Portfolio Evaluations, Inc.

THE BENCHMARK IN INVESTMENT CONSULTING

July 2016

Engaging the Millennial Generation in DC Plans

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GENERALLY recognized as individuals born between 1981 and 2000, the millennial generation currently represents over 75 million people in the United States. In addition to being the largest generation, this group has some unique characteristics. Although millennials are the most educated generation, a recent survey found they are the first generation to have less wealth accumulation than their two predecessor generations (Generation X and Baby Boomers) had at the same stage of their lifecycle.[1]

Factors that are contributing to lower wealth accumulation compared to prior generations include:

- Highest level of student loan debt (on average, $28,950 upon graduation[2])
- Delaying or foregoing home purchases, which has traditionally been an individual's greatest asset
- Potentially lower career earnings and retirement asset accumulation due to a delayed start to their working careers
- Lower access to pension plans

In addition to these financial headwinds, millennials also show signs of being the most risk averse investor group. This generation has witnessed turbulent times including scandals involving Enron and Bernie Madoff, terrorist attacks and wars, the financial collapse and resulting government bailouts. This instability and uncertainty have shaped this generation's experience in the markets, whether they have contributed to their own difficulties finding employment or been affected by their parents' experience in the financial markets. After coming of age during this volatile period, millennials have shown a tendency to avoid equities and keep their assets in cash.[3]

Given the potential influence this sizable generation may have on retirement plans and their unique circumstances, plan sponsors should work with their recordkeepers to address behavioral issues within the population, as well as ways to better engage with this population.

Executive Summary

- Soon-to-be the largest percentage of the working age population, millennials face unique headwinds, including high levels of student debt and risk-averse investing styles, which may hinder their ability to adequately prepare for retirement.

- Millennials are a technologically savvy generation that are used to short, to-the-point messages, which may require vendors, and regulations, to evolve to keep up with changing communication preferences.

- Plan sponsors should evaluate what their vendors are doing to address this sizable and unique population and consider plan features that may help guide this generation to a successful retirement.

To support our clients as they navigate through the issues facing this generation, PEI conducted a review of various perspectives related to millennials. We received survey responses from 339 companies, representing aggregate defined contribution plan assets of more than $120 billion. In addition, we reviewed research from several industry organizations and academic institutions. Finally, we reached out to five of the largest recordkeepers to learn what they are working on to address the needs of this population. Below, we highlight the findings from these efforts and share recommendations for plan sponsors.

PERSPECTIVES

Academic research indicates the millennial generation is the most technology dependent generation and this has shaped the way this generation gathers information. Two unique aspects of this shift include the increase of financial blogs that millennials are flocking to for advice and the development of mobile applications. A recent study found almost 90% of millennials' discussion of finances occurs in blogs and forums[4]. Additionally, research has concluded that 75% of millennials were interested in some form of mobile application that would allow them to track their retirement savings[5].

More so, communication with millennials needs to be different than what has been used with past generations. In particular, one report found that "In all communication, information display is particularly important. User-friendly formats that avoid dense blocks of text, reduce jargon, use graphic elements to break up text and show sequencing and relationships, and highlight key pieces of information are preferred."[4]

Plan administrators are responding to this shift in preferences by using technology to try to engage participants and encourage them to prepare for retirement. While these efforts are not all necessarily targeted just toward millennials, they are reflective of a change in communication preferences and a focus on educating participants about the importance of taking ownership of their financial health. Several vendors, for example, have launched short videos on topics such as budgeting, debt management, and saving. Multiple vendors have also revamped their user interfaces to allow participants to more easily enroll in retirement savings plans, removing the need to click through multiple links or fill in unneeded data points to start contributing. The vendor industry is also taking steps to monitor shifts in preferences for participants, measuring which age cohort engages over the phone, online, or through a mobile application.

Other vendors have overhauled their websites to showcase progress toward retirement goals, providing an easy to understand snapshot of where a participant stands. One vendor also instituted a peer comparison tool, and while not specifically targeted toward millennials, it saw a 17% increase in likelihood of increased contributions[6]. The vendor reported that a tap-to-call feature on its mobile platform also made it easier for participants to speak with a representative.

Another vendor recently launched an interactive Millennial Seminar, incorporating multiple media outlets such as videos, learning activities and worksheets, to try to appeal to a more tech-savvy generation. While only recently launched, the vendor is attempting to specifically target this generation in a way that is familiar to them by utilizing technology.

CHALLENGES

Still, the projects to target this specific demographic are relatively new, and their effectiveness has not yet been proven. According to PEI's study, while 59% of respondents believe millennials need to be treated differently, three out of four plans sponsors have not tried to engage millennials with targeted communications, and 82% of survey respondents don't monitor the effectiveness of communications.

More so, limitations on electronic communications may hinder certain communication campaigns. While there have been constant advances in technology with mobile applications and social media, not all of these advances are an appropriate means of communicating plan information. According to requirements from the Department of Labor and Internal Revenue Service, when an email or other electronic disclosure is sent to plan participants, the method of delivery must satisfy the "reasonably calculated to ensure receipt" standard. That standard is particularly onerous to meet for texting information and delivering links to information electronically.

In addition, while automatic features such as auto-enrollment into retirement plans and auto-escalation of savings amount(s) have increased participation rates, they may be lulling plan sponsors and millennial participants into a false sense of security. For example, while participation rates have increased in recent years, average contribution rates have actually declined from a peak of 7.3% in 2007 to 6.8% in 2015[7]. Many plans default participants into defined contribution plans at a savings rate of 3%, a far cry from the level needed to obtain an adequate retirement nest egg.

With skepticism around the likelihood of receiving social security benefits and a dearth of defined benefit plans (as well as employer-sponsored health care coverage for retirees), traditional safety nets for retirement are likely to be unavailable for this generation. It is more important than ever for millennial participants to take control of the variables they can influence when it comes to their retirement, mainly around participating in their workplace-sponsored plan and contributing at an adequate rate.

CONSIDERATIONS FOR PLAN SPONSORS

In light of the challenges facing millennials as they prepare for retirement, PEI recommends plan sponsors analyze the actions of millennials and develop strategies to engage and drive results within this population. Below are action steps plan sponsors can take to support this important group.

1. **Analyze data on the plan's millennial participants**

   A helpful place to start is with the plan's recordkeeper. Plan sponsors can work with their recordkeeper to understand what is being done for this population and how the effectiveness of these efforts are being measured. Recordkeepers can help plan sponsors sift through data on the demographics of the plan, identifying whether millennials now, or in the future, will be a significant portion of retirement plan participants. Specifically, plan sponsors can review the following data points:

   - Asset allocation and whether it is appropriate given a participant's age
   - Loan activity and hardship withdrawals
   - Contribution rates
   - Opt-out rates for automatic enrollment and automatic escalation of contribution rates
   - Beneficiary designations

2. **Develop a plan to improve behavior**

   Overall, plan sponsors can work with their recordkeeper to develop a specific education and communication calendar to address the needs of their participants.

   At the plan level, plan sponsors can also investigate whether their policy for automatic enrollment is sufficient. Plan sponsors may want to make changes to the automatic enrollment contribution rate to help participants that are defaulted into the plan contribute at a meaningful level. While encouraging contribution levels that take full advantage of a company match, if applicable, is one useful way to help participants, defaulting participants at contribution rates that vary by income level is another option that may allow participants to successfully save for retirement. For example, JPMorgan has researched the level of contribution rates that provide participants with the best range of outcomes for building their retirement assets. The study found that based on their income level, millennials should be contributing at a rate from 4% to 9% of pre-tax income for median-income millennials to 14% to 18% for high net worth millennials.[8]

To further encourage millennials to be set up for success, plan sponsors may want to consider guidance offered by their recordkeeper or a third-party financial wellness provider. These services can educate workers on setting up a fiscally responsible lifestyle, including emphasizing the importance of saving and paying down debt. These services tackle the root issues that often derail participation in a retirement plan.

3. **Track progress and effectiveness**

   As plan sponsors develop goals and an action plan to target their millennial population and drive engagement, they should also be mindful of how to track and evaluate progress toward these goals. While many techniques to target the millennial population and encourage behavior improvements are new, they should be measured to help plan sponsors and vendors evaluate which methods turn out to be most effective.

In conclusion, while the headwinds facing millennials as they enter the workforce remain, there are many steps plan sponsors can take to address this population's needs. By addressing these challenges early on as millennials begin to prepare for retirement, plan sponsors can help workers lower their financial stress and increase productivity, as well as support a healthier retirement plan for the organization.

[1] Pew Research Center, "Millennials in Adulthood: Detached from Institutions, Networked with Friends," March 7, 2014.
[2] The Institute for College Access & Success (TICAS), "Student Debt and the Class of 2014," October 2015.
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[5] BNY Mellon and University of Cambridge, "Generation Lost: Engaging Millennials with retirement saving," September 2015.
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[8] J.P. Morgan Asset Management, "Now streaming: the millennial journey from saving to retirement," 2016.

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