Millennials: Making Room for Retirement Savings

It's fairly common for people of the millennial generation to be of the mind-set, "What's the big deal? We're only in our 20s. We have plenty of time to save for retirement." But as we ease into our 30s, it may be time to adopt a slightly more grown-up view of retirement and financial planning. This article is aimed at providing millennials with an overview of retirement security while acknowledging the special economic challenges they face. Steps discussed include beginning retirement saving early; understanding the plan; increasing deferrals over time; taking advantage of retirement savings estimate tools; appreciating the power of compound interest; resisting the temptation to tap retirement savings for other purposes (e.g., hardship distributions); and keeping plan beneficiary designations up to date. Together, these steps will help move millennials down the path to increased retirement security.

by **Jinnie Olson** | *Milliman*

When I say "millennials," you may think of smartphones, multitasking, Internet memes and online acronyms. Retirement is near the bottom of the list of words you associate with millennials. Fair enough. As with any other generation, many are concerned that my generation of millennials will not be prepared for retirement. While we have some admirable characteristics, retirement planning savvy may not be one of them. Millennials are currently referred to as "the lost generation" or "the generation who won't ever retire." While this may strike fear into some hearts, let's keep this in perspective: The millennial generation generally includes those born between 1982 and the early 2000s. When the lower end of a generation is still in junior high and high school, how is that a fair accusation? And to be fair, what prior generation rolled into their 30s labeled as "the generation already prepared for retirement?"

It's fairly common for people of the millennial generation to be of the mind-set, "What's the big deal? We're only in our 20s. We have plenty of time to save for retirement." But as we ease into our 30s, it may be time to adopt a slightly more grown-up view of retirement and financial planning.

I recently polled a group of my friends, other millennials who work in a variety of industries, to see what sort of questions they had about retirement savings and planning. The responses were fairly surprising:

- What are the best ways to save for retirement?
- Ask my husband; he takes care of the finances.
- I'm clueless when it comes to retirement. I have a 401(k), but I don't know much outside of that. Are millennials even looking ahead at retirement when we've amassed such a large amount of student debt?
- I'm not sure what questions to ask. Our company doesn't do much to promote our retirement plan and, therefore, I don't think about it much.

- How much should I save?
- I don't have a lot of questions because I just choose automanage and put in enough to receive the employer match.

It may be true that the economic cards have not been dealt in our favor. The economy as a whole doesn't bolster consumer confidence like it did for our parents who were buying homes and finding entry-level jobs right out of college. In contrast, we're moving back in with our parents until we can establish a decent credit score or afford to live on our own. Some millennials are even finding that entry-level jobs have been replaced by unpaid internships.

We weren't all lucky enough to be part of the defined benefit plan boom, and each of us will need to fund a large portion of our own retirement. People of other generations like to say that young people don't like to look that far ahead; they like to live in the present. While they might be right, the harsh reality is that if we don't start saving for retirement now, our retirement may not be what we envisioned.

So what should we be doing as the forefront of our generation begins to enter the next decade of our lives? We need to approach retirement savings in two steps: what we can do now and what we should expect later. Here are a few things millennials should consider as they ease into their 30s so they can both live in the present and plan for the future.

Take the First Step

While you're young and carefree, start to save. Your 20s and 30s are the ideal years to put a savings plan in place. It will be much easier for you to free up a few dollars here and there before you have housing expenses, car payments and children. If you've already started a family or are making large purchases, continue to save. Putting money into retirement savings will be easier while your children are young and cost less to support. Don't put that big purchase ahead of your retirement savings. If you drop your deferrals to 0%, you may never start to defer again.

If you think you can't afford to put money into your retirement savings, consider easing up on the unnecessary expenses to make room for retirement savings. While most of us whine that we cannot survive each morning without a mocha, latte or other specialty coffee, our parents and grandparents survived with a grinder, beans, coffee press and teapot. What if rather than spending $4 on designer coffee each morning, we invested that money into our retirement accounts? Even cutting expenses back by $4 a day, five times a week, 52 weeks a year, could create a spare $1,040 that could be invested into a retirement plan now and take advantage of compounding interest.

Understand Your Plan

If your employer offers a retirement plan, enroll and take a few minutes to understand the automatic features to avoid surprises. The payoff can be huge. Employers implement automatic deferrals or automatic savings increases to assist employees, not to trap them. You can always start your contributions lower or opt out. Automatic features may be just the thing for you if you want to take a backseat and let the plan drive your retirement savings. If you do decide to take a backseat, be aware of when the automatic contributions or increases will be effective so you can anticipate changes that may affect pay.

Don't completely check out. If your plan doesn't offer an automatic contribution increase, boost the amount you contribute a bit at a time, when you can. Research shows that the *average automatic enrollment rate has historically been a mere 3%, but studies have shown that participants need to be saving closer to 15% in order to meet their long-term financial goals.*

Take Control

If your current employer doesn't offer an employer-sponsored retirement plan, don't take that as an opportunity to sit back and wait until you find an employer that does. Take initiative. Look into and open an individual retirement account (IRA). It's as easy as a Google search for "open an IRA." This may be well worth the 15 minutes of entering information and setting up automatic withdrawals from a current checking account. Just make sure to weigh your options and any fees associated with the accounts before signing on the dotted line.

If you're a small business owner who doesn't offer a retirement plan, maybe it's time to look into your options. Employer-sponsored retirement plans can be a great benefit to offer employees. A retirement plan may provide a competitive edge against other businesses in the industry and help with employee retention. There may not be a one-size-fits-all retirement plan solution, but just as you wouldn't leave your house without clothing on, you don't want to walk into retirement without savings. Neither do your employees.

Taking Retirement Mobile

Millennials' lives are fast-paced, hopping from an early-morning yoga workout to nine hours of work, straight to a book club meeting, down the street to a softball double-header and then on to a late-night fraternity reunion happy hour. Retirement accounts are finally catching up with our mobile world. Recordkeepers and administrators have started to create mobile apps for smartphones and tablets to help keep up with busy lifestyles. For some, choosing to defer or increasing your deferrals is as easy as one quick touch of the screen or scanning a quick response (QR) code. When you have time to play with apps that shoot cartoon birds dressed like Darth Vader across the sky, then the excuse "I just don't have time to save for retirement" simply won't fly anymore.

Plan Ahead

Regardless of whether you're currently contributing to a company-offered plan or an IRA, run through a retirement savings needs calculator. The results may surprise you. *According to the Employee Benefit Research Institute (EBRI) 2013 Retirement Confidence Survey, 56% of those surveyed are estimating their retirement savings needs based on guessing, and only 64% of workers expect to retire by the age of 65 compared to 89% in 1991.* Do you really want to be left guessing whether you'll have enough money to support yourself through retirement or you'll have to rely on your children to support you? Studies have shown that those who use an online retirement savings calculator increase their probability of having enough money in retirement by almost 20%.

Most millennials may be completely unaware of how much money they may need during retirement or what factors they even need to consider. *Current life expectancy in the United States at the age of 60 is 21 years for males and 24 years for females.* If you plan to retire at the age of 65, that leaves you with 16-plus years to finance with retirement savings. While it's generally true that certain expenses decrease or disappear during retirement, others may increase depending on the type of retirement you've envisioned, your (or your partner's) health, inflation and a number of other factors.

If you don't face any health problems during retirement, congratulations, you've won the genetic lottery. For the majority of the population, this will not be the case. My grandmother suffered from Alzheimer's and spent a few years in an assisted care facility. In the beginning it was mostly a place to live under the watchful eye of the attendees, but as she aged, she began to require more and more hands-on attention. On average, this hands-on assisted care costs around $7,000 a month and could amount to nearly $84,000 a year. Now consider that *more than half of the workers surveyed by EBRI in 2013 have less than $25,000 in total retirement savings, and 28% have less than $1,000. It would take only one small health incident to wipe out all of their savings.*

Take Some Advice

If you aren't sure how to invest your retirement savings, don't worry, you're not alone. *A Charles Schwab study found that 52% of participants didn't feel they had the time, knowledge or experience necessary to manage their 401(k) investments. A Wharton School study found that errors in attempting to build investment diversification could reduce a person's retirement income by one-fifth.*

So what does this mean to you? Most plans have begun to adopt a variety of qualified default investment alternatives that will automatically create a diversified portfolio on your behalf should you choose not to create your own asset mix. Again, no one expects you to have the knowledge of an investment advisor, but you should take advantage of opportunities that present themselves to learn more about your investment options and retirement plan as a whole.

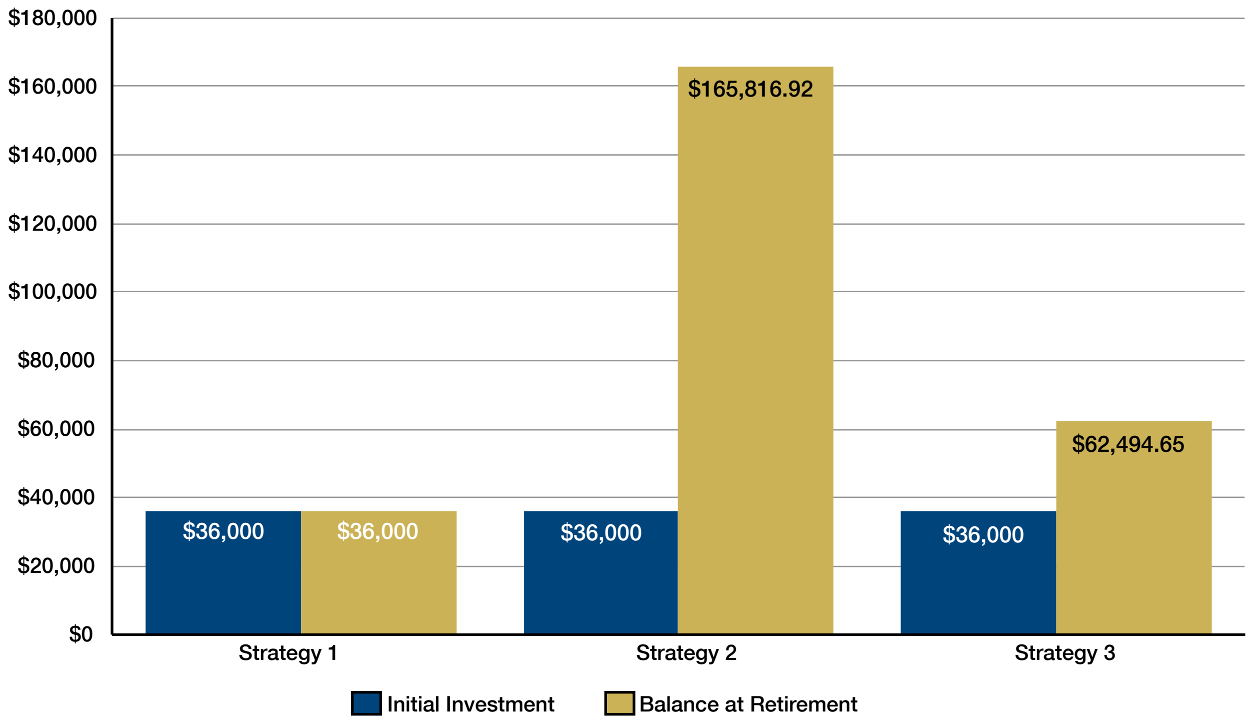
Let Your Interest Compound

You hear over and over again that the longer your contributions are invested in a retirement plan, the more time they'll have to take advantage of compounding interest. But what does that really mean? Let's look at three different savings approaches. For purposes of this example, let's assume I make $30,000 every year until I retire:

- **Strategy 1:** I decide to save 6% of my compensation, or $1,800, in a jar every year from the ages of 25 to 65.
- **Strategy 2:** I don't want all of the space in my basement taken up by jars and instead enroll in my com-

FIGURE

Compounding Interest



pany's 401(k) plan, contributing 6% from the ages of 25 to 45. I receive 5% interest compounded annually.

- **Strategy 3:** I want a new car and can't afford to contribute now. Twenty years later, I turn 45 and realize retirement is right around the corner and decide to contribute 6% until the age of 65. I receive 5% interest compounded annually.

Which strategy will result in higher retirement savings at the age of 65?

My initial investment ($36,000) is the same in each strategy. While Strategy 1 will guarantee my contributions will not suffer any market gains or losses, it may not be the most secure retirement savings strategy. Strategy 2 more than doubles my final account balance when compared with Strategy 3 just by giving my money an extra 20 years in the market to accumulate that compounded interest. (See the figure.)

Keep Your Hands Off!

Once you're on the road to retirement savings, do not tap into your retirement savings until you reach retirement. While loans, hardship distributions and other in-service withdrawal options may seem like the easiest solutions, they are counterproductive to growing retirement accounts. When you remove that money from a retirement account, you're losing the benefit of compounding interest that makes these retirement plans so appealing. Taking a loan may delay your retirement to make up for those lost savings.

If you've changed jobs and are left with multiple retirement accounts, it may be wise to consolidate them into your current employer-sponsored retirement plan. By rolling over your accounts, you can move all of your retirement savings into one place and avoid taxation until you initiate a distribution following retirement. Having all of your accounts in one place will make your retirement planning much simpler.

Keep Your Beneficiaries Up to Date

As you go through some bigger life changes such as marriage, job changes and having children, you should establish your beneficiaries. Know that if you do not name your beneficiary, your plan will have a default hierarchy for beneficiaries. Without a beneficiary election, the benefits will be divided according to this default. No one wants to think about passing away well before retirement, but you also want to avoid hassles for your children or spouse in dividing up their accounts if something does happen to you. With your beneficiary (or beneficiaries) on file, splitting the account becomes a much simpler process during an already difficult time.

Millennials, as you move into decision-making positions, keep in mind some of the knowledge you've gained as you've progressed through the ranks and consider implementing policies that may help others save for retirement. Behavioral economics shows that the longer retirement plan entry is delayed for employees, the less likely they are to choose to contribute. Why not enroll employees on day one? As millennials, we face different types of adversity today, but that doesn't mean that we won't adapt and thrive as our predecessors have. BQ

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