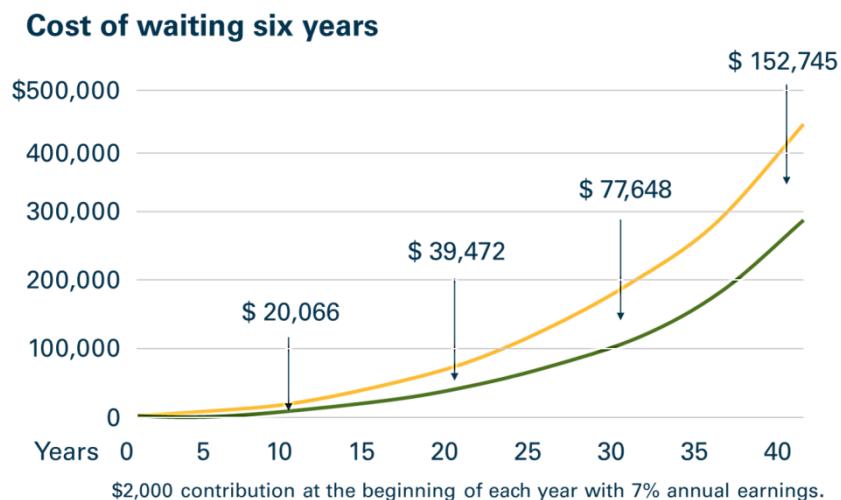


Igniting the Spark

Motivating Millennials to Save for Retirement

With retirement decades away for young professionals, saving for those golden years may not seem like a top priority. Coupled with copious amounts of student loan debt and vivid memories of the financial crisis, it may be no surprise that many Millennials, the generation born between 1980 and 2000, are not saving enough to secure a successful retirement future.

Of workers age 20-29, approximately 73% are participating in a company sponsored 401(k) according to analysis by Aon Hewitt of 3.5 million eligible employees. For ages 30-39, this statistic increased to 77%. While this is a respectable rate of participation, approximately 40% of workers age 20-29 and 31% of those ages 30-39 are not saving enough to take full advantage of their company match.¹ They are leaving free money on the table which can be significantly detrimental to their long-term savings. The graph below depicts the long-term opportunity cost of waiting six years to begin saving for retirement. With forty years to grow, starting contributions just six years earlier can result in over \$150,000 more in savings for the participant.



How can Plan Sponsors spur Millennial participants to save for the future?

Tech Savvy Savings

Millennials are the tech generation. Think of all the technology advancements that have occurred in the past 35 years. Today, we have the world at our fingertips; information can be retrieved in mere seconds online. If Plan Sponsors want Millennials to get serious

¹ Winn, Melissa A. How advisers can engage millennials to maximize retirement savings. Employee Benefit News. 19 November 2014. http://ebn.benefitnews.com/news/eba_retirement/how-advisers-can-engage-millennials-to-maximize-retirement-savings-2744788-1.html

about saving for their future, retirement education must be conveyed in a format Millennials relate to and are comfortable with. Information must be personalized in order to evoke a connection with these participants. Give them access to technology that will depict the amount of savings they will need at retirement. Afford them a strategy builder that will assist them in constructing a customized plan to meet their retirement needs. Illustrate the path and the end goal in a media they utilize daily and Millennials are more likely to understand the importance of saving for retirement now.

Combat Risk Aversion and Educate on Risk Tolerance

Millennials are far from retirement age; however, studies show that they are investing as conservatively as retirees.² This generation's risk aversion can likely be attributed to having a front row seat for the financial crisis during their formative high school, college, and early career years. While Millennials may feel that they are protecting their savings with a conservative approach, they are threatening their retirement future by only selecting low risk, low reward investment options. John Diehl, Senior Vice President of Strategic Markets at Hartford Funds, gives the following example using the "100 minus your age" strategy to determine a proper equities to fixed income ratio. "An investment of \$1,000 made between Jan. 1, 1980 and Nov. 30, 2013, if invested in a typical retiree (75-year-old) mix of 25 percent in equities and 75 percent in fixed income, would yield \$21,124. By contrast, if you apply the typical millennial ratio (25-year-old) of 75 percent equities, 25 percent fixed income, it would yield \$36,087 over that same time period."² Unlike generations before them, most Millennials perceive that they are solely responsible for their retirement savings without the security of a pension and the assurance of Social Security. The best method to combat risk aversion is education on risk tolerance. Participants should be given the tools they need to assess their risk tolerance and build an investment strategy that they are both comfortable with and confident will produce the savings needed over the long term.

Consider Automatic Enrollment and Escalation

Automatic enrollment has significantly improved participation for eligible employees of all ages. Once they have started saving, most participants will keep saving. However, participating alone is not enough to secure a successful retirement future. As Aon Hewitt found in their research, "young workers seem to fall victim to inertia with many continuing to save only at the default rate, or slightly above".¹ Enter Auto-Escalation. Generally, the default deferral amount should be equal to the company's match rate. With auto-escalation, the participant's deferral rate will increase by a certain percentage annually. As young professionals may feel that they already have a lot on their plate, automatic enrollment and auto-escalation make two smart decisions on their behalf.

² Diehl, John. Why risk-averse millennials should rethink retirement planning. CNBC. 22 May 2014. <http://www.cnbc.com/id/101697389#>.

Conclusion

Millennials are not saving enough for retirement. While more than 70% of those eligible are participating in an employer sponsored 401(k), many are leaving free money on the table by not deferring enough to take full advantage of their company match. If the trend continues, this generation may simply not have enough savings to retire when desired or potentially at all. Millennials, however, have time on their side. With proper use of technology for education and account access coupled with plan features such as automatic enrollment and auto-escalation, Plan Sponsors can ignite a spark in this generation and motivate Millennials to save for their future.