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T. Rowe Price: Millennial 401(k) Savers Have Better Financial Habits Than Baby Boomers

Survey Finds That Most Millennials With 401(k)s Are Living Within Their Means and Are More Likely to Budget Than Baby Boomers

BALTIMORE, June 22, 2015 /PRNewswire/ -- T. Rowe Price's Retirement Saving & Spending Study revealed that a national sample of 1,505 millennials with 401(k)s have relatively good financial habits, particularly when compared with a national sample of 514 baby boomers with 401(k)s. While millennials are not saving at least 15% of their annual salary for retirement, as T. Rowe Price recommends, they recognize that saving for retirement is important and are interested in saving more.

More millennials than baby boomers track expenses carefully (75% vs. 64%) and stick to a budget (67% vs. 55%). And while baby boomers on average are saving a slightly higher percentage of their salary for retirement than millennials are saving, more millennials have increased their retirement savings within the past 12 months (40% vs. 21%). This suggests that they are acting in accordance with their financial priorities, as millennials ranked contributing to a 401(k) but below the match and paying down debt equally as their top priority.

"It's encouraging to learn that millennials are so receptive to saving for retirement and are generally practicing good financial habits," says Anne Coveney, senior manager of Retirement Thought Leadership at T. Rowe Price. "These millennials are working for private sector corporations, with a median personal income of $57,000 and an average job tenure of five years. So their circumstances may be somewhat driving their behaviors. When they have the means to do the right thing, it appears that they often do.

"However, they are also being affected by the flat income environment, with median raises of only 3% over the past 12 months. Yet they are exhibiting financial discipline in managing their spending and are defying stereotypes that this generation is prone to spend-thrift, short-sighted thinking," says Ms. Coveney.

"The differences between millennials and baby boomers have significant implications for retirement plan sponsors and advisors," says Aimee DeCamillo, head of T. Rowe Price Retirement Plan Services, Inc. "Baby boomers have largely shaped the defined contribution system, but it's clear that millennials think differently and are more comfortable being auto-enrolled at higher levels. Because millennials are the largest generation ever within the U.S. and are entering the workforce in large numbers, plan sponsors and advisors need to begin incorporating millennials' preferences and practices into their workplace retirement plan designs. They are benefiting from retirement plan auto-services and want more of them."

MILLENNIALS VS. BABY BOOMERS

- **Millennials are saving nearly as much for retirement as baby boomers:** Millennials are saving an average of 8% (median: 6%) of their annual salary for retirement, while baby boomers are saving an average of 9% (median: 8%).
- **But more millennials have increased their 401(k) savings this year compared with baby boomers:** Almost double the percentage of millennials are saving a higher percentage of their income in 401(k) contributions in the past 12 months compared with baby boomers (40% vs. 21%).
- **More millennials wish their employers auto-enrolled them in 401(k)s at a higher savings rate:** Of the millennials who were auto-enrolled in their employers' 401(k) plans, 47% wish their employers had enrolled them at a higher contribution rate. However, only 34% of baby boomers who were auto-enrolled wish their employers had enrolled them a higher contribution rate.
- **Millennials are more likely than baby boomers to track expenses and budget:** 75% of millennials track expenses carefully, while only 64% of baby boomers do the same. Similarly, 67% of millennials say they stick to a spending budget, compared with 55% of baby boomers.
- **Millennials want advice and are more likely to use robo-advisors:** 58% of millennials say they would benefit from help managing spending and debt, compared with only 24% of baby boomers. Additionally, 38% of millennials have employed an advisor in the past five years, including 11% who have used robo-advisors. While about an equal percentage of baby boomers have employed an advisor, only 2% have used robo-advisors.
- **They fund emergencies differently:** Millennials are more likely than baby boomers to seek the help of family and friends (55% vs. 17%) if faced with a sudden financial emergency. They are also more likely to use credit cards (57% vs. 43%).

MILLENNIALS ARE MOSTLY SAVERS

- **Millennials profess to live within their means and to save by any means necessary:** 88% of millennials say they are pretty good at living within their means, and 67% say they save by any means necessary.
- **They are more comfortable saving extra money than spending it:** 74% of millennials say they are more comfortable saving and investing extra money than spending it.
- **Their employers' 401(k) matches largely drive saving behavior:** 59% of millennials set their 401(k) contribution rate to take full advantage of their employers' matches, and 31% set their contribution rate to take partial advantage of their employers' matches.
- **Most are better off financially than their parents were at the same age:** 72% of millennials say they are somewhat or much better off financially than their parents were at the same age.
- **Saving for retirement and paying down debt are equally important:** When asked to rank their financial priorities, about the same percentage of millennials identified contributing to their 401(k)s but below the match (27%) as their top priority as those who identified paying down debt (28%).
- **Most millennials expect Social Security to go bankrupt before they retire:** 60% of millennials agree with the statement, "I expect Social Security to go bankrupt before I retire."

401(K) AUTO FEATURES WORK

- **Millennials are satisfied with auto-enrollment:** Of the millennials who were auto-enrolled in their 401(k) plans (20%), 79% are satisfied that their employers automatically enrolled them into their 401(k) plans.
- **Auto-enrollment rates can be set higher:** The average default contribution rate for millennials who were auto-enrolled is 3%. However, millennials say they would not opt out until the average default contribution is 6%. In fact, more than a quarter (27%) say they would not opt out until the default contribution was 10% or higher.
- **Millennials want their employers' full contribution match:** 80% of millennials who were auto-enrolled into their 401 (k) say that their employers should set the auto-enrollment contribution rate high enough to take full advantage of the company's 401(k) match.
- **But some are reluctant to save at higher rates:** 32% of millennials who were auto-enrolled at 1% would say they would opt out at 2%. Similarly, 38% of millennials who were auto-enrolled at 2% say they would opt out at 3%.

UNDERSTANDING OF TARGET DATE FUNDS

- **Millennials understand that target date funds hold a mix of asset classes:** Of the millennials who invest in target date funds (47%), 79% understand that these funds hold a mix of asset classes that change over time.
- **But they may not have a full appreciation of all risks:** 68% of millennials who invest in target date funds agree with the statement, "Target date funds are usually less risky than balanced funds." While the target date funds held by baby boomers approaching retirement may look more like balanced funds, millennials most likely have higher equity allocations in the target date funds when compared with a balanced fund. This would potentially subject them to more market risk and volatility.
- **And they do not understand that these funds offer one-stop diversification:** 78% of millennials with target date funds agree with the statement, "It's better to hold additional funds in your 401(k) than just a target date fund." Given that target date funds often hold over a dozen mutual funds investing in different asset classes, holding additional funds can create overlap and reduce diversification.

WHO IS NOT SAVING IN THEIR 401(K) PLAN

- **Women are less likely to save in 401(k)s:** The survey also included a separate sample of 255 millennials who are eligible to participate in 401(k)s but are not, and 68% of the non-savers are women. Within the sample of millennials who are saving in their 401(k)s, only 41% of savers are women.
- **And when they do save, they save less than men:** The average 401(k) balance for women participating in their 401 (k) is $38,000 (median: $11,000), compared with men, who have an average balance of $74,000 (median: $22,000). Additionally, women are contributing an average of 7.2% (median: 5%) of their annual salary to their 401(k), compared with men, who contributing an average of 8.4% (median: 7%).
- **Non-savers make less money and have more student debt:** The median personal income of the millennials who are not participating in their 401(k)s, including both men and women, is $28,000, compared with $57,000 within the sample of millennials that are saving in their 401(k)s. They are also more likely to have student loan balances (66%), and their median student debt is $22,000. In contrast, among the savers, fewer have student loan balances (51%), and their median student debt is $16,000.
- **Their educational attainment is the same as those who are saving:** 41% of the non-savers, including both men and women, have obtained a four-year college degree or more, compared with 42% of the millennials who are saving.
- **It is difficult for non-savers to meet their monthly expenses:** 39% have trouble meeting monthly expenses. And only 54% are more comfortable saving and investing than spending.(Based on those who very or somewhat agree that these statements describe them when it comes to money).

ABOUT THE SURVEY
This research is based on online interviews with workers and retirees. This includes 3,026 working adults age 18+ who are currently contributing to a 401(k) plan or are eligible to contribute and have a balance with their current employer of $1,000 or more. Additionally, 255 millennials (ages 18-33) who are eligible for a 401(k) at their current employer but not contributing and do not have a balance in that 401(k) were surveyed. Retirees are represented by 1,027 adults who have retired in the past one to five years and who have a Rollover IRA or an account balance in a left-in-plan 401(k) plan. Interviewing was conducted during February 19 through March 25, 2015. All three samples are subject to a margin of error of just under 3%.

ABOUT T. ROWE PRICE
Founded in 1937, Baltimore-based T. Rowe Price (NASDAQ-GS: TROW) is a global investment management organization with $772.7 billion in assets under management as of March 31, 2015. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers a variety of sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. For more information, visit troweprice.com or our Twitter, YouTube, LinkedIn, and Facebook sites.

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