BUCK
A Gallagher Company

Will Gen Z employees be able to save enough in their defined contribution plan to retire?

For Gen Z workers, those born between 1997 and 2012 and just entering the workforce, the scenarios below show how relatively small changes in retirement plan design and/or savings selection can make a difference for an average earner.*

*The scenarios are based on a proprietary retirement savings model for defined contribution plans developed by Buck, a Gallagher company.

Participant profile

- Enters the workforce at age 25 with an annual salary of $50,000
- Annual salary increases are tagged to inflation over a participant's career
- Asset allocations based on widely held target date retirement funds

Scenario #1 – The difference of a year – or two

Changing retirement from age 65 to age 67 has a dramatic impact, improving the worst case for running out of retirement savings by six years, to age 81, and the median case to over age 100.

Alex

5% of annual salary saved

50% company match on the first 6% of savings

7.5% of annual salary goes to total retirement deferral per year

Retires at 65
44% of disposable income is replaced by social security

Out of savings at 94
5% chance of running out at age **75**

43% likelihood of having a portfolio at age 100

Retires at 67
51% of disposable income is replaced by social security

Out of savings at 114
5% chance of running out at age **81**

65% likelihood of having a portfolio at age 100

Key takeaway
Someone who enters the workforce today has a 50% chance of their retirement savings lasting until their 94th birthday if they save 5% of their annual salary and receive a 50% company match on the first 6% of savings. But in the worst-case scenario with the impact of lower than expected investment returns, they run a 5% risk of running out of retirement savings at age 75, and a 50% chance of running out in their early 90s, often known as "longevity risk."

Scenario #2 – Saving a little more

Increasing the savings rate from 5% to 6% lets the participant take full advantage of their company match (50% on the first 6% of participant contribution).

Alex

6% of annual salary saved

50% company match on the first 6% of savings

9% of annual salary goes to total retirement deferral per year

Retires at 65
44% of disposable income is replaced by social security

Out of savings at 107
5% chance of running out at age **78**

58% likelihood of having a portfolio at age 100

Key takeaway
While not as dramatic as deferring the retirement age, a 1% increase in the participant savings rate improves the worst case by three years and, in most cases, the participant should have the ability to maintain their lifestyle in retirement.

Scenario #3 – Increase the company match

Increasing the company match from 50% to 100% on the first 5% of participant savings has a meaningful impact.

Alex

5% of annual salary saved

100% company match on the first 5% of savings

10% of annual salary goes to total retirement deferral per year

Retires at 65
44% of disposable income is replaced by social security

Out of savings at 115
5% chance of running out at age **80**

65% likelihood of having a portfolio at age 100

Key takeaway
If a participant doesn't make any changes (5% savings rate with retirement at age 65), the higher match results in a 10% overall savings rate. This change by the plan sponsor has about the same impact on participant outcomes as the alternative of deferring retirement to age 67.

Scenario #4 – Increase the company match and employee savings rate

For a participant who can increase their savings rate to 6%, taking full advantage of the full match (100% on the first 6% of employee deferrals), the potential for them to outlive their saving improves dramatically.

Sam

6% of annual salary saved

100% company match on the first 6% of savings

12% of annual salary goes to total retirement deferral per year

Retires at 65
44% of disposable income is replaced by social security

Out of savings at 120+
5% chance of running out at age **84**

77% likelihood of having a portfolio at age 100

Retires at 67
51% of disposable income is replaced by social security

Out of savings at 120+
5% chance of running out at age **94**

91% likelihood of having a portfolio at age 100

Key takeaway
In the worst case for investment returns, savings should last until age 84, but more likely will well exceed even the most optimistic projections for life expectancy. If this participant takes full advantage of the improved match and defers retirement by two years, to age 67, there is a dramatic improvement in outcomes.

The lasting effect of small changes

These scenarios were developed using a proprietary retirement savings model and demonstrate how plan design and participant behaviors are critical to improving the robustness of defined contribution plans for Gen Z.

Talk to us

We'll help you design a defined contribution plan that meets the needs of your employees, so they can accumulate the savings they need to prepare for retirement. For more information, contact us at **1 888 356 6647** or **talktous@buck.com**

buck.com