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Millennials and Retirement:
Already Falling Short

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EXECUTIVE SUMMARY

Today's Millennials (individuals born between 1981 and 1991) number 83.2 million,[1] and are the largest, best educated, and most diverse generation in U.S. history.[2] However, this generation is viewed as less financially savvy than previous generations when it comes to saving for retirement, budgeting, and establishing and maintaining a financial plan.[3] Specifically, Millennials are characterized as spending too much money on unnecessary expenses.[4] Yet, as Bank of America details in their 2018 report, these perceptions may be as outdated. Millennials are saving at the same rates as Generation X ("GenX"), more Millennials have a savings goal than other generations, and Millennials feel more financially secure than GenX.[5]

Still, 21 percent of Millennials already worry about their retirement security.[6] Among Millennials, nearly half are concerned that they will not be able to retire when they want to, while two-thirds are concerned about outliving their retirement savings.[7] More than ninety percent agree that the nation's retirement system is under stress and needs reform.[8] Given that this generation has witnessed their parents struggle to make ends meet during retirement, their concerns about achieving retirement security—even though decades away—are warranted.[9]

Adding to Millennials' challenges, this generation is expected to live longer than the Baby Boomers ("Boomers") and GenX that precede them.[10] More than half of Millennials are expected to live to age of 89 and beyond.[11] With their increased life expectancy, lower income replacement from Social Security, and a lower likelihood of having a traditional defined benefit pension, this generation will need to save significantly more than previous generations in order to maintain their lifestyle during retirement. In fact, recommendations from many financial experts indicate that Millennials will need to put aside 15 to 22 percent of their salary—which is double the recommendation made to previous generations.[12]

Millennials have and will continue to face a harsh economic landscape. Given that most Millennials entered the workforce at a time of depressed wages, high levels of unemployment, and major structural changes in the American economy—the Great Recession exacted a heavy price from this generation.[13]

As a direct result of the Great Recession, the Millennial generation has earned about 20 percent less in wages, are less likely to own a home, and have accumulated about half of the wealth of their parents at the same stage in their lives.[14]

This report is based on the author's analysis of the 2014 Survey of Income and Program Participation (SIPP) data from the U.S. Census Bureau. It examines the distinct challenges posed by the current retirement system in America for working Millennials between the ages of 21 to 32. Specifically, this report examines the access, eligibility, and participation in employer-sponsored retirement plans for Millennials; barriers to participation in employer-sponsored retirement plans for Millennials; retirement savings and adequacy of Millennials' retirement savings; and retirement plan coverage of Millennials by the industry where they are employed. It also examines how the retirement crisis affects different racial and ethnic cohorts in the Millennial generation.

The key findings of this report are as follows:

1. **Two-thirds (66.2%) of working Millennials have nothing saved for retirement. This situation is far worse for working Millennial Latinos, as 83 percent have nothing saved for retirement.**

2. **Using the recommendations of financial experts, only five percent of working Millennials are saving adequately for retirement.**

3. **Even though two-thirds (66%) of Millennials work for an employer that offers a retirement plan, only slightly over one-third (34.3%) of Millennials participate in their employer's plan.**

4. **There is a significant gap between Millennial Latinos and other racial and ethnic groups in terms of participation in employer-sponsored retirement plans. Only 19.1 percent of Millennial Latinos and 22.5 percent of Latinas participate in an employer-sponsored plan, compared to 41.4 percent of Asian men and 40.3 percent of Millennial White women, who had the highest rate of participation in a retirement plan.**

5. **Four out of ten (40.2%) of Millennials cited eligibility requirements set by employers, such as working a minimum number of hours, or having a minimum tenure on the job, as a reason for not participating in a plan.**

6. **Hope for improvement for this generation stems from the fact that across all racial and ethnic groups, more than nine out of ten Millennials actually participate in employer-sponsored retirement plans, when they are eligible to participate.**

INTRODUCTION

Today's Millennials number 83.2 million, and are the largest, best educated, and most diverse generation in U.S. history.[15] However, this generation is viewed as being less savvy than previous generations when it comes to saving for retirement, budgeting, and establishing and maintaining a financial plan.[16] Specifically, they are characterized as spending too much money on unnecessary expenses.[17] Yet, as Bank of America details in their 2018 report, these perceptions may be as outdated as Millennials are saving at the same rates as Generation X ("GenX"), a larger percentage of Millennials have a savings goal than other generations, and Millennials feel more financially secure than GenX.[18]

Still, 21 percent of Millennials already worry about their retirement security.[19] Some 47 percent of Millennials are concerned that they will not be able to retire when they want to[20] and 67 percent of Millennials are concerned about outliving their retirement savings.[21] Also, 92 percent of Millennials agreed that the nation faces a retirement crisis.[22] Given that this generation has witnessed their parents struggle to make ends meet during retirement, their concerns about retirement security—even though decades away—are warranted.[23]

More than half of Millennials are expected to live to age of 89 and beyond.[24] With their increased life expectancy, lower income replacement from Social Security, and lower likelihood to have a traditional defined benefit pension, this generation will need to save significantly more than previous generations in order to maintain their current lifestyle during retirement. In fact, some experts estimate that Millennials will need to make pre-tax retirement plan contributions of between 15 percent to 22 percent of their pre-tax salary, which at 22 percent, is more than double the recommendation of previous generations.[25]

Additionally, the Millennial generation may face additional cuts to Social Security. Even though all workers will experience some cut-backs to their Social Security benefits, due to the increase the program's full retirement age from 65 to 67,[26] Millennials may face additional cuts to Social Security benefits if there are no adjustments to the program. Specifically, the first Millennials will reach age 62 in 2043. At that time, Social Security is projected to be able to cover only 77 percent of its scheduled benefits.[27]

As if the above challenges were not enough, the overwhelming majority of this generation will also be responsible for managing contributions to their retirement plans, determining their investment allocations, and deciding how to spend down their savings in retirement. The Government Accountability Office (GAO) has found that the shift from traditional defined benefit (DB) pensions to defined contribution (DC) plans has left many Americans without the promise of a guaranteed, monthly income stream that cannot be outlived.[28] In traditional DB pensions, the employer maintains the risk of investment losses while assets benefit from management by financial professionals, but DC plans transfer the risk and responsibility of saving and investing to workers.[29] The shift from DB pensions to DC accounts, combined with the voluntary nature of retirement system in the U.S., has left the typical working household in America with virtually no retirement savings.[30] And, even after counting a household's entire net worth, two-thirds (66%) of working families fall short of modest retirement savings targets for their age and income.[31]

The growth of DC accounts plans presents a large challenge for Millennials, due to their diversity. As explained by Sabadish and Morrissey, the structure of the DC system—

which favors higher-income workers—exacerbates already-existing disparities along gender, racial, and ethnic lines.[32] As the St. Louis Federal Reserve points out, these disparities will be amplified in the Millennial generation, because this generation is far more diverse than previous generations.[33]

Achieving a secure retirement will be an uphill climb for most Millennials. This generation has faced, and continues to face, a much harsher economic landscape than their parents. Given that most Millennials entered the workforce at a time of depressed wages, high levels of unemployment, and major structural changes in the American economy, the Great Recession exacted a heavy price from this generation.[34] Specifically, the Millennial generation has earned about 20 percent less in wages, are less likely to own a home, and have accumulated about half of the wealth of their parents at the same stage in their lives.[35]

This report, which is based on the author's analysis of the 2014 Survey of Income and Program Participation (SIPP) data from the U.S. Census Bureau, examines the distinct challenges posed by the current retirement system in America for working Millennials aged 21 to 32. Specifically, this report examines the access, eligibility, and participation in employer-sponsored retirement plans for Millennials; barriers to access, eligibility, and participation in employer-sponsored retirement plans for Millennials; and the retirement savings and adequacy of this generation. It also examines how the retirement crisis affects different racial and ethnic cohorts in the Millennial generation. This study is organized as follows:

- **Section I** summarizes access, coverage, and participation in employer-sponsored retirement plans for Millennials; breaks down coverage by race, ethnicity, and sex; discusses reasons why Millennials lack coverage in employer-sponsored retirement plans; and discusses Millennial job tenure.

- **Section II** discusses Millennials' retirement participation in retirement saving plans that offer 401(k), 403(b), and 457 accounts and Individual Retirement Accounts (IRAs), average and median retirement savings of the Millennial population, and their retirement adequacy.

- **Section III** discusses access, coverage, and participation of Millennials in employer-sponsored retirement plans by industry.

- **Section IV** explores the policy implications of these findings, including discussions about increasing plan eligibility for part-time workers, increased financial education related to employer matches and savings adequacy, and strengthening Social Security for this and all generations.

SECTION I: MILLENNIALS' ACCESS, ELIGIBILITY, TAKE-UP, AND PARTICIPATION IN EMPLOYER-SPONSORED RETIREMENT PLANS

Employer-sponsored retirement plans remain the most important vehicle for providing retirement income, after Social Security.[36] Even though these plans are important, it is estimated that 55 million U.S. workers do not have access to an employer-sponsored retirement savings plan.[37] Ownership of retirement savings accounts is highly concentrated among higher earners,[38] while low-to moderate-income workers are the least likely to be offered an employer-sponsored retirement plan.[39] Even though women have finally caught up to men in terms of access and participation in retirement plans, women—especially Latinas—are significantly less likely to work for employers that offer a retirement plan.[40]

This section analyzes worker participation in an employer-sponsored retirement plan by generation, race, ethnicity, and gender with a focus on the Millennial generation. Data is derived from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP). Retirement plans include employer-sponsored DB and DC plans—such as 401(k) plans; 403(b) plans; 457 plans; SEP IRAs; SIMPLE IRAs; and traditional IRA plans.

Differences Between Generations

As identified by the Pew Charitable Trusts, even though many Americans have opportunities to save throughout their careers, their actions tend to change as they age.[41] As workers gain expertise and experience, they obtain higher-quality jobs that are more likely to offer retirement benefits.[42]

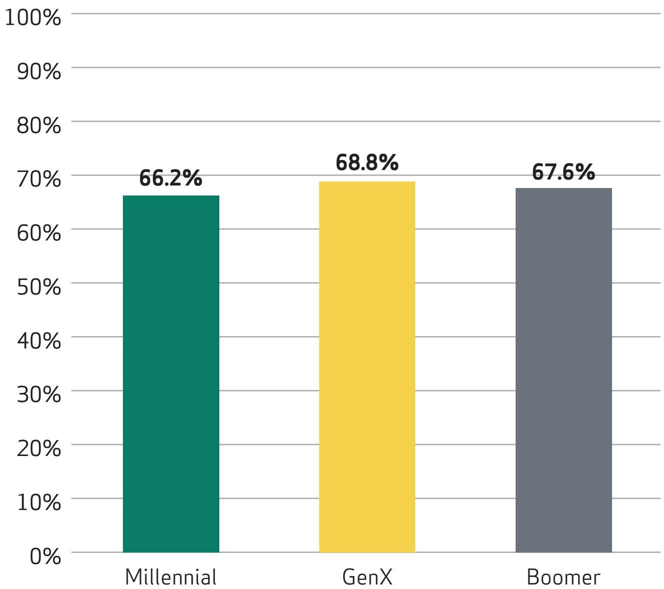
This paper uses the terms access, eligibility, take-up, and participation to describe different facets of employees' utilization of an employer-sponsored retirement plan. Access measures the proportion of employees that work for an employer that offers a retirement plan to any of its employees. Eligibility measures the proportion of employees who have access to an employer-sponsored plan and also meet employer-specified requirements to participate in the plan. Take-up measures the proportion of employees with access to a plan, who are eligible to enroll in a plan, and who choose to enroll in the plan. Lastly, participation rates are determined by multiplying the percentage of employees who have access to a plan, by the percentage of employees who are eligible to participate in a plan, by the percentage of those who take-up a plan.

Figure 1 shows that in 2014 Millennials (66.2%) had similar rates of working for an employer that offered employees a retirement plan as GenX (68.8%) and Boomers (67.6%). But, as displayed in **Figure 2**, a challenge to this generation is the fact that only a little over half of Millennials (55%) are eligible to participate in an employer-sponsored retirement plan, compared to over three-fourths of GenX (77%) and Boomers (80%).

Figure 3 shows that Millennials have high (94.2%) take-up rates when they are both offered and eligible to participate in a retirement plan sponsored by their employer. These high rates (94.2%) are nearly equal to the rates of Boomers (94.4%) and GenX (95.4%). As a result, a little over one-third of Millennials (34.3%) participate in an employer-sponsored retirement plan, compared (in **Figure 4**) with half of GenX (50.5%) and Boomers (50.9%). The rate at which eligible employees take-up an employer-sponsored retirement plan is about 95 percent for all generations.

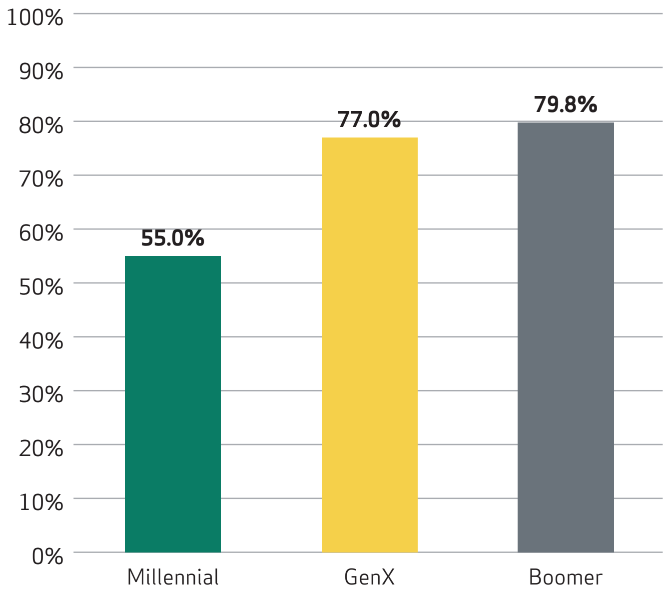
As displayed in **Figures 1** and **4**, in 2014, nearly two-thirds (66.2%) of working Millennials had access to an employer-sponsored retirement plan. But, only a little over one-third (34.3%) of Millennials actually participated in an employer-sponsored retirement plan. This is because a much smaller percentage of Millennials (55%) were eligible to participate in the plan offered by their employer than in older generations.

Figure 1: **Two-Thirds of Millennials Work For an Employer That Offers an Employer-Sponsored Retirement Plan**



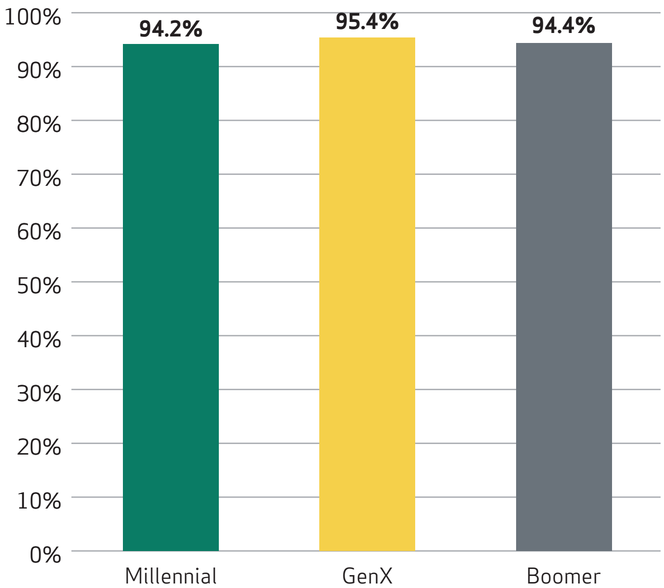
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 2: **More Than Half of Millennials are Eligible to Participate in an Employer-Sponsored Retirement Plan**



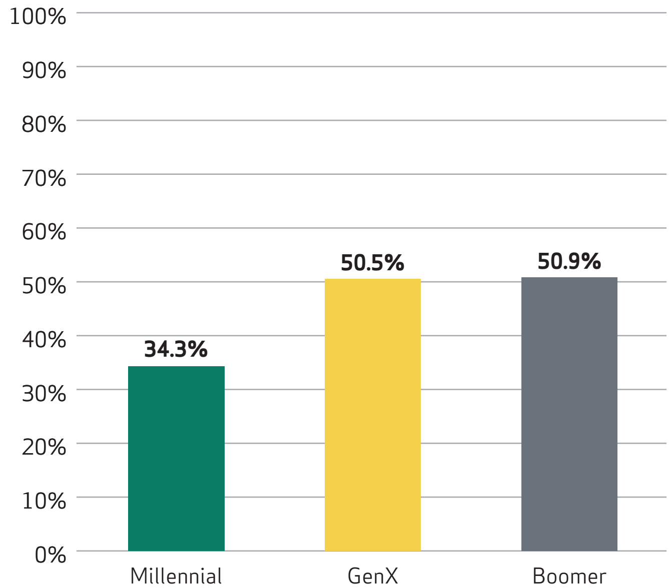
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 3: **Millennials Who are Eligible for an Employer-Sponsored Plan Choose to Participate in Retirement Plans at High Rates—Equal to That of GenX and Boomers**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 4: **Low Eligibility for an Employer-Sponsored Retirement Plan Reduces the Number of Millennials Who Participate in Their Employer's Plan to Only One-Third**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

One possible explanation for Millennials' high rates of access to an employer-sponsored retirement plan is this generations increased level of educational attainment. The Millennial generation is the most educated generation in U.S. history,[43] and educational attainment typically contributes to higher earnings and increased access to a retirement plan. Thus, it is not surprising that this generation has high access to these plans.[44]

Differences By Race Or Ethnicity

Access to retirement savings is problematic for several racial and ethnic communities, but it is particularly acute for Latinos. Rhee found that different communities face particularly severe challenges in preparing for retirement, especially Latinos.[45] These challenges stem from the fact that different racial and ethnic groups are less likely than Whites to have access to a DB or 401(k) account at work. Even if individuals from different racial and ethnic groups have access to an employer-sponsored plan, they tend to have substantially lower retirement savings than White households.[46] Additionally, individuals from different communities are far less likely to have a dedicated retirement savings account than a White household of the same age.[47]

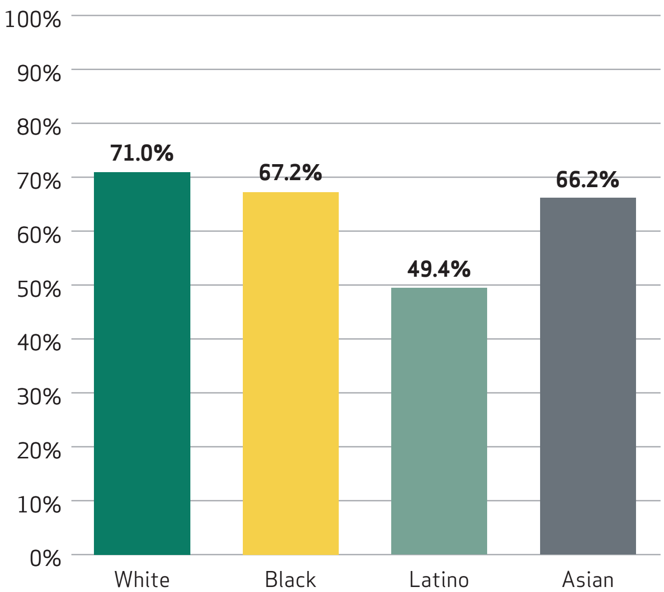
Figures 5 through **8** illustrates that Millennial Latinos are especially challenged when it comes to participation in an employer-sponsored retirement plan. First, as shown in **Figure 5**, about half (49.4%) of Millennial Latinos work for an employer that offers their employees a retirement plan. Other races and ethnicities have greater access to an employer-sponsored plan, as two-thirds or more of Millennial Whites (71%), Blacks (67.2%), or Asians (66.2%) work for employers that offers plans.

Lack of access to an employer-sponsored plan is further compounded by low eligibility rates among Latinos. While half of Latino Millennials work for an employer that offers a retirement plan, the majority of Latinos are not eligible to participate in their employer's plan. As shown in **Figure 6**, only 43.9 percent of Millennial Latinos are eligible to participate in their employers' retirement plan, which is the lowest level of eligibility among the racial and ethnic groups surveyed by SIPP, including Blacks (47.2%), Asians (54.8%), and Whites (58.8%).

Figure 7 shows that when offered a retirement plan by their employer and eligible to participate in their employers plan, Millennials of all racial and ethnic groups take-up a plan at extremely substantial numbers. Specifically, **Figure 7** displays that Asian Millennials have the highest take-up rates with 96.4 percent, White and Latino Millennials had the same take-up rates of 94.1 percent, and Black Millennials had slightly lower take-up rates of 93.7 percent.

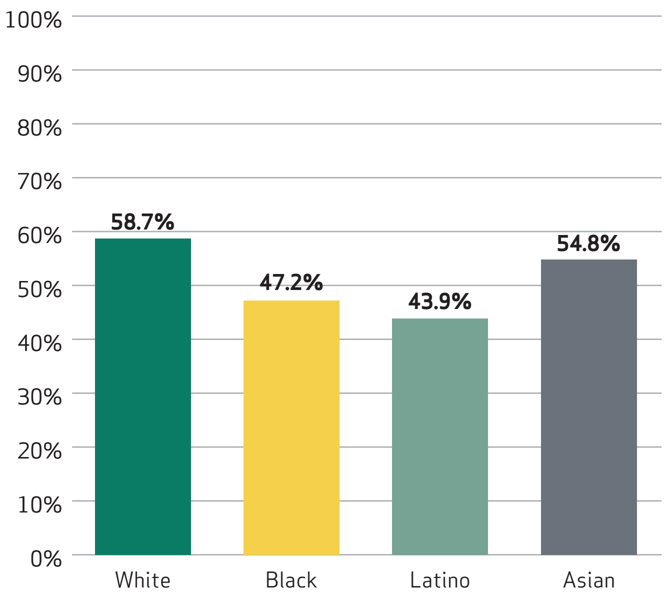
Because of low access and eligibility rates, Millennial Latinos participate in an employer-sponsored retirement plan at half of the rates of Whites. As displayed in **Figure 8**, 39.2 percent of White Millennials participate in a retirement plan, while only 20.4 percent of Latino Millennials participate in an employer-sponsored plan. **Figure 8** also shows that Black and Asian Millennials participate in a rate between Whites and Latinos, at 29.7 percent and 35 percent, respectively.

Figure 5: **Millennial Latinos Have Far Less Access to an Employer-Sponsored Retirement Plan Than Other Races and Ethnicities**



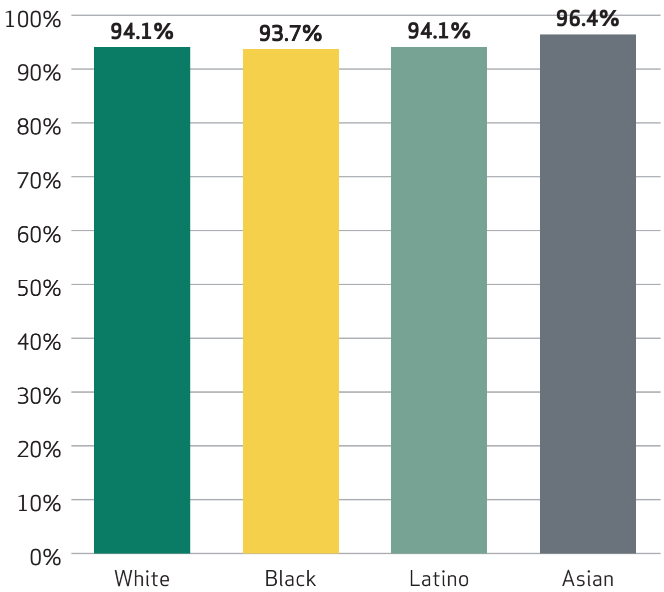
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 6: **Fewer Millennial Latinos and Blacks are Eligible for Their Employer's Retirement Plan Than Whites and Asians**



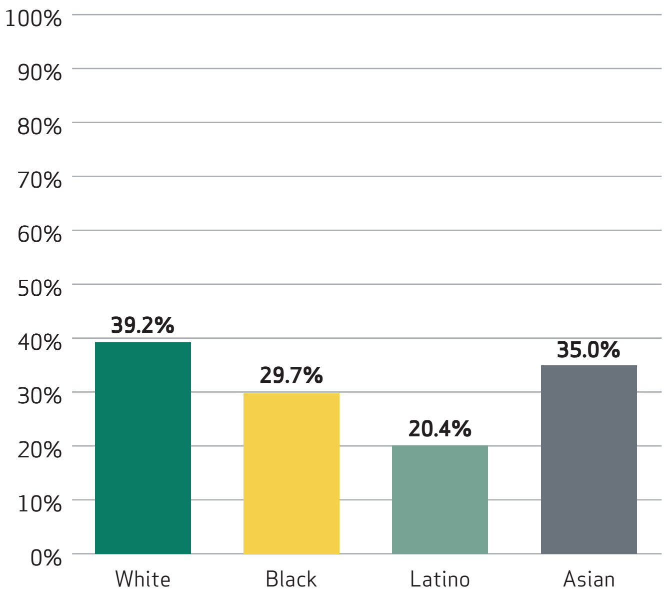
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 7: **All Millennials Have High Take-Up of Employer-Sponsored Retirement Plans, When They Have Both Access and Eligibility to Participate**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 8: **Only One-Fifth of Millennial Latinos Participate in an Employer-Sponsored Retirement Plan**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Differences By Gender and Race or Ethnicity

Women face similar challenges to racial and ethnic communities in saving for retirement.[48] Brown, et al. found that even though women are more likely than men to work for an employer that offered a retirement plan, there is a gap in eligibility that limits women's participation in these plans. This gap in eligibility is due to women's higher rates of part-time employment and shorter length of employment.[49] Even in the Millennial generation this gap persists, as 56.1 percent of Millennial women, compared to 44 percent of Millennial men work part time.[50]

Figure 9 shows that in 2014, while White Millennial women (71.8%) had the highest rate of access to an employer-sponsored retirement plan, male Latino Millennials had a lowest rate of access (42.9%). Additionally, Asian men (70.3%) and White Millennial men (70.2%) had nearly the same rate of access as White Millennial women. Black men (68.2%), Black women (66.5%), Asian women (60.9%), and Latinas (59.6%) had less access than the generation as a whole. Given that White men have historically had the highest rate of participation in retirement plans, the fact that White Millennial women and Asian men have higher rates of access than White men shows promise for other Millennials to increase their access to these plans.

When examining eligibility to participate in an employer-sponsored plan, White Millennial men had the highest rates of eligibility (59.1%) of all Millennials. Over half of White Millennial women (58.3%), Asian men (58.9%), and Black men (53.7%) were eligible to participate in an employer-sponsored plan. Slightly less than half of Millennial Asian women (48.6%) and Latinos (47%) were eligible to participate in an employer-sponsored plan. Millennial Latinas and Black women had the lowest rates of eligibility, with only 40.5 percent of Latinas and 41.7 percent of Black women eligible to participate in an employer-sponsored plan.

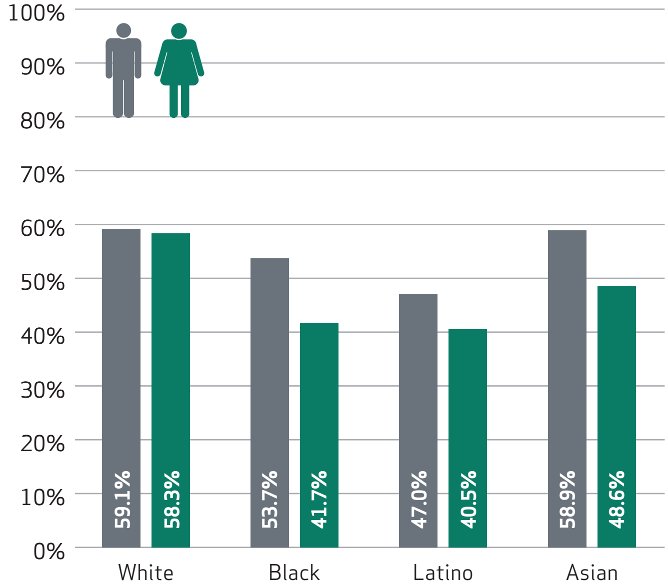
As shown in **Figure 11**, the high take-up rates of the Millennial generation is an improvement from Rhee's findings in 2013 for Latinos across all generations.[51] The high take-up rates suggest that employees deciding to participate in their employers' plans is not the problem here. Instead, the problem stems from retirement plan access and eligibility. Therefore, in order to increase participation in retirement plans for this generation, policymakers and employers should focus on increasing access and eligibility.

Because of Millennial Latino and Latina's low rates of eligibility, it is not a surprise that these groups had the lowest participation rates in employer-sponsored retirement plans with 19.1 percent participation for Latinos and 22.5 percent participation for Latinas. Lower rates of eligibility also resulted in low participation rates in employer-sponsored plans for Millennial Black women (25.5%) and Asian women (27.2%). Higher eligibility rates resulted in higher participation rates for Millennial Black men (35%), White men (38.1%), White women (40.4%), and Asian men (41.37%).

Figure 9: **Millennial Latinos and Latinas Have Significantly Less Access to an Employer-Sponsored Retirement Plan Than Other Millennials**

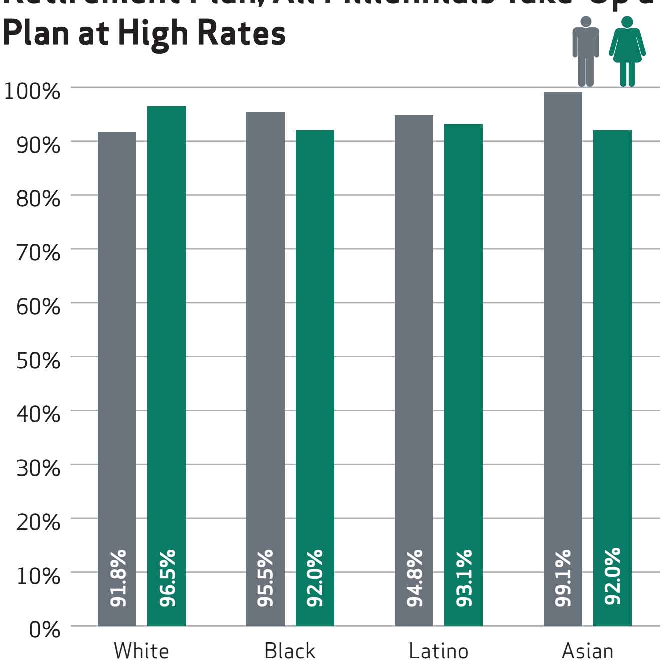
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 10: **Millennial Latinas, Black Women, and Asian Women Lag Behind Millennial Men in Their Eligibility to Participate in an Employer-Sponsored Retirement Plan**



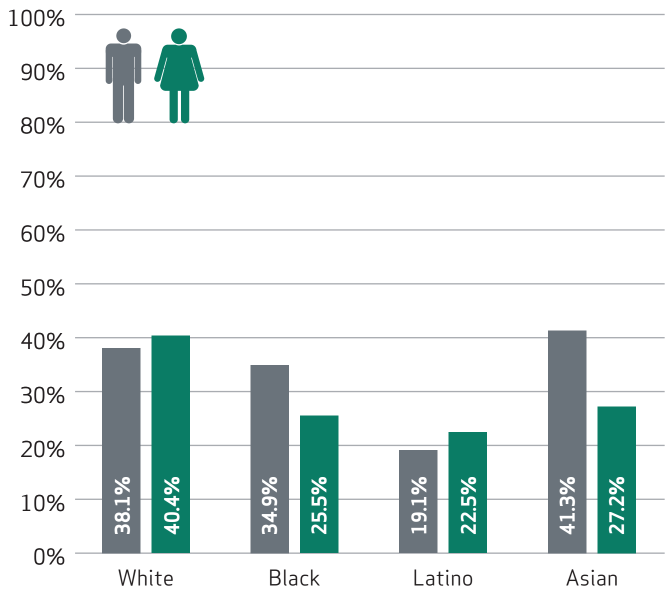
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 11: **When Offered and Eligible to Participate in an Employer-Sponsored Retirement Plan, All Millennials Take-Up a Plan at High Rates**



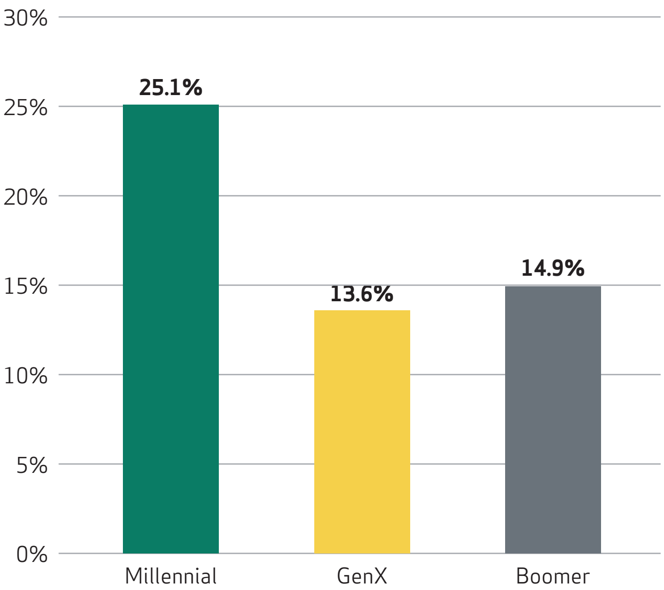
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 12: **Because of Their Lack of Access and Eligibility, Millennial Latinos Participate in Employer-Sponsored Retirement Plans at Half the Rate of Whites**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

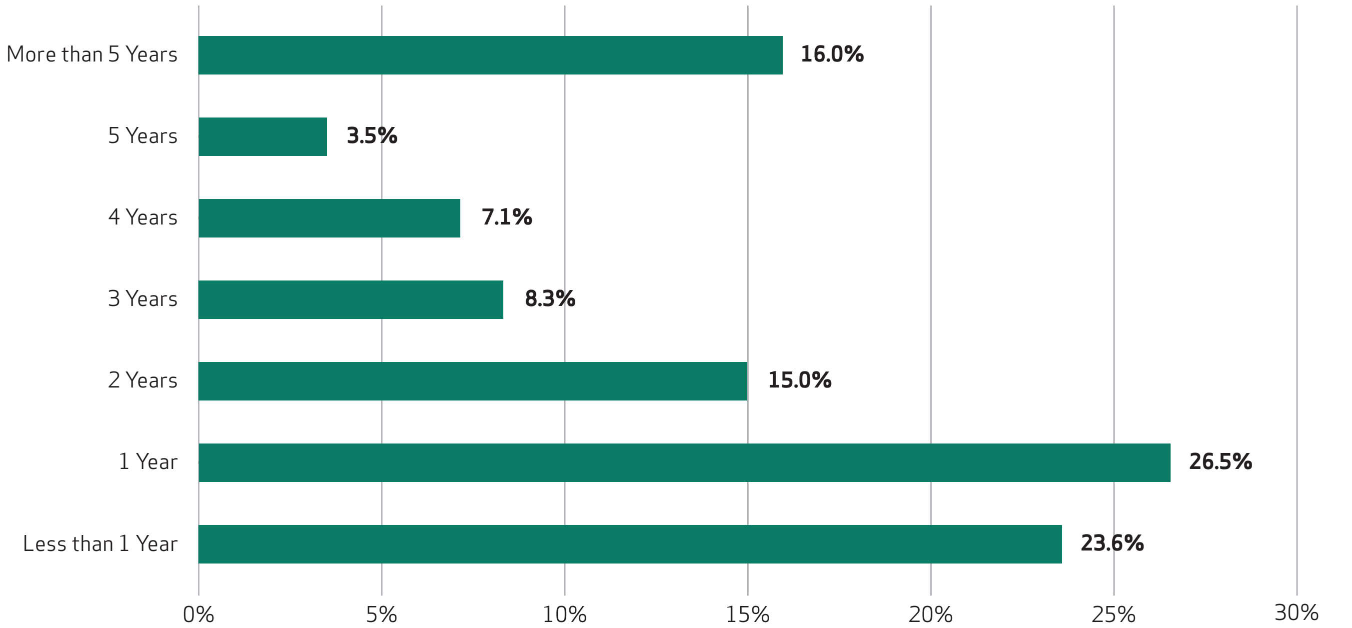
Figure 13: **Millennials are Employed as Part-Time Employees at Nearly Twice the Rate of Previous Generations**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

A possible explanation for lower rates of retirement plan eligibility and therefore coverage is that the Millennial generation has a higher rate of part-time employment than GenX or Boomers. **Figure 13** indicates that in 2014, the rate of part-time employment by Millennials (25.1%) was close to double the rate of part-time employment by GenX (13.6%) and Boomers (14.9%). The higher rate of part-time employment by Millennials is a large factor in their lower eligibility for employer-sponsored retirement plans, as they may not work enough hours to be covered by their employers' plans.[52] Under the Employee Retirement Income Security Act of 1974 (ERISA), employers can limit eligibility in retirement plans by requiring that an employee worked at least 1,000 hours in order to have a year of service under the plan.[53] Working 1,000 hours in one year is equal to working a little over 19 hours per week.

Figure 14: **Over Half of Millennials Have One Year or Less of Tenure With Their Current Employer**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

A second possible explanation for lower rates of coverage in a retirement plan is that this generation has not worked in their current position long enough to become eligible for participation in the plan. **Figure 14** shows the length of time that Millennials have been employed with their current employer in 2014. **Figure 14** also shows that over half of Millennials have only been employed with their current employer for at least a year (26.5%) or under one year (23.6%). These short tenures contribute to their lower eligibility rates, as their employer may not allow them to participate in an employer-sponsored retirement plan until after they have worked for the employer for one year of service.

MYTH #1 MILLENNIALS ARE JOB-HOPPING MORE THAN OTHER GENERATIONS

There is a media-fueled perception that Millennials are perpetual job-hoppers.[54] But two prominent studies show that this perception is a myth. First, a recent Pew Charitable Trusts study found that three-fourths (75%) of college-educated Millennials in 2016 were employed for more than 13 months with their current employer, compared to 72 percent of Gen Xers in 2000.[55] Second, the U.S. Bureau of Labor Statistics in a study tracking Boomers throughout their work-lives, found that Boomers held short tenures with their employers during their younger years.[56] Specifically, it found that of the jobs that Boomers began when they were 18 to 34, 69 percent of those jobs ended in less than a year and 85 percent ended in fewer than five years.[57] Thus, Millennials are job-hopping at similar or even lower rates to their Gen X and Boomer predecessors.

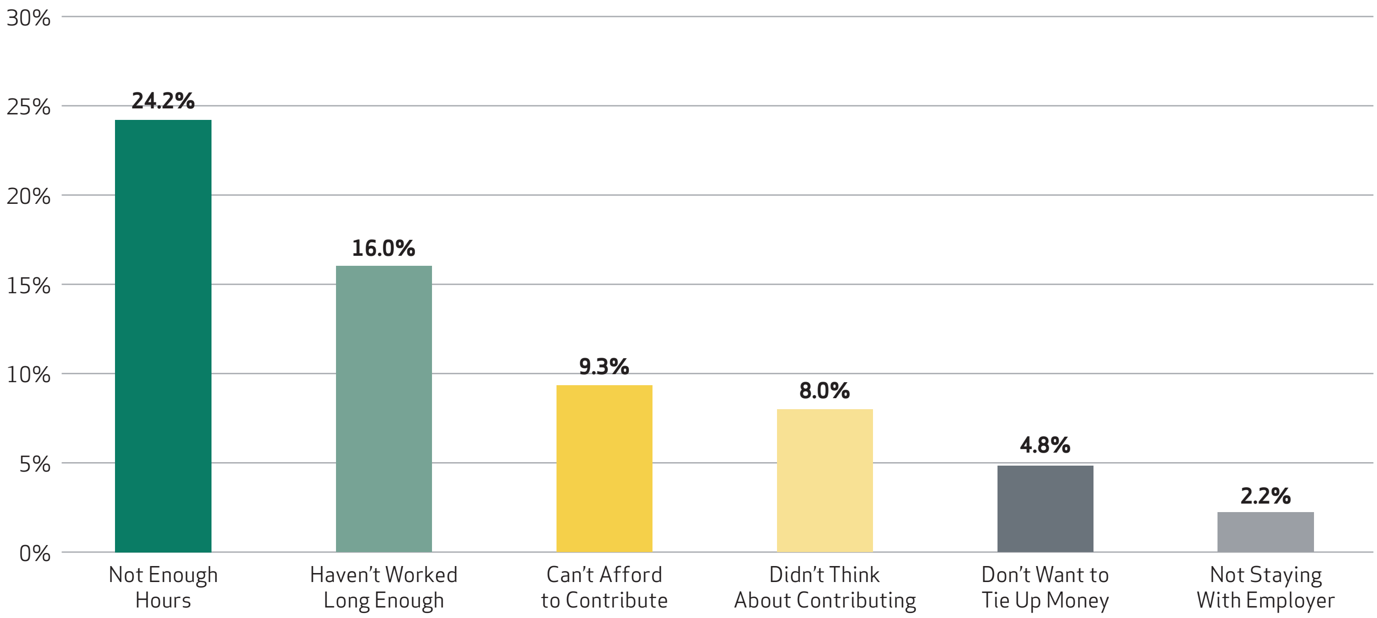
EXCERPTED FROM "NEVER-ENDING JOB INSECURITY" BY MICHAEL HOBBES:[58]

It was 2010, and Scott had just graduated from college with a bachelor's in economics, a minor in business, and $30,000 in student debt. . . . After six months of applying and interviewing and never hearing back, Scott returned to his high school job at The Old Spaghetti Factory. After that he bounced around—selling suits at a Nordstrom outlet, cleaning carpets, waiting tables—until he learned that city bus drivers earn $22 an hour and get full benefits. He's been doing that for a year now. It's the most money he's ever made. He still lives at home, chipping in a few hundred bucks each month to help his mom pay the rent.

In theory, Scott could apply for banking jobs again. But his degree is almost eight years old and he has no relevant experience. He sometimes considers getting a master's, but that would mean walking away from his salary and benefits for two years and taking on another five digits of debt—just to snag an entry level position, at the age of 30, that would pay less than he makes driving a bus. At his current job, he'll be able to move out in six months. And pay off his student loans in 20 years.

For decades, most of the job growth in America has been in low-wage, low-skilled, temporary and short-term jobs. The United States simply produces fewer and fewer of the kinds of jobs our parents had. This explains why the rates of "under-employment" among high school and college grads were rising steadily long before the recession. "The way to think about it," says Jacob Hacker, a Yale political scientist and author of the Great Risk Shift, "is that there are waves in the economy, but the tide has been going out for a long time."

Figure 15: **Millennials Attribute Part-Time Status and Time at Their Employer as Major Reasons for Lack of Employer-Sponsored Retirement Plan Coverage**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

The effect of Millennials' part-time status and lack of workplace tenure on their retirement eligibility is also confirmed by **Figure 15**, which captures the reasons Millennials offered for not participating in their employer's plan or why the employee decided to not participate in their employer's plan. **Figure 15** shows that the two most popular reasons why a Millennial could not participate in an employer's plan or decided to not participate in an employer's plan. The first reason was that they are part-time or lack the hours necessary to participate (24.2%) and second, that they have not worked for an employer long enough (16%). These two reasons greatly outweighed all other reasons, including a lack of affordability (9.3%), didn't think about contributing (8.0%), not wanting to tie up money (4.8%), and not planning on staying with an employer (2.2%).

MYTH #2 MILLENNIAL STUDENT DEBT PREVENTS THEM FROM SAVING FOR RETIREMENT

Using SIPP data, most Millennials cited "Not Enough Hours" (24.2%) and "Haven't Worked Long Enough" (16%) as the primary reasons for not contributing to an employer-sponsored plan, as opposed to "Can't Afford It" (9.3%) or "Don't Want to Tie Up Money," (4.8%). This differs from media portrayals that high levels of debt—particularly student loan debt—as the primary factor preventing retirement savings in the Millennial population. While this paper's finding from SIPP may be true for the generation in 2014, further research is needed to determine if student loan debt is a barrier to saving for retirement in particular racial and ethnic populations, at certain income levels, or in different years.

SECTION II: MILLENNIALS' RETIREMENT ACCOUNT OWNERSHIP, BALANCES, AND ADEQUACY

Jean Young, a research analyst at Vanguard, in a 2017 interview with the Washington Post was quoted as saying, "In order for people to have sufficient savings for retirement, they have to get two things right: [t]hey have to save enough and they need to save appropriately. The most important one of these two things is saving enough."[59]

Many Millennials today have no idea what "saving enough" is. As reported by long-term care provider Aperion, in a 2018 survey, as many as 34 percent of Millennials believe that they only need $200,000 or less to retire comfortably. And, they found that only 25 percent of Millennials think that they will need more than one million dollars saved to retire comfortably.[60]

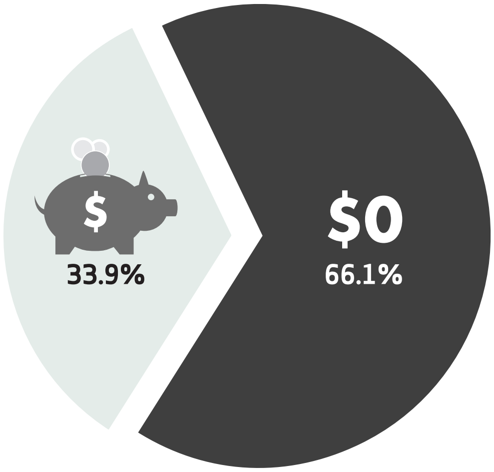
Sadly, even the iconic estimate of one million dollars in retirement savings may be off the mark. Some experts in the financial industry expect that nominal returns generated by stock and bond funds could be half of what Americans have experienced in past decades.[61] If low rates of investment returns persist, Millennials will need to save more—much more—from their salaries for retirement. In fact, the Employee Benefits Research Institute (EBRI) found that a drop in stock market returns of just two percentage points would result in a 25 year old having to contribute more than double the amount to her retirement savings compared to a Boomer who started saving at the same age.[62] A small change in investment returns has real impact on the value of retirement savings.

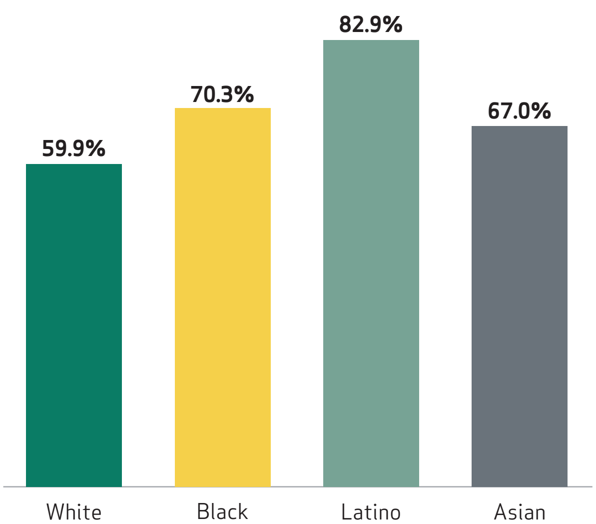
Using SIPP, this section examines rates of working Millennials who participate in retirement accounts. Retirement accounts include employer-sponsored plans such as 401(k); 403(b); 457; SEP IRAs; SIMPLE IRAs; and also traditional and Roth IRAs. This section does not include value that participants may have earned in DB pension plans. Additionally, this section examines the retirement balances of the working Millennial population and examines retirement adequacy of this generation's current savings rate, compared with the savings recommendations of financial services experts.

Millennial Savings Rates

Figure 16 shows the precent of Millennials who have no retirement savings. Significantly, a large share—two-thirds—of Millennials lack any retirement savings. This translates to

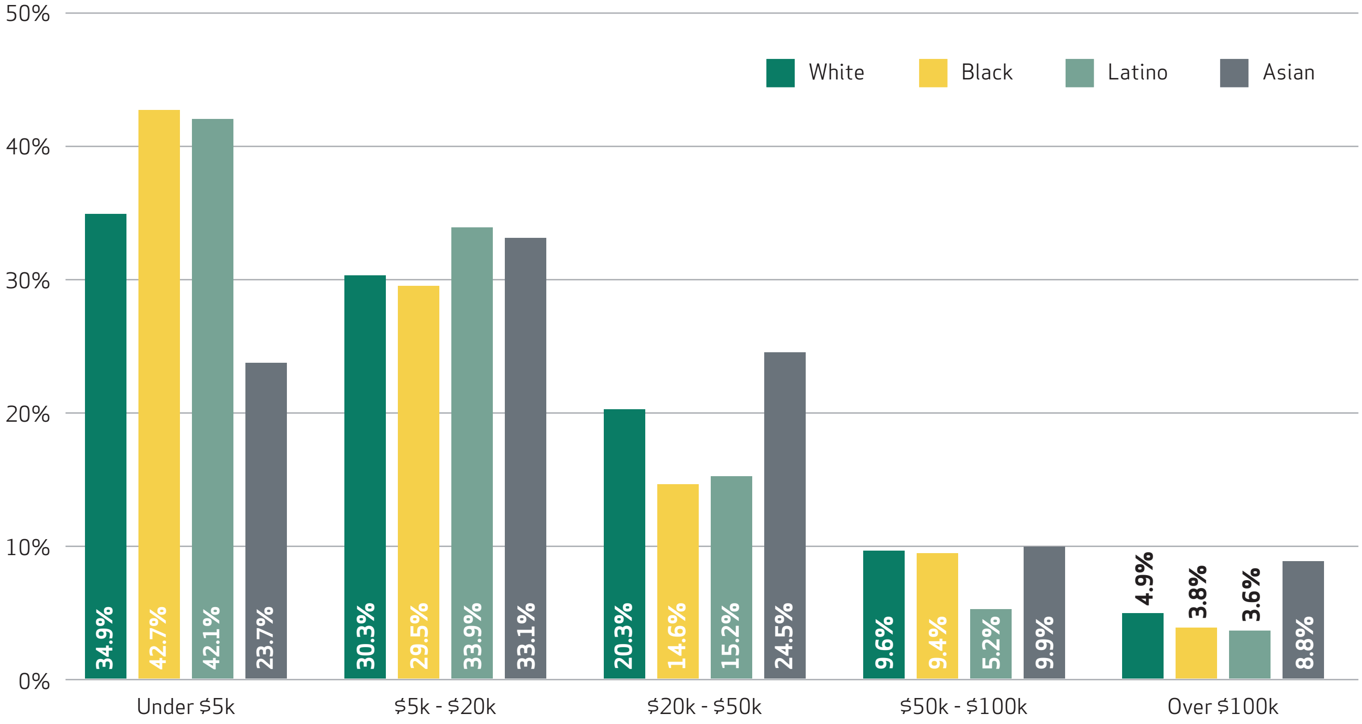
Figure 16: **Two-Thirds of Working Millennials Have Nothing ($0) Saved for Retirement**





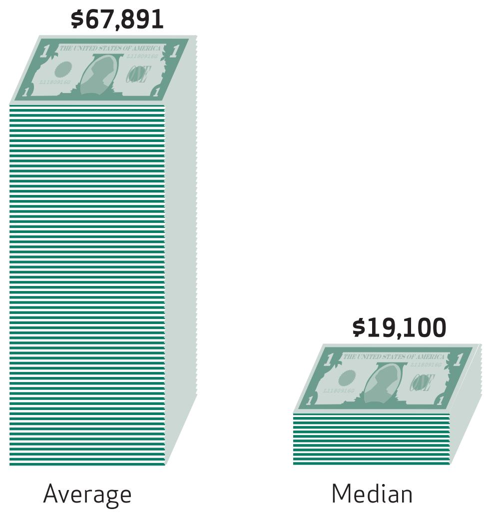
Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 17: **Most Working Millennials, Regardless of Race or Ethnic Origin, Have Less Than $20,000 Saved For Retirement**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

Figure 18: **Millennials with Retirement Accounts Have an Average Balance of $67,891 and a Median Balance of $19,100**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

approximately 54.9 million working Millennials who lack any retirement savings. **Figure 16** also shows that 82.9 percent of working Millennial Latinos and 70.3 percent of Black Millennials have nothing saved for retirement. Out of the 33.9 percent of Millennials that are saving for retirement, two-thirds (67.5%) have less than $20,000 saved for retirement, as displayed in **Figure 17**. In particular, 34.9 percent of working Millennial Whites, 42.7 percent of Blacks, 42.1 percent of Latinos, and 23.7 percent of Asians have under $5,000 saved for retirement. While 30.3 percent of working Millennial Whites, 29.5 percent of Blacks, 33.9 percent of Latinos, and 33.1 percent of Asians have between $5,000 and $20,000 saved for retirement.

Figure 18 displays the average and median retirement savings in 401(k)-type and IRA accounts in 2014 for working Millennials. These values only include those with retirement accounts that have a positive balance, meaning $1 or more, so they are based only on the one-third of Millennials who have saved. **Figure 18** shows an average account balance of $67,891 and a median account balance of $19,100 for Millennials. The sizeable discrepancy between the average and median savings of this population group suggests that the limited savings among those Millennials who are saving is concentrated in a small segment of the generation's accounts. And, even among the population of working Millennials that are saving for retirement, most of their accounts will likely be inadequate unless they increase their contribution rates—especially given the fact that some financial professionals have suggested that this generation should be saving a total of $1.8 to $2.2 million for retirement.[63]

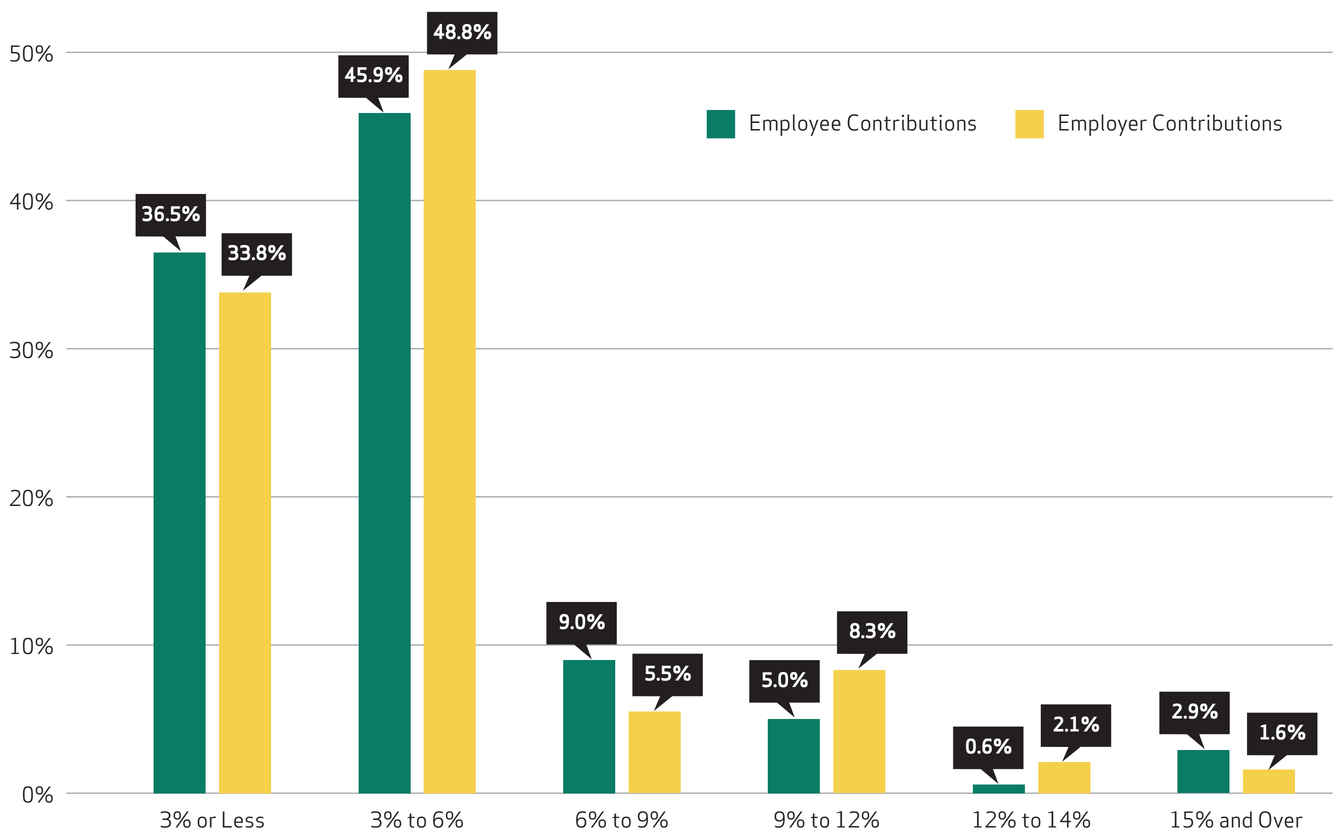
Millennials' Retirement Adequacy

Because most workers give at most a few hours a year to thinking about retirement, financial experts have often used simple benchmarks that provide an easy to understand guidepost on how much an individual should save in an individual retirement account during their career. While those in GenX and Boomers were told that they should save 10 percent of their salary, many financial experts recommend that Millennials should be saving at least 15 percent of their income for retirement over an expected forty year working career, and some even recommend that younger Millennials currently earning higher salaries save 22 percent of their income.[64]

These are daunting figures, especially considering that as displayed in **Figure 18**, a vast majority (82.4%) of Millennials, who actually have money in retirement accounts, save less than six percent of their income each year in their own contributions. For Millennials, the average employee retirement savings rate was five percent of salary.

Figure 19 also displays employer contributions to Millennial employee's retirement accounts. A majority (85%) of employers contributed less than six percent of their employee's income. On average, employers of Millennials contributed 5.2 percent of their employee's income to a retirement plan.

Figure 19: **82.4 Percent of Millennials Contribute Less Than Six Percent Of Their Income To A Retirement Account**

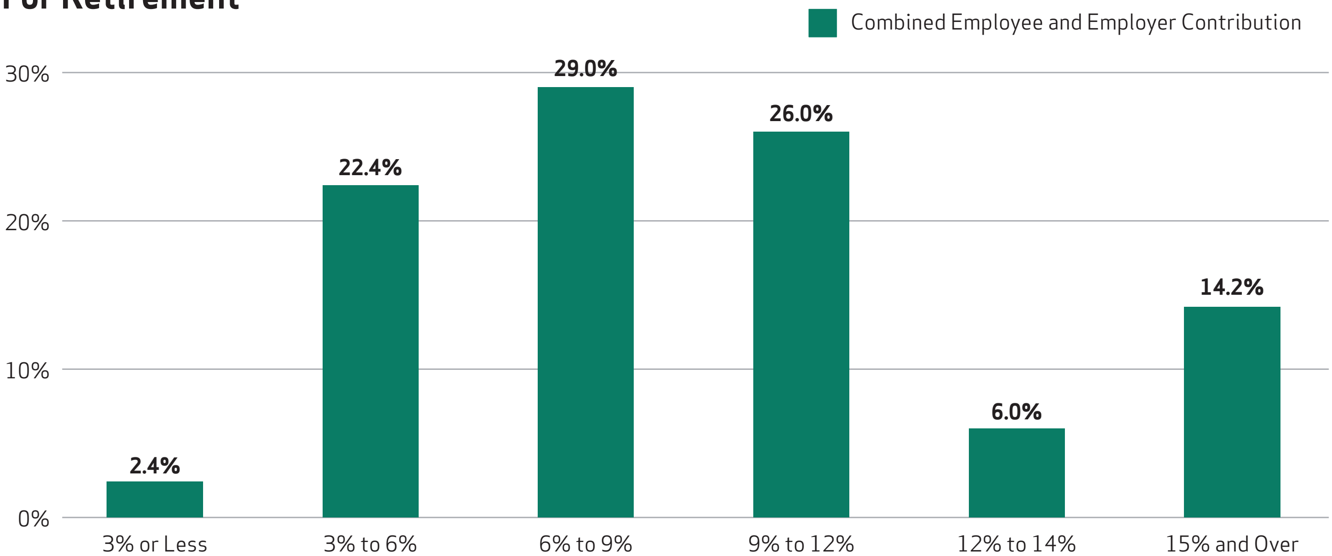


Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

When combining employer contributions with Millennials' own contributions to their retirement accounts, as shown in **Figure 20**, the average working Millennial was able to save 10.1 percent of their salary. But, this is not enough. According to financial professionals, this generation should be saving at least 15% of their salary.

However, also shown in **Figure 20**, only 14.2 percent of Millennials with employer-sponsored retirement accounts managed to save at least 15 percent of their income. Considering that only 33.3 percent of Millennials actually participated in an employer-sponsored retirement plan, this means that only 4.8 percent of working Millennials are saving adequately for retirement.

Figure 20: **Of Working Millennials Who Are Saving, Only 14 Percent Save Adequately For Retirement**

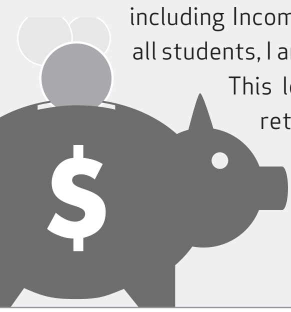


Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

PRIORITIZING RETIREMENT AS A MILLENNIAL

An interview with Nicole, an Attorney working in Austin, Texas.

Prioritizing saving for retirement is extremely important to me, even though it can be a challenge. I attended a private law school in Washington D.C. and accumulated a significant amount of student loan debt over the three year program. Because I graduated law school prior to 2011, when different repayment programs—including Income Based Repayment (IBR)—were introduced to all students, I am not able to take advantage of these programs. This leaves me with little extra income to invest in retirement at the end of the month.



However, I have been lucky enough to be employed by an organization that makes saving for retirement much more accessible and beneficial. My employer sponsored a defined contribution, 403(b) plan for its employees, in addition to an optional 457 plan. Through these plans, I am able to save 6.7 percent of pay and my employer contributes 8.5 percent.

Because of my employer's plans and their matches, I have been empowered by my employer to control my future and plan for retirement. I wish more people in my generation understood the importance of planning for retirement and realized that it is one of the most important financial decisions that they will make at the beginning of their career. I know that for me, being able to see my retirement accounts grow gives me peace of mind and a sense of stability.

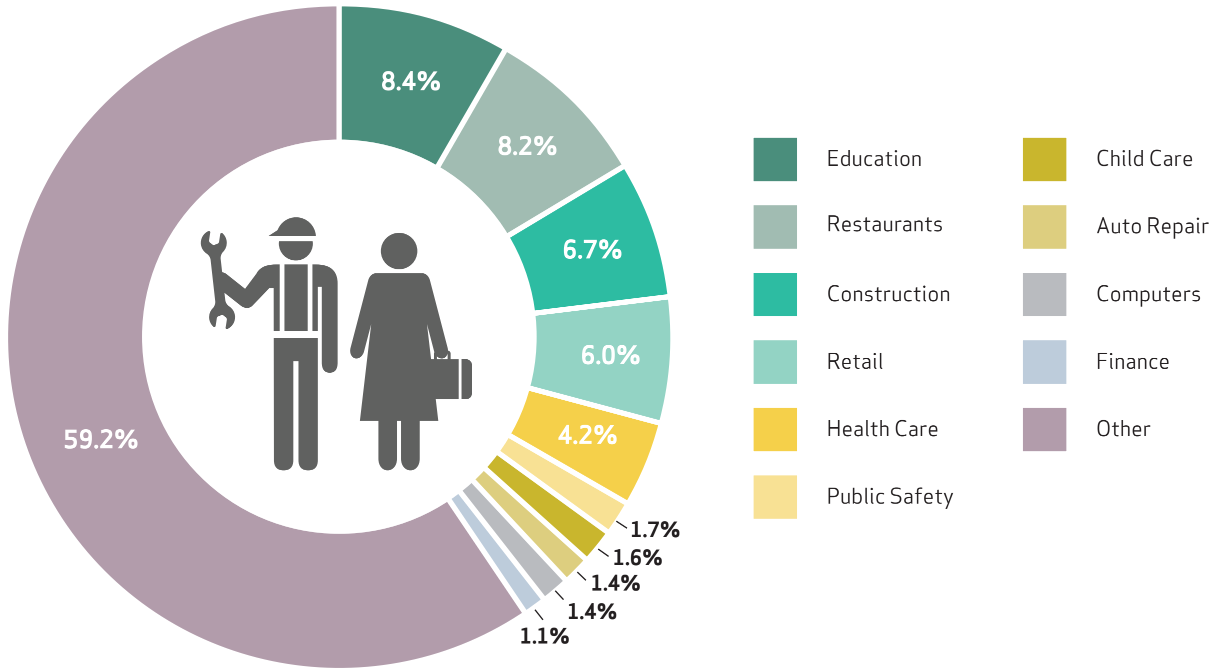
SECTION III: MILLENNIAL PARTICIPATION IN RETIREMENT PLANS BY INDUSTRY

According to the accounting firm PwC in 2017, Millennials are different than their GenX and Boomer predecessors, as they are looking for more in life than "just a job" or climbing the corporate ranks.[65] In fact, PwC notes that Millennials "want to do something that feels worthwhile."[66] Even though non-profits and the public sector have been hit hard by budget cutbacks and hiring freezes following the Great Recession in 2008, many Millennials are drawn to these sectors in order to "do good."[67] Additionally, a number of Millennials are drawn to industries that include a large number of the non-profit and public sector employers due to their reputation for job stability; the possibility of earning student loan forgiveness; achieving work-life balance; and access to employee benefits.[68]

This section discusses the rate in which Millennials are participating in retirement plans by industry.

Millennials work across a wide spectrum of industries. The top ten industries that employ Millennials, as indicated in **Figure 21**, are education (8.4%); followed closely by restaurants (8.2%); then construction (6.7%); retail (6%); health care (4.2%); public safety (1.7%); child care (1.6%); auto repair (1.4%); computers (1.4%); and finance (1.1%). The industries in which Millennials choose to work also impacts the level of their ability to participate in a retirement plan, as access and eligibility for an employer-sponsored retirement plan varies widely across the top ten industries where Millennials work.

Figure 21. **The Education Sector Leads the Top Ten Industry Sectors Where Millennials Work**



Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

As displayed in **Table 1**, Millennials have the highest access to an employer-sponsored plan in the fields of public safety (95.4%), health care (91.8%), finance (91.2%), and education (86.8%). Millennials also have high rates of access to an employer-sponsored retirement plan in the retail (76.3%) and computer (75.2%) industries. Access to an employer sponsored plan is low for Millennials who work in the restaurant (46.6%); construction (38.3%); child care (34.5%); and auto repair (32.3%) industries.

Millennials' eligibility to participate in an employer-sponsored retirement plan somewhat parallels their access to a plan. As shown in **Table 1**, Millennials who are employed in public safety (85.9%) and finance (75.27%) industries have high rates of eligibility to participate in an employer-sponsored plan. The eligibility rate for Millennials working in education (58.5%) and health care (57.5%) falls just above the generations overall eligibility rate. Yet, the eligibility of Millennials in the two industries where many Millennials work have some of the lowest eligibility rates, restaurants and retail, with eligibility rates of 25.4 percent and 37.1 percent, respectively.

It is important to note work patterns in some industries are not consistent for Millennials. For example, Millennials who classified themselves in the education industry may be employed as substitute teachers, tutors, coaches, or as graduate assistants; and thus while new teachers may be full-time, others may work part-time and not have enough hours to become eligible to participate in their employer's plan. Similarly, in the healthcare field, many home healthcare aides or temporary workers may work part-time or may not have worked enough hours to become eligible to participate in their employer's plan. These issues merit further study.

Similar to the discussion in section I of this report, Millennials' participation in employer-sponsored retirement plans by industry is greatly impacted by eligibility to participate in a plan. As seen in **Table 1**, Millennials who work in fields such as Public Safety and Finance, and who have high rates of access and eligibility also participate in employer-sponsored retirement plans are high rates. Specifically, 75 percent of Millennials in public safety participated in their employer's retirement plan, while 68.6 percent of Millennials in finance participated in their employer's plan. Similarly, Millennials who work in the restaurant (11.4%) and auto repair (7.8%) industries have some of the lowest rates of participation in employer-sponsored retirement plans.

Even though Millennials who work in the health care and education industries have high rates of access to an employer-sponsored retirement plan, their decreased eligibility rates had a large impact on their participation rates. Specifically, only 52.1 percent of Millennials employed in the health care industry and 45.3 percent of Millennials employed in the education industry participated in an employer-sponsored plan.

Table 1: **Millennials in Public Safety; Health Care; Finance; and Education Have the Highest Access to Retirement Plans**

	Access	Eligibility	Participation
Education	86.8%	58.5%	45.3%
Restaurants	46.6%	25.4%	11.4%
Retail	76.3%	37.1%	25.4%
Construction	38.3%	50.5%	19.3%
Health Care	91.8%	57.5%	52.1%
Computers	75.7%	55.9%	39.3%
Public Safety	95.4%	85.9%	75.0%
Finance	91.2%	75.3%	68.6%
Child Care	34.5%	48.2%	16.6%
Auto Repair	32.3%	24.1%	7.8%

Source: Author's calculations using 2014 Survey of Income and Program and Participation SSA Supplement Data.

SECTION IV: POLICY IMPLICATIONS

While all Americans face greater future economic risks today, these risks are felt particularly acutely by Millennials. In 2015, NIRS found that 92 percent of Millennials believed that the nation faces a retirement crisis and 93 percent of Millennials agreed that the nation's retirement system is under stress and needs reform.[69] Due to these financial challenges, policymakers should consider strengthening the American retirement system to protect all workers—especially Millennial workers. This section discusses some public policy options that would greatly benefit this generation.

Expand DC Plan Eligibility for Part-Time Workers

Under ERISA, a private sector employer can exclude an employee from its employer-sponsored retirement plan if the employee works less than 1,000 hours in a year of work. These employers can also delay eligibility for a plan until the employee completes one year of service, by working 1,000 hours.

Additionally, employers are also able to exclude groups of employees based on "reasonable classifications." For example, this standard allows an employer to exclude hourly employees over salaried employees, or visa-versa. While hourly workers may work for more than 1,000 hours during the year, they would not be eligible to participate in the retirement plan if as a class an employer's "hourly workers" were not eligible.

Those workers who remain part-time and never work more than 1,000 in each year may never become eligible for an employer-sponsored plan because they never work enough hours to get a year of service—effectively excluding these workers from a plan.[70]

This report finds that two-thirds of working Millennials have nothing saved for retirement and that eligibility for employer-sponsored retirement plans is a major cause of low retirement coverage. Approximately 25 percent of Millennials indicate they were not eligible to participate in an employer-sponsored retirement plan because of their part-time status. Reducing the 1,000 hour requirement to qualify for a year of service under ERISA, especially for those working for an employer for several years, would allow part-time workers to become eligible to participate in employer-sponsored retirement plans—greatly increasing the number of Millennials saving for retirement.

As demonstrated in the high take-up rates of this generation, if these employees are provided access to a plan and are eligible for a plan, they may also take-up a plan and participate. Coupled with the high rates of access of this generation, improving eligibility rates would actually move the needle when it comes to participation in an employer-sponsored retirement plan.

Reduce Waiting Periods for Workers to Become Eligible for Employer-Sponsored Plans

The majority of employer retirement plans require 12 months of service or less, before an employee becomes eligible to participate in the retirement plan.[71] Yet, some employees may want to start saving on their own directly from their pay when they are hired, even though they may not get an employer contribution until they meet the 12 month service requirement.

In order to improve the retirement savings rates of Millennials, employers could choose to allow new employees to immediately contribute to defined contribution plan from their own salaries as soon as they as they begin work.

Increase Auto-Enrollment Into Plans By Employers

Many studies have found that because low-wage workers do not enroll at the same rates in employer-sponsored plans as moderate-and higher-income workers, many employers have begun automatically enrolling their employees into a plan, while still allowing them to opt-out of enrollment.[72] AARP summarizes this concept as "by removing administrative barriers to saving, automatic enrollment can increase the likelihood that workers will contribute to retirement."[73] Today, approximately 58 percent of employer-sponsored 401(k) plans offer automatic enrollment into their plan.[74]

Given that two-thirds of working Millennials have nothing saved for retirement, automatically enrolling Millennials into an employer-sponsored plan could significantly improve the Millennial generation's savings rate. In fact, Vanguard found in 2017 that automatic enrollment made a large difference in plan participation—especially for Millennials—as only 56 percent of Millennials participated in an employer-sponsored plan with voluntary enrollment, but 92 percent participated in an employer-sponsored plan due to automatic enrollment.[75]

Increase Employer Matches and Default Contribution Rates

In 2014, 77 percent of employers who offer a 401(k)-type plan offered to match employer contributions up to some limit.[76] Slightly more than half of these plans match fifty cents or less for every dollar that the employee contributes.[77] Additionally, nine out of ten plans limit the match to employee contribution of up to six percent of salary.[78] If the average savings rates are five percent of salary in employee contributions and 5.2 percent in employer contributions for the Millennial generation, then the average Millennial in total has 10.1 percent of salary saved for retirement. Yet, as most financial experts recommend members of this generation should target saving 15 percent of their salary to have an adequate income replacement when they retire.[79] It is even more problematic when we remember that two-thirds of Millennials have not saved even $1 for retirement. Overall, only five percent of Millennials are saving 15 percent or more of their salary.

By increasing employer matches and increasing default contribution rates, employers assist employees with "early-in-career, lower-income savings," as explained by Microsoft's general manager of global benefits to the Washington Post last year.[80] These early-in-career savings greatly increase account values because these dollars have multiple decades to benefit from the compound interest and investment returns. Additionally, other employers are increasing employer matches to "[h]elp keep [employees] around long, which also reduces the expense of replacing them."[81]

Provide Education Increasing Awareness of the Benefits of an Employer Match

According to the Society for Human Resources Management (SHRM), Millennials are less knowledgeable about employee benefits than previous generations.[82] The financial education firm Financial Engines described an employer match as follows: "Let's say you are walking down the street and see a couple of hundred dollar bills blowing down the sidewalk. Would you pick them up? What if it was a thousand dollars? Unfortunately, the average employee is leaving $1,336 of 'free money' on the table each year. How? By not saving enough to get their full employer match."[83] The firm estimates that this equates to approximately $24 billion dollars each year and over a period of 20 years, this adds up to $42,855 per plan participant.[84]

The firm also found that lower-income and younger employees were much more likely than others to miss out on at least a part of their employer match. Specifically, they found that 42 percent of plan participants earning less than $40,000 per year did not contribute enough to take full advantage of their employer matches, compared to only 10 percent of employees making over $100,00 per year.[85] They also found that 30 percent of younger employees missed out on an employer match, compared with 16 percent of older employees.

By explaining employer matches in plain English to employees through easy-to-understand examples or even interactive tutorials, employers and financial service firms can show employees just how much money they are leaving on the table and how contributing to receive the match is an instant return on investment in their retirement plan. Every additional percent of income that is saved on behalf of Millennials gets the members of this generation closer to the recommended savings target need to replace income when they retire.

Promote and Educate Millennials About the Savers Credit

The Saver's Credit is a non-refundable income tax credit for taxpayers with adjusted gross incomes of less than $31,500 for single filers and $63,000 for joint filers. The Saver's Credit provides a "match" through a non-refundable tax credit of up to $1,000 for a voluntary contribution to a traditional IRA, Roth IRA, or to contributions to Internal Revenue Code qualified plans such as a section 401(k) plan; section 403(b) plan; section 457 plan; SIMPLE plan; simplified employee pension (SEP); or a qualified defined benefit pension plan.

While the Savers Credit is intended to promote tax-qualified retirement saving by moderate-and lower-income earners, eligible taxpayers underutilize this credit. Few workers at those income levels are aware of the tax credit and many cannot claim it since they do not have sufficient tax liability to receive the credit. In 2006, the Congressional Budget Office (CBO) calculated that 25 percent of all workers who filed tax returns were eligible to claim the Saver's Credit based on their income and tax liability. Unfortunately, because many taxpayers do not know about the Savers Credit, only three percent of taxpayers claimed the credit in 2002.[86] By promoting this credit and educating Millennials about claiming the credit, many more Millennials can get an additional tax benefit for retirement savings.

Protect and Strengthen Social Security

Millennials and GenX will face cut-backs to their Social Security benefits, due to the increase in the program's full retirement age from 65 to 67.[87] Millennials may face additional cuts to Social Security benefits if there are no adjustments to funding of the program. Specifically, the first Millennials will reach age 62 in 2043, at which time, Social Security is projected to be able to cover only 77 percent of its scheduled benefits.[88]

Social Security is an important benefit for the Millennial generation and all generations. As the advocacy group Social Security Works explains, Millennials are the most diverse generation and minorities have less retirement savings due to disparities in income. Millennial minorities will be more reliant on Social Security.[89] Furthermore, the National Women's Law Center found that without income from Social Security, nearly half of all women aged 65 and older would be living in poverty.[90]

CONCLUSION

The Millennial generation is coming of age at a time of harsh economic realities. They entered the workforce at a time of depressed wages, high levels of unemployment, and major structural changes in the American economy.[91] An employer-sponsored retirement plan is not out of reach for many members of this generation, as over two-thirds of the Millennial generation work for an employer that offers an employer-sponsored retirement plan.

In order to improve Millennials'—especially Millennial Latinos'—retirement security, we must first increase the number of Millennials who are eligible to participate in an employer-sponsored retirement plan. Nearly half of Millennials that do not participate in an employer-sponsored retirement plan cited part-time work or lack of tenure with their employer as a reason for not participating in a plan, rather than economic reasons such as student debt. Allowing part-time workers and new employees to participate in an employer-sponsored retirement plan would greatly increase Millennials' participation in an employer-sponsored retirement plans.

Second, to increase Millennials' retirement security, we must increase the amount that Millennials are saving for retirement. Currently, two-thirds of working Millennials have zero—not even one dollar—saved for retirement. And these numbers are even worse for Millennial Latinos, as 82.9 percent of Latinos have nothing—not even one dollar—saved for retirement.

Third, we must increase the amount that this generation is saving for retirement. Currently, only five percent of working Millennials are saving enough for retirement. We can increase these amounts by auto-enrolling Millennials into employer-sponsored plans and increasing employer matches to participants in these plans. This would place many more Millennials into employer-sponsored plans and would also increase the total retirement savings of Millennials. Finally, by educating Millennials about the value of retirement savings and how employer-sponsored retirement plans and employer matches work, many more Millennials will increase their retirement savings and receive the full employer match.

In order to improve the retirement preparedness of America's largest generation, Millennials, employers, and policymakers need to look closely at what we can all do—individually and collectively—in order to ensure that all members of this generation can build sufficient assets to have an adequate retirement income after a lifetime of work.

METHODOLOGY

Research Questions:

1. How many Millennials had access to, were eligible to participate in, and actually participated in an employer-sponsored retirement plan?

2. What were the barriers to retirement savings for this generation?

3. Was student loan debt a factor in saving for retirement?

4. How much is this generation saving for retirement?

About the Survey of Income and Program Participation (SIPP)
To these questions, this report obtained information from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP). SIPP is a longitudinal, multi-panel survey of adults in the United States. Each panel features a nationally representative sample interviewed over a multi-year period lasting approximately two and a half to four years. The size of the sample ranges from 14,000 to 52,000 households.

In comparison to other nationally representative surveys, SIPP fills the gaps that surveys such as the Current Population Survey (CPS) leave, by providing longitudinal data that affords a better understanding and analysis of the distribution of income, wealth, and poverty in the U.S., and of the effects of federal and state programs on the well-being of families and individuals. The core questions cover demographic characteristics, labor force participation, program participation, amounts and types of earned and unearned income received, including transfer payments and noncash benefits from various programs, and asset ownership. Additionally, SIPP is larger than comparable surveys such as the Survey of Consumer Finances (SCF) and provides information on business ownership that is not found in surveys such as the SCF.

Despite its advantages, SIPP, like all surveys, has its limitations. As with most survey data, SIPP data is self-reported, which can be problematic for the reporting of account balances and participation in particular types of retirement plans, such as DB pension plans.

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Through our activities, NIRS seeks to encourage the development of public policies that enhance retirement security in America. Our vision is one of a retirement system that simultaneously meets the needs of employers, employees, and the public interest. That is, one where:

- employers can offer affordable, high quality retirement benefits that help them achieve their human resources goals;
- employees can count on a secure source of retirement income that enables them to maintain a decent living standard after a lifetime of work; and
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- Education programs that disseminate our research findings broadly. NIRS disseminates its research findings to the public, policy makers, and the media by distributing reports, conducting briefings, and participating in conferences and other public forums.
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