How to Empower Millennials to Save for Retirement

Strategies for boosting plan participation among the workforce's largest demographic.

Namely HR for Humans

Vestwell

TABLE OF CONTENTS

INTRODUCTION

We've all heard the stories and stereotypes about millennials. For years, authors and columnists have told us that they're narcissistic, entitled, and have penchant for job hopping—and those are just some of their more polite assertions.

While most of these observations are less fact than fiction, there's one in particular you can take to the bank: millennials aren't particularly good savers, especially when it comes to retirement. A 2018 study by the National Institute on Retirement Security found that over two thirds of millennials aren't saving enough for retirement. Going further, that statistic becomes even more troubling within certain demographics—over 80 percent of Latino millennials have nothing saved at all. Considering that most millennials report wanting to retire by age 61, it looks like there's some catching up to do.

The "savings gap" isn't necessarily due to lack of trying. U.S. millennials, who now number over 80 million and account for the largest age group in the workforce, haven't exactly been dealt a winning hand. In 1989, college graduates typically owed less than $2,000 after school. Today, the average graduate enters the workforce over $28,000 in debt. Further exacerbating the situation, many millennials graduated during the 2008 financial crisis, leading some to harbor a general distrust of the financial system.

INTRODUCTION

Thankfully, it’s not too late to help millennials change course and get them on the path to financial security. With employer-sponsored retirement plans costing just one-tenth of what health insurance does, offering retirement benefits to workers has never been easier. What’s more, doing so could also make you a more competitive recruiter—in one study, 90 percent of job applicants said they’d think twice about joining a company without retirement benefits.

Whether you’re looking to attract job candidates or boost plan participation among existing employees, lets put millennials back on track.

Ready? Read on to learn more.

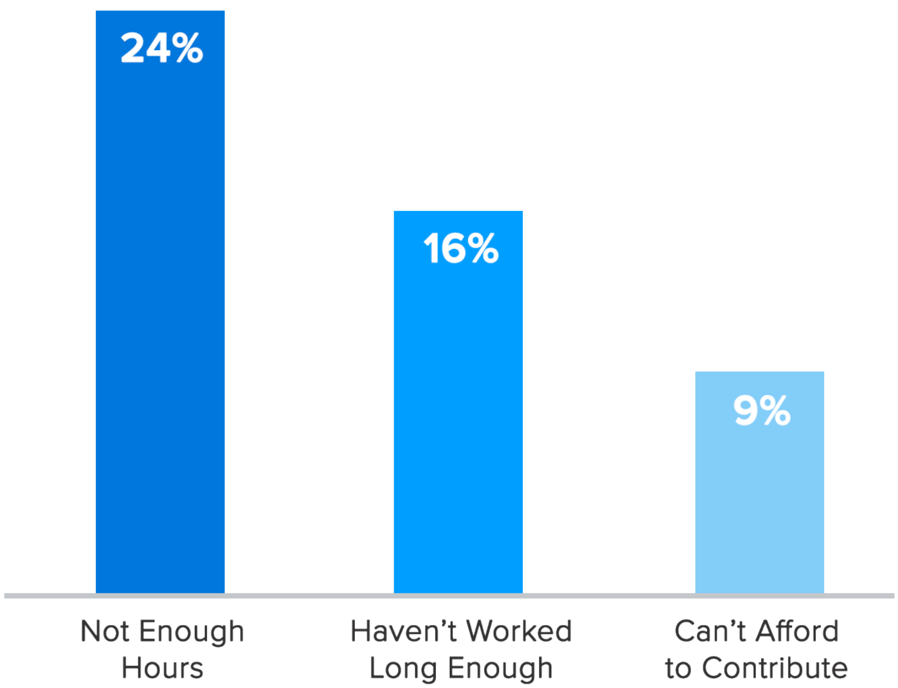
TIP 1:

Expand retirement plan eligibility.

Considering that access to retirement benefits has historically been concentrated among high earners and veteran employees, it's hard to blame millennials for falling behind on their retirement needs. A survey conducted by the National Institute on Retirement Security (NIRS) found that millennials' top two reasons for not investing included "not enough hours" and "I haven't worked long enough." Workforce data seems to back those claims, with up to 25 percent of millennials being employed on a part-time basis. In comparison, only 14 percent of baby boomers are part-time. Additionally, over half of millennial workers have been with their employers for a year or less.

MILLENNIALS' TOP 3 REASONS FOR NOT ENROLLING IN RETIREMENT PLANS

Data from the National Institute of Retirement Security (NIRS)



Consider expanding access to your retirement benefits to less tenured or part-time employees. Depending on your size and the amount of hours your part-timers work, you may actually need to. Under the Employee Retirement Income Security Act (ERISA), employees who work at least 1,000 hours per year (approximately 20 hours per week) must be eligible to participate. If you're concerned about cost, consider adjusting your employer match appropriately. Considering how effective retirement benefits are as a retention tool, your company may find additional benefit in doing so.

With the gradual rise in the number of "gig" or contract workers, this is a conversation that goes beyond just millennials. If freelancing continues to grow at its current rate, the majority of U.S. workers will be independent contractors by 2027. That means questions regarding whether to offer non-full-time employees benefits and perks will become all the more common.

TIP 2:

Boost millennial financial literacy.

What's the difference between a Roth and traditional 401(k)? What's the maximum I can contribute each year? Those are just some of simpler questions HR teams have to routinely answer. One reason why participation is so low among millennials is due to their anxieties over what exactly having a retirement plan entails.

That said, this isn't just a millennial issue. A recent study conducted by the Financial Industry Regulatory Authority (FINRA) found that less than a third of Americans could pass a basic financial literacy test. This is a problem bigger than retirement, with more immediate repercussions. The average American doesn't learn the true implications of debt until it's too late, and their knowledge of how interest or credit works is marginal at best.

"Less than 1/3 of Americans could pass a basic financial literacy test."

Employers can help bridge the gap. By empowering workers with retirement and financial literacy training, you can simultaneously get ahead of employee questions and provide them with the knowledge to invest confidently. Leverage a learning management system (LMS), preferably one that supports video training, as 70 percent of millennials visit streaming sites like YouTube monthly. At a minimum, the training should summarize your company's offerings, basic retirement terminology, the different kinds of IRAs, and where and how employees can log in and manage their contributions. Consider also broadening the training to other areas of financial wellness, including home buying, personal budgeting, and managing credit.

As part of your program, be mindful of timing and frequency. A recent study found that most workers only have one percent of their workweek to devote to training, or roughly 24 minutes per week. Leverage a "microlearning" approach that enables users to participate in short-burst training sessions at their own pace. This approach may also boost lesson retention, as the average employee today reportedly has a 90 second attention span. Make sure to leverage an LMS that supports microlearning and can utilize multiple forms of media. You can learn more about this approach to employee learning and development by clicking here.

TIP 3:

Offer an employer match.

Want to boost participation in your company's retirement plan? Consider offering an employer match, or a commitment to contribute a certain amount to an employee's retirement account based on what he or she pays. As of this writing, just under half of businesses with retirement plans contribute 50 cents for every dollar deferred by employees, up to 6 percent of their respective employee's salary. Per some industry experts, a more generous "dollar for dollar" approach is quickly becoming just as popular.

If you want to incentivize millennials (or anyone else) to invest, few things are more persuasive than "free" money. According to one industry study, employees participating in their workplace retirement plans did so largely to take advantage of their employer match. The desire to save for retirement actually ranked second.

TOP REASONS WHY EMPLOYEES PARTICIPATE IN THEIR WORKPLACE PLAN

Data from the National Institute of Retirement Security (NIRS)

41% To take advantage of my company match

31% To save for retirement

19% Was auto-enrolled in the plan

9% Other

Namely's own survey data, including over 1,000 companies across multiple industries, shows that only five percent of employees would be willing to forgo 401(k) matching for perks like holiday parties, gym reimbursements, and even bonuses.

If you're worried about cost, consider implementing a vesting schedule as part of your employer match program. Vesting simply refers to the practice of delaying full "ownership" of the match for a specified number of years. According to the Society for Human Resources Management (SHRM), six-year vesting schedules are among the most popular. Vesting isn't just a tactic for saving money in the short term, but also potentially reducing turnover. For millennials, often maligned as job hoppers, these vesting schedules serve as a strong incentive to stay put and earn a greater share of their match.

TIP 4:

Use auto-enrollment and escalation.

When it comes to getting young workers to invest in their retirement, sometimes the simplest solution is the most effective. Above all else, auto-enrolling employees is considered the best way to boost 401(k) participation. A Wells Fargo study found that workers were five times more likely to participate in their plan if they were automatically enrolled as part of onboarding. The same study found that 92 percent of millennials participated in their plan when enrolled by default, compared to only 56 percent otherwise.

Thankfully, auto-enrollment is becoming increasingly common. According to an NIRS study, over half of employer-sponsored plans use auto-enrollment today. If you don't already, consider configuring your plan to opt-in employees from the get-go. If you don't already, you may also want to make it a part of onboarding to walk through your offerings and technology platform. Doing so ensures that employees have the confidence to update their contributions moving forward.

Speaking of contributions, consider automating another important part of retirement planning: escalation, or the gradual increase in the amount deferred by employees each year. Doing so is a great way to ensure that millennials stay on track to save 10 to 15 percent of their salaries each year, the generally recommend amount.

Note that less than 10 percent of workers opt for escalation when asked—but 81 percent keep it if they're enrolled automatically. Thankfully, more than half of employers are also offering that feature.

Conclusion

CONCLUSION

There's no shortage of myths surrounding millennials and their spending habits. But their generation, by far the most educated, also have the potential to be the most financially secure. Industry surveys have found that over 80 percent of millennials describe themselves as "passionate" about their finances. Most also believe that Social Security will not exist by the time they retire, creating even more incentive for them to save.

Employers and HR teams alike are uniquely positioned to empower workers from all age groups to save for retirement. By leveraging auto-enrollment, financial wellness training, employer matching, and other strategies, they can spur plan participation and drive employer brand. Doing so not only ensures employees are on-track financially, but that your company can continue to attract and retain top talent moving forward.

ABOUT THE AUTHORS

Namely

Namely is the first HR platform that employees actually love to use. Namely's award-winning, powerful, easy-to-use technology allows companies to handle all of their HR, payroll, time management, and benefits in one place. Coupled with dedicated account support, every Namely client gets the software and service they need to deliver great HR and a strong, engaged company culture. Namely is used by over 1,000 clients with over 175,000 employees globally.

Vestwell

Vestwell is a digital retirement platform that makes it easier to offer and administer retirement plans. Through tools and technology, they've brought all the necessary retirement services under one roof to target common friction points typically felt throughout the plan life cycle. This means advisors can effectively scale their businesses, while offering clients streamlined administration, flexible investment options, fiduciary oversight, and transparent pricing.