How Do Young Workers Prepare for Retirement?

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April, 2009

Table of Contents

ABSTRACT

The Millennial Generation is defined as those ages 15-30 in 2009 and is comprised of 80 million individuals (Elswick, 2004). This study explores how a segment of this generation, young workers between the ages of 18-30, is currently saving for retirement given the unprecedented economic challenges they face. These challenges include rising everyday expenses, record amounts of student loan and credit card debt, as well as how they will prepare for retirement given the uncertainty surrounding Social Security. The purpose of this study is to evaluate young workers current financial situation, retirement plans, and retirement expectations. Using data collected from a survey distributed to 149 individuals between the ages of 18 and 30, the study examines how young workers are preparing for retirement and if any variables increase the likelihood of preparation. The results of the study show that age and education play the most significant role in the likelihood that an individual is currently saving for retirement. In addition, young workers seem to have identified the challenges facing the Social Security system and recognize that they need to compensate for these payments to be adequately prepared for retirement.

INTRODUCTION

A new generation known as "Millenials" has emerged with numbers exceeding the often studied Baby Boomer generation. The Millennial generation includes 80 million individuals who were born from 1979 to 1994. In comparison, the Baby Boomers are comprised of 76 million individuals born during the period 1946 to 1964 (Elswick, 2004). Baby Boomers are the largest group to ever enter retirement and much attention has been paid to their retirement needs, their preparedness for retirement and the subsequent impact on corporate America when these individuals retire. However, insufficient attention has been paid to how Millenials are coping with the unprecedented economic challenges they face towards retirement and what steps they need to take to be able to successfully retire. Due to the large variance in age within the Millennial generation, with members ranging in age from 15 to 30 years old, the life circumstances, experiences and challenges these individuals are facing varies greatly. This study examines Millenials that are currently between the ages of 18 and 30 because these individuals are more likely to be financially independent and looking towards their future than Millenials under the age of 18.

The familiar retirement mantra of the past, known as the "three legged stool," is becoming increasingly unsteady for today's young workers. The first leg of the stool, defined benefit plans, or pensions, is not offered at a majority of companies today and is instead being replaced by a defined contribution plan that is funded wholly or in part by the employee. The second leg of the stool, Social Security payments, faces an uncertain future and many Millenials are wondering how much or if they can even rely on Social Security payments to help fund their retirement. Lastly, the third leg of the stool, personal savings, is not compensating for the decrease in funds received from Social Security and employer sponsored retirement plans. The national personal savings rate is believed to be at or below 0%, which raises the question of how young workers will prepare for retirement if they are not saving (BEA, 2009).

Given that the second leg of the stool, the Social Security program, is currently on the path towards exhaustion, young workers need to recognize that they are likely to receive fewer benefits than previous generations and cannot depend on these payments as a large source of retirement income. Although the current Social Security systems revenues exceed the systems outlays, this will drastically change once Baby Boomers enter retirement. Currently, there are 76 million Baby Boomers living in the United States and many are still contributing to the Social Security System; however, as these Boomers begin to retire, Social Security outlays will be drastically increased and revenues will consequently decrease as these workers are no longer contributing. Thus, under the current system, young workers will be struggling to support Baby Boomers in retirement with little chance of receiving benefits during their own retirement, as Social Security trust funds are expected to be exhausted by 2049 (CBO, 2008).

In addition, young workers are being faced with much more responsibility and control over their retirement planning than previous generations due to the decrease in the number of pension plans and the uncertainty surrounding Social Security benefits. Traditional benefit plans required little involvement of the employee because the employer funded and invested the retirement plan and the employee was guaranteed to receive these benefits. However, defined contribution plans, which are the dominant form of employer sponsored retirement plans offered, requires that employees fund their own plan and have control over how much they invest, how often they contribute, and they must choose their investments. In order to successfully build wealth and maximize the benefits of various retirement savings vehicles, young workers need to have basic knowledge of financial concepts including financial markets, savings vehicles, and levels of asset risk.

A primary objective of the current study is to evaluate younger workers thoughts on retirement and add to the understanding of young workers financial outlook and expectations for their future. This study explores young workers current financial situation, how they perceive their financial management skills, how young workers plan on financing their retirement, their expectation of Social Security payments, and if/how young workers plan on compensating for the weakening second leg of the retirement stool, Social Security payments. The answers to these questions are explored by analyzing the observations collected from a survey.

LITERATURE REVIEW

Young Workers Values Compared to Baby Boomers

A 2004 survey conducted by CIGNA Retirement & Investment Services on workers retirement planning found that "Millenials" and "Baby Boomers" have differing views on retirement planning. For the purpose of this study, the authors defined Millenials as individuals born after 1979 and are just entering the workforce and Baby Boomers as individuals born between 1946 and 1956 and are beginning to retire (Services, 2004). The survey's findings show that 401(k) plans offered by employers are failing to attract Millenials, which brings attention to the retirement security of an entire generation that is larger in size than Baby Boomers. Therefore, it is important for employers to adapt their communication regarding benefits to Millenials, as this large group continues to enter the workforce and replaces retiring Baby Boomers. To demonstrate how large the Millennial and Baby Boomer generations are; recent statistics claim there are as many as 80 million Millenials and 76 million Baby Boomers currently living in the United States compared to only 20 million Generation X cohorts, the individuals born after Baby Boomers but before Millenials (Elswick, 2004).

With employer sponsored pensions quickly disappearing, the 401(k) plan was developed more than 20 years ago as a replacement retirement vehicle for Baby Boomers to build wealth and security for retirement. John Y. Kim, President of CIGNA Retirement & Investment Services said 401(k) plans are "designed and administered by Baby Boomers to meet their own expectations and needs, [which] is currently being lost on young Americans now entering the workforce" (Services, 2004). The results of CIGNA's survey show that one third of Millenials do not participate in their employer sponsored 401(k) plans while only 16% of Baby Boomers do not participate in their employer sponsored 401(k) plans. The overall average of individuals of all ages that do not participate in 401(k) plans is around 25% (Elswick, 2004). Among the young workers that do participate in employer sponsored 401(k) plans, a Hewitt Associates study found that the average contribution is only 5.6%, which is less than the average 6% that employers require employees to make before they match employee contributions (Block, 2006).

Possible explanations for why 401(k) plans are not engaging young workers range from the difference in age between Baby Boomers and Millenials to the fundamental difference in beliefs, values, and needs between the two groups. For instance, more than 50% of Millenials state their most important concern is “paying everyday expenses” or “saving for a new house and car,” while 37% of Baby Boomers cite “saving for retirement” as their most important concern. The CIGNA survey also found that almost half of the Millenials surveyed responded that their current attitude on retirement saving could best be described as “living in the moment” (Services, 2004).

If Millenials continue to not participate in 401(k) plans and make retirement planning a priority, they will face serious consequences when they are ill-equipped to retire. Deanna Miller, Vice President of Education and Communication at CIGNA Retirement & Investment Services explains the situation by saying: “at a time when the future of Social Security is more and more problematic…if we can’t convince Millenials to participate effectively and robustly in these plans, we put the retirement security of an entire generation at risk” (Services, 2004). With the uncertainty surrounding the Social Security system, it is imperative that young workers recognize the benefits of participating in a 401(k) plan from a young age. The table below illustrates Miller’s point that the earlier Millenials save for retirement, the more they can reap the benefits of compounding.

Age of Investor	Amount of Investment	Length of Investment	Savings Accumulation at Age 65
25	$200 month at 8% return	10 years	$402,797
35	$200 month at 8% return	30 years	$300,059

Graphic 1 – Benefits of Early Saving
Source: CIGNA Retirement & Investment Services, 2004

Similar to the CIGNA study, the 2008 MetLife Study of the American Dream sought to evaluate Baby Boomers, Generation X cohorts and Generation Y cohorts’ views on retirement, in particular their ability to sustain or achieve the American dream. The study found that the general weakening of the economy in 2008, coupled with the weakening of

Social Security and corporate sponsored pensions placed an increased burden on all generation's financial security. The study breaks down different components of the American Dream and separates the responses by generation in order to compare divergent beliefs and values. For the purpose of this study, MetLife interviewed 282 Baby Boomers, classified as those born between 1946 and 1964 and 154 members of Generation Y, described as individuals born after 1977 and were at least 18 years of age when surveyed (MetLife, 2008).

Of the 521 Baby Boomers and 306 Generation Y cohorts surveyed, 64% of Baby Boomers cited financial security as an important component of the American Dream compared to only 55% of Generation Y cohorts. Most surprisingly, 45% of Baby Boomers stated that a comfortable retirement is necessary to achieve the American Dream while only 18% of Generation Y cohorts stressed the importance of a comfortable retirement. Lastly, only 22% of Baby Boomers cited a successful career as an important factor in the American dream, versus 55% of Generation Y cohorts (MetLife, 2008).

In line with other research regarding young workers lack of saving, the MetLife researchers identified young workers emphasis on material possessions, iPods, flat screen televisions, cars, clothes etc. more so than other generations. Hence, 74% of Generation Y cohorts said they agree with the statement "I feel like the bar is constantly rising in terms of the basic necessities of life" and feel that they are always rushing to obtain those new necessities, while only 65% of Boomers feel the pressure of rising standards (MetLife, 2008).

In regards to federal programs, such as Social Security, 67% of Baby Boomers and 61% of Generation Y cohorts agreed with the statement "I can't rely on the government for my financial security, which means more pressure on me to provide for my family and myself" (MetLife, 2008). These statistics show the uncertainty surrounding the Social Security system and how much will be paid or if payments will be made to future retirees. It also demonstrates the pressure that both Baby Boomers and Generation Y cohorts feel to compensate for the possible loss or reduction of Social Security benefits with the weakening of one leg of the "three legged stool." Similar to their beliefs on Social Security, 68% of Baby Boomers and 65% of Generation Y cohorts responded that they were "frustrated that [they] can no longer count on employer sponsored benefits, such as healthcare and pension plans, like previous generations could" (MetLife, 2008). When asked about creating a financial safety net for their futures, 78% of Generation Y cohorts and 75% of Baby Boomers agreed with the statement "In light of uncertainty about traditional corporate and social safety nets, I'm taking action to create my own personal safety net to protect my financial future" (MetLife, 2008). This demonstrates that these generations have at least acknowledged that pension plans and Social Security are disappearing or at risk, leaving only one leg of the "three legged" stool remaining. Thus, a majority of individuals from both generations plan to compensate for this lack of "safety net" in some manner.

Of the individuals that were planning on or had already started to build a safety net, the MetLife survey asked "what specific steps are you taking or do you plan on taking to create your own personal financial safety net?" As seen in Graphic 2 below, 41% of Generation Y cohorts are saving money in an unidentified manner, presumably a savings account. However, only 15% are investing in retirement savings vehicles such as 401(k) plans and IRA's that offer tax incentives. This statistic is consistent with other research stating that young workers are not investing in 401(k) plans as much as Baby Boomers. In addition, when asked about the importance of companies offering benefit plans, even if most of the cost is paid by employees, only 61% of Generation Y cohorts said this was very important to them, while 74% of Baby Boomers felt it was very important. Most alarmingly, 8% of Generation Y cohorts that said they are going to create a financial safety net to compensate for Social Security and nonexistent pensions have taken no steps to create a financial safety net (MetLife, 2008).

Financial Safety Net	Baby Boomers	Generation Y
Savings/putting money away	26%	41%
Investing in a retirement account (401(k), IRA)	19%	15%
Reduce/Eliminate Debt/Not use Credit	5%	1%
Higher Education	0%	5%
Investing Money	10%	4%
Watching spending/budget better/spend less	3%	2%
None/Taking no Steps to create a safety net	4%	8%

Graphic 2 – Steps taken to create a financial safety net
Source: The 2008 MetLife Study of the American Dream

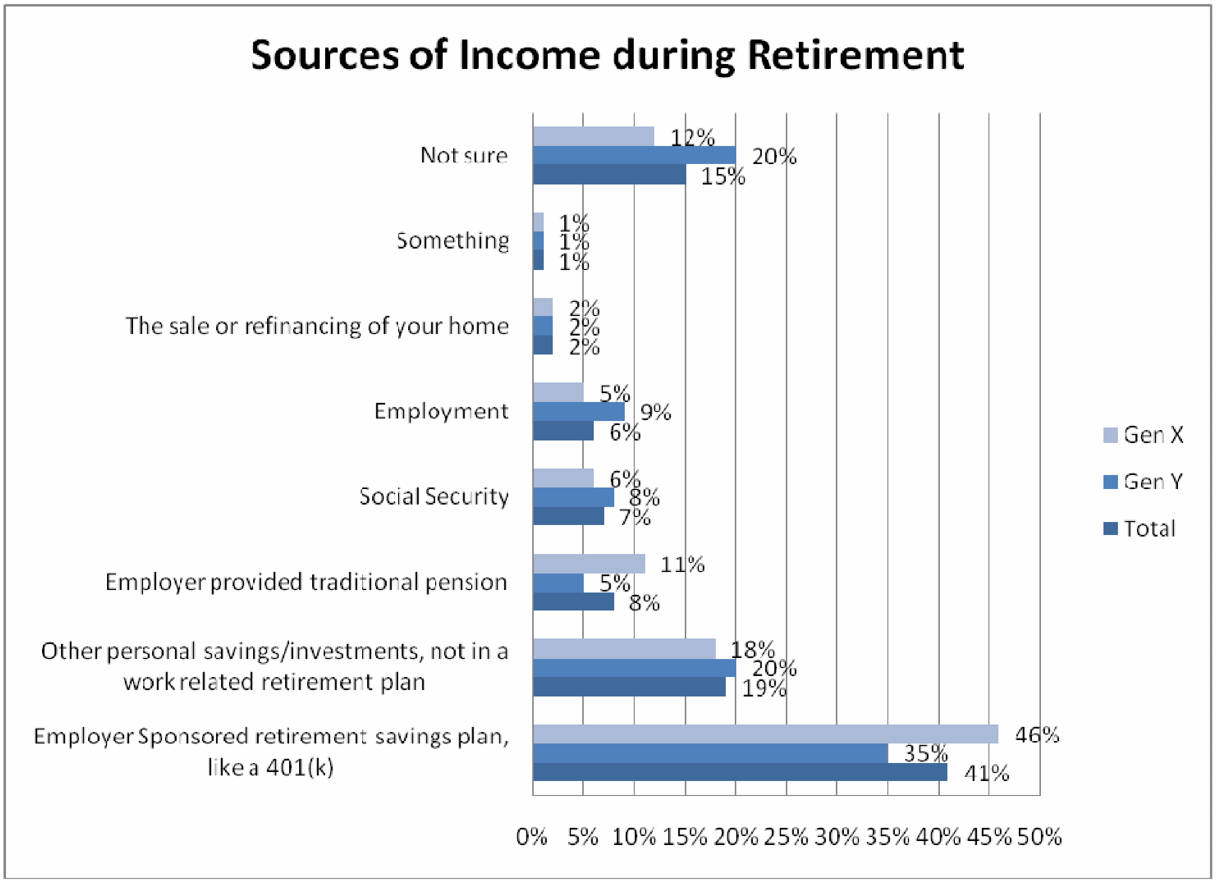
Retirement Expectations

With the early members of the Baby Boomer generation reaching retirement age and millions more rapidly approaching, much of the focus on retirement planning and preparation has been focused on this generation. However, with an even larger group of young workers in the early stages of their career or about to enter the job market, it is imperative that adequate attention be paid to their financial security. By exploring young workers feelings and knowledge on retirement planning early on, it provides ample time to correct unrealistic expectations and start young workers on the right path to saving.

In 2008, AARP and the American Savings Education Council released a study entitled "Preparing for Their Future: A Look at the Financial State of Generation X and Y." The study found that 51% of Generation Y cohorts have given some thought to their retirement. In particular, young workers that were eligible for employer sponsored retirement plans were more likely t to think about their retirement than those individuals that were not eligible for those employer benefits. Possible explanations for these statistics are that workplaces that provide benefits promote long term goal planning or workers that are thinking about retirement are more likely to seek jobs that offer retirement benefits (AARP & ASEC, 2008). Regarding their anticipated age of retirement, 58% of young workers plan on retiring between ages 60 to 69, while only 13% of Generation Y cohorts think they will retire in their seventies.

While 51% of Generation Y cohorts have thought about their retirement at some point, only 27% of Generation Y cohorts have actually started saving for retirement. The study shows that age, income, and education have a positive linear relationship to retirement savings. Caucasian and Asian young adults are also significantly more likely to start saving for retirement earlier than African Americans and Hispanics (AARP & ASEC, 2008).

When asked what their largest source of income will be during retirement, 35% of Generation Y cohorts expect to depend on their employer sponsored defined contribution plan, while 5% expect to depend on their employer sponsored defined benefit plan. Meanwhile, 8% of Generation Y cohorts expect that Social Security will be their greatest source of retirement income (AARP & ASEC, 2008). Overall, young workers have relatively low levels of confidence that they will receive Social Security benefits that are comparable to current retirees; yet 27% of Generation Y cohorts believe that they will receive comparable Social Security benefits. The chart below shows in more detail the sources of income that Generation Y cohorts expect will provide them with the most income during their retirement.



Graphic 3 – Largest Source of Income during Retirement
Source: AARP & ASEC, 2008

Financial Illiteracy

The growing complexity of the national financial system and the increasing responsibility that is being placed on individuals to manage their own personal finance is being called "A Perfect Storm" for a financial meltdown by Dr. William Anthes, the President and CEO of the National Endowment for Financial Education. In his article, "Financial Illiteracy in America: A Perfect Storm, a Perfect Opportunity," Dr. Anthes cites a variety of factors for why financial illiteracy exacerbates the problems affecting Americans financial security. Recent research has shown that a large portion of Americans of all income levels, ages, and educational backgrounds do not have sufficient knowledge of basic financial concepts. The AARP and ASEC joint study on the financial situation of members of Generation X and Y found that 53% of Generation Y cohorts are more knowledgeable about their iPod than they are about buying a home (17%), investing outside of their workplace savings vehicle (18%), and about saving for retirement (16%). In addition, only 15% of young workers categorized themselves as "very knowledgeable" about retirement planning (ASEC, 2008)

Currently, the United States reportedly has the lowest savings rate in the industrialized world. Recent surveys have found that half of Americans often live from paycheck to paycheck, making it impossible to save for future financial security. Hence, Americans are not prepared for retirement. Research has shown that 58% of workers claim they are currently saving for retirement, but have saved only a small amount (Anthes, 2004).

The shift from traditional company pensions, which were provided and managed by employers, to defined contribution plans, which are funded and managed almost entirely by employees, requires that individuals make more choices regarding their financial well being. However, if individuals do not have adequate knowledge of basic financial concepts, they cannot make informed decisions about their retirement accounts (Anthes, 2004). A 2004 Retirement Confidence Survey found that only 42% of individuals report they have calculated how much money they think they will need to save to live comfortably during retirement. Most alarmingly, half of workers that have not yet started saving for retirement state they are at least somewhat confident they will have sufficient money during retirement.

In addition, the author blames a shaky "three-legged stool" for why American's financial security is in danger. Traditionally, retirement planning has three basics components or "legs," which consist of Social Security, employer pensions, and personal savings (Anthes, 2004). However, with the increasing uncertainty of Social Security, the disappearance of employer pensions, and the abysmal personal savings rate, individual's long term financial security is in jeopardy.

Along with the rise in attendance at universities and increasing longevity statistics, individuals are spending less time accumulating savings for retirement and more time spending it. Research shows that in 1930, individuals began saving for retirement at age 20 and continued to save until their late 60's; while in 2000, individuals began saving after age 25 and stopped saving before 65. However, in the 1930's the average American spent a maximum of 20 years in retirement, compared to 35 years in 2000 (Anthes, 2004).

In line with Dr. Anthes findings regarding the lack of financial education plaguing young workers, a study conducted by Beacon Economics on behalf of the financial literacy group, AICPA, also illustrates the poor financial habits of young Americans and the effect this will have on their future financial security. Dr. Christopher Thornberg, one of the two economists that performed the study said, "Despite higher incomes, [25-34 year olds] median net worth is significantly lower than it was 20 years ago." Other troublesome statistics include, the number of 25-34 year olds that have an interest bearing savings account declined from 61% in 1985 to 47% in 2004, while the ownership of stocks and other savings instruments dropped 10% in that same 19 year period (Snyder, 2007). Chair of the AICPA Board of Directors, Jimmy Williamson, found the findings of this study extremely troubling because it demonstrates how "Americans in this age group don't seem to understand that their current financial habits profoundly influence long term financial security."

Financial planners and CPA's are recognizing that they can initiate a dialog about the need to start saving early with their Baby Boomer clients, who will in turn pass this information onto their children, today's young adult workers. Research from Fidelity Investments shows 57% of Generation Y cohorts, defined as those born between 1976 and 1987, feel they are not making sound financial decisions; however, a significant portion of these individuals are not seeking financial guidance. When Generation Y cohorts do need guidance, 43% of Generation Y cohorts cite their parents as the number one resource they turn to for help and questions on financial matters. By emphasizing the unique challenges that young workers today are facing, such as greater longevity, higher standards of living, greater amounts of debt, and the disappearance of Social Security and employer sponsored retirement programs, it is essential that financial planners find a means to reach out to young workers and stress the importance of saving (Snyder, 2007).

<u>Obstacles to Saving</u>
While most young workers understand the importance of starting to save for retirement at a young age, many young workers are unable to save money. Simply put, many young workers cash inflows are insufficient to support their cash outflows, making it near impossible to set

aside money to save. In addition, when young workers are able to find extra cash to save for retirement, it is often difficult to know how to invest these funds.

In her book, *Strapped: Why America's 20-And 30-Somethings Can't Get Ahead*, author Tamara Draut outlines the various obstacles young workers are faced with when trying to build a future in today's world. For the purpose of Draut's book, she uses the term "young adults" to describe individuals aged 18 to 34 in 2005, or those born between 1971 and 1987 (Draut, 2005). Throughout her book, Draut focuses on four main areas that are greatly affecting young workers financial futures:

- Higher Education and the "luxury priced necessity" of college educations in today's marketplace
- "Paycheck paralysis" which prevents young workers from saving
- "Generation Debt" which explores how young workers are forced to use debt to stay afloat
- Rising cost of housing

In recent years, college has become a high priced necessity for young workers if they want to be a member of the middle class. As a result, nearly two thirds of college students graduate with student loans. However, this was not always the case. In 1977, college students borrowed about $6 billion, accounting for inflation; in 2003 that number ballooned to $56 billion. To illustrate how unaffordable college is for today's young adults, Draut explains that the number of college students enrolled in a university grew by 44% from 1977 to 2003; however the volume of student loans taken out has increased by 833% (Draut, 2005).

Draut identifies how sky rocketing tuition prices, coupled with record low levels of student aid have "created a debt-for-diploma system that is stunting many young adults economic progress as they try to start their lives." The author references a 2002 Nellie Mae Corporation study that found college graduates are leaving school with an average of $20,000 in student loans and those that continue on to graduate school face about $45,000 in student debt. For those individuals that go on to law school or medical school, they can expect to rack up over $90,000 in student debt (Draut, 2005). Debt payments for student loans alone, not including credit cards, mortgage payments and auto loans, can easily eat up 20% of young worker's incomes, leaving little behind to save for retirement.

Keeping in line with the mounting number of college graduates, Draut refers to the "bachelor's degree [as] the new high school diploma, [making] the master's degree the new bachelor's" (Draut, 2005). In the current job market, a Bachelor's degree is the bare minimum to gain entrance into a middle class lifestyle, making it essential to get a Master's degree or more if one wants to advance in their career. Research shows that one's earning power is dramatically increased with the number of degrees earned. For example, an individual with a two year vocational degree can expect to earn $1.8 million over 40 years, while an individual with a Bachelor's degree can expect to earn $2.5 million, a graduate with a Master's degree will earn $2.8 million, and a professional or doctorate degree amounts to $3.8 million in earnings over 40 years (Kapoor, Dlabay, & Hughes, 2009).

Young workers that are holding down full-time jobs are earning less than they would have twenty or so years ago. For example, in 1974, the average earnings for males aged 25 to 34 years old with a high school diploma was $42,697, adjusting for inflation, while in 2004 that same worker would earn only $30,400. Same goes for young male college graduates; in 1974 they would have earned $51,223, adjusting for inflation, while in 2004 they are making $50,700 (Draut, 2005). The consequences of this "paycheck paralysis" are that young workers have less money after living expenses and day to day necessities to contribute to a savings plan or a 401(k) plan.

Due to dwindling salaries, the need for credit to survive after college has been chalked up to three issues: young workers are earning less than their parents did at the same age, are facing higher costs for housing, and are graduating from college with excessive amounts of student loans. Pamela Norley, executive vice president, Fidelity Consulting Group commented on the company's findings saying "Our research revealed that younger generations are more likely to use credit than save for short-term purchases, which results in an ongoing struggle with debt management" (Investments, 2008).

Given this situation, the average credit card debt in 2004 was $4,358 (Draut, 2005). Current research regarding debt payments have found that twenty five cents of every dollar young workers earn goes to nonmortgage debt payments including student loans, car loans and credit cards. This makes it extremely hard for young workers to save money for any of their financial goals, especially putting money away to accumulate a down payment for a house or retirement. Research by the Federal Reserve Bank of San Francisco found that the United States personal saving rate has dropped from 8% from the early 1990's to zero in 2005, which is the lowest saving rate since the Great Depression (Draut, 2005)

From 1995 to 2002, median rents in major metropolitan areas rose by more than 50%; therefore, rent payments take up a larger portion of young workers income each month. In 2002, the average young adult spent 22% of their income on rent, which is a 5% increase from 1970 (Draut, 2005). Spending 22% of income on rent and 20-25% on debt payments leaves young workers with only half of their take home pay to survive on each year.

Lastly, young workers are not receiving the same fringe benefits that older generations enjoyed such as health insurance and guaranteed pension plans. According to the Employee Benefit Research Institute, 44% of private sector employees were in defined benefit plans in 1974, compared to only 17% of workers who are enrolled in such plans today (Draut, 2005). Also, only 50% of all private sector workers today are covered by any type of retirement plan, including pensions and 401(k) plans. Consequently only 35% of young workers are currently saving for retirement, according to the Federal Reserve Survey of Consumer Finances (Draut, 2005). Research by Fidelity Investments found that 44% of Generation Y workers list saving for retirement as a financial goal, but state that other financial priorities and managing their debt are more pressing issues (Investments, 2008).

<u>The Role of Financial Education</u>

Due to the erosion of the "three legged stool," young workers today are being faced with serious decisions about their personal finances, particularly their retirement planning. Along with the change from defined benefit plans to defined contribution plans, young workers are being presented with decisions such as how much to save, when to start saving and where to invest their funds. However, if young workers do not have adequate knowledge of basic financial principles, then they are putting their entire retirement planning and personal financial security at risk. If individuals do not have a proper understanding of the risk of certain assets, the markets they are invested in, or how much they need to save for retirement, then they will find themselves ill-prepared for retirement. Therefore, young workers must realize that financial literacy is essential to ensure that they can retire comfortably.

A study conducted by Clark, d'Ambrosio, McDemed, and Sawant, sought to identify the connection between financial education and individuals' savings decisions and retirement goals. The objective of this study was to identify "how individuals alter their stated goals on retirement age and income, how they modify their investment choices in their retirement accounts, and how they change their desired saving behavior" after participating in a one hour financial education course (Clark, d'Ambrosio, McDermed, & Sawant, 2006). The research questions the author's identified were:

- Do individuals intend to revise their retirement goals and modify their saving behavior?
- Do respondents actually follow through and make the desired changes in their plan of saving for retirement?

To address these research questions, the author selected study participants who attended a financial education seminar offered by TIAA-CREF across the United States. Analysis and conclusions were based on the results of three separate surveys given to participants. Survey one was completed by participants prior to the start of the seminar, survey two was completed by participants at the end of the one hour seminar and survey three was mailed to participants three months after the individual's participation in the seminar. Survey one asked participants to indicate their expected retirement age, the amount of annual retirement income they hope to retire with as a percentage of their earnings in their final few years in the workforce, and the likelihood they will achieve these retirement goals. Survey two asked participants if they intend to change how their funds are allocated, if they intend to increase their contributions to supplemental savings plans. A total of 633 responses to surveys one and two were received by the research team; however, only 110 participants surveys one, two, and three.

Of the 633 participants that responded to surveys one and two, 72% were sure that they would achieve their retirement age goal and 63% were certain that they would achieve their retirement income goal, prior to participating in the financial education seminar. Prior to the seminar, the average participant had a retirement age goal of 64 and retirement income goal of 80% of pre-retirement earnings. Nonetheless, there was considerable variation in participants goals based on demographic characteristics such as age, gender, marital status and children as well as human capital variables such as education, occupation and years of employment with their current employer (Clark, et al., 2006)

According to the results tabulated from survey two, 34% of participants altered either their retirement age goal or their retirement income goal following the one hour financial education seminar. Ninety-one percent of survey participants claimed they would be making changes to their retirement savings plans by increasing contributions to tax deferred accounts or re-allocating their investment portfolios. Forty percent of survey participants that did not have a supplemental retirement plan through their employer planned to start one after attending the seminar. While 37% of respondents that did have a supplemental plan planned to increase their contributions. Lastly 29% of respondents planned to open an IRA (Individual Retirement Account) or increase their contributions to an existing IRA (Clark, et al., 2006).

The authors key findings from surveys one and two showed that younger workers had a greater likelihood of both starting a new supplemental plan and of wanting to increase contributions to existing plans. A possible explanation for this is that the seminar showed individuals the power of compounding and the benefits of beginning to save earlier in life (Clark, et al., 2006).

Of the 110 respondents that answered all three surveys, 25% of those that said they intended to create a supplemental plan actually created a new plan, while 63% said they still intend to open a new plan. Of the respondents that stated they intended to increase contributions, 42% actually did; while 30% of those surveyed that did not plan on increasing their contributions actually increased their contributions (Clark, et al., 2006). Individuals main reasons for not increasing their retirement savings were: use of the funds to pay off existing debt (22%), lower than expected income (16%), decided not to save more (16%) and failed to take the necessary actions (33%) (Clark, et al., 2006).

The findings of this research coincide with other research that suggests there is a weak link between actions and stated goals. By increasing employer's role in retirement planning, enrollment and contributions to supplemental retirement plans would be more effective. A 1996 study by Bayer, Bernheim and Scholz found that firms that offered financial education programs had higher participation rates and contribution rates in 401(k) plans compared to other firms that did not offer these services to their employees. The table below shows how Baby Boomers (born 1946-1956) and Millennials (born after 1979) prefer to receive information regarding retirement from their employer.

Source of Information	Overall	Boomers	Millennials
Brochure or printed Materials	44%	40%	47%
In a face to face meeting	33	36	30
In an electronic, interactive format, such as a CD	8	8	8
On the Internet	8	9	7
Over the phone	3	4	2
Other	1	1	2
Don't know	4	3	5

Graphic 4 – How Boomers and Millenials prefer to receive retirement information
Source: CIGNA Retirement & Investment Services, 2004

It is essential for young workers to understand the basics of their employer sponsored retirement plans, as well as other retirement savings vehicles in order to effectively manage their current and future financial situation. The authors of this study stress the importance of financial education and its relation to realistic and successful retirement planning; thus, employers of young workers should put forth a greater effort to provide the resources to educate their workers on the basics of financial planning to help them have a secure and enjoyable retirement.

Young workers poor financial knowledge has been well documented by previous research, as well as the economic challenges these workers will face in order to successfully retire. Thus, the aim of this current study is to add to the relatively small volume of studies that identifies young workers thoughts, plans and expectations for retirement. Specifically, this study will break down the 18 to 30 year old sample into smaller segments to illustrate if there are any changes in how young workers view retirement as they age.

SURVEY CONTENT AND PROCEDURES

The analysis of how young workers prepare for retirement is based on information acquired through a survey distributed during the period of December 10, 2008 to January 30, 2009. The twenty six question survey asked participants basic demographic information, their level of financial knowledge, their views on retirement and saving and any obstacles they face to saving. To see the complete survey, see Appendix B.

A total of 149 young adults participated in the study. Study participants consisted of current Bryant undergraduate students, Bryant alumni, and young adults outside of Bryant. Survey respondents had to be between the ages of 18 and 30 to qualify for the study. For the purpose of this study, young workers are defined as those ages 30 and under. Ninety three surveys were distributed by hand to students in Microeconomic Principles and Sexuality & Culture, 45 surveys were collected from Bryant alumni that graduated between 2001 and 2006 via email through the Bryant Alumni Link and the remaining 13 surveys were distributed by hand to young workers at various retail locations in Smithfield, Rhode Island and to young workers at the law offices of Cannon, Heyman & Weiss in Albany, New York. Before taking the survey, participants were provided with a brief statement explaining the purpose of the study and contact information should they have any additional questions. The table below details the basic demographic information of the study participants.

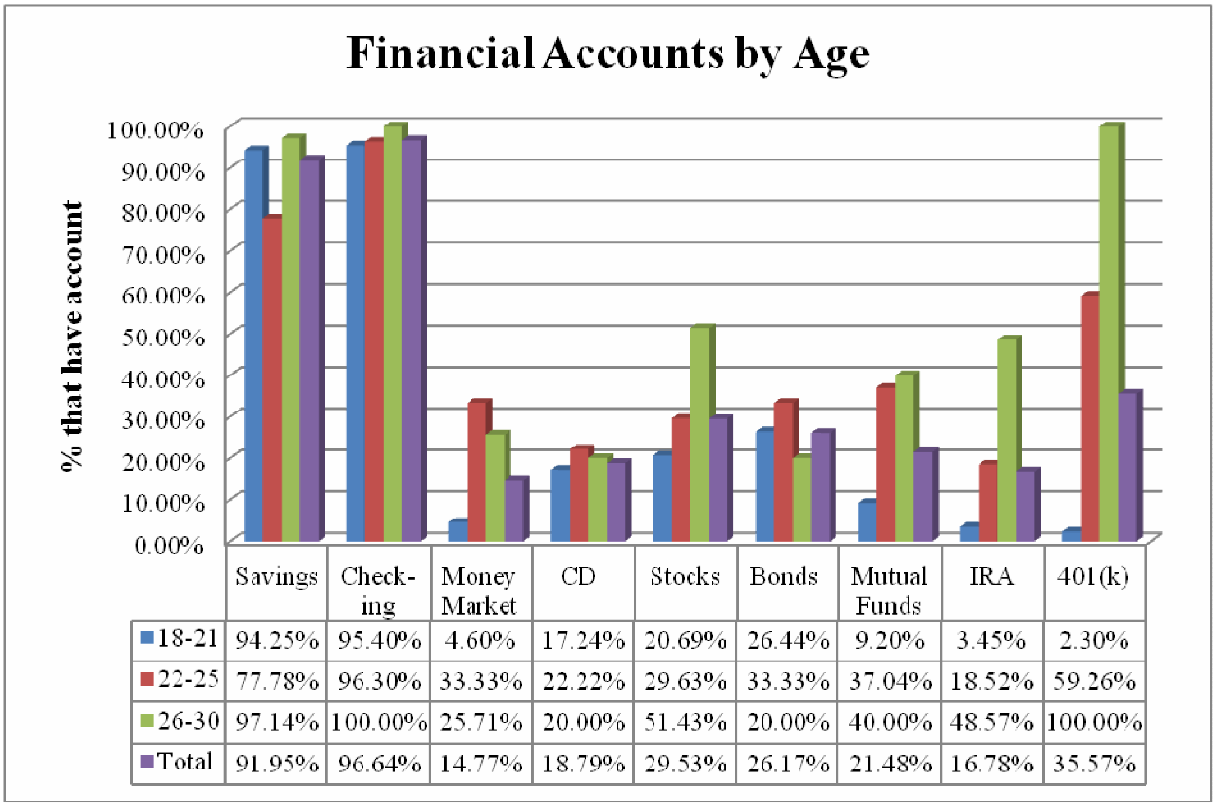
Gender	Count	Percentage
Male	60	40.3%
Female	89	59.7%
Age		
18-21	87	58.4%
22-25	27	18.1%
26-30	35	23.5%
Education		
High School or Equivalent	95	63.8%
Community College	3	2.0%
Bachelor's	34	22.8%
Master's or Professional	17	11.4%
Participants currently working towards Bachelor's		
Freshman	59	62.8%
Sophomore	6	6.4%
Junior	7	7.4%
Senior	22	23.4%

Graphic 5 – Demographic Information of Participants

DATA TABLES

Current Financial Position

The graph below shows respondents reply to the question "What kind of financial accounts do you have?" Survey respondents were instructed to select all accounts they are currently enrolled in.



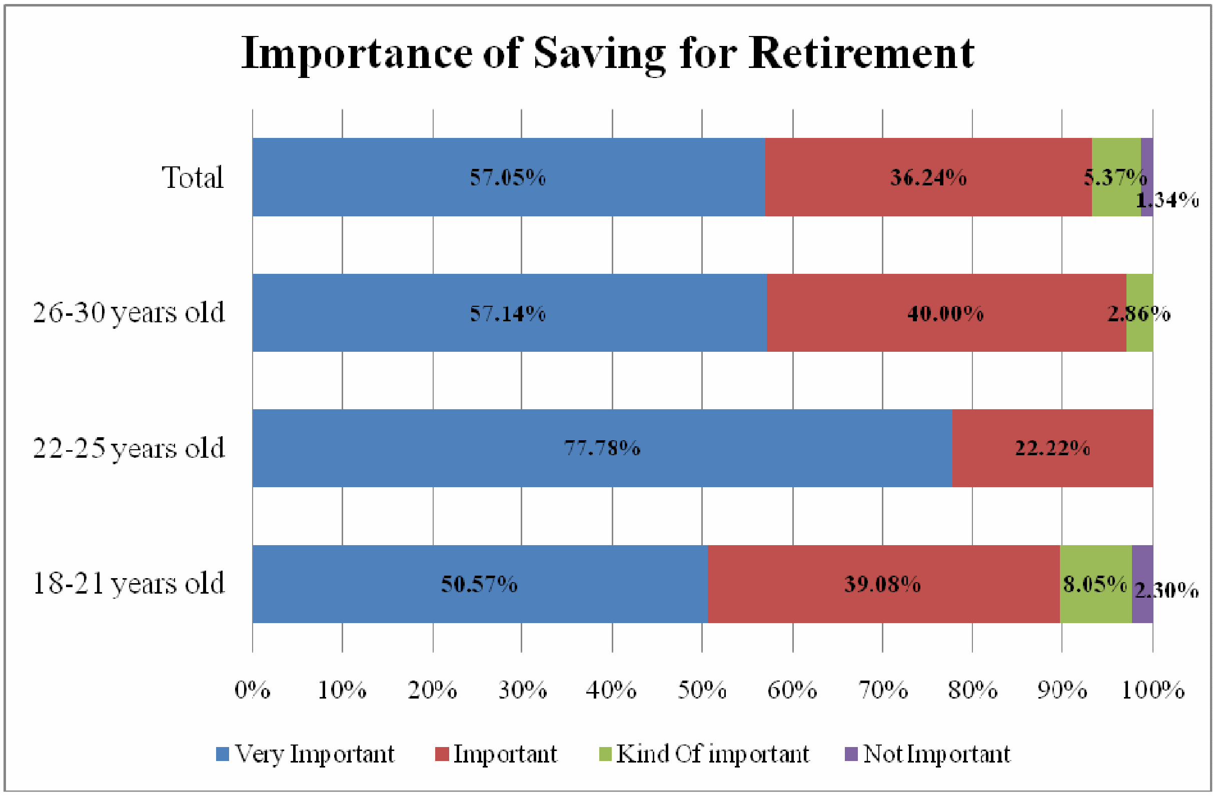
	Savings	Check-ing	Money Market	CD	Stocks	Bonds	Mutual Funds	IRA	401(k)
18-21	94.25%	95.40%	4.60%	17.24%	20.69%	26.44%	9.20%	3.45%	2.30%
22-25	77.78%	96.30%	33.33%	22.22%	29.63%	33.33%	37.04%	18.52%	59.26%
26-30	97.14%	100.00%	25.71%	20.00%	51.43%	20.00%	40.00%	48.57%	100.00%
Total	91.95%	96.64%	14.77%	18.79%	29.53%	26.17%	21.48%	16.78%	35.57%

Graphic 6 – Types of Financial Accounts vs. Age

As shown in the graph above, the vast majority of young workers at all age levels have both a checking and a savings account; however, only about 78% of 22-25 year olds have a savings account, which is significantly less than both the number of 18-21 year olds and 26-30 year olds that hold savings accounts. Interestingly, 100% of 26-30 year olds indicate that they have a 401(k) plan; however, their level of contribution and amount saved is unknown. More in line with previous studies, 59.26% of 22-25 year olds have a 401(k) plan. Again, their level of contribution and amount saved is unknown. Nonetheless, there are roughly 40% of 22-25 year olds that do not contribute to a 401(k) plan, which can most likely be attributed to smaller salaries and having little money left over to save after paying everyday expenses. An IRA is also a tax advantaged retirement savings vehicle; however, the statistics show that a relatively small number of 18-25 year olds are contributing to an IRA. However, 48.57% of 26-30 year olds have an IRA, meaning these individuals have opened an IRA to supplement their employer sponsored retirement plan, they do not have access to an employer sponsored retirement plan, or that these workers are rolling over their 401(k) balances into an IRA when changing jobs.

In addition, the numbers of young workers that invest in stocks and mutual funds generally increases with age as these individuals have more money available to invest. Previous studies have also shown that the number of young adults with an interest bearing savings account has significantly declined over the years. The responses given by young workers in this study coincide with these studies as only 14.77% of young adults age 18-30 are enrolled in a money market account.

As shown in the graph below, saving for retirement is a significant goal for the vast majority of young workers; however, it is of most importance to 22-25 year olds and there is a slight decrease in the importance of saving for retirement for 26-30 year olds. A possible explanation is as young workers get older, they accumulate more responsibilities through marriage, starting a family and having a mortgage; therefore, they have to prioritize their goals and saving for retirement may not be as important as before. Also, about 10% of 18-21 year olds stated that retirement was only kind of important or not important at all. This reaction is possibly due to the fact that retirement seems like a distant goal for these young workers and they have not recognized the need to start saving early or are faced with too many other priorities that saving for retirement is not an option.



Graphic 7 – Importance of Saving for Retirement

Given the importance young workers put on saving for retirement, the survey asked young workers when they plan on starting to save for retirement. The table below shows young workers responses.

	When will you begin saving?	**I'm already saving**	**Sometime in the near future**	**I'm not sure**
Age	18-21 years old	12.7%	65.5%	21.8%
	22-25 years old	70.4%	25.9%	3.7%
	26-30 years old	97.1%	2.9%	0.0%

Graphic 8 – When will Young workers start saving for retirement vs. age

As shown in the above table, as an individual's age increases, the likelihood that they are saving for retirement also increases. A possible explanation for this is as young workers age their income level increases and they can afford to set money aside to save for retirement. Also, as young workers age they may realize the growing importance of saving for retirement at a young age. In addition, education also has a positive relationship with saving for retirement. Individuals that had completed a Bachelor's or Master's degree were much more likely to already be saving for retirement than high school or community college graduates.

	Age	**18-21 years old**	**22-25 years old**	**26-30 years old**
Does your employer offer retirement benefits?	Yes – take advantage of benefits	9.2%	55.6%	91.3%
	Yes – do not take advantage of benefits	5.7%	11.1%	2.9%
	No	23.0%	7.4%	2.9%
	I am unemployed	62.1%	25.9%	2.9%

Graphic 9 – Participation in Employer Sponsored Retirement Plans

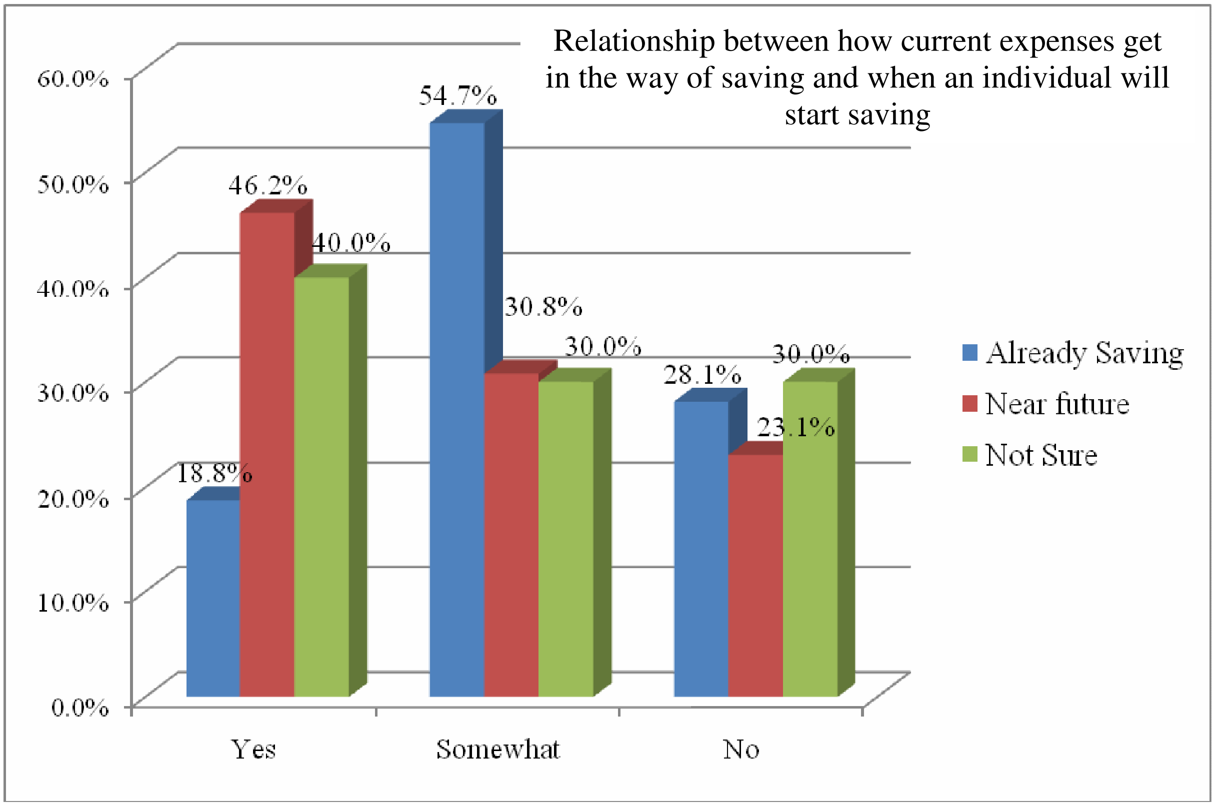
The above table illustrates that as an individual's age increases, so does the probability that their employer offers retirement benefits and that they take advantage of these benefits. In addition, individuals in the 26-30 year old group are much less likely to be unemployed or be employed by a company that does not offer retirement benefits. It is possible that 26-30 year olds understand the importance of saving for retirement and are more likely to pursue career opportunities where retirement benefits are offered.

Given that many young workers are already saving for retirement, the chart below displays the extent to which young workers feel that their current expenses get in the way of saving for retirement. It appears that as education increases, ones current expenses have less of an effect on retirement saving. This can be attributed to the higher earnings power of Bachelor's, Master's or professional degree holders; hence, these young workers have a larger income to pay their expenses with.

	Do current expenses prevent saving?	Yes	Somewhat	No
Education Level	High School	41.1%	33.7%	25.2%
	Community College	33.3%	66.7%	0%
	Bachelor's	20.6%	55.9%	23.5%
	Master's or professional	17.6%	41.2%	41.2%

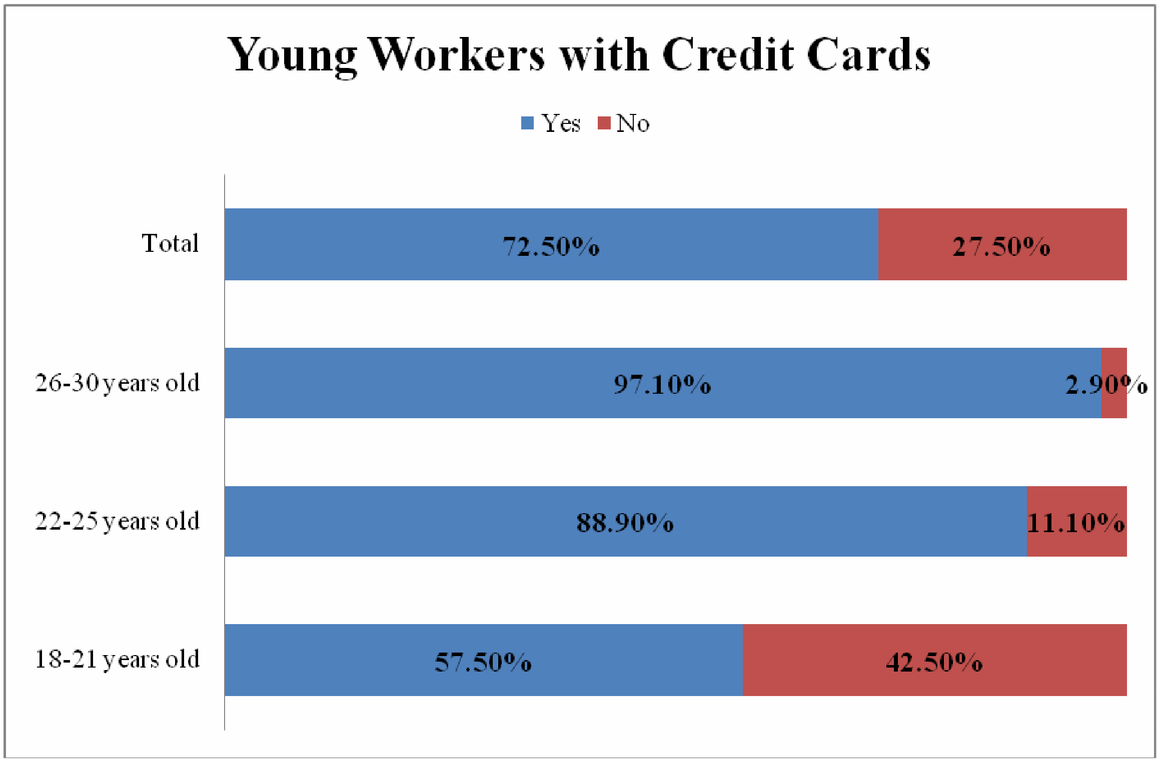
Graphic 10 – Extent to which current expenses hinder saving

Graphic 11 illustrates that although many individuals find that their current expenses get in the way of saving for retirement, they have still found a way to save. This graph is important because high current expenses are commonly cited for why young workers are not saving for retirement. However, this graph shows that in spite of these obstacles, it is possible to save. It is possible that the individuals surveyed for this project have higher income levels than the general under 30 population in the United States, thus allowing them to save more for retirement.



Graphic 11 – Relationship between current expenses saving for retirement

Contributing to the question of how young workers prepare for retirement is the issue of credit cards. With increasing credit card usage, it is growing harder for young workers to save for retirement while trying to pay down their debt. The table below shows the percentage of young adults that have a credit card. As shown in the graph, the number of young workers with credit cards increases with age. This can be attributed to the mounting expenses that develop with age or simply the fact that older workers are more likely to have a credit card to establish credit. The study also showed that the amount of credit card debt increases with age.

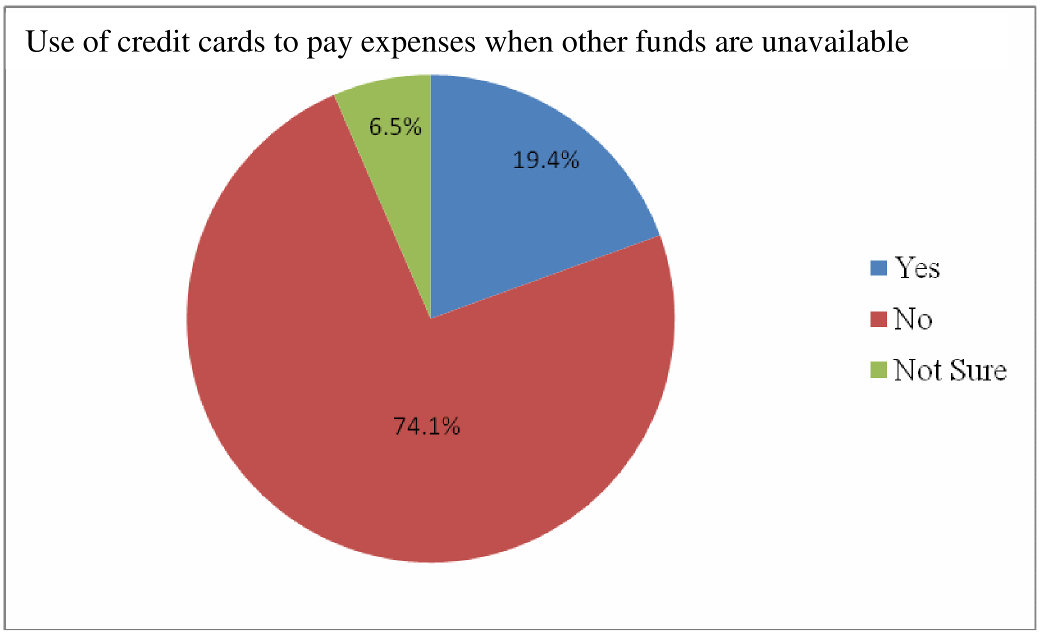


Graphic 12 – Young Workers with a Credit Card

The table below identifies young workers primary reason for using a credit card. When asked what their primary reason for using a credit card was, 22-30 year olds were much more likely than 18-21 year olds to use credit for practically everything. These individuals may be using credit cards to establish a credit history, as this age group is more likely to be applying for mortgages and other types of loans. However, it is unknown if these individuals are paying off their credit card balance each month or if they are carrying their balance over to the next month and accruing interest. Of those 18-21 year olds that do have a credit card, 17.3% use credit instead of cash for basic purchases. Again, it is unknown if these individuals pay off their balance each month.

	Age	18-21 years old	22-25 years old	26-30 years old
Reason for using credit card	Basic Purchases (Food, clothing, etc)	17.3%	14.8%	11.4%
	Extra purchases (Entertainment)	12.6%	25.9%	28.6%
	Practically Everything	8.1%	29.7%	31.4%
	Emergencies	17.2%	18.5%	25.7%
	Not sure/Not applicable	44.8%	11.1%	2.9%

Graphic 13 – Young Workers primary reason for using a Credit Card



Graphic 14 – Use of Credit Card to pay expenses when no money is available

Graphic 14 illustrates that among the percentage of the young workers that have a credit card, only 19.4% of these individuals use their credit card to pay expenses when they do not have the money available to pay for these expenses. However, 47.6% of the 19.4% that use credit when they do not have other funds avaiable have no outstanding debt. Therefore, it is possible that these individuals are taking advantage of float, or the time in between when they purchase an item on their credit card and when they have to pay their credit card bill. Also, 6.5% of individuals that have credit cards are not sure if they use their credit card to pay for purchases they do not have the money for. Most suprisingly, of the 74.1% of individuals that claim they do not use their credit card when they have run out of money, 20.2% of these individuals have credit card debt. See Appendix C. A possible explanation is that these individuals used their credit card to pay purchases they could not afford in the past, thus incurring credit card debt and have since stopped this practice.

While individuals were not asked if they pay off their credit card balance each month or simply the minimum payment, the table below shows the average credit card debt of the young workers surveyed. As illustrated in the table, as age increases, individuals are more likely to have credit card debt, 51.4% of 26-30 year olds have no outstanding debt, while 92.0% of 18-21 year old have no outstanding debt. Twenty six to thirty year olds were also the only age group to have credit card debt of more than $10,001. This can be attributed to 26-30 year olds having more time to accumulate credit card debt as well rising expenses that may be incurred with age, such as getting married and starting a family.

Amount of debt	18-21 years old	22-25 years old	26-30 years old
No outstanding credit card debt	92.0%	66.7%	51.4%
$1-$500	3.5%	3.7%	5.7%
$501-$1,000	2.3%	14.8%	5.7%
$1,001-$2,500	1.1%	0.0%	14.3%
$2,501-$5,000	1.1%	7.4%	8.6%
$5,001-$7,500	0.0%	3.7%	2.9%
$7,501-$10,000	0.0%	3.7%	0.0%
More than $10,001	0.0%	0.0%	11.4%

Graphic 15 – Amount of Credit Card Debt vs. Age

In addition to credit card debt, young workers are also carrying large school loans. Graphic 16 shows the percentage of young workers that have outstanding student loans they are working to pay off. It appears that 22-25 year olds have the least amount of school loans, which can be attributed to a number of factors. First, these individuals could have funded their college education through another source such as their parents or other family members or a job. Second, these individuals may have already paid back their student loans. Twenty six to thirty year olds have the least amount of individuals stating they have no student loans. It is possible that these individuals may have finished a master's or professional degree thus incurring higher amounts of student loans. The statistics gathered from the survey show many young workers not only have credit card debt but also have student loans debt. This coincides with previous studies that show young workers spend a significant portion of their after tax paycheck paying off non-mortgage debt, thus leaving little behind to save for the future.

	Age	18-21 years old	22-25 years old	26-30 years old
Student Loans	No loans	30.0%	40.8%	22.8%
	Less than $10,000	19.5%	14.8%	28.6%
	$10,000-$20,000	19.5	18.5%	25.7%
	$20,000-$30,000	8.0%	0.0%	5.7%
	$30,000-$40,000	6.9%	14.8%	5.7%
	$40,000-$50,000	9.2%	0.0%	2.9%
	More than $50,000	6.9%	11.1%	8.6%

Graphic 16 – Young Workers with Student Loans

<u>Money Management Knowledge</u>
The table below details young workers response to the question "How do you feel about your ability to manage your own finances?"

	Money Management Skills	"I wish I knew a lot more about money management"	"I wish I knew somewhat more about money management"	"I understand most of what I need to know"	"I understand money management very well"	Total N=149
Education Level	High School	27	36	22	10	95
	Community College	0	1	2	0	3
	Bachelor's	2	8	11	13	34
	Master's or professional	0	0	9	8	17

Graphic 17 – Young Workers Perceived Ability to Manage their Finances vs. Education Level

As shown in Table 17, young workers understanding of financial management and financial concepts appears to increase with education. For example, 47% of individuals that have completed a Master's or professional degree stated that they understand money management very well, while only 38% of Bachelor's degree holders and 10.5% of high school graduates agreed with that statement. A possible explanation for this is as education level rises, so does an individual's earnings power; therefore, the more money an individual makes, the more likely they are to seek guidance about how to manage their money. Also, as education level increases, an individual may be more exposed to finance, accounting or economics classes that could provide more financial knowledge. In addition, age and perceived money management skills are also positively correlated. This relationship can most likely be attributed to the experience individual's gain with age.

As illustrated in the chart below, young male workers are more apt to state that they have a good understanding of money management, while young female workers are more likely to cite their money management skills need improvement. A possible explanation for this is that women have historically been known to seek out more information regarding financial decisions than their male counterparts; hence, it is unknown if women actually know less about money management than men or if they just believe they still have more information left to learn about money management. In order to accurately evaluate the difference in money management skills between men and women, a financial test would have to be distributed that evaluates money management knowledge.

	Money Management Skills	**"I wish I knew a lot more about money management"**	**"I wish I knew somewhat more about money management"**	**"I understand most of what I need to know"**	**"I understand money management very well"**
Gender	Male	10.0%	31.7%	30.0%	28.3%
	Female	25.9%	29.2%	29.2%	15.7%

Graphic 18 – Perceived Ability to Manage Finances vs. Gender

When asked specifically about their familiarity with retirement savings vehicles such as Individual Retirement Accounts (IRA), 401(k) plans, and employer sponsored pension plans, only 22% of young workers stated that they were "extremely familiar with these accounts."

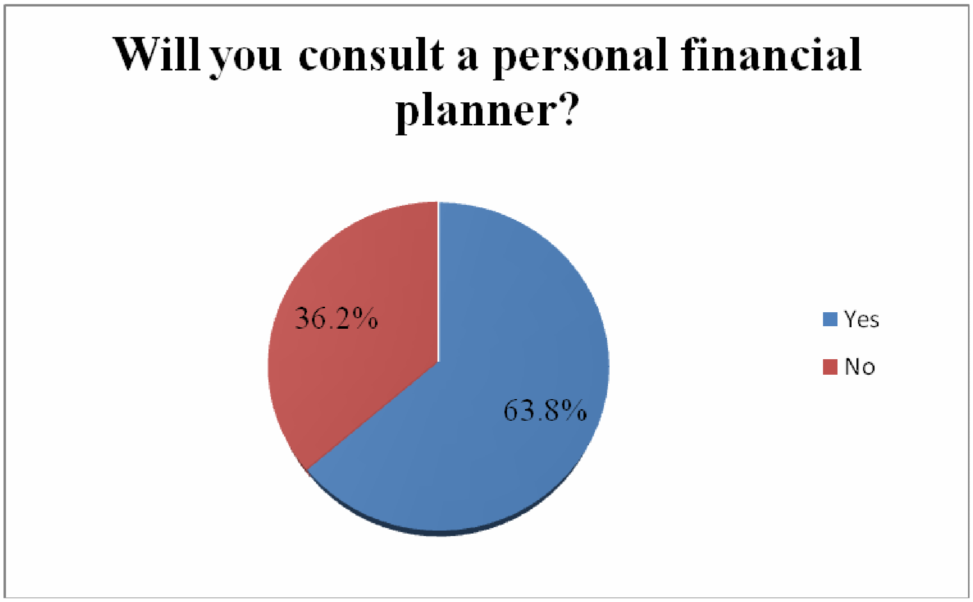
While 51% of individuals said that they are somewhat familiar with these retirement savings vehicles.

Familiarity	%
Extremely Familiar	22.15%
Somewhat Familiar	51.00%
Not Familiar	26.85%

Graphic 19 – Young Workers Familiarity with Retirement Savings Vehicles

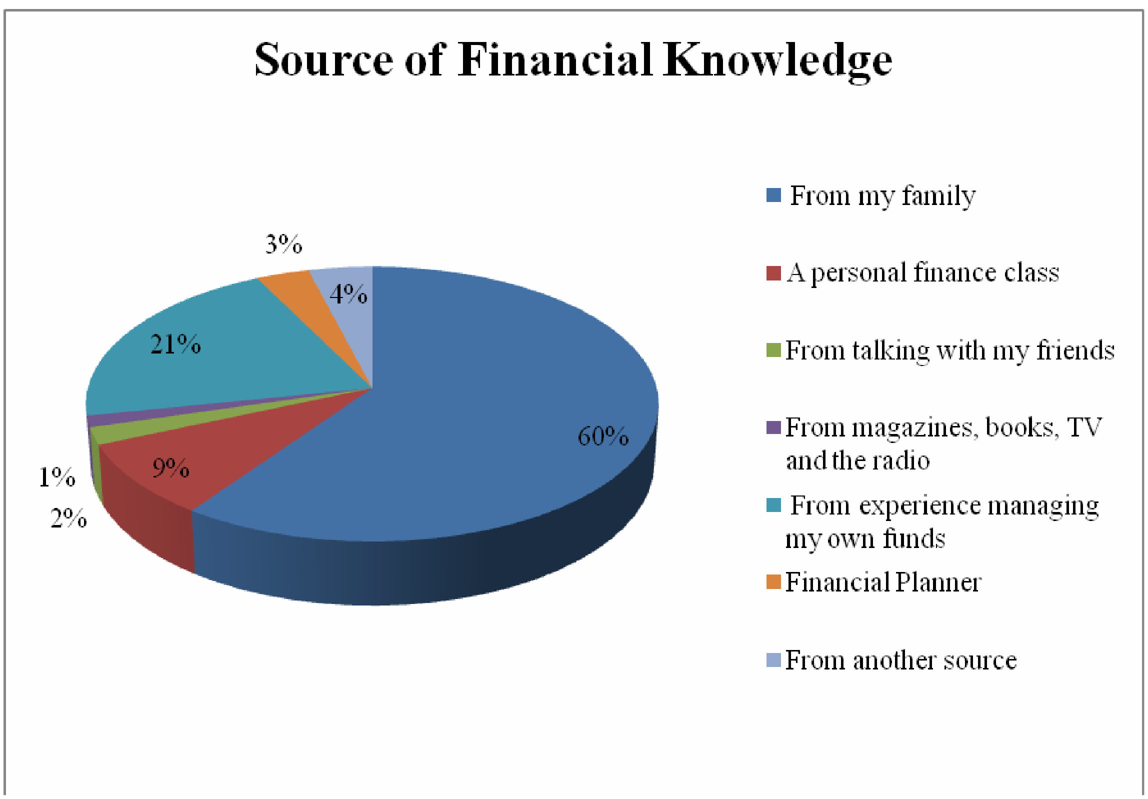
This statistic coincides with data from graphic 17, as only 20% of 18-30 year olds claim they understand money management very well. The relatively large number of young workers that are not so familiar with these retirement accounts demonstrates the importance of financial education. Since many of these young workers stated that they are invested in these accounts, it is interesting that these individuals are not more familiar with the fundamental characteristics of these accounts. These statistics demonstrate the importance of financial education, whether it be provided by employers, universities or high schools, so that young workers are more familiar with how these accounts operate, in order to better understand their financial position and how to better benefit for using such accounts.

Given that the majority of young workers are only somewhat familiar or not familiar at all with retirement savings vehicles, the survey asked these individuals if they will consult a personal financial planner when saving for retirement. As graphic 20 shows, 63.8% of young workers plan on consulting a financial planner at some point before they retire. This statistic illustrates that individuals understand the importance of saving for retirement and plan on seeking guidance on saving for retirement in order to be adequately prepared. Given that the majority of young workers will be consulting financial planners, the number of individuals that participate in a 401(k) plan, IRA, or investing in stocks and bonds outside of the workplace should increase, as financial professionals will be able to advise their clients to utilize these savings vehicles.



Graphic 20 – Will Young Workers consult a personal financial planner?

The chart below illustrates young workers primary source of financial knowledge and money management skills.

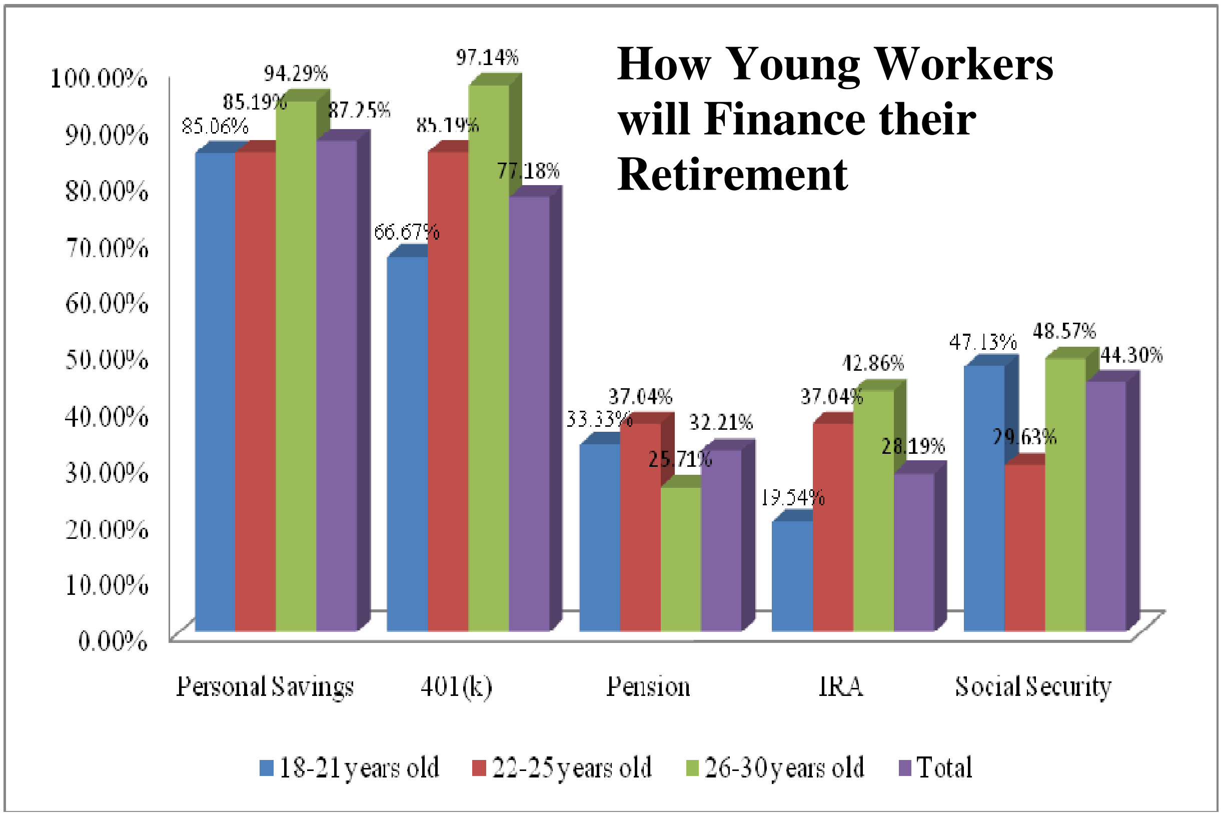


Graphic 21 – Young Workers Source of Financial Knowledge

As shown graphic 21, more than half of young workers learn the most about money management from their families, followed 21% of young workers who learned about money management from experience in managing their own funds. These statistics coincide with previous research that claims young workers parents are the main source for financial knowledge and money management related questions. Although technology plays an integral role in many young workers professional and personal life, this research shows that young workers are not using the internet or television to learn about money management. This is important information for financial advisors as they are trying to identify new avenues to market to young workers. As shown in Graphic 20, only 63.8% of young workers plan on consulting a financial planner at some point before they retire; however only 3% of young workers surveyed have already consulted with a financial planner. Again, this is important information for financial service professionals as it shows this market is largely untapped and financial planners have the opportunity to start working with clients from a young age.

How Young Workers will Finance their Retirement

When it comes to saving for retirement the following table shows which savings vehicles young workers plan on using to finance their retirement: either through personal savings, a 401(k) plan, an employer sponsored pension, an IRA, Social Security or some combination of these.



Graphic 22 – How young workers will finance their retirement by age group

Overall, young workers between the ages of 18-30 stated that personal savings will have a large impact in how they finance their retirement, followed by a 401(k) plan. Of the individuals between the ages of 26-30 years old, 97.14% cite a 401(k) plan as a major contributor to their retirement income, which could be a reason why 100% of 26-30 year olds surveyed have a 401(k) plan. Not surprisingly, only 44.30% of 18-30 year olds think that Social Security will be a means of income for them during retirement, with 22-25 year olds having the least reliance on Social Security to finance their retirement.

When asked to choose one source where most of their retirement income would come from, 54% of 18-21 year olds believe that the biggest income source will come from personal savings. However, the majority of 22-30 year olds stated that a 401(k) plan will be the biggest source of their retirement income. As shown in Graphic 6, 22-30 year olds were much more likely than 18-21 year olds to have a 401(k) plan, which may be why they believe this is where most of their retirement income will be derived. Overall, 57% of 18-30 year olds believe an employer sponsored retirement plan, such as a 401(k) plan or pension will provide the largest amount of retirement income. As shown in graphic 23, an extremely small percentage of young workers will rely on Social Security payments or a job during retirement to provide money to live on. This table illustrates that a majority of young workers understand the need to save for retirement themselves and take advantage of employer sponsored retirement plans in order to have ample income to draw from during retirement.

	Source of Retirement Income	Personal Savings	Employer Retirement Plan	Social Security	Job During Retirement
Age	18-21 years old	54.0%	40.2%	2.3%	0.0%
	22-25 years old	29.6%	66.7%	0.0%	3.7%
	26-30 years old	20.0%	80.0%	0.0%	0.0%

Graphic 23 – Largest source of young workers retirement income

While young workers appear to have realistic plans for how they will finance their retirement, their stated retirement age is still somewhat low. Graphic 24 illustrates young workers expected retirement age. When asked at what age they expect to retire, relatively few young workers thought they would retire after age 70. The greatest majority stated that they will retire between the ages of 60-65. It is possible that young workers are still somewhat idealistic about their retirement future and their expected retirement age will increase as they work for more years and understand the savings needed to retire comfortably. In addition, when asked if they thought they would have to work for more years than their parents, young workers responses were split down the middle, with 52.3% stating they will have to work longer than their parents and 47.7% believing they will not have to remain in the workforce longer. Again, it is probable that as young workers progress into their 30's and 40's their retirement expectations will become increasingly more realistic as they realize how much they have saved and how much more they need to save to retire.

Retirement Age	Percentage
Before Age 60	18.1%
Age 60-65	49.0%
Age 65-70	26.9%
After age 70	6.0%

Graphic 24 – Expected Retirement Age

The table below shows young workers responses to the question "Do you think you will have to work longer than your parents before you retire?" As illustrated in the chart, the majority of young workers with an Associates, Bachelors, or Masters degree do not believe they will have to work for more years than their parents. However, young workers with only a high school degree stated that they will have to work for more years than their parents. A possible explanation for this is that these workers have more time in the work force because they did not attend college and their earnings power may be decreased, thus they may have to work for a longer period to compensate for the discrepancy in income.

	Education	High School	Community College	Bachelors	Masters or professional
Work longer than parents?	Yes	55.8%	33.3%	47.1%	41.2%
	No	44.2%	66.7%	52.9%	58.8%

Graphic 25 – Will Young Workers have to work for more years than their parents?

Graphic 26, shown below, illustrates the percentage of individuals that believe they will be able to maintain their standard of living during retirement. Surprisingly, 74.5% of individuals surveyed believe that they will be able to maintain their pre-retirement standard of living once they enter retirement. The survey did not ask individuals how much they expect to have saved when they enter retirement or if they have evaluated their retirement savings goals.

Maintain Standard of Living	Percentage
Yes	74.5%
No	25.5%

Graphic 26 – Will Young Workers be able to maintain their pre-retirement standard of living?

With retirement planning growing increasingly complex, graphic 27 illustrates the percentage of young workers that plan to enlist the help of a personal financial planner to help them save for retirement based on young workers perceived money management ability. As shown in the table, the percentage of young workers that plan on working with a personal financial planner decreases as workers perceived money management skills increase. More young workers that believe they "understand money management very well" stated that they will not consult a financial planner, which may cause a problem if their actual money management skills are not as strong as they believe.

	Money Management Skills	"I wish I knew a lot more about money management"	"I wish I knew somewhat more about money management"	"I understand most of what I need to know"	"I understand money management very well"
Use Personal Financial Planner	Yes	69.0%	68.9%	66.0%	48.4%
	No	31.0%	31.1%	34.1%	51.6%

Graphic 27 – Intention of using a Personal Financial Planner vs. Perceived money management ability

Expectations of Social Security

Level of benefits	%
Increased Level of Benefits	8.72%
Same Level of Benefits	14.77%
Reduced Level of Benefits	55.03%
No Benefits	21.48%

Graphic 28 – Level of Benefits Young Workers expect to receive

The graph above shows the level of Social Security benefits survey participants expect to receive during retirement, relative to the level of benefits received by today's retirees. Overall, 55.03% of young workers believe they will receive reduced Social Security benefits and 21.48% believe they will receive no benefits. These statistics show that young workers are aware of the problems facing the Social Security system and have identified that the system will not provide sufficient payments to rely on during retirement.

	Level of Benefits	Increased	Same	Reduced	None
Education Level	High School	12.6%	21.1%	51.6%	14.7%
	Community College	0.0%	0.0%	100.0%	0.0%
	Bachelors	2.9%	2.9%	58.9%	35.3%
	Masters	0.0%	5.9%	58.8%	35.3%

Graphic 29 – Level of Social Security Benefits expected by education level

As shown in Graphic 29, as education increases so does an individual's understanding of the problems plaguing the Social Security System, which appears to lead to greater skepticism of receiving Social Security payments. Bachelors and Masters Degree holders predominantly believe that they will receive reduced Social Security payments or no Social Security payments. It is notable that 12.9% of high school graduates believe they will receive increased Social Security benefits, compared to levels retirees are receiving today. It is highly unlikely that this will occur and would require major government policy changes.

	Dependence on Social Security	Very Much	Somewhat	Very Little	Not at all
Age	18-21 years old	2.3%	37.9%	48.3%	11.5%
	22-25 years old	3.7%	14.9%	40.7%	40.7%
	26-30 years old	0.0%	31.4%	42.9%	25.7%

Graphic 30 – Dependence on Social Security for Retirement Income

Graphic 30 shows that 18-21 year olds have the most dependence on Social Security payments to provide income during retirement. This coincides with data from graphic 22 in which 47.1% of 18-21 year olds stated that they would use Social Security to finance their retirement. The above graph also shows that 22-25 year olds will depend on Social Security the least, which also corresponds with data from graphic 22, as only 29.6% of 22-25 year olds claimed that Social Security would be an important factor in their retirement income.

How Young Workers will compensate for the weakening of Social Security

As seen in graphics 22 and 30, a majority of young workers are not planning on Social Security being a significant source of income during retirement. Given this, the table below shows if/how young workers will compensate for reduced or eliminated Social Security payments in retirement. Increasing contributions to personal savings was the most popular option; however, this may be difficult as young workers face mounting debt, rising expenses and smaller salaries. A number of young workers plan on starting to save at a younger age to compensate for reduced Social Security payments. By beginning to save at an earlier age, young workers will be able to reap the benefits of compounding, which should provide more retirement savings when they reach retirement age.

Method of Compensation	Percentage
Working for more years and retiring at an older age	22.8%
Saving more through personal savings	38.3%
Start saving at a younger age	32.9%
Will not compensate	6.0%

Graphic 31 – How young workers will compensate for reduced Social Security Payments

ANALYSIS

The results of this study show that young workers under the age of 30 understand the precarious position they are in for retirement and the importance of saving for retirement from an early age. The majority of young workers are aware of the problems facing the Social Security System and the slim possibility that they will receive significant Social Security benefits during their retirement. It also appears that many young workers have at least thought about saving for retirement and what retirement savings vehicles they will use to fund their retirement.

In spite of the many obstacles to saving for retirement, such as mounting everyday expenses, student loan debt, and credit card debt; young workers current financial situation is optimistic as they are still seeking out ways to save for retirement. Given that 60% of young workers are learning about financial management from their family, it is probable that young workers parents, who are members of the Baby Boomer Generation, are sharing their financial successes and failures and are stressing the importance of starting to save for retirement early in adulthood. Another 21% of young workers stated that they learned about financial management by managing their own accounts; with the vast majority holding at the very least both a checking and savings account. It is notable that as both age and education increases, the number of financial accounts an individual has also increases, along with the probability an individual is saving for retirement and they feel knowledgeable about money management. A feasible explanation for these trends is as both age and education increases, so does ones earning power. Therefore, if these workers do not change their lifestyle and instead save the extra income, they can contribute more to retirement accounts and invest their money in new financial accounts such as money market accounts, certificates of deposits, stocks and bonds.

In addition, as age increases so does the use of credit cards and the prominence of credit card debt. A possible explanation for this is as age increases, everyday expenses often also rise; therefore, 26-30 year olds are using credit cards as a means to pay off everyday expenses. When asked what they primarily used their credit card for, the majority of 26-30 year olds stated “for practically everything.” It is also probable that 26-30 year olds have had more time than younger workers to accumulate credit card debt and are still paying off debt from when they had smaller salaries. Along with credit card debt, high amounts of student loan debt are present in every age group between 18-30 year olds. Yet despite the prevalence of credit card debt and student loan debt, the majority of young workers said that their current expenses only somewhat keep them from saving for retirement; thus, 70% of 22-25 year olds and 97% of 26-30 year olds are already saving for retirement, and the remaining survey participants plan to start saving in the near future.

Given that young workers have managed to start saving for retirement amidst mounting expenses, it is obvious that saving for retirement is important to this group of individuals. In fact, 93% of 18-22 year olds cited saving for retirement as very important or important; hence it is probable that young workers have given some thought to how they are going to finance their retirement and at what age they expect to retire. Overall, personal savings and 401(k) plans were the most popular choices for financing one's retirement, with 85% and 77%, respectively, choosing these savings methods. Following personal savings and 401(k) plans was Social Security payments, which was chosen by 44% of 18-30 year olds as another source of retirement income. When asked to identify only one account that would provide the most income for retirement, the majority of 22-30 year olds chose a 401(k) plan while the majority of 18-21 year olds chose personal savings. Given that a larger percentage of 22-30 year olds are already contributing to a 401(k) plan than 18-21 year olds, it is probable that they have a better understanding of the tax advantages of 401(k) plans and the significance of receiving an employer match, if one is available.

With less than half of young workers planning on using Social Security payments as a source of income in retirement, it is evident that young workers realize the problems plaguing the Social Security system and doubt they have in receiving payments. When asked how much they plan to rely on Social Security payments for income during retirement, the majority of young workers claim they will rely on payments very little, if at all. As for the benefits they expect to receive, young workers expect to receive decreased benefits compared to today's retirees, with 20% stating they do not plan on receiving any benefits at all.

Given that young workers for the most part do not plan on working for more years than their parents and the majority expects to retire between ages 60-65, almost all young workers in this study expect to compensate for the lack of Social Security income during retirement. The most popular method of compensation was to save more through personal savings followed by starting to save at a younger age. Considering that a significant number of young workers in this study are already saving for retirement at such a young age, it is likely that they will be able to compensate for decreased or lost Social Security income.

CONCLUSIONS AND IMPLICATIONS

By developing good savings habits early in adulthood, young workers are acknowledging the importance of saving for retirement and are improving their future financial situation during retirement. It has become increasingly apparent that if young workers do not start saving for retirement early on in life, they will face a tumultuous retirement future as many Baby Boomers are now learning. Given the extensive size of the under 30 generation, it is important to ask: How are young workers preparing for retirement? How will young workers prepare for retirement? While little attention thus far has been paid to these questions, this paper provides insight into the retirement mindset of young workers between the ages of 18-30 and the impact of current life events, such as everyday expenses and future life events, such as the uncertainty surrounding Social Security on retirement planning.

Given the increasing responsibility young workers are facing regarding their retirement planning, this study found that young workers seem to be aware of the challenges they face and are still managing to save for retirement. Survey responses show that although young workers everyday expenses get in the way of saving for retirement to some extent, the majority of young workers are still finding a way to save for retirement. Not only are young workers focusing on the importance of saving for retirement now, survey respondents clearly indicate that they understand the challenges lying ahead in the Social Security system and they plan on compensating for this uncertainty so they are not ill-prepared when it is time to retire. Due to the changing macroeconomic conditions since this study was conducted from December 2008 to January 2009, young workers ability to save may have changed significantly.

A major limitation of this study is that it provides findings on the retirement outlook of primarily business university students, as well as a large number of Bachelor's, Master's and professional degree holders. Thus, an opportunity for future research would be to survey a more representative sample of the under 30 population. Although the majority of high school graduates continue on to college in today's society, one's earning power does increase with a Bachelor's, Master's or professional degree; therefore, young workers with a high school degree may have a different outlook towards retirement. In addition, because the majority of the survey participants attended a business university, they may have a better understanding of financial concepts; hence, another opportunity for future research would be to identify the retirement outlook of non-business majors under the age of 30. Another limitation to this research is the possibility that survey respondents did not answer the questions truthfully, possibly due to embarrassment or other unknown reasons. Further avenues for research would be to identify the amount young workers have saved in their 401(k) plans, IRA or savings accounts. This research found that 100% of 26-30 year olds have a 401(k) plan; however, the amount they have saved is unknown.

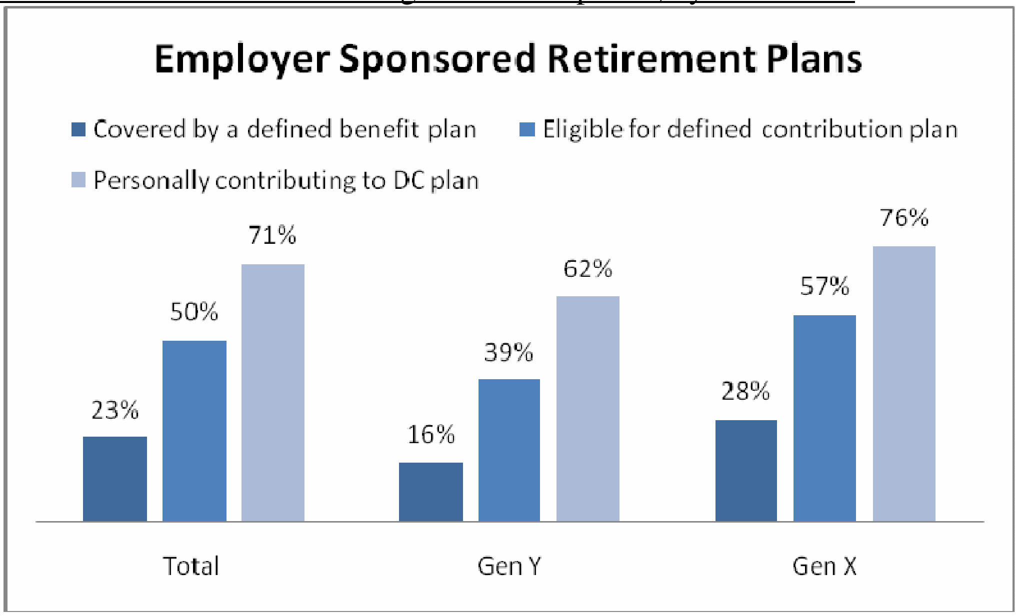
With 80 million young adults between the ages of 15 and 30 in the United States, it is essential that more attention be paid to the financial future of this generation. While much work has been published regarding the preparedness and expectations of Baby Boomers, little has been published that promotes how saving early can help prevent the largest generation of retirees from being ill-prepared in retirement. Although members of the financial services community have long been promoting the importance of starting to save early for retirement, very little has been done to instruct young workers how to save for retirement given the current and future obstacles they face, such as debt and a dwindling Social Security System.

Should the financial future of young workers continue to be placed on the back burner, the fiscal burden these individuals will place on the government will be too great to withstand. Given the challenges already plaguing government sponsored retirement programs, the question arises of how the government will be able to provide basic financial support to young workers during their golden years. One answer to counteract the burden that will be placed on the government is for the government to act now and use federal funding to mandate personal financial planning classes for high school students. These classes would instill the basics of personal finance and help ensure that every young worker entering the workplace has adequate knowledge of savings vehicles, loans, mortgages, credit cards and retirement planning. Another option would be to provide a tax credit to individuals of all income levels that attend financial seminars or use financial planners. The purpose behind this tax credit would be to increase the likelihood that individuals would gain knowledge about retirement planning from these seminars and would be more apt to integrate these concepts into their own finances. Employers can also help young workers prepare for retirement by using auto-enrollment in company 401(k) plans. Employers can take out a set percentage, such as the minimum contribution needed to receive a company match, and invest the funds in a target date retirement fund. Auto-enrollment eliminates the possibility that some employees will not set up their own retirement fund and may result in better preparation for retirement for these workers.

Although the findings of this study produce a more optimistic picture of young workers current financial habits and retirement preparedness than previous research, this project adds to the understanding of young workers financial outlook and expectations for the future. The results show that a segment of this generation understands the importance of saving for retirement even in the face of debt and rising expenses; thus this paper should be used to alert other members of this generation that saving for retirement is essential and is possible, even amidst rising expenses. By informing young workers from an early age about the importance of starting to save early for retirement, these individuals will learn to save as much as they can afford and will be able to reap the benefits of compounding when it comes time for retirement.

APPENDICES

Appendix A – Retirement Plan Coverage and Participation, by Generation



Source: AARP & ASEC, 2008

Appendix B – How Do Young Workers Prepare for Retirement Survey

1. What is your gender?
    1. Male ( )
    2. Female ( )

2. What is your age?
    1. 18-21 ( )
    2. 22-25 ( )
    3. 26-30 ( )
    4. Older than 30 ( )

3. What is the highest level of schooling you have completed? **Please check one.**
    1. Less than high school ( )
    2. High school or equivalent ( )
    3. Associates/Community College Degree ( )
    4. Bachelor's Degree ( )
    5. Master's, doctorate, or professional degree ( )

4. If you are currently in college, what year are you? **Please check one.**
    1. Freshman ( )
    2. Sophomore ( )
    3. Junior ( )
    4. Senior ( )

5. How do you feel about your ability to manage your own finances? **Please check one**.
    1. I wish I knew a lot more about money management. ( )
    2. I wish I knew somewhat more about money management. ( )
    3. I understand most of what I need to know. ( )
    4. I understand money management very well. ( )

6. Where did you learn the most about managing your money? **Please check one.**
    1. From my family ( )
    2. A personal finance class ( )
    3. From talking with my friends ( )
    4. From magazines, books, TV and the radio ( )
    5. From experience in managing my own funds ( )
    6. Financial Planner ( )
    7. From another source (please describe)

7. What kind of financial accounts do you have? **Please check all that apply.**
    1. Savings ( )
    2. Checking ( )
    3. Money Market ( )
    4. Certificate Deposit (CD) ( )

5. Stocks ( )
6. Bonds ( )
7. Mutual Funds ( )
8. IRA ( )
9. 401k ( )

8. How do you plan on financing your retirement? **Please check all that apply.**
   1. Personal Savings ( )
   2. 401k ( )
   3. Employer Pension ( )
   4. IRA ( )
   5. Social Security ( )

9. What do you think **most** of your retirement income will come from? **Please check one.**
   1. Personal Savings ( )
   2. Employer Savings (401k or pension) ( )
   3. Social Security ( )
   4. Job during retirement ( )

10. Does your employer offer any retirement benefits? And if so, do you take advantage of these benefits? **Please check one.**
    1. Yes, I take advantage of these benefits ( )
    2. Yes, but I do not take advantage of these benefits ( )
    3. No, my employer does not offer any retirement benefits ( )
    4. I am unemployed ( )

11. How much do you think you will depend on Social Security payments during your retirement? **Please check one.**
    1. I will depend on Social Security very much ( )
    2. I will depend on Social Security somewhat ( )
    3. I will depend on Social Security very little ( )
    4. I will <u>not</u> depend on Social Security at all ( )

12. Compared to Social Security benefits current retirees receive, what level of Social Security benefits do you plan on receiving during your retirement? **Please check one.**
    1. Same level as current Social Security benefits ( )
    2. Increased level of Social Security benefits ( )
    3. Reduced level of Social Security benefits ( )
    4. No Social Security benefits ( )

13. If Social Security payments are reduced, how do you plan on compensating for the lack of payments? **Please check one.**
    1. By working for more years and retiring at an older age ( )
    2. By saving more for retirement with my own personal savings ( )
    3. By starting to save for retirement at a younger age ( )

4. I will not compensate for reduced Social Security payments ( )

14. How important is saving for retirement to you? **Please check one.**
    1. Very Important ( )
    2. Important ( )
    3. Kind of Important ( )
    4. Not important ( )

15. When do you plan on starting to save for retirement? **Please check one.**
    1. I am already saving for retirement ( )
    2. Sometime in the near future ( )
    3. I'm not sure ( )

16. Do you plan on consulting a financial planner or other resource to help you save for retirement? **Please check one.**
    1. Yes ( )
    2. No ( )

17. Do you think that you will be able to maintain your pre-retirement standard of living during your retirement? **Please check one.**
    1. Yes ( )
    2. No ( )

18. At what age do you expect to retire? **Please check one.**
    1. Before 60 ( )
    2. 60-65 ( )
    3. 65-70 ( )
    4. After 70 ( )

19. Do you think you will have to work longer than your parents did before you retire? **Please check one.**
    1. Yes ( )
    2. No ( )

20. How familiar are you with IRA accounts, 401k accounts and employer sponsored pension plans? **Please check one.**
    1. I am extremely familiar with these accounts ( )
    2. I am somewhat familiar with these accounts ( )
    3. I am <u>not</u> familiar with these accounts ( )

21. Do you feel that your current expenses keep you from saving for retirement? **Please check one.**
    1. Yes ( )
    2. Somewhat ( )
    3. No ( )

22. Do you have a credit card? **Please check one.**
    1. Yes ( )
    2. No ( )

23. Do you use your credit card to pay expenses when you have run out of money? **Please check one.**
    1. Yes ( )
    2. No ( )
    3. Not sure/Not applicable ( )

24. Please indicate the primary reason you use a credit card. **Please check one.**
    1. For basic purchases (food, clothing, rent, etc.) ( )
    2. For extra purchases (entertainment) ( )
    3. For practically everything ( )
    4. For emergencies ( )
    5. Not sure/Not applicable ( )

25. Do you have outstanding school loans? If so, how much? **Please check one.**
    1. I <u>do not</u> have outstanding school loans ( )
    2. Less than $10,000 ( )
    3. $10,000 to $20,000 ( )
    4. $20,000 to $30,000 ( )
    5. $30,000 to $40,000 ( )
    6. $40,000 to $50,000 ( )
    7. More than $50,000 ( )

26. Do you have outstanding credit card debt? If so, how much? **Please check one.**
    1. I <u>do not</u> have outstanding debt ( )
    2. $1- $500 ( )
    3. $501 to $1,000 ( )
    4. $1,001 to $2,500 ( )
    5. $2,501 to $5,000 ( )
    6. $5,001 to $7,500 ( )
    7. $7,501 to 10,000 ( )
    8. More than $10,001 ( )

Appendix C – Total Credit Card Debt of Young Workers with Credit Cards

	Debt	**No debt**	**$1-$500**	**$501-$1,000**	**$1,001-$2,500**	**$2,501-$5,000**	**$5,001-$7,500**	**$7,501-$10,000**	**More than $10,001**
Use credit card when run out of money	Yes	47.6%	4.8%	19.0%	14.3%	4.8%	9.5%	0.0%	0.0%
	No	79.8%	5.9%	3.6%	2.4%	4.8%	0.0%	1.1%	2.4%
	Not Sure	93.1%	0.0%	2.3%	2.3%	2.3%	0.0%	0.0%	0.0%

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