

Millennial Wealth Accumulation – A Plan Sponsor’s Guide

A Millennial is defined as a person born between 1981 and 1997. In 2015, the U.S. Census Bureau announced that the current population of the Millennial generation surpassed the Baby Boomer population at 75.4 million and 74.9 million, respectively. Also referred to as Generation Y, many Millennials experienced the financial crisis as their first view of market volatility.



The Obstacles They Face

When it comes to saving for their golden years, the Millennial generation faces a few specific obstacles that should be addressed. Members of this generation are less likely to have a pension than previous generations as the retirement plan landscape has shifted away from defined benefit plans to defined contribution plans (i.e. 401(k) plans). This shift has resulted in participants directing their investment decisions, requiring enhanced investment education and advice. Due to changes in the traditional retirement landscape, coupled with a bleak future for Social Security, this generation is responsible for saving the majority of the money they will need in retirement.

Millennials tend to be wary of investing and the associated risks after experiencing market volatility early in their careers or witnessing its effects on those around them. The Millennials who are investing to save for retirement may structure their portfolio too conservatively to minimize loss, but this also curtails potential gains in the process.

Many Millennials experienced low wages and underemployment after graduating into a weak labor market. Moreover, this generation is dealing with student loan debt at rates above and beyond previous generations. An April 2016 LinkedIn survey shows



approximately 61% of Millennials have student loan debt with a median of more than \$20,000¹. As detailed in our February 2016 article, [Student Loans & Retirement Savings](#), total student loan debt in the United States escalated to \$1.2 trillion in 2015.

Today, Millennials are trying to balance daily expenses, starting a family, and paying down debt. Is saving for retirement really possible?

Eyes on the Prize

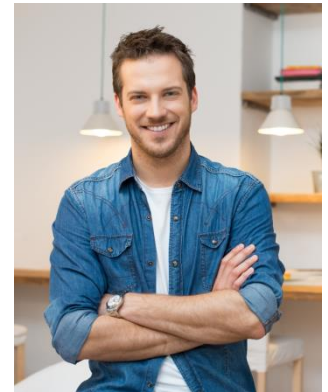
Historically, many workers have seen their career as a means to retire and pursue their dreams. Many Millennials are focused on pursuing their dreams now - whatever they may be. Some even plan to continue working their dream job and never retire.

¹ Data based on survey of LinkedIn members who are current students or recent grads. April 2016.

For Millennials, if they do retire, it may be 40+ years away. It can be hard to focus on something so far in the future, no matter how important it is. Instead of focusing on retirement as an event to save for, Millennials should focus on accumulating wealth for their future. As a Plan Sponsor, you can help by providing strategic participant education and proper Plan design. For any saver, *getting started is half the battle*.

Time is on their Side

As a group, Millennials have two specific things working in their favor with regard to saving in your sponsored retirement plan, a long time horizon and the magic of compound interest. With decades left before their golden years, even small amounts saved on a regular basis have the potential to fund a successful retirement future. Take Max for example. Max has a current salary of \$40,000 and defers 5% of his pre-tax salary to his company sponsored 401(k) plan. This means that \$2000 of Max's salary is contributed to his retirement account each year. Even if Max's salary and contribution rate never change in the 40 years left until he plans to retire, he could end up with over \$450,000 at retirement, assuming an annual return of 6%.



While this amount is most likely not enough to fully fund a dream retirement, it does not take into account increasing income or deferral rates. *However, it is more than four times as much as Max would have if he stashed that \$2000 a year under his mattress for the next 40 years.* Theoretically, a Millennial's income will increase over the span of their career. It is important to educate participants, especially Millennials, on the advantages to increasing their deferral amount as their income increases.

Match Maximization

Many employer-sponsored plans include a matching feature where the employer contributes a certain amount to the participant's personal retirement savings account, based on the participant's contributions. If your Plan includes a matching contribution, maximizing the match will give Millennials an added boost to help them reach their savings goals. Encourage employees to not leave money on the table.

Investing Insights

Proper diversification is a key part of a long-term investing strategy. Investopedia defines diversification as "a technique that reduces risk by allocating investments among various financial instruments, industries, and other categories. It aims to maximize return by investing in different areas that would each react differently to the same event." Especially important for risk averse Millennials, diversification is a necessary tool to balance risk and reward by allocating money among different types of investments. A proper mix of stocks and bonds can help to maximize profits and minimize the risk of large losses due to swings in the market.²

Since they are early in their careers, it is ideal for Millennials to take on more risk now compared to later on. With a long time horizon, their money has time to grow to its full

² Investopedia. Stocks versus Bonds. <http://www.investopedia.com/video/play/stocks-versus-bonds/>

potential. Over time, their risk/reward balance should change to lessen stock exposure and hedge against large losses that could delay retirement.

For in-depth best practices, check out of featured article, [Diversification](#).

Favorable Trends for Every Saver

When it comes to your sponsored retirement plan, there are a few favorable trends that work for all participants. Because of recent legislation and litigation, overall plan expenses are decreasing. Your retirement plan will never be free, but Plan expenses



paid by participants will most likely always be lower than what an individual investor would pay outside of the plan.

With the shift to participant-directed savings comes an enhanced need for sound financial and investment education.

Participant Education

Understanding your Millennial participants is arguably most beneficial in providing participant education. Plan information and participant education will help Millennials to understand the ins and outs of your plan and how it can work to help them to reach their savings goals. Can they choose to save on a Roth, after-tax basis instead of a pre-tax basis? What are the benefits of each? Does your Plan include a matching contribution? At what percentage is the match maximized? These are just a few of the questions that should be answered through plan information, generally in your enrollment materials, and participant education. Additionally, your plan should provide educational materials to assist participants in understanding the basics of investing for retirement. This is where Millennials should be able to assess their personal risk tolerance, learn about proper diversification, the magic of compound interest, and more.

To best reach the Millennial generation, it is important to offer participant education in multiple forms that they are comfortable with in addition to normal hard copies. This could take the form of a dedicated participant website or mobile app, for example. Embracing technology for participant education will help Millennials to get the most out of your Plan.

The Bottom Line



For the Millennial generation, retirement may feel like a faraway dream. With current expenses, student loans, and other obstacles, it may feel an unattainable dream at that.

Regardless of their career goals and future plans, Millennials need to plan ahead in order to be financially prepared for their elder years. Even small amounts saved on a regular basis can grow to a substantial amount of accumulated wealth. Getting started is half the battle, but Plan

Sponsors are in a great position to help this effort. Meet Millennials on their comfort level and offer participant education in a method that is already a part of their daily lives. Help them to understand the basics of investing, learn about what your Plan has to offer, and start saving today.