WILL MILLENNIALS EVER BE ABLE TO RETIRE?

NEW RESEARCH REVEALS THE SURPRISING TRUTH ABOUT RETIREMENT BY GENERATION IN THE UNITED STATES

September 2015

Research Presented By:

Insured Retirement Institute

and The Center for Generational Kinetics

IRI

THE CENTER FOR GENERATIONAL KINETICS

AUTHOR'S FIRST WORD

"Millennials are now the largest generation in the U.S. workforce.

Although they share the same workplace as Generation X and Baby Boomers do, this study uncovered that Millennials hold *very* different views and beliefs about retirement than other generations.

Discovering what Millennials truly think about retirement — and the steps they've taken or *not* taken — is critical for employers, families, financial service providers and policymakers to know to ensure this generation's needs are met and that they can achieve financial security in retirement.

The research found that Millennials are not nearly as prepared as they need to be, with some notable exceptions, and the findings show that if we don't act now to prepare Millennials for retirement, they may reach retirement age and have no option but to keep working well into their 80s."

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WELCOME FROM THE AUTHORS

SEPTEMBER 2015

Welcome to our 2015 study on Millennials and retirement by generation.

We undertook this study because there is little known about Millennials' attitude and readiness for retirement and how this is similar to or differs from other generations in the workforce.

Uncovering this data is critical not only for Millennials but also for the stakeholders who will be affected by the actions of Millennials, such as their employers, parents, children and policymakers. It also is important for financial services providers to better understand this generation to better address their unique needs.

Not since the Baby Boomers entered the workforce decades ago have we had such a large generation coming of age. Millennials are a diverse generation, almost 80 million strong, possessing more college degrees than any previous generation in the United States. At the same time, Millennials have come of age through a challenging recession, record-breaking levels of college debt, and the pervasive fear that Social Security might not be there for them.

This research has never been more important, as stakeholders need to know and be prepared for what Millennials are thinking and doing (or not doing) about retirement. The actions of Millennials will not only affect their generation but the generations before and after them.

Whether you come to this research study as an employer, financial services provider, policymaker, family member or a Millennial yourself, there are insights that will specifically help you identify and bridge the retirement divide between generations.

The Insured Retirement Institute (IRI) and The Center for Generational Kinetics are excited to partner on this groundbreaking research and even more excited to share with you what our national study found.

To schedule a media interview about the study and its findings, please contact Andrew Simonelli at asimonelli@irionline.org or 202.469.3009.

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WHAT MILLENNIALS REALLY THINK ABOUT RETIREMENT (WHEN THEY DO)

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MILLENNIALS DO THINK ABOUT RETIREMENT

Retirement is a hot topic filled with assumptions across generations.

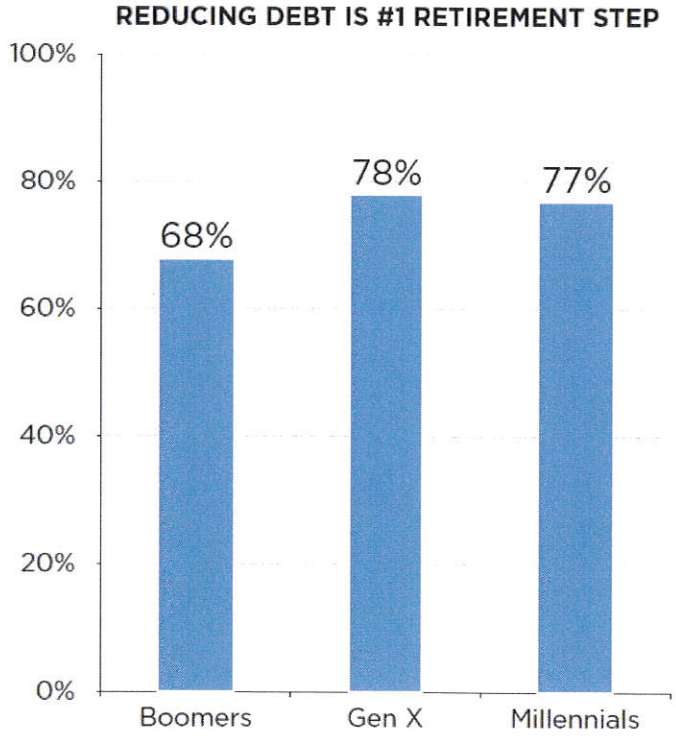
Have Millennials, the generation known for being raised by helicopter parents, even thought about retirement? Have they taken any real steps toward retirement — or do they see the Bank of Mom and Dad as their fountain of post-work freedom?

Our research findings debunk the myth that Millennials are not thinking about retirement. In fact, Millennials are more than just thinking about retirement; many are actively preparing for it right now. However, the way in which Millennials are preparing for retirement is different from that of previous generations.

The study found that 68% of Millennials *are* saving or investing for retirement. However, this is a different approach from that of previous generations that commonly expected and relied upon some form of a pension to prepare for and provide income in retirement. Instead of a pension, nearly half (48%) of all Millennials in the United States have a 401(k).

While we are not sure whether Millennials have been auto-enrolled into their 401(k) or have actively made the choice themselves, what is clear is that they do not see traditional pensions in their future.

Going even further, the study found that rather than saving and investing for retirement, the number one step Millennials are taking to actively plan for retirement is by reducing their debt (77%).



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AWARE OF THE NEED, UNSURE OF THE APPROACH

But before we celebrate the finding that Millennials are *thinking* about retirement now, the study revealed that Millennials' retirement *plans* are not well formed.

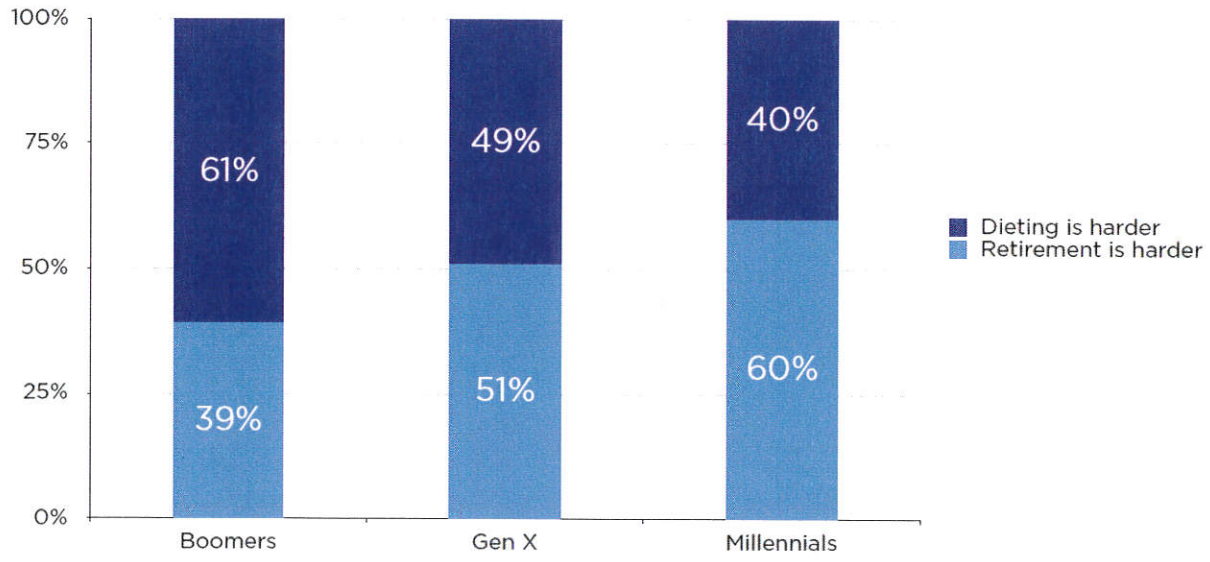
In fact, the study found that retirement feels like an overwhelming prospect for many Millennials. As a result, Millennials approach retirement with an array of methods that range from the "non-approach" of doing nothing, to that of desperation such as buying lottery tickets!

Going further, the study found that 60% of Millennials think it is harder to plan for retirement than to stick with a diet and exercise plan.

This means that although retirement may be on Millennials' minds, when the study specifically asked if they are "actively preparing" for retirement, the answers are very different from what we found when asking if they "save" for retirement.

Only 29% of Millennials in the study describe themselves as actively preparing for retirement. In fact, 15% of Millennials list winning the lottery as part of their retirement strategy, and 11% expect to be gifted money for retirement.

The combination of not taking action, taking actions that do not accumulate resources for income in retirement such as paying off debt, and that more than one in ten expect to be given money for retirement shows that this generation is largely not on track to attain financial security in retirement.



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RETIREMENT FEELS OUT OF REACH

Millennials do not feel like they can rely on traditional retirement safety nets. This insecurity about retirement is compounded by the belief among Millennials (50%) that they will need to take care of their parents financially as they get older. What a role reversal for those Millennials raised by helicopter parents!

Adding to the sense of retirement's feeling out of reach, the study found that 65% of Millennials in the United States believe Social Security will provide them with no meaningful income in retirement.

Diving deeper into the data, the majority of Millennials believe they will not be able to retire when they want to, with 28% believing they won't be able to retire at the age they want, and an additional 28% believing they will *never* be able to fully retire.

With a majority of the generation thinking they will never be able to retire at the age they want, it is easy to understand why so many have not taken steps to prepare. Of course, this could become self-fulfilling, as inaction will force many to postpone their retirement.

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WHAT MILLENNIALS ARE DOING ABOUT RETIREMENT NOW

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RETIREMENT REALITY GAP

We asked Millennials how much money they think they would need to retire. Their answers to this question revealed that Millennials are painfully unaware of the reality of what retirement costs. The numbers they cited were not realistic and far below what they will need.

This "retirement reality gap" between the perceived financial resources Millennials will need to retire and the real financial resources needed to retire highlights the need for Millennials to seek financial advice and education now.

The study found that 70% of Millennials believe they will spend less than $36,000 per year in retirement. Contrast that with Bureau of Labor Statistics data that shows average annual expenditures for those age 65 - 74 were $46,757 in 2013! In other words, Millennials think they will spend 30% less per year in retirement than what retirees actually spend today. That is not a likely scenario.

Who can help Millennials bridge the retirement reality gap? Financial advisors.

Unfortunately, when it comes to getting sound professional financial advice, Millennials don't see a financial advisor as someone to go to now but rather someone to go to later — specifically when they are at or very near retirement (62%), when they receive an inheritance (73%) or when their debt is out of control (61%).

Although a financial advisor can help a Millennial with each of those situations, it would be wiser for Millennials to seek out financial advisors at earlier crucial life moments when they can help them develop a plan to meet their long-term financial goals. However, these traditionally big life moments scored much lower on motivating Millennials to seek out a financial advisor, specifically getting married (42%), having a child (45%) or getting promoted at work (30%).

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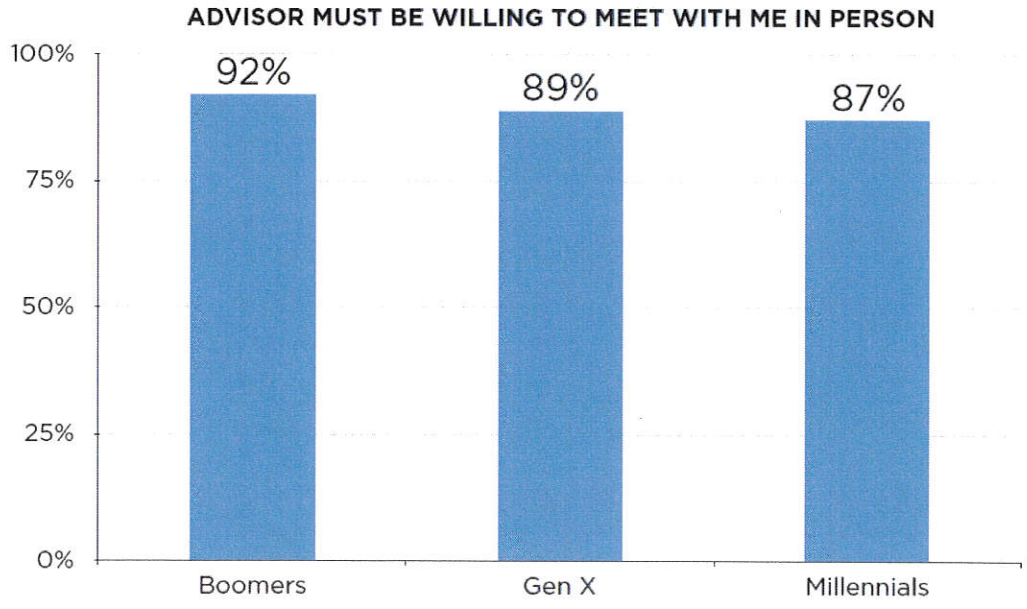
SEEKING FINANCIAL ADVICE

When we looked at whom each generation goes to for financial advice, there was a clear result: **the older you are, the less likely you are to go to your parents for financial advice and the more likely you are to work with a financial advisor.**

The study also found that Millennials in America have strong expectations and beliefs when it comes to interacting with financial advisors.

A vast majority of Millennials (88%) rated fee transparency as an important component to working with a financial advisor. A close second was a financial advisor's being highly rated (87%), and the third most important consideration was the financial advisor's being a college graduate (80%).

Most surprisingly, 87% of Millennials said that it was important for the advisor to be willing to meet with them in person! This was unexpected considering that this is the generation known for FaceTime, text messaging and all things virtual. It seems when it comes to their finances, they at least appear to be more like other generations than one might assume.



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WHAT THIS MEANS LONG TERM

The findings about what Millennials are and are not doing to prepare for retirement indicate that there is a considerable opportunity for the financial services industry to reach Millennials. One of the first and biggest hurdles to overcome is making this demographic aware of what financial advisors do and how they can help Millennials. This is especially important because only 38% of Millennials say they know exactly what a financial advisor does.

The findings seem to indicate that Millennials are open to working with financial advisors. In fact, **a majority of Millennials surveyed (62%) would like to be walked through every step of the retirement planning process, but that high need for help is not followed by action**. In fact, other findings from the study show that Millennials by and large are not seeking out financial advice.

Are robo-advisors the solution for Millennials? The study found that only 19% of Millennials say they are likely to use a robo-advisor. At this point, it appears that working with a human is the stronger preference of Millennials, particularly in light of their desire to be walked through the planning process.

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BECAUSE YOU KNOW WE HAD TO ASK...

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OPRAH VS. BUFFETT: WHO DO MILLENNIALS CHOOSE?

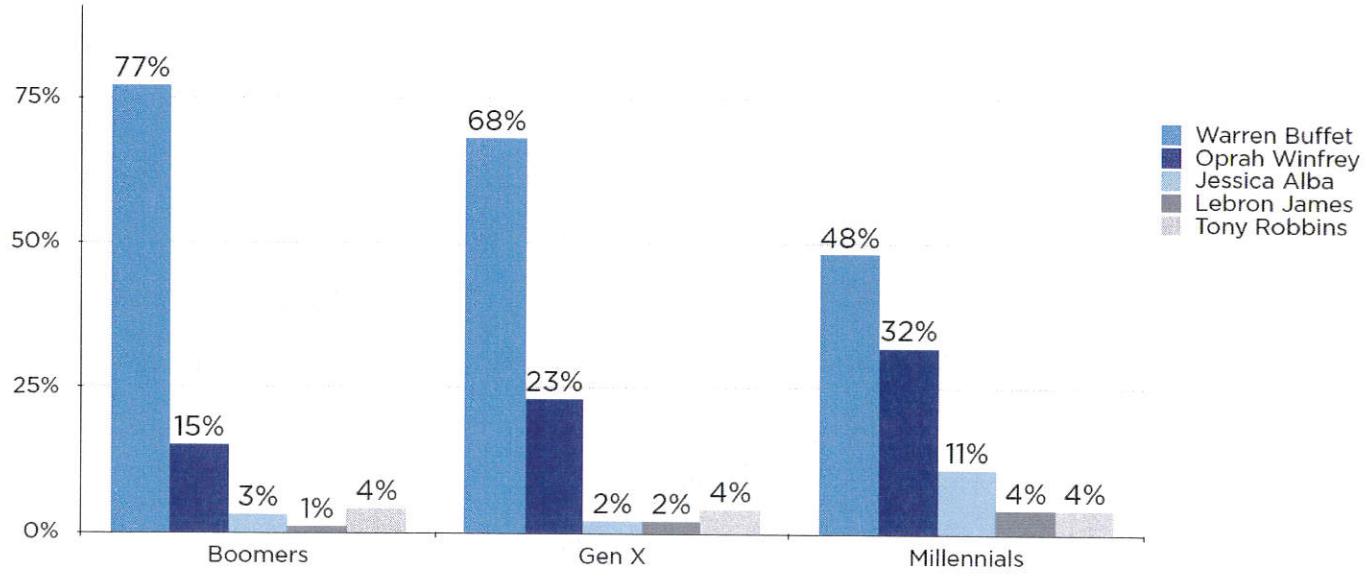
Which celebrity would Millennials prefer to have as their financial advisor?

Older generations would overwhelmingly select Warren Buffett as their financial advisor, as indicated by 77% of Baby Boomers and 68% of Generation Xers. But for Millennials, it was a much closer affair.

While 48% of Millennials would pick the Oracle of Omaha to be their financial advisor, media icon Oprah Winfrey came in strong second with 32% of Millennials saying they would prefer to work with her. A titan of business herself, she has built a billion-dollar-plus empire from the ground up.

But what does this mean for financial advisors and financial services firms looking to cater to the needs of Millennials? It should not be a surprise that Warren Buffett would be the preferred celebrity of choice. He is, after all, best known for his investing acumen and stock-picking prowess. But certainly there is a significant percentage of Millennials that are looking for something else. What makes Oprah different from other celebrities, such as Jessica Alba and Lebron James, who too have established wildly successful brands?

While it may only be conjecture, Oprah established herself as a household name during 25 seasons as host of her talk show, which was oftentimes an education platform. And remember, 62% of Millennials surveyed would like to be walked through every step of the retirement planning process. It could be that those Millennials who prefer Oprah to be their advisor, think she could best meet this need.



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THE END OF HELICOPTER PARENTING?

There is much conversation in the media and pop culture on the phenomenon of helicopter parenting. This is personified as the mom and dad who constantly save their children from consequences, make sure they wear their helmets at all times, hire tutors (or do their homework "with" them), and definitely help their Millennial children well into their 20s and even 30s. In fact, we all know someone in his or her late 20s whose car insurance, phone bill or other bills are still underwritten (and cosigned) by the Bank of Mom and Dad.

Surely this trend of helicopter parenting would be passed from one generation to their kids, right?

It seems that even Millennials recognize the downside of being saved from consequences and always having a financial safety net, because of all the generations we surveyed, Millennials were the number one generation to say they were going to cut off their own kids financially at age 18!

What does this mean for retirement? On one hand, Millennials are staying on their parents' balance sheets much longer than previous generations, which will likely affect their parents' ability to retire. On the other hand, if Millennials do cut off their kids financially at age 18, those same Millennials will have an easier financial path to their own retirement.

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TAKE ACTION STRATEGIES

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TAKE ACTION STRATEGIES

FOR MILLENNIALS

The biggest generation since the Baby Boomers, Millennials gain a head start on retirement if they act now. Here are three actions Millennials should take based on the study's findings:

1. Save every month, even if it's a seemingly small amount. A little each month goes a long way over time. It's possible to set up an IRA for as little as $25 per month. While this may seem like a drop in the bucket, over years and, in your case, decades, this can grow to a substantial amount that significantly affects your retirement lifestyle.
2. Don't just save, but invest. As you progress in your career and your earnings reflect your growth, continue to save and invest proportionally with each of your earnings increases. This means if you get a $2,000 raise at work and historically save and invest 5%, keep saving and investing 5% even though you have more total income than before. Even better, increase the percentage you save if you can do so without accumulating additional debt.
3. Meet with a financial advisor or several financial advisors. Financial advisors are trained to help people make better financial decisions. The sooner you meet with a financial advisor – or interview several and choose the one who best fits your needs – the sooner you can benefit from expertise that only comes through experience and financial education.

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TAKE ACTION STRATEGIES

FOR EMPLOYERS

Small actions go a *long* way toward helping your Millennial employees prepare for their futures and see you as a valued ally in the process. Here are three strategies to take based on the study's findings:

1. Auto-enroll employees in a 401(k) and offer some type of match. This is the number one way to get Millennials to take action toward their retirement and to demonstrate that you are helping them reach their retirement goals.
2. Provide on-site financial education workshops that meet the needs of young adults in addition to others. To meet the needs of young adults, make sure your workshops include how-to advice for people who have never saved or invested before.
3. Host cross-generational conversations in which those closest to retirement age share their own hard-earned financial lessons with Millennials. This is one of the best ways to humanize retirement for Millennials so they take action now.

FOR POLICY MAKERS

Helping Millennials understand and prepare for retirement is critical given that they will be largely responsible for saving for their retirement years. The better job we do as a nation to prepare Millennials to take action now to prepare for retirement, the easier it will be for the generation and our country as Millennials age. Here are three actions to take based on the study's findings:

1. Engage Millennials and explain that planning for and being able to retire is easiest when you start early.
2. Share the idea that saving and investing a few dollars a week can lead to a dramatic difference in lifestyle when you're ready to retire.
3. Get leaders, influencers and celebrities talking about actions Millennials should take now to help themselves become financially sound.

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RESEARCH CONCLUSION

The national study revealed that contrary to popular opinion, Millennials are already thinking about retirement and that a meaningful percentage are planning for it now.

The study also found that Millennials believe traditional sources of retirement planning and retirement income, including traditional pensions and Social Security, will not be viable options to support them in their own retirement.

Although Millennials did not seem confident in knowing how to fill this retirement gap, they at least know they need to do *something* if they want to one day be able to retire comfortably or at all.

We learned that Millennials do want transparency when it comes to those who can help them with their finances and might need even more detailed help than any previous generation.

At this juncture, we are poised for a broader, important cross-generation conversational about retirement.

It's time for a candid conversation with Millennials about retirement and explaining to them how to tie this to the actions they can take today – by learning from other generations before them.

One thing is certain when it comes to Millennials and retirement: we now know that Millennials are the generation most willing to cut off their own children financially at age 18!

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ABOUT THE STUDY'S AUTHORS

INSURED RETIREMENT INSTITUTE

The Insured Retirement Institute (IRI) is the leading association for the retirement income industry. IRI proudly leads a national consumer coalition of more than 30 organizations and is the only association that represents the entire supply chain of insured retirement strategies. IRI members make up the major insurers, asset managers, broker-dealers/distributors and 150,000 financial professionals in the United States. As a not-for-profit organization, IRI provides an objective forum for communication and education and advocates for the sustainable retirement solutions Americans need to help achieve a secure and dignified retirement.

Learn more at www.irionline.org.

THE CENTER FOR GENERATIONAL KINETICS

The Center for Generational Kinetics is the number one Millennials research and strategy firm. The Center's team of PhD researchers and on-site speakers help companies and organizations solve tough generational challenges with Millennials, iGen and emerging generational trends. Each year The Center works with over 125 clients around the world from car manufacturers and hoteliers to insurance, healthcare and technology. The Center's team is frequently quoted in the media about the effect of generations on everything from education to retirement.

Learn more at www.GenHQ.com .

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RESEARCH METHODOLOGY

This research study was led by the Insured Retirement Institute and The Center for Generational Kinetics. The survey was administered to 1,110 U.S. adults, ages 18–65,

with a 10% oversample of Millennials, ages 20-37 and weighted to the current census data. Participants were screened to be U.S. citizens.

The survey was conducted online from August 4, 2015, to August 7, 2015, and has a confidence interval of +/-3.1%.

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