Millennials and Money:
Five Steps for Helping Younger Employees

by Brenton Harrison

With record levels of student debt and a tendency to switch jobs more frequently, Millennials face a set of financial challenges that may differ from other age groups. The author offers tips for employers to help Millennial workers address these obstacles.
Employers have made seismic shifts in how they recruit and retain Millennial employees. From offering flexible hours to work-from-home options to subsidies for public transportation, employers are recognizing that this group of employees often has different priorities when it comes to employee benefits.

One area where Millennials (generally, those born between 1982 and 2000) do not differ from other age groups, however, is in their desire to retire. A 2016 poll conducted by the Million Dollar Round Table found that Millennials not only want to retire but expect to retire at the age of 62, on average.1 Their attentiveness to their finances matches this goal, since studies have shown that Millennials are more likely than previous generations to worry about money. They not only are concerned about financial literacy but also have access to an unprecedented amount of information on the subject. The Internet has given Millennials the ability to research topics that previous generations relied on financial advisors and accountants to disseminate. Based on the data, however, it appears they are still in need of financial guidance. Of those polled by the aforementioned study, 91% said they have no formal savings plan, either because they feel they don’t make enough money or because they don’t know where to start.

The reality is that cost increases for big-ticket items, such as marriage or a college degree, and the unprecedented debt accompanying these items have forced Millennials to delay conventional financial milestones. In fact, when survey respondents were asked to list their financial priorities in the next five years, forming a financial plan was fourth, behind getting married, paying off student loans and buying a home.

In particular, housing and student loans are double-edged swords for Millennials. Historically, young families have used low-rent housing to build up their savings until they can afford a down payment on their own home. In today’s landscape, however, some estimates say as many as one-third of people in the United States spend more than half their income on rent, stripping them of the ability to save.2, 3 Millennials are feeling this pinch the most, since they are living in major metropolitan areas at staggering rates.4 This increases the demand in those areas, pushing home prices higher.

Student loans compound the issue, since the monthly payments needed to pay back loans might push Millennials over the debt-to-income threshold lenders require to approve a home loan. It also impacts their credit, because confusion around multiple repayment plans, loan deferment and forbearance could place them in poor standing with their payment history, the largest component of credit scores.

It should be easy to see why, even with their dedication, getting ahead financially can be a tall task for Millennials. So how can employers partner with them to facilitate their financial growth? Here are five steps that can encourage action amongst this generation and lead to improved outcomes in their financial lives.

1. Educate, Educate, Educate

During the 2008 financial crisis, the earliest Millennials were likely still in their first job out of college. They probably were not yet old enough to have had any substantial savings decimated but were old enough to be terrified by what they saw around them. As a result, we often encounter two distinct groups of Millennial investors. One group wants to be more engaged regarding their investments. They likely are well-informed on the basics of their workplace retirement savings plan and interested in exploring even further on

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details like fees and investments. The second group is apathetic. They are overwhelmed by financial jargon and fear of taking losses in the market to the point where they avoid it altogether. Terms like compound interest and target-date funds are foreign to them, and they are too young to have seen the impact of consistent savings.

Education is the key to energizing both of these groups. Employers should consider offerings that give employees the opportunity to engage and incentivize them to meet with their benefits representatives. These incentives need not be large or extravagant. Employers could find a list of free financial literacy resources online and give gift cards to employees who submit a certificate of completion. They could offer a pizza party for a department where all employees complete a benefits review with their human resources representative. Even better, they could give them an extra hour for lunch that day!

To reach lasting goals and not break the bank, the most important step is to foster a culture of support and collaboration.

2. Highlight Free Money

Preaching the importance of retirement contributions is essential, since there is little to no social safety net for the Millennial generation. The stories of people who retire in their 50s with full pensions and live for decades on those pensions and Social Security are becoming rarer in today's economy.

In 2014, only 11% of salaried workers in the private sector were offered both a defined contribution and a defined benefit retirement plan. Social Security also could change during Millennials’ lifetimes. The program has already changed since its introduction. It’s no longer an income tax–free benefit, and cost-of-living increases are smaller than in the past. With the Social Security trust fund on track to be depleted well before Millennials retire, it’s possible that even more changes are on the horizon.

The confluence of these factors makes the 401(k) match a potential boon to Millennials looking to establish retirement savings. Research shows, however, that employer matching is still a largely underutilized benefit. A 2014 study by Financial Engines estimated that each year Americans forfeit approximately $24 billion in matching contributions. Individuals left an average of $1,336 unclaimed each year, missing out on a potential $42,855 over the course of 20 years. That’s $42,855 in “free” money that an average employee forfeited because he or she did not understand the power of employer matching. It also means the loss of potential tax deductions to the employer. The employer match is an underutilized tool that could help with employee satisfaction and retention.

The younger the employee, the more concentrated the organization’s efforts must be to impress upon him or her the benefits of saving early. It doesn’t matter if contributions are small to start, because the power of those contributions will increase with time. In the Financial Engines study, the growth of the 401(k) matching amount was not only powered by the match itself but also by compounding interest. Compound interest rewards those employees who contribute what they can while addressing other goals, as opposed to waiting until competing priorities are completed. Showing them the potential growth of their savings throughout the years might provide enough motivation to get the ball rolling.

3. Highlight Benefit Features

Compound interest and employer matches are not the only components Millennials need to understand. Many don’t understand the inner workings of deferred compensation plans, cash balance pensions and other benefits at their jobs. Companies must go above and beyond to inform them of all benefits in detail. There should not be a plan made available to Millennials without a platform to explore and ask questions about the program. Possible solutions could include lunchtime webinars or posting the benefits representative’s schedule online so that
employees can reserve a time to talk. If they don't participate in their plans now, they might not be around long enough to see the impact. The average Millennial switches jobs four times before the age of 32.\textsuperscript{7} Salary is not this generation's largest motivator when choosing a job; work flexibility, benefits and social impact have taken its place. Highlighting a robust benefits plan should be a strategy intended to help their finances and improve employee retention.

4. Take Advantage of Automation

While autoenrolling employees into qualified plans is helpful in encouraging employees to save, it can be inadequate as a standalone tool. Studies have shown that contribution rates for employees who are automatically enrolled lag behind contribution rates of those who voluntarily participate.\textsuperscript{8} Pairing autoenrollment with automatic contribution increases can be an effective combination. The benefit of automated programs to Millennials again goes back to their priorities. Older employees who are closer to retirement are more likely to have reached the milestones that Millennials have placed ahead of financial planning, allowing them to increase their focus on retirement. Wage growth also is the highest during the ages of 25 to 35, meaning the automatic contribution increases will lead to an even larger uptick in Millennial retirement savings, as opposed to an older group who have already hit their peak earnings.\textsuperscript{9} By pairing increased contributions with pay raises, employers give Millennials the freedom to spend their discretionary income with the comfort of knowing their savings rates are keeping pace with their successes.

Automated programs can save the organization from a few headaches as well. Older, highly compensated executives are more likely to participate heavily in qualified plans. If an organization doesn't foster a mindset of consistent savings with employees in the lower salary pool, which likely includes Millennials, it risks failing nondiscrimination testing. When a plan is found to be top-heavy, the corrective actions the employer must take are not pleasant. These actions range from returning highly compensated employees' excess contributions to issuing non-highly compensated employees a qualified nonelective contribution to increase their savings to the minimum required to pass testing.

5. Consider a Partnership

The cost of continuously educating employees can be steep, both in money and time. Employers concerned that their human resources department or benefits representatives are spread too thin might consider partnering with an advisory firm to provide education and financial services to employees.

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Establishing a relationship with this type of firm doesn't have to be expensive and may even be free. Retirement plan providers often provide such services without charge. And if not, local advisors may be willing to volunteer at little to no cost. The benefit to these advisors is a captive pool of eyes and ears to learn about their services. If the advisors provide educational events, make themselves available for complimentary personal appointments and more, employers may create an affordable soft benefit.

Any agreement with a partnering firm should be sure to cover expectations as to the frequency of these offerings as well as protocols for the firm's communication with the workforce. It also should cover the level of disclosures the firm should provide to let employees know that meetings with the firm aren't mandatory and don't represent the employer's endorsement of their content. It is simply a platform for employees to explore at their discretion. Employers that don't want the advisory firm to initiate contact with employees should establish that in writing and set up a communication channel for their benefits representative to be employees' point of contact. Plan sponsors also need to be aware of the regulations and subsequent liabilities regarding the provision of investment advice to plan participants.

Employers may fulfill several tangible and intangible goals by partnering with Millennial employees to help them reach their financial goals. Doing so not only can improve the general well-being of their workforce but also may increase loyalty and retention among this new generation of employees.
Endnotes

1. See www.mdrt.org/millennial-study/.

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