BUILDING BLOCKS FOR RETIREMENT

Retirement Planning Essentials

Millennials: Is It Time for a Plan?

With decades of working years ahead of them, millennials still have plenty of time to lay the financial groundwork for a comfortable retirement. Nonetheless, the findings of a recent study[1] may serve as something of a wake-up call.

Falling Behind

Using government data, researchers from the Center for Retirement Research at Boston College looked at the segment of millennials who were age 25 to 35 in 2016 (born 1981-1991) and compared their situations to Gen Xers (born 1969-1979) and late baby boomers (born 1954-1964) when they were the same age. The researchers found the millennials lagging on several measures:

- Median earnings
- Employer-sponsored retirement plan participation
- Access to employer-provided health insurance coverage
- Homeownership

And while the millennial group had surpassed earlier generations in terms of educational attainment -- with larger percentages of both men and women having a college degree -- many (46%) of them were carrying student loan debt. The median balances outstanding on those student loans amounted to more than one-third (34%) of the millennials' median earnings. By contrast, the Gen Xers had a student loan debt-to-income ratio of 25% and the late baby boomers just 14%.

A look at overall net wealth compared to income (median) also revealed a shortfall for the millennials, with that ratio standing at 40%. It was 53% for the Gen Xers and 47% for the late baby boomers at the same age.

The study's conclusion: Due to labor market challenges and the burden of high student debt, the millennial group has fallen behind their earlier-generation counterparts in preparing for retirement. But that doesn't mean that 20- and 30-somethings should give up on retirement planning.

Moving Forward

The strategies that follow may be helpful to millennials in their planning efforts.

- **Stick to a budget**. Mobile apps and other tools make it easy to track daily spending and take control of cash flow.
- **Live an affordable lifestyle.** It can be tempting to buy an expensive vehicle or home as soon as earnings increase, but big-ticket purchases like these should be carefully considered. Taking on large amounts of debt prematurely can cause unnecessary financial stress.
- **Put saving on autopilot.** Instead of waiting to see how much money is left at the end of the month for saving -- and risk coming up short -- it can be simpler and more effective to have a set amount of pay automatically transferred to a savings account and/or retirement savings plan, such as a 401(k).
- **Say "yes" to the match.** 401(k) and similar workplace retirement plans that provide employer-matching contributions offer eligible employees an opportunity to build additional savings simply by contributing enough to the plan to qualify for the maximum match.
- **Don't shy away from investing.** Understanding the risks and potential rewards of different types of investments -- as well as one's individual goals, risk tolerance, and time horizon -- is critical to developing an appropriate investing strategy. Working with a knowledgeable financial advisor can make the process less intimidating.

Source/Disclaimer:

1 Alicia H. Munnell and Wenliang Hou, "Will Millennials Be Ready for Retirement?," Center for Retirement Research at Boston College, January 2018.

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