Bridging the Gap

From six NAPA Young Guns, here are five tips for helping Millennial participants save more.

BY JUDY WARD

"I am a Millennial, and I do think that there are a lot of misconceptions about this generation," says Krystle Kaufman, retirement plan consultant at Bukaty Companies Financial Services in Davie, FL. "A lot of it is that very often the Baby Boomer generation blames Millennials: They say that Millennials are lazy, demanding, impatient, and have poor communication skills. It's so bad that I sometimes shy away from identifying myself as a Millennial: I say, 'I'm on the cusp of Generation X.'"

For Kaufman, understanding Millennial participants and helping them stay on track with their retirement savings has become one of her passions as an advisor.

With 53.5 million workers, Millennials — those ages 20 to 36 this year — surpassed Generation Xers in 2015 as the largest generation in the American workforce, according to a Pew Research Center analysis of U.S. Census Bureau data. A year earlier, Millennials became a larger share of the workforce than Baby Boomers.

Kaufman and five other Young Guns talked about helping Millennials save for retirement.

'Student Loans Are Insane'

Most Millennials actually see the effort required for their own retirement realistically, believes Cameron Kleinheksel, senior consultant at Plante Moran Financial Advisors, LLC in Grand Rapids, MI. "I definitely don't think that the Millennial generation is so naïve that we all think we will be able to retire early," he says. "It definitely is in a lot of Millennials' heads that they will have to work into their 70s. And then the outlook for Social Security adds to uncertainty about retirement."

Unlike their parents, Millennials entered the workforce recently enough to realize that they cannot depend on pension plan-style benefits. "I think that Millennials ultimately are going to be in good shape, because this is the first generation that has seen its parents not be able to retire," Kaufman says. "We're experiencing people close to us struggling to retire."

In Joey Rose's experience, Millennials understand their own need to save for retirement more than older generations. "You typically see Baby Boomers who are not as prepared as they need to be. But it's not difficult to tell a Millennial to save for retirement," says Rose, vice president and financial consultant at The Noble Group in Sugar Land, TX. "If you tell them, 'It takes saving 15% of your paycheck to save adequately for retirement,' if you give them a goal like that, they take it and run with it."

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On the flip side, many Millennials face challenges saving for retirement. "Millennials have such a long time horizon until retirement," says Amber Kendrick, director, retirement services at C.I.G. Retirement Plan Consulting, LLC in Glastonbury, CT. "And there are other financial stresses that they face *now*. They're experiencing financial pressures daily, and retirement is so far away."

The Millennial age group often faces a budget squeeze, Kaufman says. "When you first start working in your 20s, you're not making much money, so you don't have much money to put away," she says. "We're also the most educated generation, and our student loans are insane. When you start your career, you have to start paying off your student loans, while also paying your rent and other living expenses."

"By the time we get into our 30s, we still have the student loans, and for a couple that can be $500 a month or more," Kaufman continues. "Then you buy a house and have your mortgage payments, which average about $2,000 a month. Many Millennials also are starting a family, and child care can run $1,600 a month. We often have very little to save, because we have all these expenses."

Embracing Auto Features and Passive Funds

Fortunately, Millennials usually stick with auto design features more than Baby Boomers, says Aaron Pottichen, president, retirement services at CLS Partners in Austin, TX. "They don't know how much they need to save, so they tend to acquiesce to automatic enrollment at a very high rate," he says. But employers considering auto features sometimes worry about Millennials' responses. "We have worked with some companies where the employees are very coddled," he says. "So the employers were concerned about employees reacting badly. But when we did it, the response was (the sound of) crickets."

Kendrick also finds Millennials very open to auto features. "It's not that we're necessarily lazy," she says, "but when things are done for you, it's fantastic."

Automatically enrolled Millennials most likely remain in a target-date fund, but Kendrick says that Millennials at employers that don't do auto enrollment often pick overly conservative investment options. "We have heard horror stories from our parents and grandparents about what happened to their accounts when the market declined," she says. "But I tell them, 'At your age, you can't afford to not be in the market. And remember that you haven't lost money until you sell the investments.'"

Derek Fiorenza advises Millennials worried about stock market declines to see their 401(k) as a retirement savings account, not a bank account. "Rather than being concerned about what the market is doing today, I encourage them to keep in mind that this is a long-term investment, and over 40 years, you are going to have ups and downs in your account," says Fiorenza, chief operations officer and chief compliance officer at Summit Group Retirement Planners, Inc. in Exton, PA. "I tell them, 'With that much time, you can afford the volatility now. You should focus on appreciation, and as you get closer to retirement, then you can focus on preservation.'"

Millennials also frequently are very fee-conscious about their 401(k) investments, having been exposed to lots of media reports and advertising focused on investment fees, Rose says. "Many of the conversations I have with Millennial participants are around, 'What are my underlying costs?' They care about where all their money is going."

Millennials are more cognizant of investment fees than any other generation, Pottichen finds. “They have access to a lot of information. Millennials are more likely to look into it and think, ‘Oh, active managers don’t actually add value compared to passive investing,’” he says. “Passive investment vehicles are heavily requested by Millennials. And if the plan has active funds on the investment menu, they are more likely to want to know why. They are kind of falling into the ‘religion’ of index-only menus.”

Making Education Relevant

The Young Guns offered five tips on how to educate Millennials about their retirement savings:

Tip #1: Take a Holistic View

For many Millennials to save for retirement, they need to first feel less unsure about their budgeting and finances overall. “Help identify their specific financial fears, and address their finances holistically,” Kendrick suggests. Millennials need to understand more about basics like how to do a monthly budget. “Then, once they have more confidence about their expenses, they will feel more comfortable about saying, ‘Okay, I *do* have $50 a paycheck that I can put aside for my 401(k) account,’” she says.

Millennials often spend more money on their social life than they realize, Pottichen says. “Here in Austin, Millennials spend a lot on social activities,” he says. “We do a lot of education meetings and say, ‘You can spend X amount of money drinking every night, or you can spend half of that on drinking and save the other half for retirement.’ Human beings are pretty easy to predict: We don’t want to put away money for a future benefit that takes away from our current pleasure.”

Fiorenza helps participants start thinking of their spending in terms of different expense buckets. “I tell them, believe it or not, there are probably a lot of areas where you can tighten your budget,” he says. Once they understand better where they’re actually spending money, he says, “Then I make suggestions like, ‘Do you think you can go to Starbucks one less time a week, and put that money into your 401(k) instead?’”

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Tip #2: Customize the Message

Millennials get so much information from so many sources, such as texts, email, blogs, and social media. “It is important to grab their attention, and be concise. You have to rise to the top of the ‘noise’ that all Millennials receive on a daily basis,” Kleinheksel says. Fortunately, he adds, providers now can do much more targeted, customized messages to participants.

“For example, one thing we’ve really seen positive feedback on is a Fidelity mobile app that allows participants to benchmark themselves on their retirement savings,” Kleinheksel says. “Participants want to know, ‘How is everyone else doing compared to me?’ So they can punch in things like their zip code and their industry, and get benchmarking data on how they compare to peers. It’s motivating — and if someone sees they are behind, they can increase their savings rate with one click.”

Tip #3: Explain How Getting the Match Pays Off

Fiorenza looks at his own 401(k) and IRA accounts as mandatory “bills” that he has to pay every year. “But it’s more difficult for a lot of people in my age bracket,” he says. “They are so focused on self-gratification in the moment. Millennials are always asking, ‘What is in it for me?’” He has gotten good results answering that question when Millennials work for an employer that offers a 401(k) match. He explains how getting a match of say, 4%, is essentially like getting a 4% boost in their salary. “Show them, ‘This is an increase to your bottom line,’” he recommends.

Tip #4: Show the Power of Starting Early

Millennials need a simple explanation of the power of compounding. Help Millennials understand that if they start saving in their early 20s and their 401(k) investments average a 7% annual return, they can double their money approximately every 10 years, Fiorenza suggests. “So if you are 25 years old and start saving now, by the time you are 65, you have a chance to double your money four times over those 40 years,” he says. “If that happens, at the end of 40 years, that first $10 you put in at age 25 will be worth $160.” It’s important also to explain that those are estimates, not predictions or guarantees, he adds. That example illustrates the process of compounding by reinvesting dividends and capital gains over a period of time, he says.

Tip #5: Use Different Formats

Showing Millennials a slideshow or PowerPoint presentation in a group meeting likely will not hold their interest, Rose says. Think about other approaches, he recommends. For example, he has utilized a smartphone app to do a retirement savings quiz in meetings. “Everybody answers a (multiple choice) question on their phones, and then the correct answer pops up on the screen at the front of the room,” he says. “They can compete for who gets the most points by answering the most questions correctly.”

In her group meetings with Millennials, Kendrick finds that peer discussions keep attendees interested. “I like to make a circle with the chairs, and then say, ‘Let’s talk about your experiences with your 401(k),’” she says. Attendees start talking about experiences like taking a hardship withdrawal, then being disappointed to have to pay all the taxes on it. “It’s one thing for them to hear that from someone like me,” she says, “but if they hear it from their peers, it becomes very powerful.”

»Judy Ward is a freelance writer who specializes in writing about retirement plans.