Generational Divide in the Workplace and Its Impact on Plan Participation

Generational differences in the workplace may be one reason that many plan sponsors find their efforts to boost plan participation rates and contribution levels fall short. The message and delivery medium of communication and education initiatives may be more effective when crafted in a manner that is relevant to the unique personality and needs of each generation.

A generation is defined by a group of people who share the same historical and socio-cultural location. Through this mutual experience a disparate set of individuals can develop a collective mind-set—a mind-set that may set them apart in character and personality from the generations that came before and after them.

Consider the vast differences in the cultural and historical experiences among the three primary generations that comprise the 21st century workforce:

- **The Baby Boomers** were generally raised by stay-at-home moms influenced in the teachings of Dr. Spock. Their formative years were marked by the advent of television, man landing on the moon, assassinations and the Vietnam War;

- **Generation X, or GenXers**, were often latchkey kids who survived unprecedented divorce rates. The defining events for this group include MTV, the personal computer and the Challenger disaster;

- **The Millennials** were often placed first in the family hierarchy and received trophies for participation. They have no knowledge of a world without the internet, have lived much of their lives in “real time,” and were witness to school violence, the terrorist attacks of 9/11/2001 and the Oklahoma City bombing.

Maximizing the effectiveness of retirement plan enrollment and education initiatives first requires an understanding of the way each generation sees the world, uses technology and the place it occupies along the adult continuum. The messaging and delivery medium of these initiatives must then be tailored to the different personalities and sensibilities of each generation in the workforce.

**Generational Attitudes Toward Retirement**

The prerequisite to developing a generationally relevant communication and delivery strategy is identifying the unique attitudes each generation of workers holds towards money management and the concept of retirement, as well as the specific financial challenges they face in their particular life phase.

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The Great Recession of 2007-2009, much like the Great Depression for an earlier generation, has had lasting consequences on each generation’s sense of economic security and the belief in their ability to achieve future financial goals.

For Baby Boomers, the Great Recession hit when many of them were nearing retirement. Having developed substantial assets from a lifetime of working, they suffered significant losses in home values and retirement accounts. These losses were a new and wholly unexpected experience after nearly two decades (1980s and 1990s) of almost uninterrupted economic and financial progress.

For those of Generation X, the major impacts of the Great Recession were layoffs and a reduction in hours just as they were moving into the prime of their careers. Perhaps for the first time they saw that hard work was no guarantee against economic misfortune.

Millennials, who were just entering the workforce, were particularly hard hit by the Great Recession as finding a job became exceedingly difficult, and if they had one, they were often the first to lose it.

Not surprisingly, economic uncertainty can breed worries about the prospect for building sufficient resources to fund a future retirement.

Over half (55 percent) of Baby Boomers worry that their financial resources won’t last in retirement, while nearly 73 percent of Generation X harbor similar concerns.¹

This gap between Baby Boomers and GenXers is largely a result of Generation X’s concern over being sandwiched between the financial responsibility of children and aging parents and the cost of healthcare in retirement.

Millennials are more focused on the here and now—a reflection of their youth and the need to prioritize reducing student debt over wealth accumulation.

### State of Retirement Readiness

The vast majority of workers who have access to employer-sponsored retirement plans participate in those plans. The participation gap among the generations, however, is significant, with a 93 percent participation rate among Boomers, an 89 percent rate for Generation X and an 83 percent rate for Millennials.²

Despite these high participation rates, retirement readiness remains uniformly shaky.

52 percent of households age 55 and older have no retirement assets in a defined contribution (DC) plan or individual retirement account (IRA). Among the 48 percent of households age 55 and older with some DC plan and/or IRA assets, the median amount is approximately $109,000—commensurate to an inflation-protected annuity of $405 per month at current rates for a 65-year-old.³

Households that have sizeable DC plan and/or IRA assets are more likely than households with lower amounts of such retirement assets to have other resources, including a higher likelihood of expecting retirement income from a defined benefit (DB) plan. Nearly 30 percent of households age 55 and older have neither DC plan/IRA assets nor a DB plan.³

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¹. “Perspectives on Retirement Survey,” The Artemis Strategy Group, February 2015
Despite an unprecedented market boom that spanned the 1980s and 1990s, many Baby Boomers are facing the prospect of delaying their retirement due to the combination of the failure to invest enough and the financial impact of the Great Recession.

Baby Boomers are fully aware of their current state of retirement readiness (or non-readiness) and have made it a top financial priority, with nearly half saying that they know they will have to make sacrifices and are already doing so.\(^5\)

### Top Concerns Facing Baby Boomers

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serious Debt</td>
<td>33%</td>
</tr>
<tr>
<td>Lack of Emergency Fund</td>
<td>54%</td>
</tr>
<tr>
<td>Not Planning Enough for Retirement</td>
<td>56%</td>
</tr>
</tbody>
</table>


Retirement investing is also a top priority for Generation X, motivated by fears of Social Security underfunding, the high cost of healthcare and lingering doubt about the economy post the Great Recession.

### Retirement Readiness: Generation X

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I worry about retiring because I have both kids and older parents to think about.”</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: “Perspectives on Retirement Survey,” The Artemis Strategy Group, February 2015

The median retirement assets of Generation X dropped 15 percent, from $70,400 in 2012 to $59,800 in 2014. Only 65 percent of GenXers have invested money for retirement, down from 72 percent in 2012. Of those with retirement assets, 42 percent have less than $50,000.\(^6\)

Not surprisingly, only 17 percent believe that they are on track for retirement. This retirement outlook could worsen since only 23 percent of GenXers are currently investing for their children’s future college education.\(^7\)

Millennials are America’s largest, most ethnically diverse generation, representing one-third of the population, with 15 percent of Millennials born in a foreign country.\(^8\)

The top priorities for Millennials are managing cash flow and getting out of debt, particularly student loan debt, which surpassed $1 trillion in 2014. The average student debt is $30,000.\(^8\)

Not only does this generation have higher levels of student loan debt, but it has a higher rate of poverty and unemployment and lower levels of wealth and personal income than Baby Boomers and GenXers.

It is little wonder that Millennials are less focused on a distant retirement goal when more immediate pressing challenges exist.

### Financial Concerns of Millennials

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Cash Flow</td>
<td>79%</td>
</tr>
<tr>
<td>Getting Out of Debt</td>
<td>59%</td>
</tr>
<tr>
<td>Planning for Retirement</td>
<td>56%</td>
</tr>
</tbody>
</table>


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Strategies for Addressing Differences Through Plan Design and Education

As plan sponsors develop a blueprint for a communication and education strategy that is generationally germane, they may want to confirm that the content:

a) answers the questions that each generation is asking of itself;

b) addresses their most pressing financial concerns; and

c) is delivered via each generation’s preferred medium.

Baby Boomers: Do I Have Enough?

As the generation closest to retirement, the question “Do I have enough?” is an appropriate one to ask. As we’ve seen, for many Boomers, the answer is no.

Thus, the messaging for these individuals needs to be hopeful with an emphasis that it is not too late to begin accumulating more assets. These Boomers have indicated a willingness to make sacrifices to fund their future retirement; now they need to be told that it’s still possible.

For the Boomers who have been more successful at building adequate resources, the conversation around accumulation has become less relevant. The messaging to these individuals should be about how to manage their retirement assets in a manner that will enhance the probability of their assets lasting for the full length of their retirement.

While Boomers have adopted many of the forms of modern communication, they still appreciate more traditional communication platforms.

Delivery of communications should be online, but also supplemented with in-person group meetings. Written communications (still valued), from emails to retirement education should use a larger font and more white space to make for easier reading.

Employer Strategies for Baby Boomers

Plan sponsors can pursue several strategies to maximize the effectiveness of their communications with Baby Boomers, including:

• Offering topical seminars/webinars that cover:
  • The importance of a financial plan and the power of tax-deferred investments
  • Presenting retirement as a three-step process of:
    • Budgeting and funding;
    • Determining withdrawals and evaluating investments; and
    • Ongoing review of retirement assets
  • Making available one-on-one planning sessions with a financial advisor.

Generation X—Am I Contributing Enough?

In light of this generation’s financial stresses, education around how to manage and reduce expenses will be especially valuable since it can help create the cash flow that can be re-directed to fund their retirement.

They also should be reminded that, with retirement still many years away, the power of compounding is a potent ally in helping them meet a goal that may seem out of reach.
One of the dangers of changing jobs is the temptation of viewing a 401(k) balance as a source of funds to help meet current financial needs. As a consequence, plan sponsors should include as a component of their education curriculum the dangers of withdrawing these assets to pay for current consumption.

Since Generation X feels the pressures of raising children and attending to aging parents, education to them should be positioned as a way to help them save time, simplify their lives and reduce stress.

Delivery of information and education should be via user-friendly online tools and offer regular and specific feedback on their individual progress.

**Employer Strategies for Generation X**

Employers can implement several strategies to improve the effectiveness of their communications and education to Generation X, including:

- Focusing on how to “pay” themselves when it comes to retirement by offering ways to balance investing for their children’s college and their own retirement assets imperative.
- Articulating the steps needed to:
  - improve their retirement readiness,
  - reduce fixed expenses prior to retirement, and
  - make up for past under contributions.

**Millennials—Retirement Investing Feels Like a Luxury**

In view of the reality that Millennials have more immediate financial priorities, messaging to this group of employees needs to focus on financial insecurity, not just retirement.

Let Millennials know that contributing even a little now can make a big difference in the future, thanks to the power of compounding. Communications and education should provoke them to think about the “future you,” encouraging them to envision how they will want to live in retirement.

Because it can be difficult for most Millennials to relate to a faraway retirement, position retirement education as part of a lifelong learning curriculum. This appeal to learning will be a message that resonates strongly with one of the most educated generations in history.

**Employer Strategies**

To increase the participation and contribution levels of Millennials, plan sponsors should consider:

- Adopting auto enrollment and auto escalation features, which can help overcome the tendency to not enroll at all or to contribute too little.
- Offering a Roth 401(k), which is of particular benefit to this generation. Studies have shown that when provided the choice, Millennials choose the Roth option in greater numbers than other generational cohorts.
- Educating them on the benefits of rolling over retirement accounts rather than cashing out when changing jobs.
- For a generation that may have never read a newspaper, the delivery of content and communications must reflect how they communicate. Accordingly, plan sponsors should offer online chat platforms, interactive online communications of financial basics, and clickable information that is optimized for mobile use and easy-to-take action.
• Using targeted landing pages with online tools that show how much income they may have at retirement age.

• Sharing information that allows them to compare their individual progress to the average of their peer group.

Conclusion

The fundamental ingredient of connecting with any group of people, whether it is to advance a great idea or sell a consumer product, is delivering a message that is both relevant and aspirational, i.e., one that speaks to the needs and concerns of the audience and provides a hopeful view of the future.

Communicating with employees about preparing for retirement should strive to meet these twin goals. The message becomes more relevant when it recognizes the individual needs and sensibilities of each generation and supports that messaging with the education and tools that empower them to achieve their retirement goals.

<table>
<thead>
<tr>
<th>A PROFILE OF THREE GENERATIONS</th>
<th>Baby Boomers</th>
<th>Generation X</th>
<th>Millennials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Age</td>
<td>50 to 68</td>
<td>35 to 49</td>
<td>18 to 34</td>
</tr>
<tr>
<td>Number Working</td>
<td>44.6 million</td>
<td>52.7 million</td>
<td>53.5 million</td>
</tr>
<tr>
<td>Percent of Labor Force</td>
<td>29%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Characteristics</td>
<td>• Ambitious</td>
<td>• Pragmatic</td>
<td>• Confident</td>
</tr>
<tr>
<td></td>
<td>• Materialistic</td>
<td>• Self-Reliant</td>
<td>• Self-Expressive</td>
</tr>
<tr>
<td></td>
<td>• Optimistic</td>
<td>• Skeptical</td>
<td>• Open to change</td>
</tr>
<tr>
<td></td>
<td>• Change the world</td>
<td>• Balanced</td>
<td>• Civic-minded</td>
</tr>
</tbody>
</table>

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