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Authors: Alicia Haydock Munnell, Wenliang Hou

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WILL MILLENNIALS BE READY FOR RETIREMENT?

BY ALICIA H. MUNNELL AND WENLIANG HOU*

Introduction

Many of today's workers will have inadequate income when they reach retirement, but the prospects for Millennials seem more challenging than for the generations ahead of them.

All workers face a world in which Social Security will provide less relative to pre-retirement earnings, 401(k) balances are generally meager, and – at any given time – half the private sector workforce does not have an employer-sponsored retirement plan. They will also face much longer periods of retirement due to rising life expectancy, high and rapidly rising health care costs, and historically low interest rates. In addition to these general headwinds, Millennials – those born during 1981-1999 – also have substantial student debt, began their careers in the tough job market following the Great Recession, and operate in a labor market where a declining share of jobs provide pension and health benefits. These factors have delayed major life milestones such as getting married and owning a home and have limited their ability to accumulate wealth. In short, Millennials are behind.

This *brief* compares the status of Millennials across a number of socioeconomic dimensions to those of previous generations at the same age. The approach uses simple figures to summarize a complicated story.

The discussion proceeds as follows. The first section defines Millennials and the earlier generations that are used as a basis for comparison. The second section presents the results for education and labor market outcomes for those ages 25-35 in each cohort using data from the *Current Population Survey*. The third section looks at how Millennials are postponing major life events, such as marriage. The fourth section presents debt and wealth information from the *Survey of Consumer Finances*. The fifth section concludes that – despite being more educated – Millennials' challenging labor market experience and high student debt burden have left them less prepared for retirement than earlier cohorts.

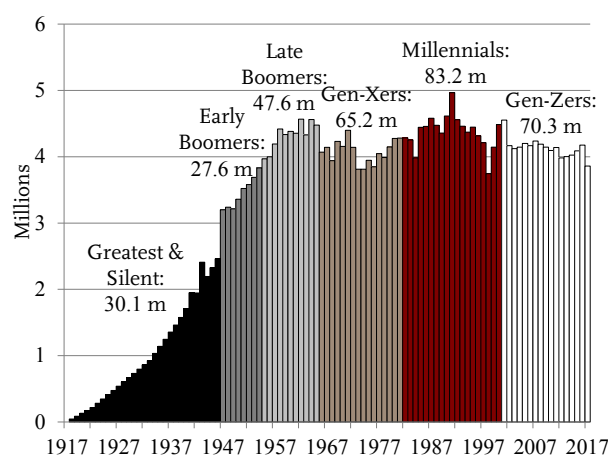
Defining the Exercise

Journalists and social scientists often give names to generations who grew up in similar circumstances. Tom Brokaw, the television newscaster, popularized the notion of the "Greatest Generation" to define those who lived through the Great Depression and fought in World War II. Some have called those who came after – born in the 1920s to mid-1940s – the Silent Generation. With the sharp uptick in fertility

* Alicia H. Munnell is director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Wenliang Hou is a senior research advisor at the CRR.

rates after World War II, those born from the mid-1940s to mid-1960s were called Baby Boomers. Generation X – those born in the mid-1960s and 1970s – followed. The Millennial Generation (also called Generation Y) consists of Americans born during the 1980s and 1990s. Finally, those born since 2000 are part of Generation Z.¹ Figure 1 shows how the current U.S. population breaks down by age cohort and birth year.

FIGURE 1. DISTRIBUTION OF THE U.S. POPULATION BY AGE COHORT AND BIRTH YEAR, 1917-2017



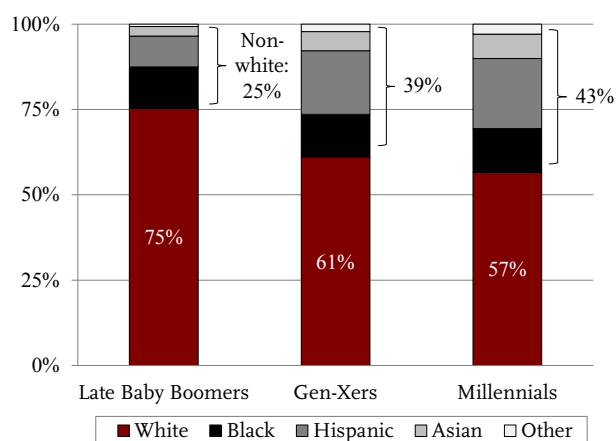
Source: U.S. Census Bureau, *Current Population Survey* (CPS) (2017).

The focus here is on the segment of Millennials who were ages 25-35 in 2016, which means those born from 1981-91. These individuals are compared to Gen-Xers and late Baby Boomers when they were the same ages. The Gen-Xers are observed in 2004 (which covers those born from 1969-79), and the late Boomers are observed in 1989 (which covers those born from 1954-64).² This approach allows for an “apples-to-apples” age comparison and does not require any projections – rather a series of simple figures.

Millennials are unique in a number of ways. They were the first full generation to grow up with computers. Social scientists tend to characterize them as self-confident and optimistic since their parents tended to be attentive and supportive.³ They are also more ethnically diverse than previous cohorts; as shown in Figure 2, the share of whites declined from

75 percent of Baby Boomers to 57 percent of Millennials. This increase in diversity could lead to poorer outcomes for the population as a whole as the less privileged replace the privileged. Interestingly, that

FIGURE 2. DISTRIBUTION OF POPULATION COHORTS BY RACE/ETHNICITY AT AGES 25-35



Notes: “Other” includes Native Hawaiians and Pacific Islanders, Native Americans/Alaska Natives, and individuals who are two or more races.

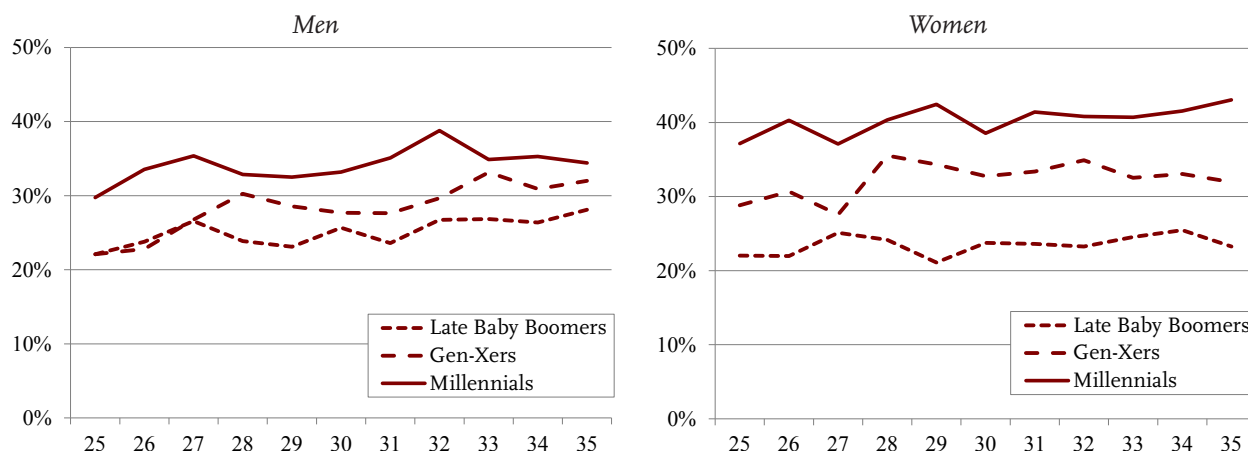
Source: Authors’ calculations from 1989, 2004, and 2016 CPS.

is not the source of the patterns reported below; the same exercise was done by race/ethnicity and, overall, showed similar patterns for whites and non-whites. Therefore, the data are reported for the population as a whole.

Education and Labor Market Outcomes

The story of Millennials starts out on a strong note. A much larger percentage of both men and women have a college degree than was the case for earlier cohorts (see Figure 3 on the next page). A college education continues to have significant economic value. A 2014 Pew Study reported that, for Millennials, median income was 63 percent higher for college graduates than for high school graduates; their unemployment rate was 8 percent lower; and they reported more job satisfaction. One would expect that this higher level of education would bode well for work and earnings.

FIGURE 3. PERCENTAGE OF INDIVIDUALS WITH A COLLEGE DEGREE, AGES 25-35



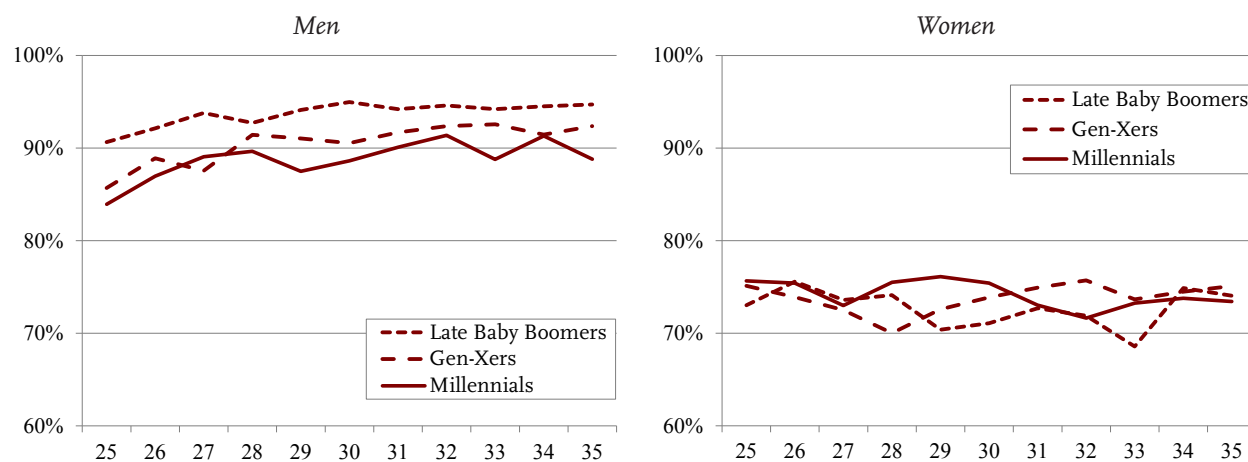
Source: Authors' calculations from 1989, 2004, and 2016 CPS.

Unfortunately, Millennials entered the labor market during tough times.⁴ The group examined here turned 21 between 2002 and 2012, which meant that they were coming out of school during a period that included the bursting of the dot.com bubble and the Great Recession. This experience appears to have been particularly hard on Millennial men, who have labor force participation rates below those in earlier cohorts (see Figure 4). Millennial women seem to have fared better, reflecting the pattern of earlier cohorts.

Regardless of their ability to find some type of job, one apparent struggle for both men and women has been finding quality jobs – career-track positions with good compensation. While the education levels of the Millennials should have given them a leg up, the data presented below suggest that the economic headwinds have been very strong.

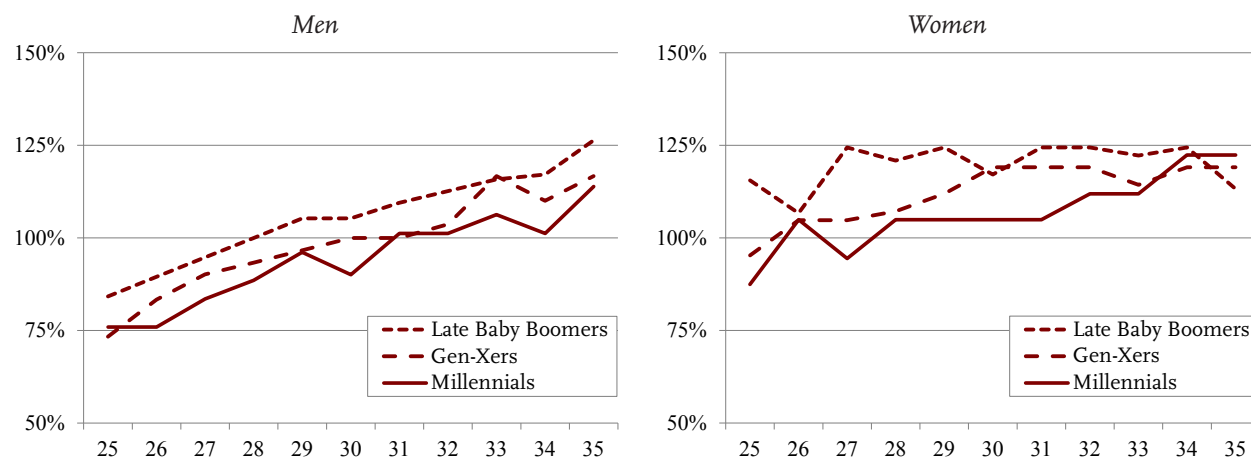
In terms of earnings, both men and women are behind Gen-Xers and late Baby Boomers. The metric used here for measuring earnings success is the ratio of earnings for men (women) at each age relative to

FIGURE 4. LABOR FORCE PARTICIPATION RATES, AGES 25-35



Source: Authors' calculations from 1989, 2004, and 2016 CPS.

FIGURE 5. RATIO OF EARNINGS FOR WORKERS AGES 25-35 TO MEDIAN EARNINGS FOR ALL WORKERS



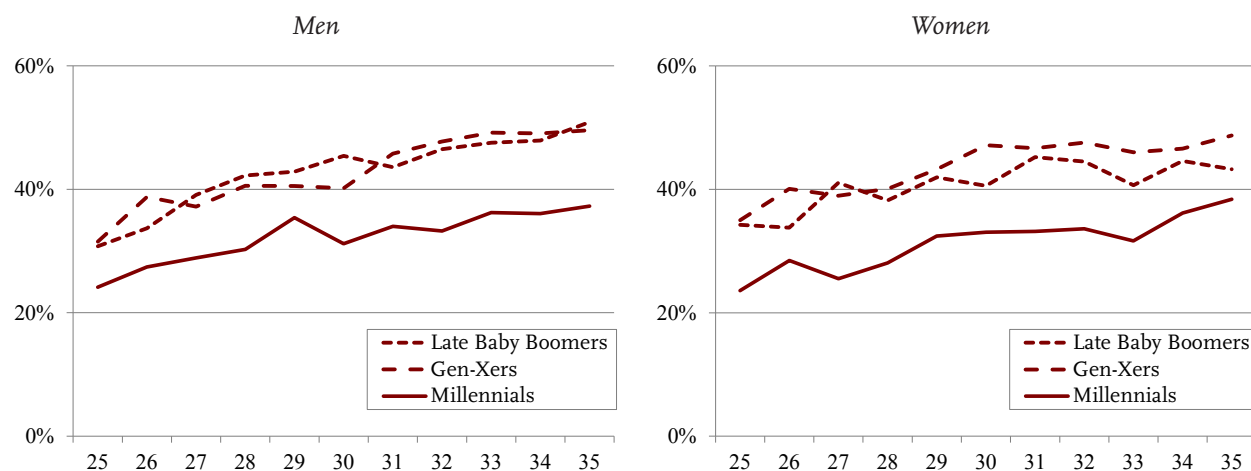
Source: Authors' calculations from 1989, 2004, and 2016 CPS.

the median earnings for all male (female) workers. The results show that the earnings of both Millennial men and women are relatively low compared to the median (see Figure 5). Millennials are clearly getting a slow start on their career trajectory.

Working Millennials are also less likely than previous cohorts to receive important fringe benefits, such

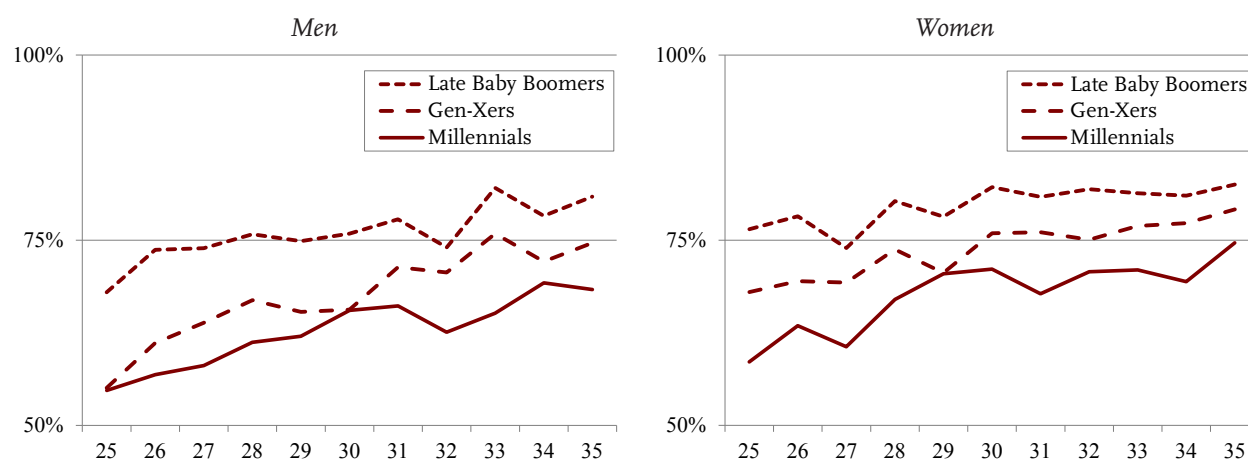
as retirement and health insurance, through their employer. The percentage of workers participating in a retirement plan is sharply lower for both men and women (see Figure 6). This lack of a savings vehicle is a particular concern given that individuals who do not have a workplace retirement plan rarely save for retirement on their own.⁵

FIGURE 6. PERCENTAGE OF WORKERS PARTICIPATING IN AN EMPLOYER-SPONSORED RETIREMENT PLAN, AGES 25-35



Source: Authors' calculations from 1989, 2004, and 2016 CPS.

FIGURE 7. PERCENTAGE OF WORKERS COVERED BY EMPLOYER-PROVIDED HEALTH INSURANCE, AGES 25-35



Notes: Employer-sponsored health insurance is not available in the 1989 CPS data, so the late Baby Boomer result is calculated using the data of any health insurance in 1989 and the ratio of that to employer-sponsored health insurance for Gen-Xers. For Millennials, CPS data for 2013 were used because 2016 data were not available.

Source: Authors' calculations from 1989, 2004, and 2013 CPS.

Similarly, a much smaller share of male and female workers are covered by employer-provided health insurance (see Figure 7).

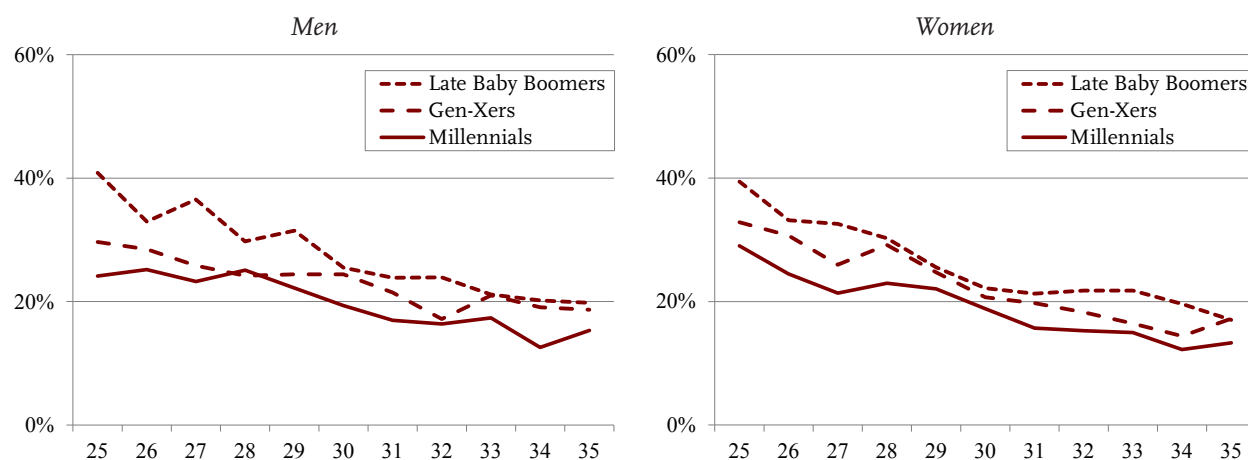
In short, in terms of employment, fewer Millennials are working, their wages are low relative to the median, and they have fewer fringe benefits. The final point on the employment front is that they also seem less likely to relocate to find better jobs than their counterparts in earlier cohorts, which could be substantially limiting their options (see Figure 8).

Postponement of Life Events

The poor job market experience of Millennials and other factors have caused them to postpone major life events, such as getting married and buying a home.

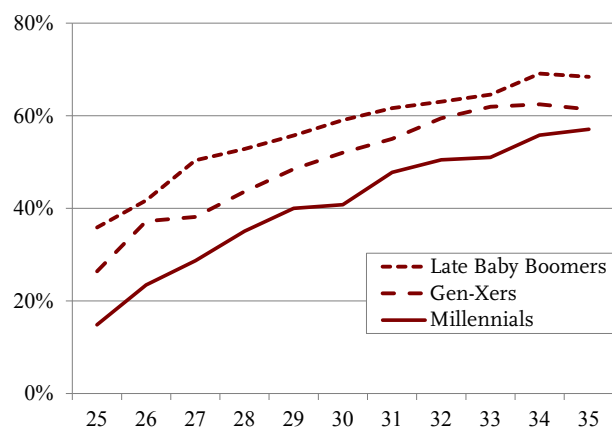
The percentage of Millennial men married at age 25 is less than half that for late Baby Boomers and only two-thirds of that for Gen-Xers (see Figure 9 on the next page). The gap between Millennials and other cohorts narrows over the 10-year span but Millennials

FIGURE 8. PERCENTAGE OF MEN AND WOMEN WHO MOVED IN THE LAST YEAR, AGES 25-35



Source: Authors' calculations from 1989, 2004, and 2016 CPS.

FIGURE 9. PERCENTAGE OF MEN WHO ARE MARRIED, AGES 25-35

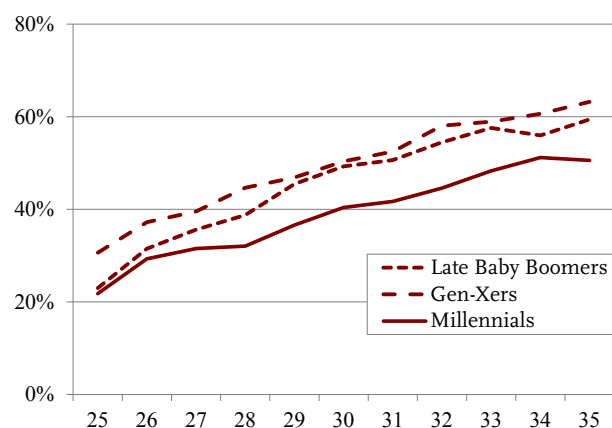


Source: Authors' calculations from 1989, 2004, and 2016 CPS.

are still well below the other two cohorts at age 35. Part of the decline might be attributed to the decline in marriage generally in the United States and part due to the burden of student debt, but part almost certainly reflects poor labor market outcomes that make singles reluctant to form a household.

The purchase of a home is highly correlated with getting married, so it is not surprising that the delay in marriage has reduced the rate of homeownership among Millennials. By age 35, about 50 percent of Millennials own a home compared to about 60 percent for the previous two cohorts (see Figure 10).

FIGURE 10. PERCENTAGE OF HOUSEHOLDS WHO OWN A HOME, AGES 25-35



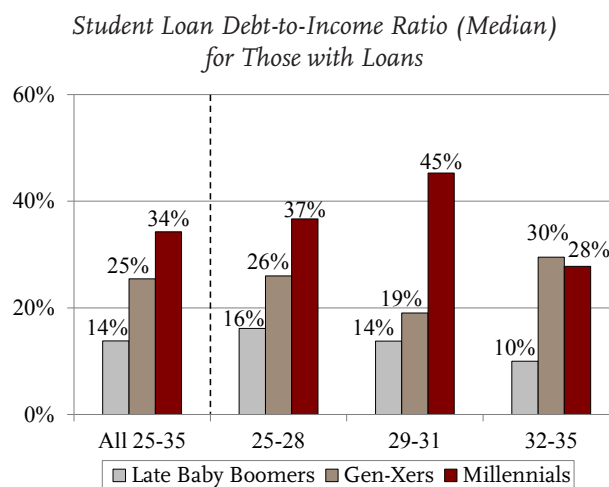
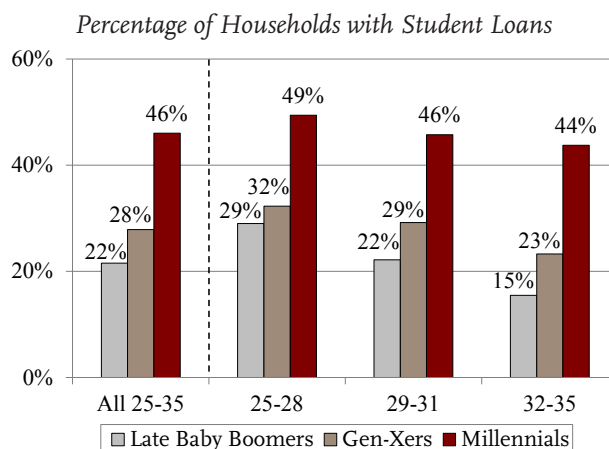
Source: Authors' calculations from 1989, 2004, and 2016 CPS.

Preparedness for Retirement

All of the aforementioned developments adversely impact Millennials' preparedness for retirement.

The rising cost of a college education together with the increasing numbers of individuals pursuing higher education has resulted in an enormous increase in the burden of student debt.⁶ As shown in Figure 11, almost half of Millennial households ages 25-35 are burdened by student debt and, among those households with debt, the outstanding loan balance amounts to more than one-third of earnings. Research has shown that young workers with student

FIGURE 11. STUDENT LOAN BURDEN FOR HOUSEHOLDS, AGES 25-35



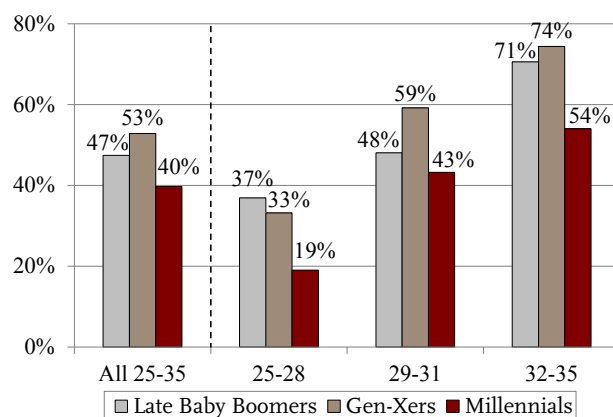
Note: For late Baby Boomers, 1992 data were used because 1989 data were not available.

Source: Authors' calculations from U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (SCF) (1992, 2004, 2016).

loans have less in retirement plans and are more likely to end up at risk in retirement.⁷ Not surprisingly, then, the short-term finances of those with a college degree are more fragile than one would generally expect.⁸

The increase in student debt, low rate of homeownership, and low rate of participation in retirement saving plans has produced a big decline in the median ratio of wealth to income compared to earlier cohorts (see Figure 12). Saving for retirement is clearly getting harder for Millennials.⁹

FIGURE 12. MEDIAN HOUSEHOLD NET-WEALTH-TO-INCOME RATIO, AGES 25-35

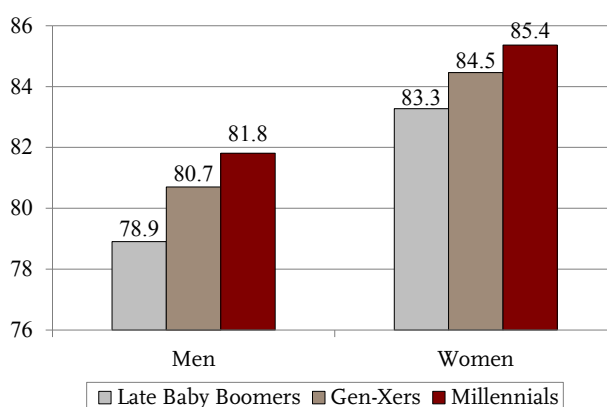


Note: Net wealth includes housing wealth, financial wealth, and non-financial wealth, such as vehicles and businesses.
Source: Authors' calculations from 1989, 2004, and 2016 SCF.

Millennials' lack of wealth in their 30s relative to earlier cohorts should be a source of great concern given that they will live longer than previous cohorts (see Figure 13) and that they will have to wait until age 67 to collect their "full" Social Security benefit (see Figure 14), which produces a substantial actuarial reduction for monthly benefits claimed early. Moreover, Social Security faces a long-term financing shortfall, and the program's Trustees project that – without an infusion of revenue – it will be able to pay only about 75 percent of benefits after the program's Trust Fund is exhausted in 2034, so Millennials could face further benefit reductions.¹⁰

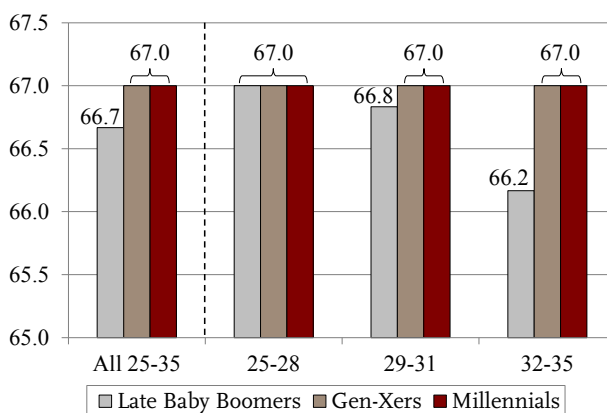
In short, at this point, a simple analysis suggests that Millennials are well behind other cohorts at the same age even though they will live longer and receive less from Social Security relative to pre-retirement earnings.¹¹

FIGURE 13. LIFE EXPECTANCY AT AGE 30



Source: U.S. Social Security Administration (2017b).

FIGURE 14. SOCIAL SECURITY FULL RETIREMENT AGE FOR HEAD OF HOUSEHOLD



Source: Authors' calculations from 1989, 2004, and 2016 SCF.

Conclusion

This analysis takes an early look at Millennials between ages 25-35 relative to other cohorts when they were the same age. This well-educated, diverse, confident cohort should have had favorable prospects. A challenging labor market and burdensome student debt, however, have slowed their progress and they are much less prepared for retirement than earlier cohorts – at a time when the retirement system is also under pressure.

The good news is that retirement is still a long way off for these Millennials. A lot will depend on their future savings patterns, financial market returns, and

how long they work. It will also depend on the extent to which Congress preserves Social Security's scheduled benefits and the extent to which policymakers can reduce the coverage gap by expanding the availability of retirement saving plans in the workplace.

Endnotes

- 1 Chambers (2015) provides some perspective on the naming of generations.
- 2 For charts that rely on *Current Population Survey* data, the year in which each characteristic was measured corresponds to the survey year except for earnings, pension participation, and health insurance coverage; these correspond to the year prior to the survey year.
- 3 For details on the factors shaping Millennials, see Harris (2017), Twenge (2014), and Howe and Strauss (2000).
- 4 See, for example, Tolentino (2017).
- 5 Munnell (2014) documents how little households save outside of employer-sponsored plans.
- 6 Financial columnists constantly remind Millennials that they need to save for retirement when they are young and cannot afford to wait until their debt is paid off (see Olson 2014, Braverman 2015, and Chang 2016). For more on the implications of student debt for Millennials' finances and behavior, see Brown and Caldwell (2013), Fry (2014), and Mitchell (2014).
- 7 See Munnell, Hou and Webb (2016) and Rutledge, Sanzenbacher and Vitagliano (2016).
- 8 Many college-educated Millennials do not have "rainy day" funds; less than half have enough to cover expenses for three months; and only 30 percent were confident they could come up with \$2,000 in the event of an emergency (see De Bassa Scheresberg, Lusardi, and Yakoboski 2014).
- 9 For further discussion, see Prudential Investment Management (2016).
- 10 U.S. Social Security Administration (2017a).
- 11 This conclusion echoes that of a recent extensive study of Millennials' projected retirement income (see Johnson et al., 2017).

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Contact Information

Center for Retirement Research
Boston College
Hovey House
140 Commonwealth Avenue
Chestnut Hill, MA 02467-3808
Phone: (617) 552-1762
Fax: (617) 552-0191
E-mail: crr@bc.edu
Website: <http://crr.bc.edu>

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