Are Millennials Really ‘Super Savers’?

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Or does their saving simple reflect the demise of defined benefit plans?

The media sometimes jokingly refer to the Millennial Generation (born between 1979 and 1996) as “Generation Wait.” Indeed, this generation has delayed many of life’s keystone events: obtaining that first good job, getting married, having children, and purchasing a home. My colleagues and I have worried that all these delays will also lead to an ill-affordable delay in retirement savings.

We were thus surprised by a new study from the Transamerica Center for Retirement Studies: **“Millennial Workers: An Emerging Generation of Super Savers.”** The study found that instead of delaying savings, Millennial workers started saving at a median age of 22, compared to 35 for the older Baby Boom Generation (born between 1946 and 1964). This huge jump in start age flies in the face of our fears and seems to be good news. Yet, it is unclear whether the earlier savings by the Millennial Generation reflects “Super Savers” or the result of a more mundane force – the shift from defined benefit pensions to defined contribution pensions.

Defined benefit plans, which pay a fixed benefit based on salary and years of service, were a staple of the private-sector until the 1980s. In 1980, when Baby Boomers were in their 20s and early 30s, approximately 60 percent of pensioned workers had only this kind of pension. Workers in these plans would probably not think of themselves as saving for retirement (unless outside of work) because participation typically does not take the form of a payroll deduction.

Fast forward to 2004, when many Millennials were hitting the job market and over 60 percent of pensioned workers had only a defined contribution plan. These plans, which include the popular 401(k) plan, are voluntary and almost always involve a deduction from wages that is placed in an investment account. People covered by these plans would clearly report that they have started saving for retirement. Thus, when the surveyors ask respondents when they first started saving for retirement it seems they will hear earlier dates for the younger generations who contribute to 401(k) plans. This early start, however, doesn't mean Millennials will have more wealth in retirement; after all they won't enjoy the income from defined benefit plans received by many Baby Boomers.

Other information in the Transamerica study also provides a more nuanced picture of Millennial saving than the title of the report would suggest. On the one hand, it was encouraging to see that 90 percent of Millennials view retirement benefits from employers as important. Further, it seems Millennials spend more time discussing retirement than older generations – 18 percent reported discussing retirement frequently with family and friends compared to 9 percent of Baby Boomers (although this difference could also be a defined benefit/defined contribution phenomenon.) On the other hand, according to the survey, Millennials are less likely to be offered a 401(k)-type plan than Baby Boomers (62 vs. 71 percent) and when offered one, less likely to participate (71 vs.81 percent). Some of this reflects the youth of the Millennials, but it is still important to keep in mind. Taking these two statistics together, Millennials are much less likely to be in a 401(k)-type plan than Baby Boomers.

In short, I am encouraged to see Millennials taking the challenge of retirement seriously, but remain unconvinced they are saving at much faster rates than earlier generations.