Pentegra Millennial Saving Survey

Study Shows Encouraging Attitudes Towards Saving for Retirement but Highlights Lingering Concerns

A Survey by

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Encouraging Attitudes Towards Saving for Retirement–Highlights Lingering Concerns

In May 2017, Pentegra Retirement Services surveyed over 100 Millennials (born between 1980 and 2000) about how they view saving for retirement, what they see as competing priorities, and when they realistically think that they will be able to comfortably retire.

The findings included some heartening signs. Over 80 percent (81.37 percent) said they are currently saving for retirement, and over one-third (37.25 percent) said they are putting at least 5 percent—our recommended baseline savings rate—of their salary into a retirement savings vehicle.

The importance of saving for retirement was further underscored by the 78.43 percent who said that they look for a company that provides retirement benefits when job-seeking. While most large companies offer a 401(k) with an employer match and/or other retirement plans, this should serve as a wake-up call for smaller firms that may be undersupplying—or not offering at all—some kind of retirement benefit plan.

Despite Good Intentions, Many Express Confusion, Worry Over Funding Their Golden Years

However, the popular stereotype of Millennials as a "spend now" subculture cannot be ignored. Nearly a third (31.38 percent) said they spend $75 or more per week on eating out or ordering take-out (including coffee, lunch and dinner) – money that could of course pay greater and more far-reaching dividends in a 401(k), IRA or other retirement-focused investment.

In addition, when asked to rank five priorities, "saving for retirement" was second to "paying a mortgage." But retirement just barely edged out the third-place priority, "car loan," with fourth-place "paying down student loans" not far behind.

All of those are serious factors to consider, of course, but in the face of the well-documented retirement savings crisis that the United States faces as a whole, we believe that Millennials should consider reordering their priorities.

A Closer Look

In order to dig deeper following our Pentegra 2017 Millennial Savings Survey, we independently interviewed several respondents for additional information designed not only to further illuminate our survey's findings, but also to provide insight about their spending habits, savings strategies, and thoughts on retirement—as far away as it may seem to them.

Using both written responses and in-depth telephone interviews, we questioned our respondents on a number of topics surrounding saving for retirement: How they are approaching the subject, how important they view saving for what presumably will be a far-off new stage in their lives, and what advice they have for their fellow Millennials were all key components of our conversations.

Respondents were drawn from a diverse pool, ranging from financial industry professionals to those working in the education, sales and marketing fields, plus full-time students and even one person who is currently unemployed.

A key concern for Pentegra is that younger generations are not saving enough for retirement – an assertion that independent data unfortunately backs up. As reported by Bloomberg on February 21, 2017, the U.S. Census Bureau estimates that nearly two-thirds of American workers are not saving in a 401(k) or similar tax-deferred retirement plan. And that's only if their employers offer such plans; according to the Bureau, only 14 percent of employers do – and most of them are large companies.

An April 9, 2017 report by The Motley Fool added fuel to the retirement savings fire: "According to the St. Louis Federal Reserve," it said, "the personal saving rate in February 2017 was just 5.6 percent, implying that workers were putting away just a little over $1 into savings or investments for every $20 earned. In February 1967, 50 years ago, the personal saving rate was a healthy 12.4 percent, essentially in between the recommended saving rate by advisors of 10 percent to 15 percent of your annual income. Without an adequate amount of savings, consumers run the risk of running out of money during their retirement, which is a common fear among workers."

Inadequate Savings

And the picture does not get any brighter when it comes to Millennials. The Motley Fool report cited data from the Citizens Financial Group that found that college graduates under the age of 35 are spending nearly a fifth of their income on paying off their student loans.

In addition, according to the Employee Benefit Research Institute, nearly two-thirds of working Americans *of all ages* (63 percent) believe they can retire with $1 million or less and live comfortably, while 36 percent believe they can do the same with less than $500,000 and 21 percent feel they can do so with less than $250,000.

The average 25-year-old Millennial is probably going to work for another 40 to 45 years before he or she retires. Commented The Motley Fool: "During this period, inflation is likely to motor along at roughly 2.5 percent per year, which is conservatively 1 percent below its 100-year average. After 45 years, inflation will have chipped away at your $1 million nest egg and pushed its real-money value to $400,000 or less. For those looking to live on $500,000 or $250,000, a 2.5 percent inflation rate over 45 years could push the real-money value of your nest egg to under $200,000 and $100,000, respectively."

Pentegra's survey confirms that bleak picture, at least in part. While over a third of respondents (37.25 percent) say they are saving 5 percent or more -- which is right on track or close to it -- nearly 18 percent (17.65 percent) say they're saving zero, while nearly half (45.1 percent) are saving at inadequate levels. Together, that's 62.75 percent who are saving inadequately.

The $152,000 Cup of Coffee

Prior to the survey, Pentegra was concerned that the stereotypical Millennial spendthrift was in fact a reality … something that unfortunately our findings confirmed. As noted above, nearly a third (31.38 percent) said they spend $75 or more per week on eating out or ordering take-out (including coffee, lunch and dinner), some of which could pay significant dividends if invested for retirement.

To provide a real-life example of this: If we estimate that a gourmet cup of coffee costs $5 a pop, and one purchases such a cup five days a week over an average of 260 work days a year, that's $1,300 a year – a significant amount, especially for someone just starting their career whose salary is presumably on the low end. Multiply it by 40 years of active work, and you have spent $52,000 in constant dollars; assuming a 6 percent compound annual growth rate, and it comes to a whopping $152,000 total.

Pentegra is not suggesting that everyone ditch their coffee habit, but perhaps skipping it occasionally, or relying on a non-gourmet brand from time to time, makes more sense.

"A lot of people my age, including some of my friends, find it easy to spend what they have when they get it," said a middle school teacher in Tampa, FL. "Retirement for a person my age is years and years away. It seems hard to plan for developments that are 40 years down the road."

"It's a complex issue for a lot of people," added a middle-school dean in Brooklyn, NY. "Being underemployed and/or underpaid, living in a high cost of living area like metropolitan New York City, prioritizing 'right now' spending vs. long term saving -- using expendable income for purchases other than bills but not savings … I don't think there is one reason."

Other Expenses

As noted above, student loans loom large in Millennials' lives. According to StudentLoanHero.com, the total U.S. student loan debt currently stands at $1.44 trillion for 44.2 million Americans. The average monthly student loan payment for a borrower aged 20 to 30 is $351, with the median monthly student loan payment for the same population at $203. (The student loan delinquency rate of 90-plus days, incidentally, is 11.2 percent.)

Although paying down student loans was the fourth-highest priority for our respondents, behind paying a mortgage, saving for retirement, and paying a car loan, it was clearly at the forefront of out interviewees' concerns.

"There is so much debt, especially with student loans," remarked a Client Contract Control Specialist in Danbury, CT. "But you need a degree for a better job."

"A lot of Millennials start out their careers with a lot of student-loan debt," agreed a sales account manager in Forest Park, GA. "I know that's true for a lot of my friends. And that means that a lot of time they can't afford to save for retirement right now. They may not be on a career path that allows them to pay into [a retirement savings account] immediately."

One respondent, a consultant in White Plains, NY, said she approached the situation with both eyes determinedly open. "I independently financed my undergrad and grad school, through loans and my savings account," she said. "But it was always a goal of mine to have the loans paid off by the time I was 30 – and I was able to do so."

A Lack of Education

While all of our respondents were college graduates, or are currently attending a college or university, many decried the absence of early education on the subject of retirement savings.

"People my age don't know about saving for retirement," declared a marketing coordinator at a financial services firm in Shelton, CT. "In high school we never heard anything about it. Nor was the subject of retirement discussed in college. No one is getting educated about it. They should start talking about it with students in high school– it's important for kids to learn about retirement, savings, even how to balance a checkbook. But it just doesn't happen."

"They should probably start teaching it in high school, if not earlier – even junior high would make sense to me," said the consultant. "They don't talk about personal budgets or explain compounding interest, or any of that. Addressing how you need to be actively saving for 40 years is something all public schools should be doing."

"If we educate new employees that have never had a 401(k) account, then maybe they will see the importance of what it's really there for," offered another. "At my first job that offered a 401(k), I didn't contribute, the reason being I didn't know what it was for and the benefits of it.

"Giving a benefits book to read doesn't always work," she continued. "We need to not just generalize that everyone is a 'reader' or understands the importance. Learn your audience and apply what is needed to help them."

While many of the respondents in our earlier Retirees Survey, "Beyond the SmartPath™" said they had tried discussing the topic of saving for retirement with their children, most said their own parents had been lacking the skills and/or the experience to have a meaningful discussion with them as they were growing up.

Perhaps surprisingly, that shortfall is being repeated with Millennials.

"My parents, sadly, were not good at teaching me retirement savings skills," allowed one. "And beside that, I do not think they have planned for retirement."

"No," a middle-school dean flatly declared when asked if her parents had held such discussions with her. "My parents have very little saved for retirement. If anything, I learned what *not* to do."

"Nope," replied another. "Everything I learned was through my jobs."

Saving Enough for Retirement

The combination of tight budgets and a paucity of financial education has resulted in some frankly disquieting situations.

"I don't know what a reasonable retirement fund would be for me," admitted a currently unemployed respondent in Pomona, NY. "I just contributed 6 percent of my salary at the time to my 401(k)."

"I've made an attempt at calculating a 'reasonable' number," said another. "However, unless I become debt-free by then, I do not know if it is actually reasonable."

"I've tried to save as much as I can to make sure there's enough for retirement," offered another. "I haven't really done a calculation. I know I need at least three times what my salary is now, so I'm putting away x-amount with 4 percent interest – but I'm pretty sure that's not going to be enough."

Others have been fortunate enough to be able to take advantage of workplace offerings. "A financial firm met with us as a group when we started," said the art teacher, "and explained what a good starting percentage would be, and how to increase that by 5 percent over the next couple of years. That was very helpful."

"I attended a meeting with the bank that manages our 401(k) at work," said a social worker in Shelton, CT. "I discussed with my family what percentage would be appropriate to have taken out of my check bi-weekly towards my 401(k), and I've been able to change the percentage as my salary increases."

"I utilized the projection calculators through my 403(b) at work," said the dean. "I started saving at the 'matched' level by my employer, and have increased that amount over time as my salary increased and I had additional expendable money."

"I was taught to never leave money on the table -- put in what the company will match," said another. She admitted, however, that "I am probably not saving enough."

"Through my position at the chemical company I was offered a 401(k)," said the sales account manager. "They provided us with that, and as a group we go through a tool on a third-party website that helps us calculate what we should be saving, based on investment strategy and what we make right now. I put away more than they recommend."

He admitted, however, that he has a second part-time job to help make ends meet.

While not all of our respondents are married or in a domestic partnership, for those who are, their responses as to what their other half is doing were mixed.

One is in a domestic partnership, “and they aren’t saving anything.” Another is engaged; her fiancé “has a 401(k) that gets partially matched -- unlike me. I have nothing matched.” A third’s fiancée has a retirement fund, “but I'm not sure what she has.”

Another’s husband had a retirement savings account, “but he became disabled so we needed to liquidate it to help with the transition period of him no longer working.”

Dipping into Retirement Savings

A cardinal rule of managing one’s retirement savings is, of course, to try and never dip into it for any reason. That has been easier said than done for some, however, as noted by the respondent whose husband became disabled.

“I took a loan out a few years ago but paid it back,” said one respondent. “I have been tempted to do it again to pay for my wedding, but I know it would hurt me more than do me good.”

Another said she had dipped into her retirement savings “Once, when we bought our house. I wanted to get rid of PMI so I took out $10,000, but I was able to pay myself back.”

Another did the same to help buy a house. “I’m hoping not to tap into it again,” she offered.

“Not so far,” hedged the sales account manager. “I did have to put less in for a time when I was starting out. I opted to get my other job to take care of that.”

“I have not dipped into my retirement savings,” stated another. “However, I only recently started saving for retirement. But I have not been tempted to [tap into her retirement savings]. I also do not anticipate having to do so in the future. I do not really think of my retirement … instead I focus on my bank account.”

“I have never had to dip into my 401(k),” said another. “I do not anticipate that I will in the future, unless there were an emergency or life event that caused me to do so.”

Advice for Fellow Millennials

Even in situations where it’s “do as I say, not as I do,” our respondents all subscribed to the tenet of trying to “save early and save often.”

“Start saving now, even if it’s a small amount,” said one. “Then when they start making real money they can increase their savings, or set aside something every month – even if it’s just spare change – and then not look at it. They should look at what they can afford to give up and put that money into retirement.”

“Start saving as soon as you can,” agreed another. “You’re not always going to be fortunate and have a job where you can save money, so it’s important to do so now.”

"Save, and save now," said the dean. "If you are not at the very least saving to get all the match that you are eligible for, then you are leaving money on the table."

"I think a lot of people my age aren't sure how much they should contribute," opined another. "And a lot of people live paycheck to paycheck and don't want to see a decrease in what they have put into their account." Still, he advised: "Save as much as you can now. Unless you want to be 80 and still working to live."

One respondent was especially cogent: "Don't wait!"

Sidebar One: The Marketing Coordinator

This Millennial arguably has a leg up on her fellow Millennials by working at a financial services firm … where her father is also an employee. "I definitely have gotten a good education through working here and learning about retirement," she said. "Determining how much you need can be a little confusing, but I've been lucky in that regard."

Growing up, she said, "My dad talked a lot about it, about 401(k)s and increasing your contributions every year. I've always thought about retirement and saving, because you never know what might happen."

Still, even she had occasion to twice dip into her nest egg: Once to help fund a vacation. "But I've tried very hard not to," she said. In both instances, she said, "I've tried to pay off [the loans] as soon as I could."

Her advice for fellow Millennials is understandably sound.

"Do some research about saving and how to plan for retirement so that you can enjoy your retirement and do the things you want to do," she said. "You don't want to find that you haven't saved enough to do so."

And even though she's learned well from her father, she said the same hasn't been true for her brother. "Most of my friends have 401(k)s, but my brother doesn't – he hasn't even considered retirement. He's working at Trader Joe's and is not sure of what he wants to do."

Sidebar Two: The Consultant

With little input from her parents, another interviewee said she derived much of her financial strategy from her grandfather. "He taught me how to save, and encouraged me to get a good job so that I could save more," she said. Even so, she said, "he didn't necessarily talk to me much about retirement."

She recalled that when she was 15, "My grandfather had me open a bank account with the money I'd made working since I was 13. I was able to open it with $2,000, which felt great – it was *my* money."

Surveying society at large, she felt that hesitation about saving for retirement is easily explained.

“We live in a society where greed is such that people think they need the latest and greatest of everything,” she said. “People feel that they have to be able to be socially accepted by getting the latest iPhone or whatever. I didn’t have one until my husband bought one for me! People get sucked into the mantra that they need to get ‘things’ to be accepted, and they pay for it in the end.”

In addition, she said, “There’s no cash anymore. Everyone relies on credit cards and worries about paying later. People need to educate themselves – think twice before going out and eating four times a week.

“Think about what you’re buying before you buy it,” she advised. “If you think you really want that expensive, designer purse, take a picture of it. If you still want it next week, okay – but you may decide that you really don’t need it. Delay that instant gratification.”

Even when her fellow Millennials see the need for retirement, “It’s hard for people to change. They know they have to put money away and may do it for a while, but when they hit some hard times they take the money out. They don’t have a long-term plan, or they just think that they can’t do it and put it off until ‘later.’ Later is today!”

Sidebar Three: The College Student

Currently studying at Stanford, this interviewee perhaps understandably said he is “not actively saving, but I hope and expect that I will start saving when I get my first job, which will probably be about two years from now.”

He benefited from talking with his father about retirement, he said – conversations that continue to this day. “He has explained IRAs to me, and what the tax benefits are for saving for retirement now. It makes sense, so I hope I can put that into practice once I’m working.”

As to why others are not saving, he looked at “the way wages have stagnated over the past 30 years. The hit that the job market took in 2010-11 is still affecting a lot of people, including those in my generation. I think a lot of people are re-examining and lowering their lifetime expectation for earnings. The cost of living keeps going up. There are a lot of obvious constraints.”

Still, he said, “Somehow you have to come up with careful financial planning. My friends and colleagues at the undergrad level have for the most part taken a very different career path and do a great job of saving. We all need to think carefully about our financial decisions.”

Takeaways and Recommendations

What can be done to encourage more Millennials to proactively start saving more for retirement? Pentegra offers the following recommendations:

- **Encourage conversations about saving for retirement with family, friends and peers.** A lack of direction can leave anyone feeling frustrated, but when it comes to planning ahead such conversations are crucial. Seeking counsel from parents or grandparents, trusted friends, and financial professionals is always a good idea – the sooner, the better.
- **Improve economic education at schools.** That many respondents to the Pentegra Millennial survey cited the failure of their teachers – from junior high through college – as a major concern, and contributing factor to their uncertainty over how to approach saving – should not be overlooked. We encourage economics and social studies teachers to consider spending even an hour during their admittedly busy school year talking about the importance of savings … hopefully as a compliment to the conversations their students are ideally having at home.
- **Redouble efforts at educating employees.** As is true of older generations, many Millennials are investing in a 401(k) as a matter of course, feeling that "it's the right thing to do" without truly understanding what their retirement strategies and goals should realistically be.
- **Delay instant gratification.** Pentegra was particularly taken by the interviewee who suggested taking a photo of a desired treat and revisiting it before deciding whether it is really a necessity. That can be difficult to do in a culture that prizes having the "latest and greatest" gadget as soon as it comes out … but having been the first person on the block to have the iPhone20 will be of little solace 40 years from now.

For more information contact us at 800-872-3473 or www.pentegra.com

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