Many Millennial employees may be more concerned about reducing debt and gaining financial independence than planning for retirement. The author suggests strategies plan sponsors can use to help younger employees reach their short-term goals and allow them to shift their focus to the long term.

What Works Best to Help Millennial Employees Achieve Financial Security

by Rick Garnitz
How can benefit plan sponsors and providers help Millennial employees understand and maximize their employee benefits and build a sound financial future?

Millennials have unique financial challenges, beginning with student loan debt, which now averages a whopping $29,800 per graduate in 2019. And while wages are rising, they have not kept pace with economic expansion. Many young people are forced to work two jobs just to make ends meet. More than a quarter (29%) of Millennial homeowners have dipped into their defined contribution (DC) retirement plans or individual retirement accounts. Those who can't make ends meet often continue to live at home or return home. According to a survey from Zillow Group Inc., approximately 22.5% of Millennials ages 24-36 are living at home, up nine percentage points from 2005.
In addition to student loan debt, the top Millennial financial concerns are meeting day-to-day expenses and buying a home, trailed by retirement. Too often, employers focus their programs on saving for retirement, neglecting the fact that day-to-day finances may prevent many Millennials from thinking about the long term. For example, 67% of Millennials said paying down debt was more important than retirement savings, and 54% prefer not to address retirement planning until they are older.4

Should a young electrician in the third year of an apprenticeship program pay down credit card debt, fund a DC plan or replace a 15-year-old vehicle that he or she has dumped two grand into every year for the past few years just to keep it running? These choices don’t lend themselves to one right answer for everyone, but most employees will find themselves facing these challenges. And while many plan providers are aware of these issues and their effects on Millennials, often their inclination is still to talk up DC plan participation and stress the impact of the power of compounding. However, long-range planning may not seem as important to the economic well-being of young people when they are facing financial struggles in the here and now.

Younger plan participants’ chief concerns are debt reduction and then building financial independence. One way to accomplish that is to master money management habits. And plan sponsors can play a role in building these skills.

Developing short-term, effective debt-reduction strategies produces several positive outcomes. Employees begin to feel they are gaining control—initially of their debt but also of their lives. If, as the Federal Reserve reported in 2018, 47% of Americans can’t cover a $400 emergency, then gaining a semblance of control over debt can be quite empowering.5 Debt reduction also increases financial resiliency. Those with less debt are simply more prepared for the seen and the unforeseen. Small steps taken now build a sound financial foundation that can lead to financial independence later.

After addressing debt, the next steps are building an emergency fund, then having enough insurance to keep the unforeseen at bay. With those in place, beginning the habit of saving is so much easier, so much more achievable.

Habits, by nature, are repetitive, easily understood and sustainable. The act of learning and embracing money management habits often is more effective and faster than more formal financial literacy training. It can be a short-term approach with long-term outcomes.

What works is a simple, two-part set of actions:

- Build debt- and money-management habits that participants can embrace and sustain and that lead to financial independence.
- Practice these habits over a long period of time.

This approach can be an effective starting point for Millennials, members of Generation Z and—perhaps—even some Gen Xers who are late to the game. By shifting the approach of plan participants away from retirement planning toward gaining financial independence, plan sponsors can make financial education efforts more concrete and easily understood.

Following are a few examples of goals that plan sponsors might help plan participants set and achieve.

Reduce Debt by 50%

Debt robs us of our ability to save. If a choice must be made between paying down high-interest credit card debt or funding a DC plan, plan participants should be encouraged to contribute to the DC plan up to the employer match and then commit everything else to

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debt reduction. In cases of extreme debt, they should funnel everything into debt reduction first.

This is an area most providers don’t want to address, but a debt-facing workforce could use some guidance.

There are a number of nationally recognized employer-sponsored debt reduction programs that employers can bring on site or provide online. Each has its own approach, and employers should consider how programs can best fit their needs.

Plan sponsors that choose to bring a program in house should find one that provides objective, unbiased educational content in order to avoid the appearance of ordaining a particular vendor or viewpoint. It makes sense to interview several vendors, seek references and preview the programs vendors provide.

Often plan providers overlook their most potent resource—their own employees. They can likely find debt reduction success stories among plan participants and use those individuals and those narratives as motivational tools. This approach works because others see themselves in those stories, i.e., “If a co-worker can get out of debt, I can too.”

Employees identified as success stories also can be used as mentors if they are willing to take on that role. This mentorship approach has several benefits. It represents ongoing help over a long period of time. That breeds accountability and feedback, two critical components that a one-and-done training program does not have. Secondly, working with mentors within the organization builds a more cohesive and unified workforce when shared struggles are embraced and addressed.

For plan sponsors that want to offer counseling on debt, every community has not-for-profit consumer credit counseling providers. They’re equipped to help resolve most of the issues faced by those in debt. Free or low-cost credit counseling services are available through:

- Credit unions
- Extension offices
- Nonprofit agencies
- Religious organizations.

Employers should make certain the credit counseling service they recommend is accredited by either the National Foundation for Credit Counseling or the Financial Counseling Association of America. Both organizations have websites that provide tools and education, including budgeting calculator planners.

takeaways

- Issues like student loan debt and slow wage growth present financial challenges for Millennial employees.
- Many employers and plan sponsors focus financial education programs on retirement saving and neglect the fact that younger employees may not be able to think about long-term finances because of current financial struggles.
- Plan sponsors can help workers build money management habits by addressing three goals: reducing debt by 50%, developing a realistic spending plan and creating sustainable savings.
- Plan sponsors also can use “nudges,” such as matching employee contributions to an emergency savings account, to incentivize employees to increase their savings.

Develop a Spending Plan That Is Realistic, Achievable and Sustainable

A spending plan is just another name for a budget. The word budget, however, has a judgmental, all-controlling tone. A spending plan accomplishes the same thing without the negative connotation.

There is no one-size-fits-all spending plan. Spending plans must meet the unique needs of each individual or household. For example, housing typically should not consume more than 30% of a person’s monthly spending plan. That’s probably realistic for someone who works in the pipe trades in Omaha or as a FedEx driver in Louisville. It’s probably not for someone who lives in Seattle or New York City. A successful plan requires thought, perseverance and occasional modification to make it work over time.

Spending plans contain three broad categories:

- Necessities, which are expenses that you must cover every month (such as food and housing), typically take up 70% of income.
- Discretionary expenses should consume about 15%.
- Savings and investments account for the final 15%.

Spending plans will vary based on the individual, debt levels, geography and, perhaps most importantly, the level of self-control the individual possesses. The necessities category provides no wiggle room. Discretionary spending does, and that is where people gain the most traction. Obviously, savings can be trimmed, but discretionary spending is the key. You control what you can control.

Plan sponsors can assist the development of a realistic spending plan by letting their membership know about a
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Plan Sponsor Nudges

Plan sponsors can use “nudges” to reinforce and remind participants that increasing their contribution level makes sense or that building savings is important. This can take many forms, from short emails or text messages at the time of a promotion, raise, anniversary or birthday to programs that pay employees to establish new skills and habits.

Here are a few examples of ways that plan sponsors have encouraged participants to save:

- SunTrust Bank contributes $1,000 to employees who complete a financial education course and then set up and fund an emergency savings account. That $1,000 can be used to reduce debt, fund an emergency, or add to a 401(k) or health savings account.
- Aetna matches up to $2,000 per year (up to a maximum of $10,000) for student loan repayment for full-time employees who graduated after 2013.
- Pitt Ohio Trucking, based in Pittsburgh, Pennsylvania, pays $56 to employees who contribute $19 per week for six months to an emergency savings account. No withdrawals are permitted and, at the end of six months, another $56 is contributed. The goal is for each employee to save $1,000 in an emergency fund. More than 50% of workers participate.

The nudge of financial incentives to build financially sound habits in workers is an investment that has paid off by reducing financial stress in workers’ lives.

Create Sustainable Savings

The final example—creating sustainable savings—has two components: building an emergency fund equal to three to six months of take-home pay and setting a savings target (once the emergency fund is in place). A typical, yet ambitious, target is saving 10% of each paycheck. But if participants have to begin at 5%, so be it. Developing the savings habit is more important than the amount, especially if they start early.

Plan sponsors can make this easy with autoenrollment and autoescalation of contributions in DC plans. The lessons of behavioral finance have taught us that it’s far easier to continue saving than to opt out. Increasingly, automatic escalation is baked into DC plan designs. The easier it is to save, the better the outcome for participants.

Variety of Apps and Online Tools

There are numerous free budgeting apps that can help individuals establish and more importantly stick to a budget, including:

- Mint
- Clarity Money
- Mvelopes
- PocketGuard
- You Need a Budget

Conclusion

Millennials want financial independence. Their concerns are in the present. That’s what needs to be addressed first. Employers and plan sponsors can have a lifetime impact on employees’ financial security by helping them develop the right habits now.

Endnotes