Three Different Roads for Three Unique Generations

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People today are living longer than at any other time in history. Our society faces new questions that challenge long-held assumptions about when and how we want to retire, as well as our expected sources of retirement income. With the shift from employer-sponsored defined benefit (DB) plans to defined contribution (DC) retirement plans and uncertainty around Social Security, now more than ever, people need to self-fund a substantial portion of their retirement.

The 15th Annual Transamerica Retirement Survey recently examined current trends among American workers and compared the retirement outlooks of Baby Boomers, Generation Xers, and Millennials. Our research found that, in the aftermath of the “Great Recession,” times are changing so rapidly that the retirement experienced by these generations will be not only a radical departure from that of their parents’ generations but also from each other’s.

As industry practitioners, we can empower each generation to take ownership of their future retirement and help them pave the way for achieving long-term financial security.

Baby Boomers: Pioneers of a New Retirement Paradigm

Baby Boomers (born 1946 to 1964) are in for what promises to be a “wild” retirement. They are establishing a new vision for this time in their lives and proving that working in retirement and taking time for leisure are not mutually exclusive. Many Baby Boomers were already mid-career when the retirement landscape shifted from DB plans to DC plans. They have not had a full 40-year time horizon to save in 401(k)s and experience the full effects of long-term compounding of their investments.

Many Baby Boomers were hit hard financially during the Great Recession and, unlike younger generations, they have less time to recover before they retire. We found Baby Boomers to have total household retirement savings of $127,000 (estimated median), which represents an increase from $75,000 in 2007. However, this is not enough to meet most people’s retirement needs. This savings shortfall helps to explain the sharp increase in the percentage of Baby Boomers who expect to rely on Social Security as their primary form of income when they retire — from 26 percent in 2007 to 36 percent today.

Sixty-five percent of Baby Boomers plan to work past age 65 or do not plan to retire (Figure 1). Most expect to continue working, at least on a part-time basis, when they retire; only 21 percent plan to immediately stop working (Figure 2). Most of the individuals who plan to continue working say they will do so to maintain an income or for health benefits.

However, the best of intentions to continue working and fully retire at an older age can be easily derailed by a lack of planning. Baby Boomers are not sufficiently proactive about taking important steps to help ensure they indeed can continue working beyond 65 or have a “Plan B” if retirement happens unexpectedly. When asked what steps they are taking, our findings show:

- Many Boomers (65 percent) plan on staying healthy so they can continue working.
- Fifty-four percent are focused on performing well at their current job.
- Forty-one percent are keeping their job skills up to date.
- Sixteen percent are networking and meeting new people.

![Figure 1](image-url)
• Fourteen percent are scoping out the employment market and possible opportunities.
• Just 5 percent are going back to school and learning new skills.
• Twenty-six percent have a backup plan if forced into full retirement sooner than expected due to health issues, job loss, or other unforeseen circumstances.

The research also reveals a pervasive disconnect between Baby Boomers and their employers. While many Baby Boomers intend to shift from full-time to part-time employment as they transition into retirement, only 21 percent say their employers have programs in place to accommodate this change. Therefore, those who envision a phased transition into retirement should find out whether it is realistic to assume their current employer will support them. If not, they may need to seek employment elsewhere or pursue an entrepreneurial opportunity. All of these scenarios require Baby Boomers to be proactive and strategic.

**Generation X: The 401(k) Generation**

Generation Xers (born 1965 to 1978) began to enter the workforce in the mid- to late 1980s — just as 401(k) plans were being implemented and DB plans were beginning to disappear. This makes them the first generation to have access to these plans for most of their working careers.

Our research found that among these individuals:
• More than half (52 percent) expect to self-fund their retirement with 401(k)s, 403(b)s, and/or IRAs.
• Ninety-one percent highly value 401(k) or similar plans as an important benefit.
• Among those offered a plan, 84 percent participate in it and contribute a median 7 percent of their annual salary (Figures 3 and 4).

Unfortunately, Generation Xers have been more likely than others to take advantage of 401(k) features
such as loans and early withdrawals. (Twenty-seven percent have taken a loan or early withdrawal, versus 20 percent of Millennials and 23 percent of Baby Boomers.) When these features initially were introduced, they were thought to incent plan participation. However, now they are viewed as a double-edged sword that can provide short-term funds but also can be destructive to the long-term growth of retirement nest eggs.

Generation X respondents estimate they will need to save a median $1,000,000 to retire with a comfortable lifestyle, which reveals a profound gap compared to what they have saved to date. The estimated total median household retirement savings for Generation X is $70,000, an increase from $32,000 as reported in 2007. This gap helps explain why the majority of Generation Xers (54 percent) plan to work past age 65 or do not plan to retire.

The oldest Generation Xers will begin turning 50 next year, which may serve as a wakeup call for them to become laser-focused on planning, saving, and investing for retirement. The clock is ticking, but they still have time to substantially improve their retirement outlook.

**Millennials: An Emerging Generation of Super Savers**

Millennials (born after 1978) have lofty aspirations for their future retirement. The majority (60 percent) plan to retire either before or at age 65 (Figure 1). Most plan to continue working when they retire, with 47 percent intending to do so for enjoyment.

Members of this generation have heard and responded to the message they need to start saving early and as much as possible. According to our research, 70 percent of Millennials already are saving for retirement, and they started saving at an unprecedented median age of 22 (Figure 5).

Two out of 3 Millennials expect to self-fund their retirement through retirement accounts (such as 401(k)s, 403(b)s, or IRAs) or other types of savings and investments. Among those offered a 401(k) or similar plan, 71 percent participate in the plan and contribute a median 8 percent of their annual salary. Even more impressive, among Millennials who say their employer offers a matching contribution to the plan, the salary contribution rate increases to a median 10 percent.
Members of this generation are early adopters of digital technologies to assist with their savings. For example:

- Seventy-one percent say mobile apps to manage their accounts are helpful (compared to 47 percent of Baby Boomers).
- Sixty-eight percent say mobile apps from their plan provider, including tools and calculators, are helpful (compared to 49 percent of Baby Boomers).
- Sixty-one percent say information from their plan provider on social media sites (such as Twitter and Facebook) is helpful (compared to 28 percent of Baby Boomers).

Millennials are hungry for more education and take their retirement benefits very seriously. Nearly 3 in 4 say they would like more information and advice from their employers on how to achieve their retirement goals. Further, 2 in 3 Millennials say they would likely switch employers for a similar job that offered better retirement benefits.

Figure 5

**Workers Who Are Saving for Retirement Through an Employer-Sponsored Retirement Plan and/or Outside of Work**

<table>
<thead>
<tr>
<th>Age Started Saving (Median)</th>
<th>Millennials</th>
<th>Generation X</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 years</td>
<td>70%</td>
<td>83%</td>
<td>81%</td>
</tr>
<tr>
<td>27 years</td>
<td>83%</td>
<td>81%</td>
<td></td>
</tr>
<tr>
<td>35 years</td>
<td>81%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Transamerica Center for Retirement Studies® (2014)

**Fundamental Guidance for Workers of All Ages**

Six in 10 workers say they want some level of advice when saving and investing for retirement, with 44 percent seeking education and advice (but ultimately making their own decisions) and 15 percent wanting someone to make decisions on their behalf. These findings are consistent across all three generations.

In apparent contrast to this desire for advice, however, only 37 percent of all workers who are saving and investing for retirement actually use a professional financial advisor to help them manage their savings and investments. Baby Boomers (40 percent) are most likely to use an advisor, compared to Generation Xers (35 percent) and Millennials (32 percent). This reveals a demand for professional assistance that has not yet fully been met.

While Baby Boomers, Generation Xers, and Millennials are traveling down different roads to retirement, proactive tactics to help them prepare are fundamentally common to all. Retirement industry practitioners can encourage, educate, and inform workers of all ages with the following tips to achieve retirement readiness:

1. **Maximize long-term savings.** Start saving as early as possible and save consistently over time. Invest wisely. Avoid taking loans and early withdrawals from retirement accounts.

2. **Consider retirement benefits as a part of total compensation.** Ask an employer for a plan if they don’t offer one.

3. **Participate in employer-sponsored retirement plans, if available.** Take full advantage of matching employer contributions, and defer as much as possible.

4. **Calculate retirement savings needs, develop a retirement strategy, and write it down.** Factor in living expenses, health care needs, government benefits, and potential long-term care expenses. Envision future retirement, and have a backup plan in case it comes earlier than expected due to an unforeseen circumstance. Seek assistance from a professional financial advisor, if needed.
5. **Educate yourself on retirement investing.** Whether relying on the expertise of professional advisors or taking a more do-it-yourself approach, gain the knowledge to ask questions and make informed decisions. Also learn about Social Security and government benefits.

6. **Take advantage of the Saver’s Credit.** Make Catch-Up Contributions, if available.

7. **Be proactive to help ensure continued employment, even in retirement.** Take steps to stay employed and maximize opportunities by keeping job skills up to date, staying current on employment trends and marketplace needs, and even going back to school to learn new skills.

### What Employers Can Do

Industry practitioners can also work with employers to help maximize their benefit offerings and help their employees prepare for retirement, in ways including:

1. **Extend eligibility to part-time workers.** Seek the expertise of retirement specialists familiar with plan design on how to best accomplish this.

2. **Proactively encourage participation in existing retirement plans.** Consider adding automatic enrollment at a 6 percent default contribution rate and automatic escalation features to increase contribution rates over time.

3. **Discourage loans and withdrawals from retirement accounts.** Limit the number of loans available in the plan. Ensure that participants are educated about the ramifications of taking loans and early withdrawals. Allow for an extended loan repayment time for terminated participants.

4. **Structure matching contribution formulas to promote higher salary deferral levels.** For example, instead of matching 100 percent of the first 3 percent of deferrals, change the match to 50 percent of the first 6 percent of deferrals or even 25 percent of the first 12 percent of deferrals.

5. **Ensure that educational offerings are easy to understand and meet employee needs.** Provide education on calculating a retirement savings goal, principles of saving and investing, and — for those nearing retirement — ways to generate retirement income and savings to last throughout their lifetime.

6. **Offer pre-retirees greater levels of assistance in planning their transition into retirement.** This can include education about distribution options, retirement income strategies, and the need for a backup plan if retirement comes sooner than expected.

7. **Promote incentives to save.** These can include the Saver’s Credit and Catch-Up Contributions.

### Final Thoughts

In our lifetime, we already have witnessed how the retirement landscape has evolved from DB to DC plans and how that shift is affecting Baby Boomers, Generation Xers, and Millennials. With globalization, the aging population, and strains on Social Security, this environment will continue to change and — potentially — even more dramatically. This heightens the need for individuals and families to take even greater personal responsibility for funding their future retirement.

The retirement services industry, working with employers, their advisors, and policymakers, is already making a profound difference in helping millions of American workers plan and save for their retirement. Future generations of workers are counting on this coordinated effort to provide the education and tools — as well as the savings, investment, and protection opportunities — needed to help them prepare for and achieve long-term financial security.
ABOUT THE STUDY

The 15th Annual Transamerica Retirement Survey was conducted online within the United States by the Harris Poll on behalf of Transamerica Center for Retirement Studies® between February 21 and March 17, 2014, among a nationally representative sample of 4,143 full-time and part-time workers. Potential respondents were targeted based on employment status and company size. Respondents met the following criteria: U.S. residents, aged 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted to account for differences between the population available via the Internet versus by telephone and to ensure that each quota group had a representative sample based on the number of employees at companies in each size range. No estimates of theoretical sampling error can be calculated. To view the full report, a white paper, infographics, and additional materials, please visit www.transamericacenter.org.

Catherine Collinson, M.B.A. serves as President of the Transamerica Institute™ and Transamerica Center for Retirement Studies®. She is a retirement and market trends expert, as well as a champion for Americans who are at risk for not achieving a financially secure retirement. Collinson oversees all research and outreach initiatives, including the Annual Transamerica Retirement Survey. With more than 15 years of retirement services experience, Collinson has become a nationally recognized voice on retirement trends for the industry. She has testified before Congress on matters related to employer-sponsored retirement plans among small businesses and is regularly cited by top media outlets, including USA Today, U.S. News & World Report, and The Huffington Post.

Collinson is currently employed by Transamerica Retirement Solutions and serves as Senior Vice President of Strategic Planning. Since joining the organization in 1995, she has been instrumental in identifying and evaluating short- and long-term strategic growth initiatives, developing business plans, and building infrastructure to support the company’s high-growth strategy. Prior to her employment at Transamerica, Collinson spent nearly a decade at The Walt Disney Company, serving in a number of information services and business planning posts. She can be reached at Catherine.Collinson@transamericacenter.org.

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