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Retirement plans for the Millennial workforce

New values need
new plan designs

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Baby Boomers, those born in the period 1946 through 1964, built their careers on beliefs in work ethic, respectfulness and morals (source: 2010 Pew Research Study). Compared to the generations that followed, they will have worked for fewer employers at retirement. There is also evidence that a significant number are delaying retirement for a variety of reasons. As a result, Baby Boomer managers are likely to take traditional approaches to designing retirement and savings plans. That may not resonate with Millennials, those born after 1980, resulting in lower appreciation for these programs. This paper offers some suggestions for improving the effectiveness of such plans and enhancing Millennial engagement.

Millennial mobility

Additional data from the Pew Report indicates that Millennials are likely to favor lifestyle over salary, and to expect changing careers as a matter of course. The tendency to be more mobile than other generations of workers was also noted in a “Multiple Generations @ Work” survey sponsored by Future Workplace. Based on that survey, over 90% of Millennials are expected to stay in a job for less than three years. Over a working lifetime that translates to 15 or more employers. This creates an employment dilemma: Employers are frustrated by the turnover and are looking for ways to retain these employees, while Millennials are looking for job growth opportunities, and expect competitive salaries including benefits.

The rise of portable benefits

While Millennials may have an innate penchant for mobility, changes in employer provided benefits removed some roadblocks that may have caused some to think twice before tendering that resignation. Notably, the increase in portable pensions through the expansion of defined contribution (DC) arrangements such as 401(k) and 403(b) plans make it easier to leave without fear of leaving retirement benefits on the table, as may happen with a defined benefit (DB) plan. Not that Millennials are focused on retirement as much as accumulating assets to maintain their lifestyle.

From a competitive viewpoint, organizations that only offer DC plans may “outbid” incumbent employers that sponsor DB plans by offering higher matching or automatic contributions. The almost universal prevalence of DC plans also facilitates rollovers, although the account balance can always be rolled over to a personal IRA.

Health care reform may also increase mobility. Eliminating pre-existing conditions removes any hesitation from changing employers based on health considerations.

Mandatory coverage for children under age 26 may also have an effect. Some early career Millennials may be more willing to leave an employer that provides health benefits for another that does not if they can get coverage under a parental plan (or through the marketplace). Mom or dad may bear the cost of this coverage which could act as an unintended safety net for Millennials to explore alternative career paths and not worry about healthcare costs for a few years after graduation.



The illustrated Millennial

Designing plans without recognizing generational differences in communication and learning styles can be a missed opportunity. So what characterizes the Millennials besides a tendency to change jobs more frequently than other generations of employees? As youngsters they experienced unparalleled access to group communications through instant messaging. The home computer became a virtual party line where conversations branched from one group to another. Keeping track of conversation threads fostered collaborative communication and learning styles that encouraged teamwork to reach consensus. As the Millennials got older, smart phones proliferated and texting became the communication vehicle of choice. Questions about what to do on Saturday night are decided last minute through a barrage of texts interspersed with internet information searches on event details. This group by nature is inclusive, and is willing to let decisions be team-based. They are used to getting information on demand using the most recent technology available and are bewildered if it is not available. Leadership is viewed more as a collaborative partnership rather than deferring control to one person.

How to engage Millennials in retirement saving:

- Web portal
- Automated features
- Managed accounts
- Socially responsible investments
- Push communications
- Roth option
- “Smart” features

Implications for retirement and savings plans

The marked differences in communication style and expectations about the availability of cutting-edge technology and multiple career paths provide a roadmap for design.

As a group, Millennials are more interested in saving and investing than previous generations of entry-level workers and may be more risk averse. Most likely this is due to watching their parents struggle with shocks to retirement savings accounts that were ravaged in the wake of the technology bubble bursting in 2000 and then the credit crunch in 2008. While the idea of a fixed monthly payment at retirement may be somewhat appealing in concept, this group is focused on accumulating assets in a DC-type plan. Profit sharing and DB-type plans will be discounted and could be a competitive disadvantage when recruiting Millennials.

Given the importance of DC plans to Millennials, what characteristics will improve participation and utilization, and set the plan apart?

Some suggestions based on informal research are below.

- **An attractive web portal that is easy to use with intuitive navigation features.** This group prides itself on being tech savvy and is used to state-of-the-art retail websites so that anything less may be frustrating. The website should have links to frequently asked questions or to pop-up windows with additional information. In a Facebook world, access to blogs, community chat and forums to have a virtual discussion or evaluate options, and access through a smart phone application will be expected.
- **Automatic enrollment with an escalating contribution feature.** This is important for a group that tends to act later rather than sooner and may not take time for the thoughtful analysis needed for retirement planning. They are likely to save just enough to receive the maximum match (if one is provided). Through apathy or inexperience they are unlikely to change the rate of saving to meet long-term goals. Admittedly, there may be some concern about being directed to save something out of each paycheck, but once that account balance starts to grow, they will be grateful. The need to save early will increasingly be valued if anticipated cutbacks in Social Security and Medicare become a reality.
- **Managed accounts and target year/date funds.** Millennials pride themselves on superior intelligence and may want to take a do-it-yourself approach to picking investments. Have enough options to provide a spectrum of risk/reward, but numerous studies show that too many choices will confuse more than add value. Millennials will take advice from a credible source. That will be second nature to a group that routinely does internet searches to review ratings of products and services. So managed accounts and target year/date funds will be appreciated if there is adequate communications about the advantages.
- **Socially responsible investments.** Millennials are socially conscious and motivated. They will expect an employer to have policies that respect the environment, provide consumer protection, and support human rights and diversity. Adding a socially responsible screen to the fund line-up will resonate with Millennials.
- **Push communications.** As Millennials are not prone to long-range planning, push emails that stress the importance of savings and provide access to investment education will improve participation. Traditional benefit statements may not be that helpful to a group that has significant college debt and may be saving in the hope of eventually having enough money to apply for a home mortgage.
- **Roth savings option.** Millennials will likely be in a higher tax bracket as they approach retirement age. Showing the benefits of Roth savings should improve overall satisfaction with the plan.
- **Make it a “smart” plan.** Millennials will appreciate an outcome-based DC plan that comes “fully loaded” with pre- and post-retirement features, helping individuals better prepare for retirement. It will enroll them in the savings plan with a realistic savings target, select appropriate funds, and make adjustments as needed.

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The employer's return on investment

Millennial employees consistently rank the DC plan as one of the most valued employee benefits. Given their propensity for mobility, any changes that make the employer's plan more attractive should help to reduce turnover. The willingness of Millennials to seek out other opportunities has both economic and talent implications:

- Significant up-front investments in new employees in terms of on-boarding, training and development
- A loss of talent and investments to another employer, perhaps a competitor

Each organization has its own unique cost of turnover. Putting a price tag on that cost may help sell automatic enrollment, a higher matching contribution, or an upgrade in the 401(k) enrollment process and communications campaign. The end game is an improvement in Millennial engagement so that the high performers work long enough to provide the expected return on investment.

Let's talk

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