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MILLENNIALS' READINESS FOR RETIREMENT

By Anqi Chen and Alicia H. Munnell*

Introduction

An earlier *brief* comparing Millennials in 2016 with prior generations at the same ages concluded that their challenging labor market experience and high student debt burden left them less prepared for retirement than earlier cohorts.[1] The release of the Federal Reserve's 2019 *Survey of Consumer Finances* offers an opportunity to view this highly educated, ethnically diverse cohort after three years of a strong economy, just prior to the pandemic.

This reassessment of Millennials' retirement readiness occurs at a time when all workers face a world in which Social Security will provide less relative to pre-retirement earnings; 401(k) balances are generally meager; and – at any given time – half the private sector workforce does not have an employer-sponsored retirement plan. They will also face much longer periods of retirement due to rising life expectancy, high and rapidly rising health care costs, and historically low interest rates.

In addition to these general headwinds, Millennials – born during 1981-99 – got off to a slow start. They left school with substantial student debt and began their careers in the tough job market that followed the Great Recession. These factors delayed major life milestones such as getting married and owning a home and limited their ability to accumulate wealth. In short, Millennials were behind. The question is whether they caught up during the last three years before the pandemic.

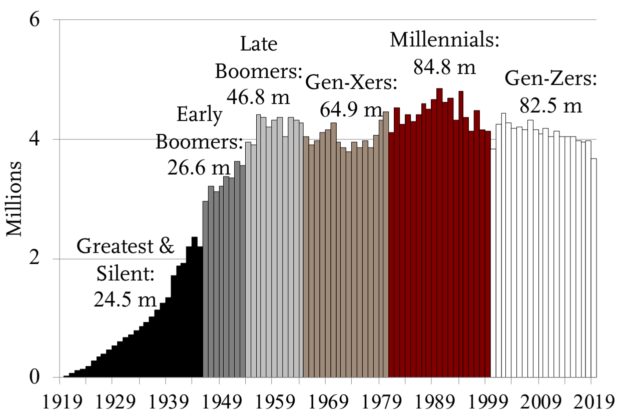
The discussion proceeds as follows. The first section defines Millennials and the earlier generations that are used as a basis for comparison. The second section shows the racial composition and education for Millennials ages 28-38 compared to Late Boomers and Gen-Xers. The third section looks at the labor market outcomes for Millennials, showing that – despite their slow start – they appear to be catching up. The fourth section suggests that Millennials also appear to be catching up in terms of life events, such as getting married and buying a home. The fifth section presents debt and wealth information from the *Survey of Consumer Finances,* which shows that, despite better labor market outcomes and substantial retirement saving, Millennials' enormous student debt burden still leaves them well behind previous generations in wealth accumulation. The final section concludes that as Millennials age, they are beginning to look like previous cohorts along many dimensions, but student debt continues to leave them less prepared for retirement.

* Anqi Chen is assistant director of savings research at the Center for Retirement Research at Boston College (CRR). Alicia H. Munnell is director of the CRR and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management.

Defining the Exercise

Journalists and social scientists often give names to generations who grew up in similar circumstances. Tom Brokaw, the television newscaster, popularized the notion of the "Greatest Generation" to define people who lived through the Great Depression and fought in World War II. Some have called those who came after – born in the 1920s to mid-1940s – the Silent Generation. With the sharp uptick in fertility rates after World War II, those born from the mid- 1940s to mid-1960s were called Baby Boomers. Generation X – those born in the mid-1960s and 1970s – followed. The Millennial Generation (also called Generation Y) consists of Americans born during the 1980s and 1990s. Finally, those born since 2000 are part of Generation Z.[2] Figure 1 shows how the current U.S. population breaks down by birth-year cohort.

Figure 1. U.S. Population by Birth-Year Cohort, in Millions, 1919-2019



Source: U.S. Census Bureau, *Current Population Survey* (CPS) (2020).

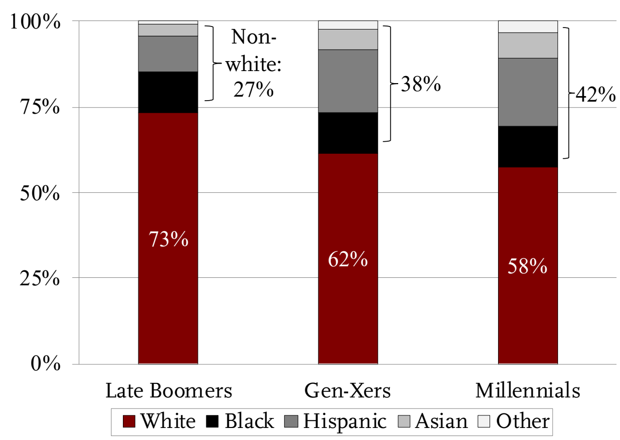
The focus here is older Millennials who were ages 28-38 in 2019, which means those born from 1981-91. These individuals are compared to Gen-Xers and late Baby Boomers when they were the same ages. The Gen-Xers are observed in 2007 (which covers those born in 1969-79), and the Late Boomers are observed in 1992 (which covers those born in 1954-64). This comparison does not require any projections – just a series of simple figures.

Most Diverse and Educated Cohort Ever

Millennials are unique in a number of ways. They were the first full generation to grow up with computers. Social scientists tend to characterize them as self-confident and optimistic since their parents tended to be attentive and supportive.[3]

Millennials are more ethnically diverse than previous cohorts; as shown in Figure 2, the share of non-whites rose from 27 percent of Late Boomers to 42 percent of Millennials. This increase in diversity could lead to poorer economic outcomes for the population as a whole as the less privileged replace the privileged. Interestingly, that is not the source of the social and economic patterns reported below; the same exercise was done by race/ethnicity and, overall, showed similar patterns for whites and non-whites. Therefore, the data throughout this *brief* are reported for the population as a whole.

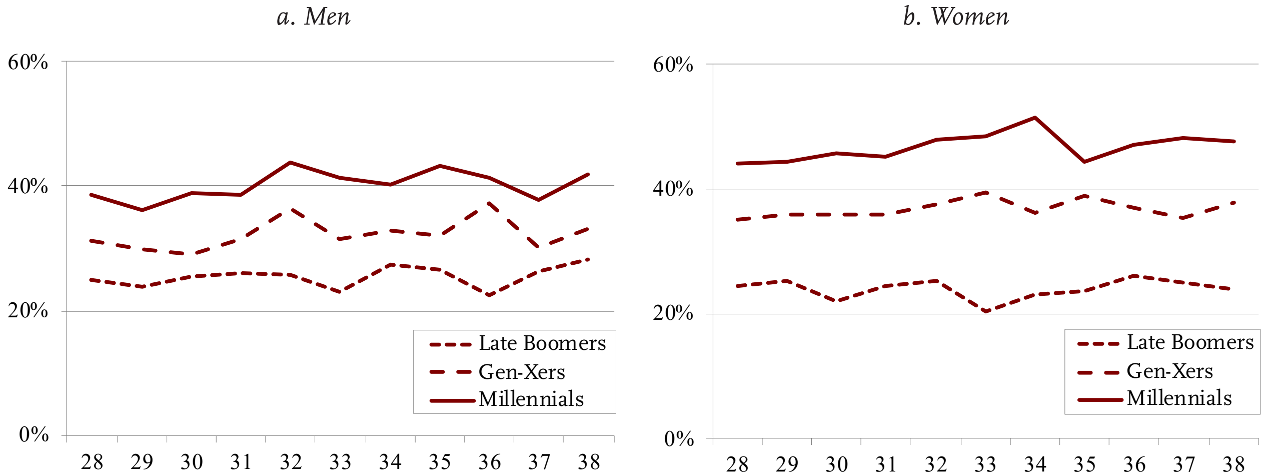
Figure 2. Age Cohorts by Race/Ethnicity, Ages 28-38



Source: Authors' calculations from 1993, 2008, and 2020 CPS.

Millennials are also the most educated generation. A much larger percentage of Millennial men and women have college degrees compared to earlier cohorts (see Figures 3a and 3b on the next page). A college education continues to have significant economic value. Among Millennials, median earnings in 2018 were two-thirds higher for college graduates

Figure 3. Percentage of Individuals with a College Degree, Ages 28-38



Source: Authors' calculations from 1993, 2008, and 2020 CPS.

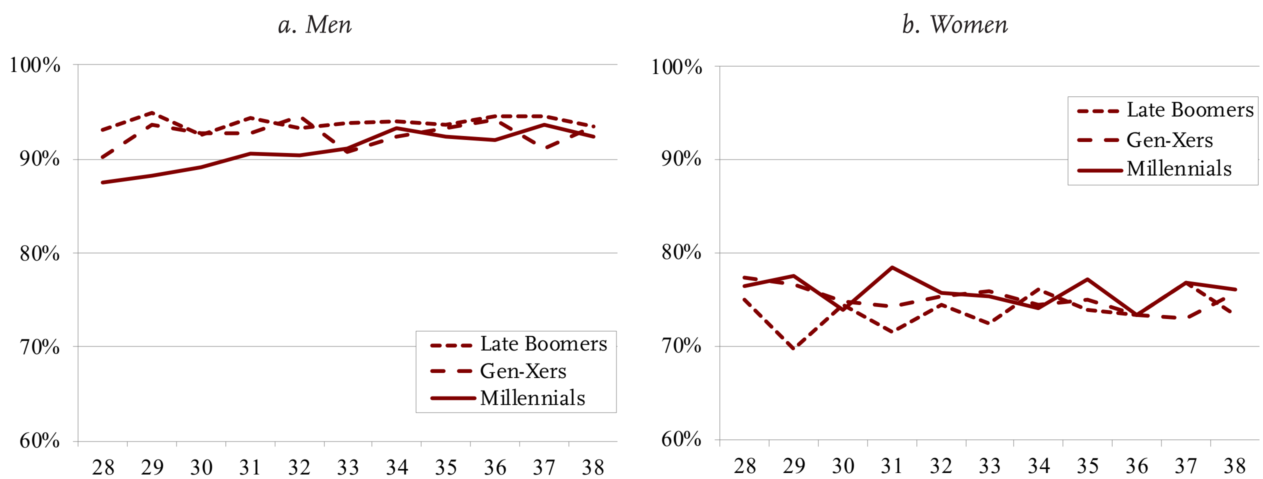
than for high school graduates; and their unemployment rate was 4 percentage points lower.[4] One would expect that this higher level of education would bode well for work and earnings.

Labor Market Outcomes

Millennials entered the labor market during tough times.[5] The group examined here turned 21 between 2002 and 2012, which meant that they were coming out of school during a period that included the bursting of the dot.com bubble and the Great Recession. This experience appears to have been particularly hard on young Millennial men, who had labor force participation rates below those of earlier cohorts (see Figure 4a). The good news is that, by their late 30s, the labor force participation rate for Millennial men had caught up to earlier cohorts. Millennial women seem to have been less affected by the weak economy early in their careers (see Figure 4b).

In terms of earnings, both Millennial men and women initially were behind Gen-Xers and Late Boomers, but by their 30s appear to have caught up.

Figure 4. Labor Force Participation Rates, Ages 28-38

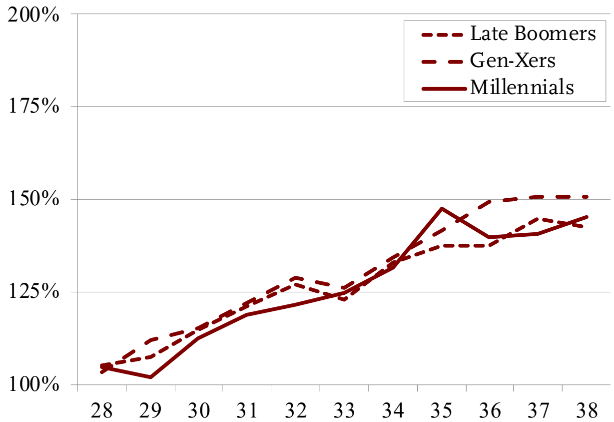


Source: Authors' calculations from 1993, 2008, and 2020 CPS.

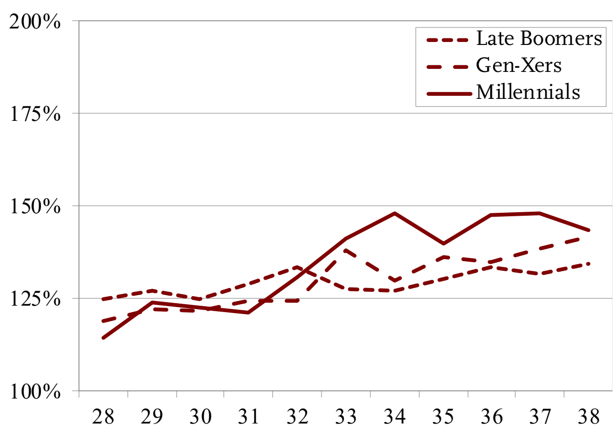
The metric used here for measuring earnings success is the ratio of earnings for men (women) at each age relative to the median earnings for male (female) workers of all ages. According to this metric, Millennial men in their 30s fall somewhat between Late Boomers and Gen-Xers, while women are faring much better than earlier generations (see Figures 5a and 5b).

Figure 5. Ratio of Earnings for Workers Ages 28-38 Relative to Earnings for All Workers

a. Men



b. Women

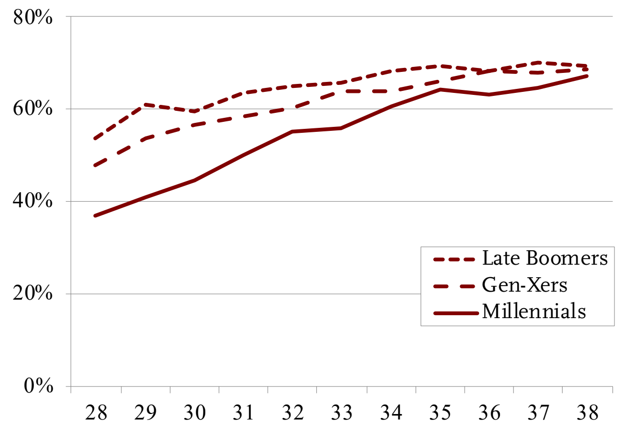


Note: The top 1 percent of earners are top-coded.
Source: Authors' calculations from 1993, 2008, and 2020 CPS.

Catching Up on Life Events

Just as the labor market experience of Millennials has become more similar to earlier cohorts, so has their attainment of life events. While the percentage of Millennials who are married by age 28 is still well below that for Late Boomers and Gen-Xers, Millennials nearly catch up by their late 30s (see Figure 6).

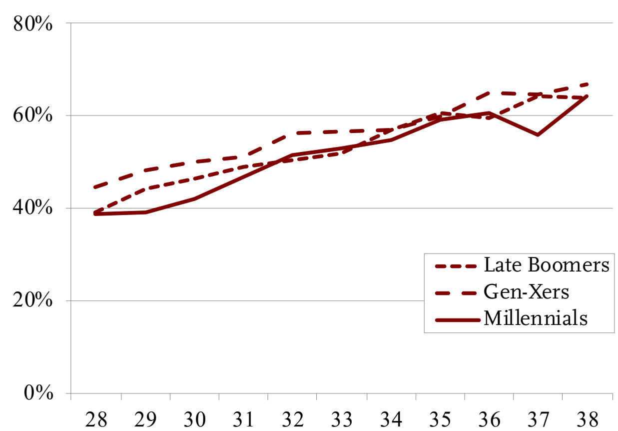
Figure 6. Percentage of Individuals Who Are Married, Ages 28-38



Source: Authors' calculations from 1993, 2008, and 2020 CPS.

Similarly, homeownership patterns increasingly look comparable to those of earlier cohorts. Buying a home is highly correlated with getting married, so it is not surprising that as Millennials' marriage rate increases with age, so does their homeownership rate. By age 38, more than 60 percent of Millennials own a home, just as their counterparts did in earlier generations (see Figure 7).

Figure 7. Percentage of Households Who Own a Home, Ages 28-38

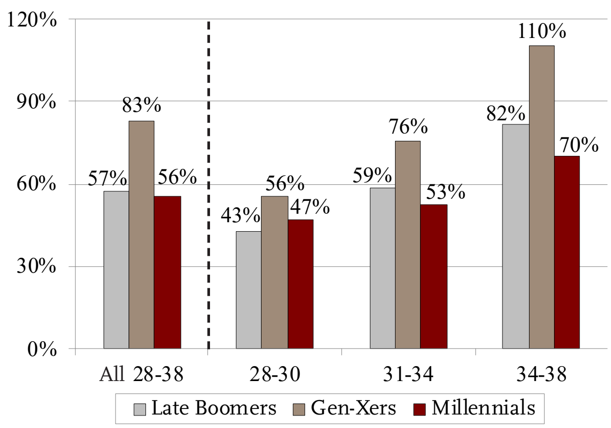


Source: Authors' calculations from 1993, 2008, and 2020 CPS.

Preparedness for Retirement Still Lags

While Millennials are looking more like previous cohorts in terms of labor-market experience, marriage, and homeownership, they continue to look very different in preparation for retirement. The median ratio of net wealth to income for Millennials is significantly behind that for earlier cohorts even for households in their late 30s (see Figure 8).

Figure 8. Median Net Wealth-to-Income Ratio, Ages 28-38



Source: Authors' calculations from U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (SCF) (1989, 2004, and 2019).

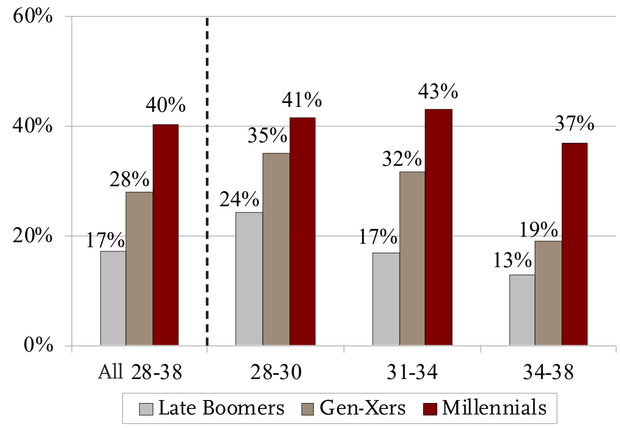
The reason for this wealth gap is student loans. Forty percent of Millennial households ages 28-38 are burdened by student debt (see Figure 9a) and, among these households, the outstanding loan balance amounts to more than 40 percent of income (see Figure 9b).

Excluding student loans, the median net wealth-to-income ratio for the leading edge of the Millennial generation looks very similar to that for previous cohorts. They are saving for retirement, despite the student loans (see Figure 10 on the next page). But student loans continue to be a drag on their balance sheet.

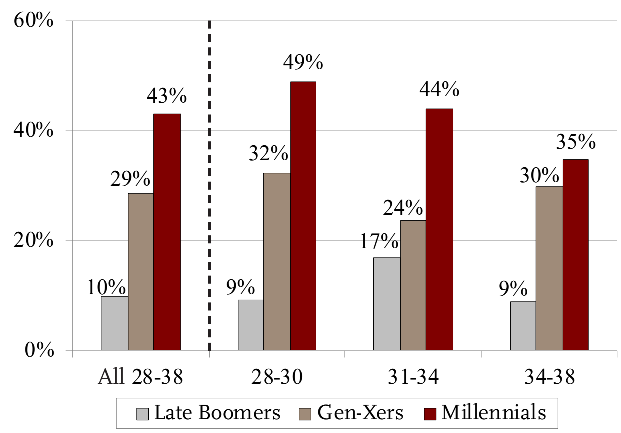
In short, Millennials are well behind other cohorts at the same age in net wealth accumulation even though they will live longer and receive less from Social Security relative to pre-retirement earnings.[6]

Figure 9. Student Loan Burden for Households, Ages 28-38

a. Percentage of Households with Student Loans

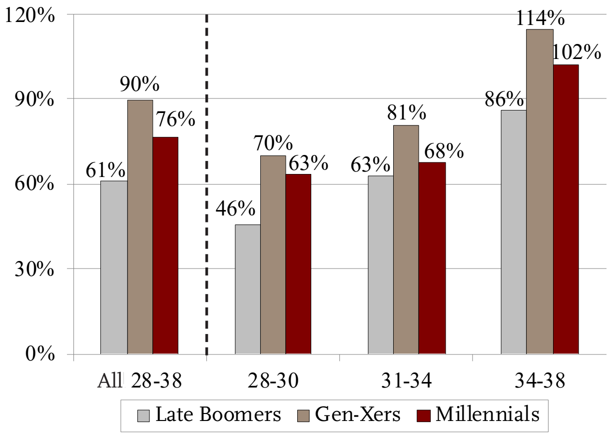


b. Student Loan-to-Income Ratio



Source: Authors' calculations from 1989, 2007, and 2019 SCF.

Figure 10. Median Net Wealth-to-Income Ratio, Excluding Student Loans, Ages 28-38



Source: Authors' calculations from 1989, 2007, and 2019 SCF.

Conclusion

The picture of Millennials relative to earlier cohorts appears to be changing. Yes, despite being more educated than their earlier cohorts, they got off to a rocky start – entering the labor force in the wake of the bursting of the dot.com bubble and the Great Recession. They lagged in terms of labor force participation, earnings, and life milestones. But Millennials are catching up in the labor market and they are getting married and buying houses.

One place Millennials have not caught up, however, is wealth accumulation. They are saving for retirement at the rate of earlier generations, but student debt is a constant drag on their balance sheet.

Millennials' lack of wealth in their 30s relative to earlier cohorts should be a source of great concern, given that they will live longer than previous cohorts and will receive less support from Social Security.

Endnotes

1 Munnell and Hou (2018).

2 Chambers (2015) provides some perspective on the naming of generations. The starting and ending years used to define the different generations vary somewhat; for example, the Pew Research Center uses 1997 – rather than 2000 – as the starting year for Gen-Z.

3 For details on the factors shaping Millennials, see Harris (2017), Twenge (2014), and Howe and Strauss (2000).

4 The data on earnings and unemployment are from the National Center for Education Statistics (2020) and cover Millennials ages 25-34.

5 See, for example, Tolentino (2017).

6 This conclusion echoes that of an extensive study of Millennials' projected retirement income (see Johnson et al., 2017).

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Contact Information

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

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