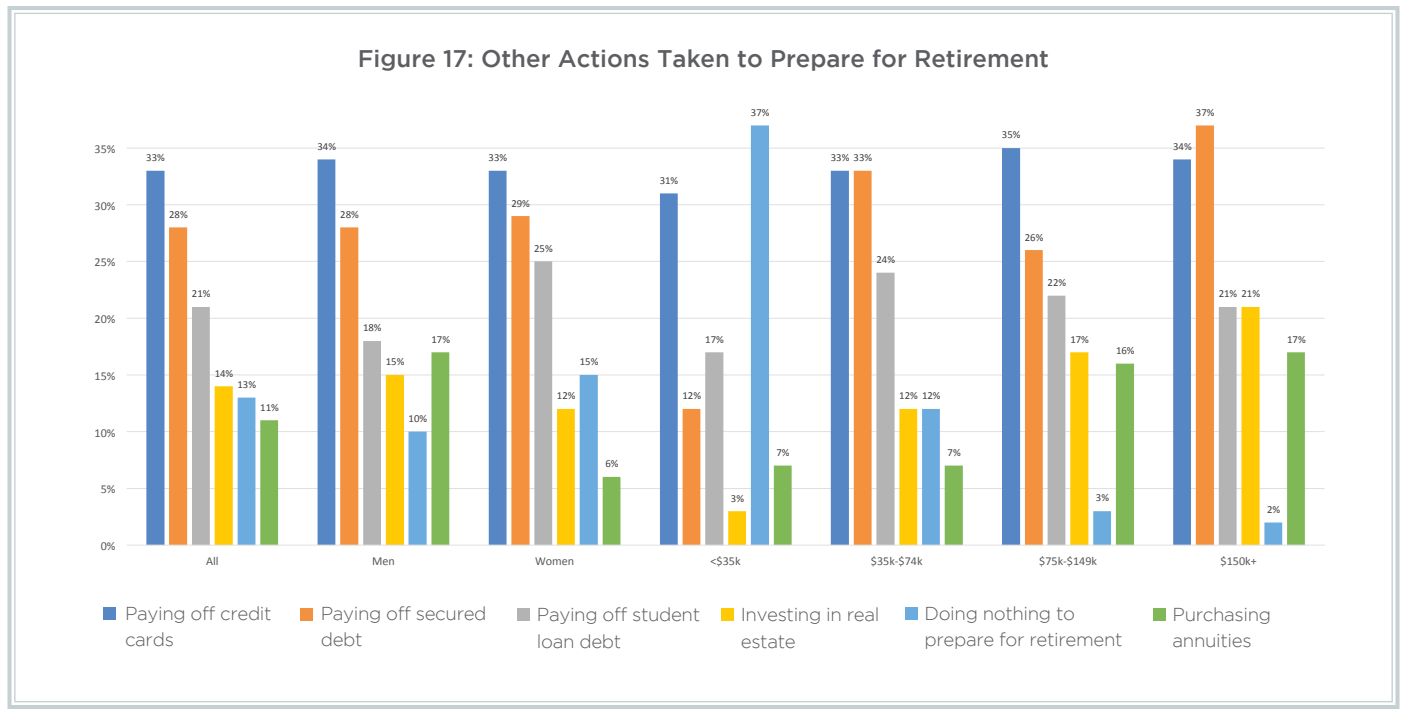
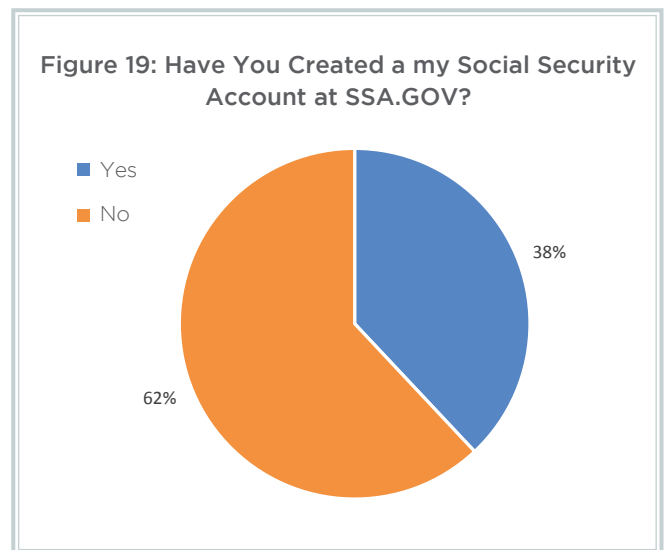
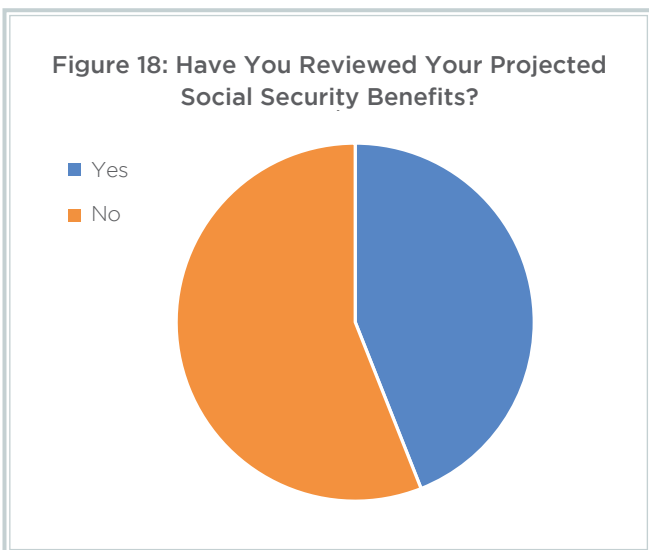


Figure 17 shows more of a bright side – relatively few millennials feel they are “doing nothing” to prepare for retirement, with debt repayment being the most prevalent action they are taking. Purchasing annuities, while the least common response overall, is encouragingly high at higher income levels, reflecting the extent to which millennials understand that having secure sources of guaranteed lifetime income during retirement is up to them.

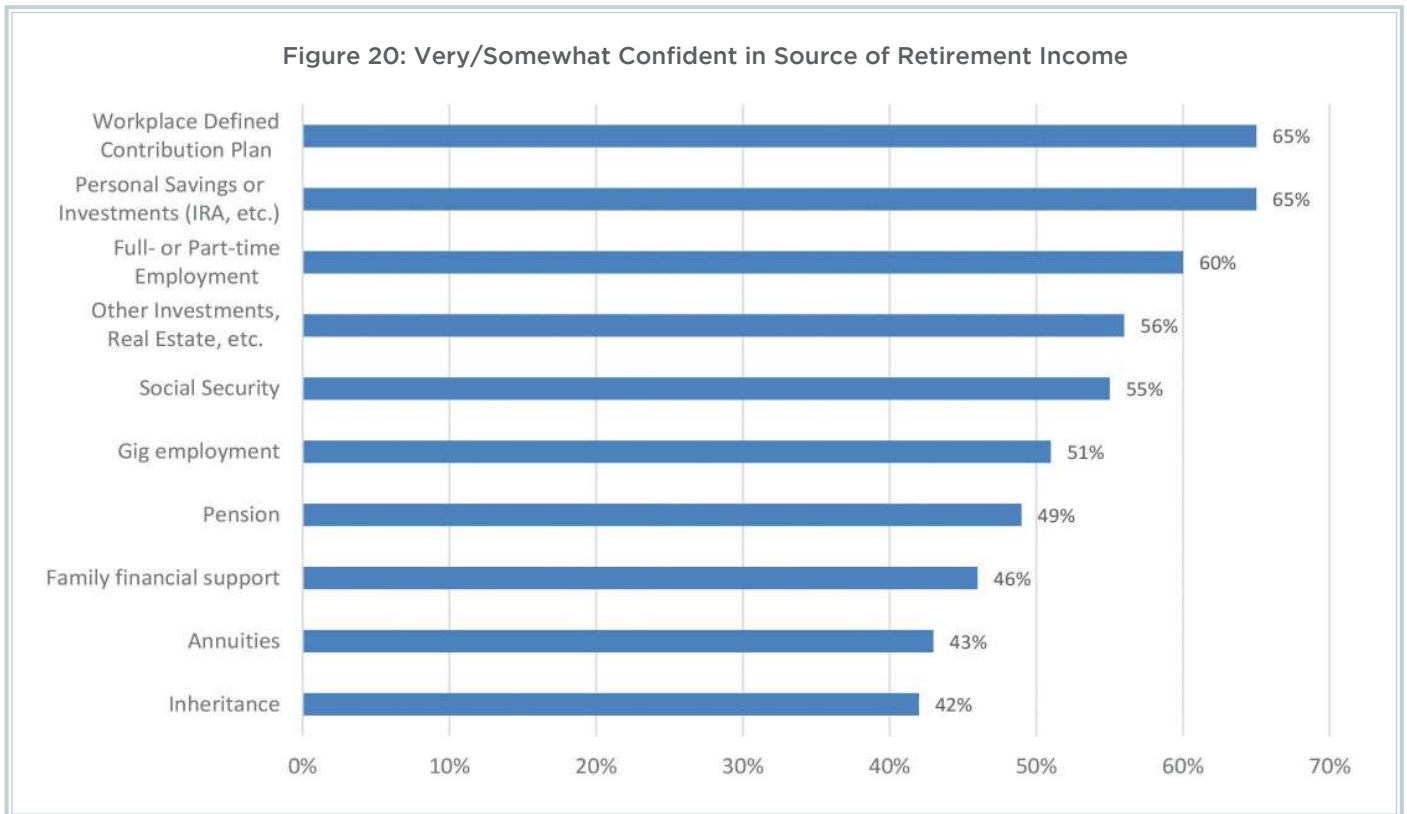


One of the simplest actions American workers can take to start developing an understanding of retirement income is to review projected Social Security benefits and create an account on the Social Security website that provides access to information and tools to project benefits under various scenarios. These are free resources that more millennials should be taking advantage of, but as **Figures 18 and 19** show there is some work to do to get millennials to visit ssa.gov and take advantage of these resources.



RETIREMENT INCOME

At some point, most millennials will fully retire and no longer receive income from employment – either by choice or involuntarily. At that point, they will need to pay for their expenses – housing, food, utilities, transportation, health care, and discretionary – using Social Security benefits, pension income (if any), and retirement savings. **Figure 20** shows how millennials view the various income sources they can expect during retirement based on how confident they are that each source will prove meaningful in terms of providing retirement income, and the results are surprising. Millennials are most confident in their savings, but as noted earlier most haven't set a savings target and have very little saved. They are more confident in continuing to work on a full- or part-time basis, but most current retirees do not receive significant income from employment – in fact IRI research finds 73 percent of retirees realize no income from employment, and only 9 percent count on earned income for 25% or more of their total retirement income.⁵ Almost one-half of millennials also believe a pension will provide them with retirement income, despite the fact that only 17 percent of private sector workers have access to a defined benefit pension.⁶ This could be the result of confusion between defined contribution and defined benefit plans – IRI research also indicates that a significant percentage of American workers believe 401(k) plans and IRAs provide guaranteed lifetime income, but this is of course not the case.⁷



Despite millennials being most confident in their retirement savings as a source of income, most plan on either using a withdrawal strategy or only using the interest and dividends from their investments for income – or they don’t know how they will use their savings. This is concerning, as withdrawal strategies risk the depletion of investable assets at an advance age, while the amount of income that can be obtained by only accessing investment earnings is not likely to be enough to close the income gaps discussed earlier. Overall, only one in four millennials plan to use an annuity to ensure their savings will provide them with income for their entire lives.

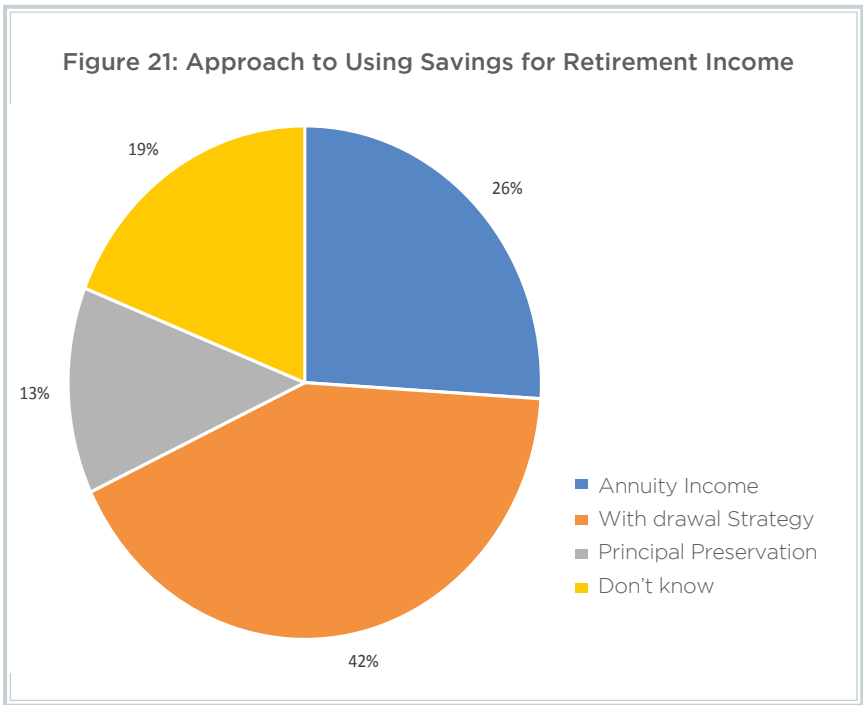
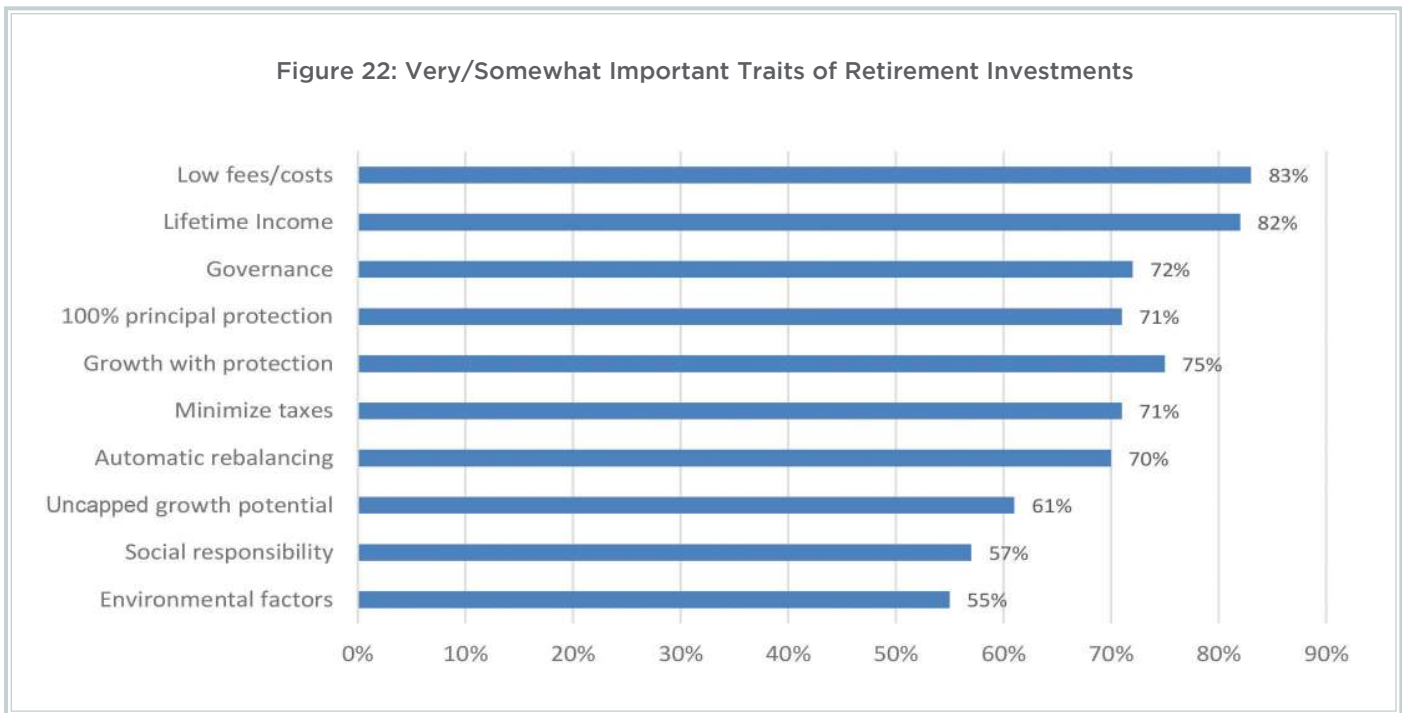


Figure 22 is encouraging: when it comes to the important aspects of retirement investments, the ability for the investment to provide lifetime income ranks evenly with costs for millennials. Millennials are also very interested in governance – they want the companies they invest in to be run responsibly. The potential for higher investment returns, however, is much less important to millennials than guaranteed lifetime income and principal protection.



As one may imagine, given the importance millennials attach to lifetime income as a trait of a retirement investment, they are likely to invest in options with this feature. As **Figure 23** shows, interest in such an option is strong across all groups of respondents, though a bit lower at the lowest income levels where access to employer-based plans is less common and respondents are more likely to perceive Social Security as providing enough income.

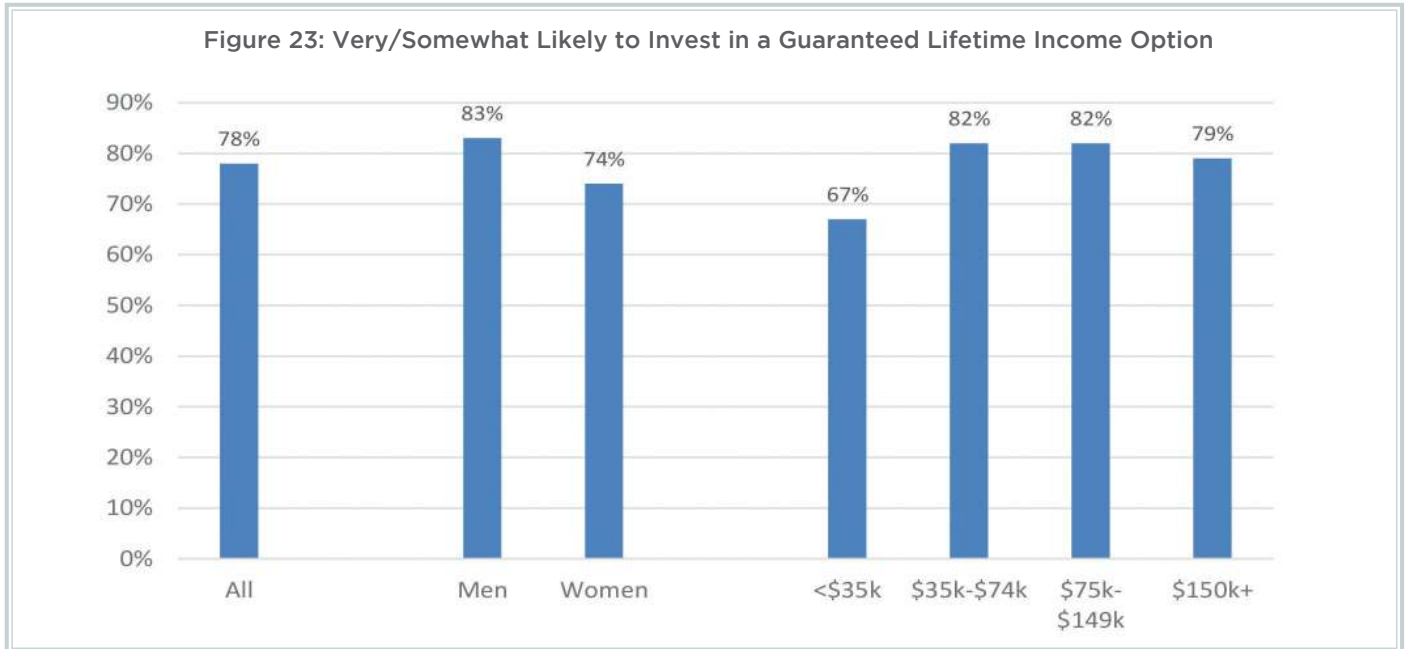
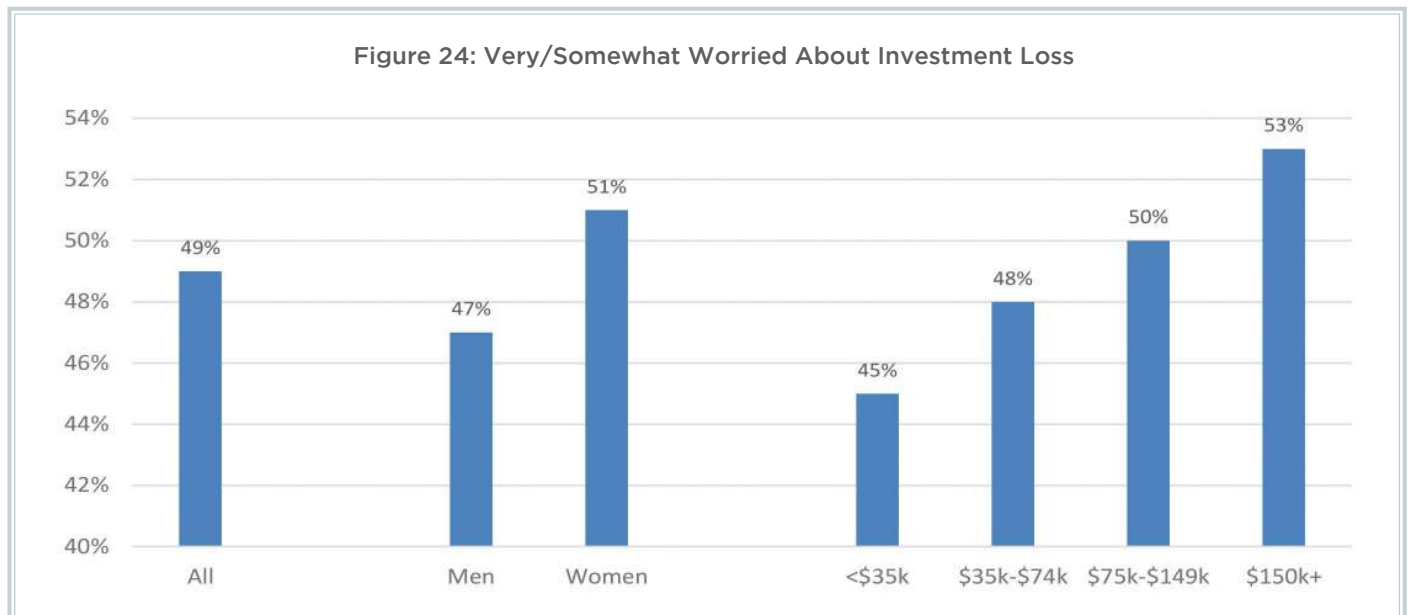
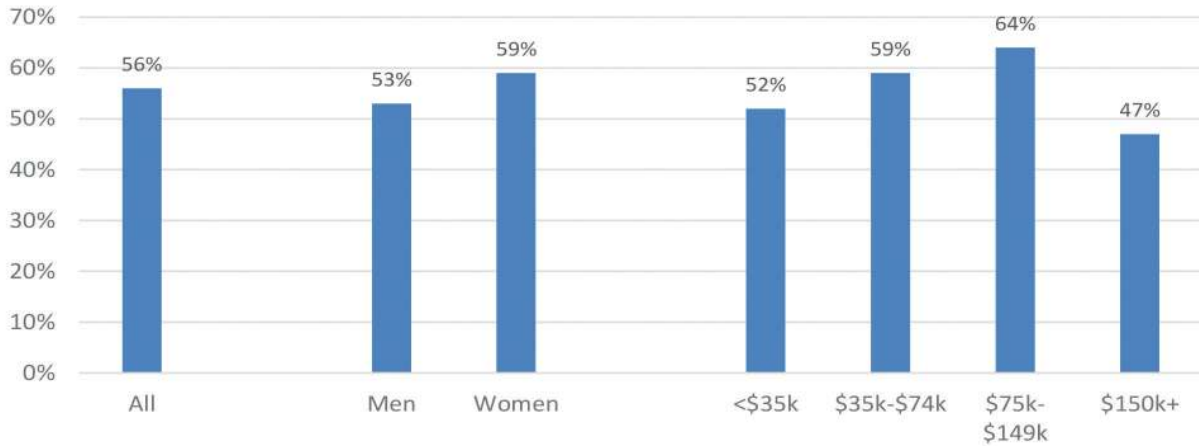


Figure 24 shows that millennials are worried about losing money on their investments. Many saw their parents hit hard during the 2008 financial crisis, and older millennials may have seen their fledgling retirement accounts experience significant losses just as they were getting started saving. The differences are not terribly large, but women tend to be a bit more concerned than men, while those at higher income levels (who generally have more in retirement savings) are more concerned about investment loss than those who have mostly not saved as much.



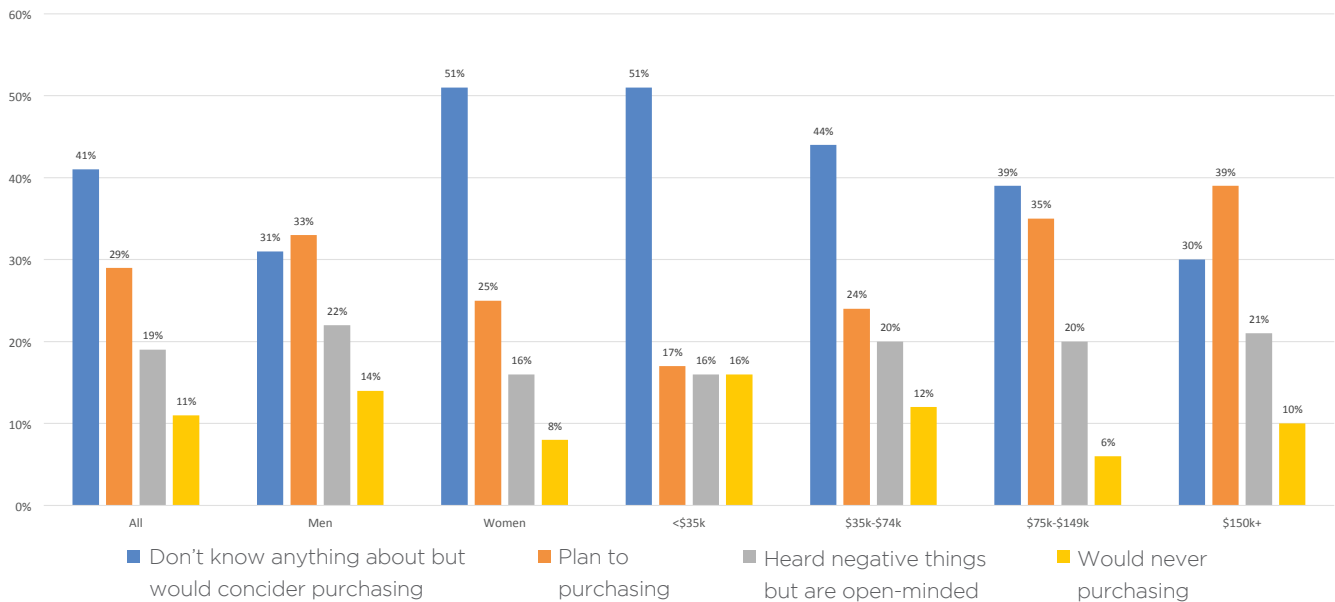
In **Figure 25** as compared to **Figure 24**, millennials are more worried about investment returns being insufficient to help their assets grow enough to give them a path to financial security when they retire. On average, millennials tend to invest more conservatively than older generations, and the anemic returns on “safe” investments in today’s interest rate environment would naturally fuel this concern. “Growth with guard rails” using annuities with principal and/or income guarantees, or structured annuities that can enable the selection of a level of protection against investment loss, are options millennial savers should be embracing.

Figure 25: Very/Somewhat Worried Investment Returns Won’t Enable Financial Security in Retirement



Millennials are generally not opposed to annuities. **Figure 26** reveals that most simply do not know how annuities work or may have heard or read negative information but are open to learning about them. At higher income levels, four in 10 intend to purchase annuities, again reflecting awareness of generating guaranteed lifetime income to supplement Social Security as a personal responsibility. Only one in 10 millennials reject annuities outright.

Figure 26: Attitudes Toward Annuities

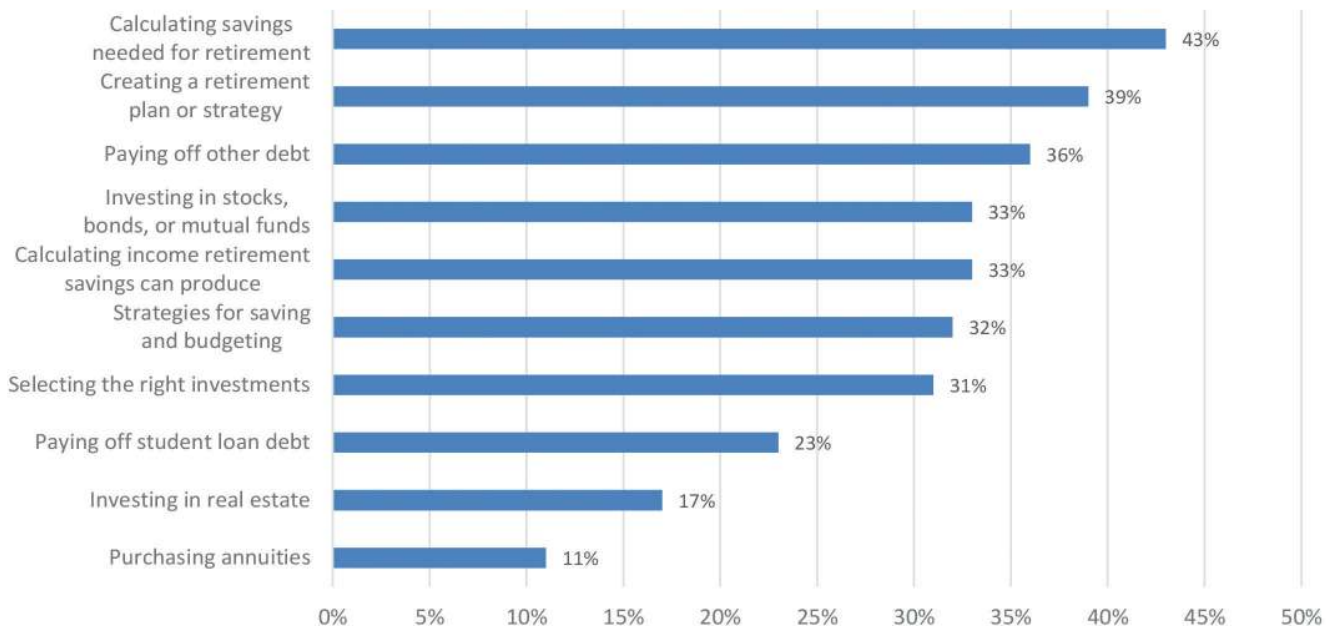


WORKING WITH FINANCIAL PROFESSIONALS

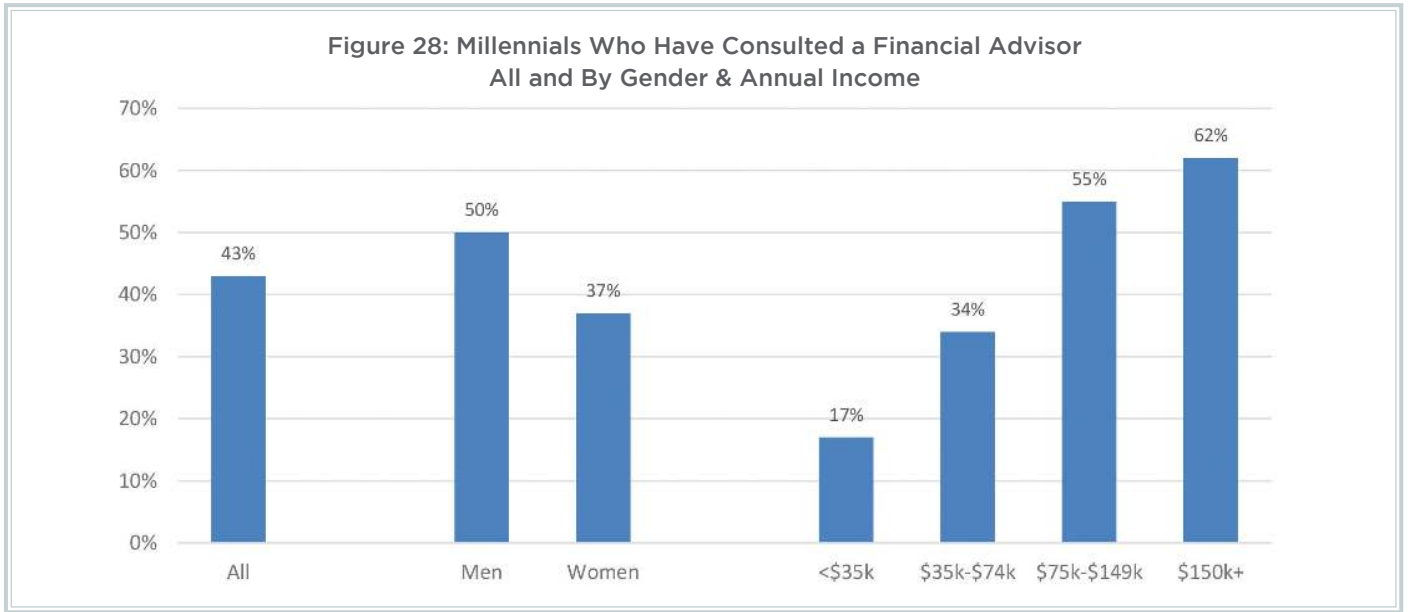
IRI research explores the retirement readiness of baby boomers, Generation X, and millennials, and the financial security and the financial lives and experience of retirees. In every generation and life stage, there is strong evidence that American workers are not planning effectively for retirement, and do not have well-thought-out plans for turning their savings into sustainable, lifetime income. Further, they lack an adequate understanding of retirement risks and the devastating impact these risks can have on their savings and their financial security – especially regarding health care and long-term care expenses, which many believe Medicare will cover. Seeking and implementing guidance from financial professionals can help ensure millennials are armed with the information they need to save enough and choose the investment and insurance products best suited to their unique financial needs. This section explores the views and attitudes of millennials toward engaging with financial advisors.

Figure 27 explores the areas where millennials most want help with their financial lives. The top two areas they want advisors to assist them in are firmly centered on retirement: helping them calculate a target amount of savings to reach before they retire and creating a written plan for getting to and living in retirement. More specific tasks, such as selecting investments or paying down student loan debt, are perceived to be less important. This is intuitive given where most millennials are in their working lives – with two to four decades to save, they want “big picture” help so they can feel confident they are on the right track while they focus on the “now” aspects of their lives: building careers, continuing education, parenting young children, and acquiring their first homes.

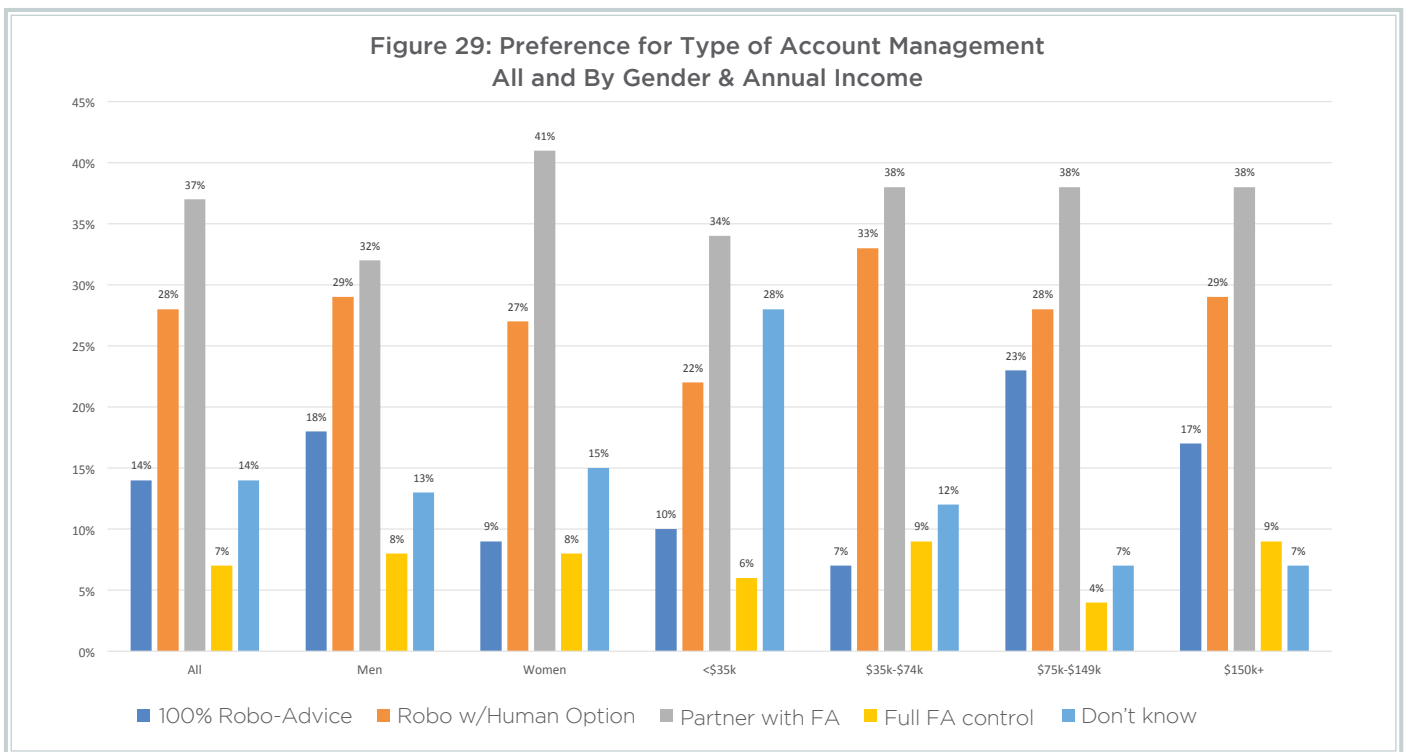
Figure 27: Where Millennials Want Help From Financial Advisors



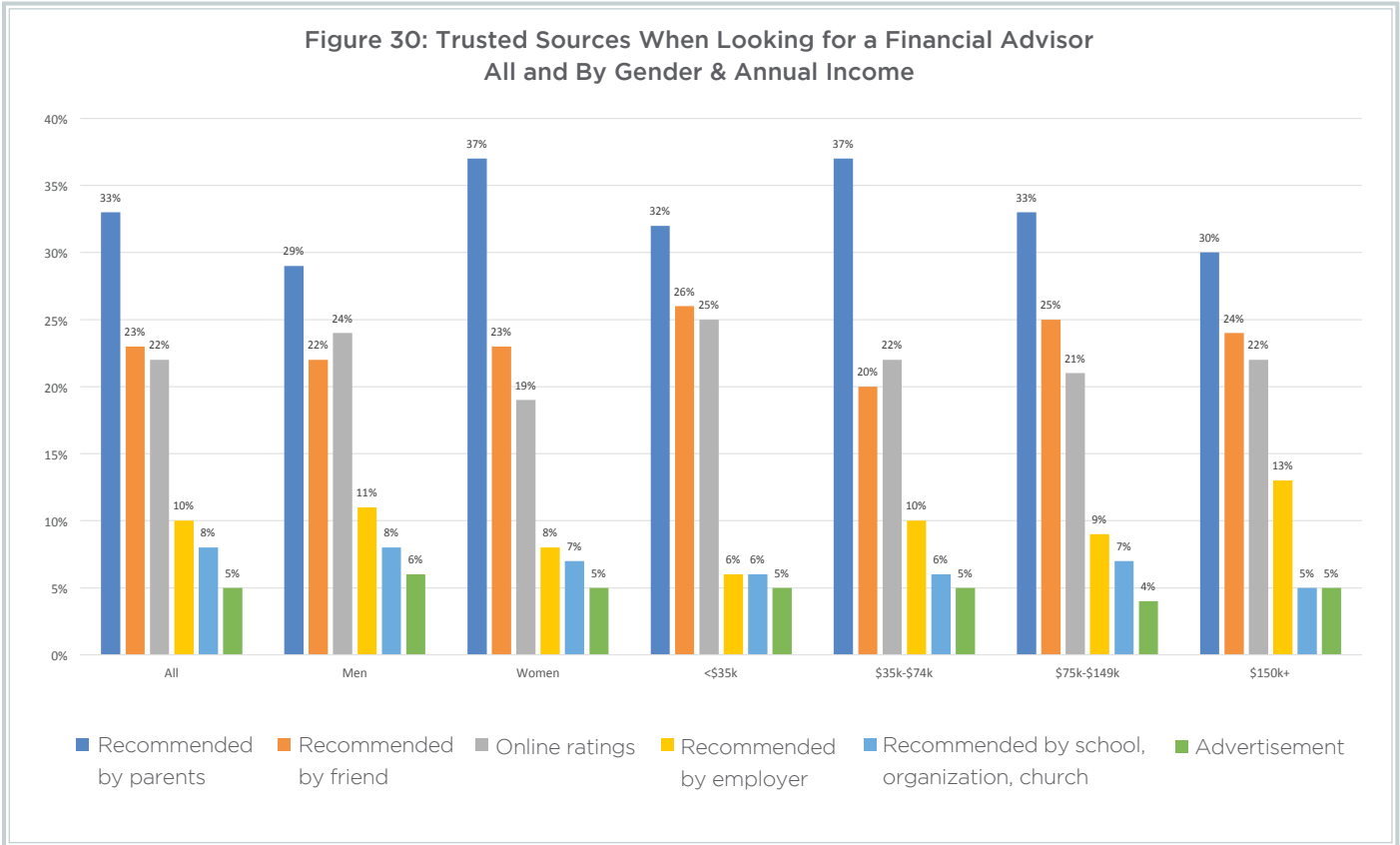
The percentage of millennials who have consulted with financial advisors is encouraging. In **Figure 28**, four in 10 have at some point talked to a financial advisor, with men and those at higher income levels more likely to say they have done so.



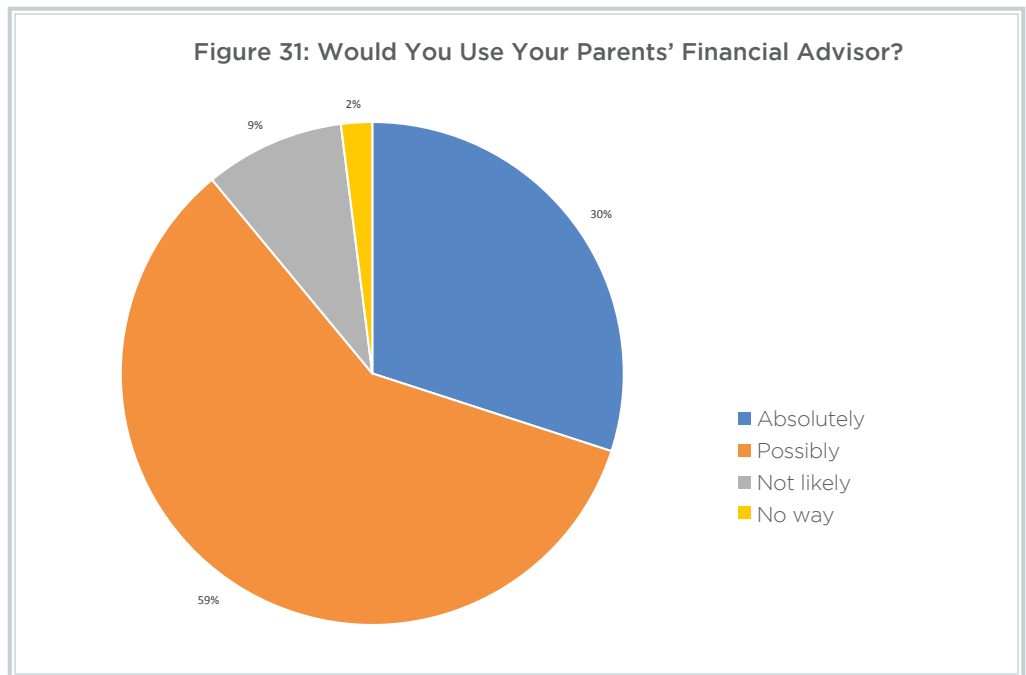
It is tempting to paint millennials as a generation with a preference for technology over human interaction when consuming goods and services, but this does not hold up to scrutiny when it comes to financial advice. **Figure 29** shows that millennials are not too interested in account management solutions that are either 100% technology-driven, i.e. “robo advice,” but neither do they want an advisor to manage everything for them. Their strongest preferences are to work in partnership with a financial advisor, or if they use a robo-advice solution they want to have the ability to talk to a financial advisor when they feel the need to do so. At higher income levels there is a bit more interest in using a 100% robo solution, but there is far more interest in partnering with human advisors.



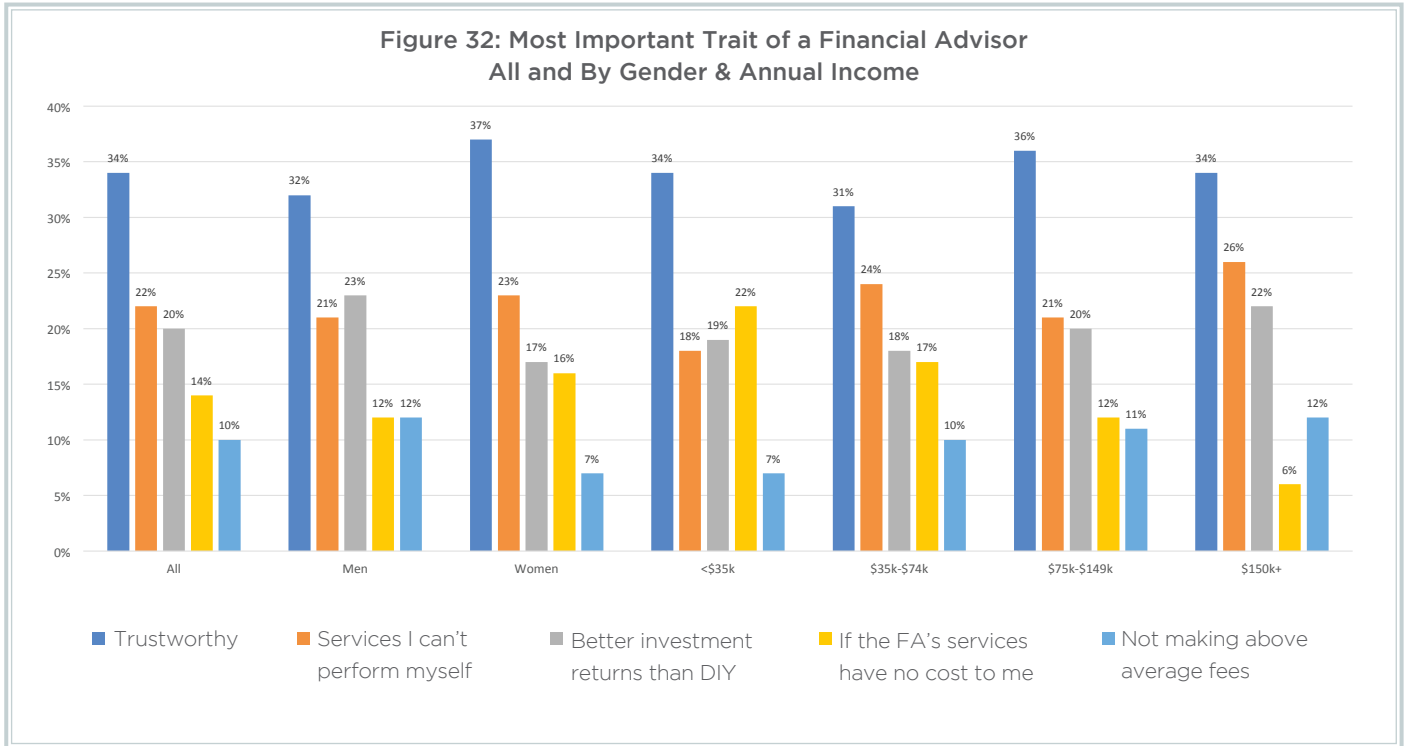
When millennials are seeking financial advisors, they are more likely to trust a recommendation from their parents than other sources. In **Figure 30** millennials indicate which sources they would trust when choosing a financial advisor to work with, and while parents were the top answer it is noteworthy that online ratings, e.g. Yelp and other reviews on social media, ranked higher than employer or other organizational recommendations or advertising. Financial advisors should pay attention to and actively manage their online presence.



However, **Figure 31** indicates that while millennials would trust the recommendation of their parents, it is far from a certainty that they would use the same advisor as their parents. Financial advisors need to work hard, and perhaps differently, to forge relationships with the children of their clients.



Finally, when it comes to financial advice, **Figure 32** shows that trustworthiness eclipses other qualities. Achieving higher investment returns than millennials think they can achieve on their own and fees/costs are relatively less important than whether they feel they can trust their advisor. Second to trust is the ability of the advisor to do things they can't do, or don't feel confident doing, themselves – such as creating a retirement plan, which as noted earlier is the top area where they want guidance.



CONCLUSION:

Getting to Retirement Security – What Should Millennials Do Now?

Examining the “retirement readiness” of millennials is challenging because retirement is at least 25 years away for even the oldest in this generation, and for the youngest it’s 40 or more years in the future. To the extent millennials are focused on their finances they are more likely to be looking at things like paying off student loans or financing their first homes than trying to figure out how much of their paychecks to put aside for retirement. But it is precisely now that they should be thinking about retirement, lest they end up being one of the 45 percent of baby boomers who are in or near retirement with no savings whatsoever.⁸ There are a few things millennials can do now that will greatly improve their prospects for achieving a secure retirement when the time inevitably comes:

- **Calculate a retirement savings goal** – there are hundreds of retirement calculators accessible on the internet that can help calculate a goal for retirement and how much should be saved from each paycheck to achieve that goal. Many financial services firms make such calculators available on their websites and provide contact information for local financial advisors.
- **Register for a free account at ssa.gov** – the Social Security website provides projected benefits at ages 62, 67 (currently the full retirement age for millennials and most GenXers) and 70. There is also a calculator for projecting benefits using different future income assumptions, especially useful if there is an expectation that income will rise significantly in the future, such as upon the completion of a medical residency program.
- **Develop a relationship with a financial advisor** – millennials with little retirement savings or investable assets may feel they can’t afford the services of a financial advisor, but many have limited service models tailored to younger clients who don’t need the complex services of those with greater wealth. This enables the establishment of a relationship that will grow as wealth grows and there is a need for more specialized services, e.g. tax planning, retirement income planning with annuities, and estate planning with life insurance.
- **Put a critical eye on expenses** – studies have been published focusing on what is perceived as wasteful spending by younger workers – think \$4 coffee and avocado toast – but this is an oversimplification. Perhaps the \$4 coffee and avocado toast buyer has also created a living and working situation that eliminated the need to own a vehicle, saving the thousands of dollars a year someone else might spend to purchase, maintain and insure an SUV. The exercise should be to create financial goals first, and fund them, and then decide what discretionary income will go toward. A good financial advisor can help sort this out.
- **Finally, keep this in mind:** \$100 saved at age 25 will be over \$800 at age 67, but that same \$100 saved at age 45 will only be a little over \$300. Starting early makes it much easier to save enough to achieve retirement security and ride out the ups and downs of financial markets.

QUESTIONS OR COMMENTS?

Contact Frank O’Connor, Vice President, Research & Outreach, Insured Retirement Institute

METHODOLOGY: The Insured Retirement Institute (IRI) commissioned Greenwald & Associates to conduct a survey of Millennials. The research was conducted by means of online surveys completed by 802 Americans between ages 24 and 41. Data were weighted by gender, region and age to reflect the sample universe. The survey was conducted in October 2019. The margin of error for the survey was ± 3.5 percent.

References

¹ Pew Research Center median household income is in 2017 dollars and scaled to reflect a three-person household

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

³ Projected values are based on Bureau of Labor Statistics data on average annual household expenditures of Americans age 65 – 74 and the 2019 average annual Social Security benefits for a married couple, inflated by 2% per year for 35 years to approximate the

annual income from Social Security and annual expenditures of millennials when they reach retirement age.

⁴ Bureau of Labor Statistics

⁵ “Retirement, Income and Risk: 2nd Biennial Study on the American Retirement Experience,” (IRI 2018)

⁶ Bureau of Labor Statistics

⁷ “The Language of Retirement,” (IRI/Jackson 2017)

⁸ “Boomer Expectations for Retirement 2019,” (IRI 2019)



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