Generational Considerations in Managing Your Retirement Plan

Millennials, Gen Xers, and Baby Boomers have distinct concerns that should be addressed through education and communication.

By Rita Fiumara

As employers manage across three generations, Millennials (Gen-Yers), Gen Xers, and Baby Boomers, it is important to consider the unique characteristics and challenges for each employee demographic group. Communicating effectively with relatable educational and financial planning seminars, webinars, or with any type of correspondence, will be key.

Doing so will allow employers to have a much better competitive advantage and keep employees focused on their jobs. Marketing to the right demographics and community groups will not only improve loyalty and trust, but also stack the odds in favor of each employee group when it comes to planning and saving for retirement.

Millennials

When examining the new work force of Millennials, the most valuable asset isn't their stock or bond portfolio, their primary residence, or any other financial asset. Millennials' most valuable asset is their human capital. Human capital is typically the greatest during the first half of an individual's career and over time, as income is earned, saved and invested, human capital diminishes while financial assets grow as a percentage of net worth.

Millennials who have pursued more educational attainment than any other generation in history and graduated into the worst labor market in 50 years might not feel wealthy at this stage in their lives. Millennials have greater certainty around longer working lifetimes and post-work retirement periods than before them.

As employers face one of the largest, most educated generations coming into the workplace they must adapt to the technological revolution and make use of the digital devices that bundle communication, entertainment, shopping — and yes, 401(k) education — all in one.

Smartphone use has become the norm and Millennials have always had the Internet at home and at school. Millennials embrace social media and hence adapt to new technology more quickly compared to the more skeptical approach of previous generations.

Millennials have grown up understanding the importance of financial advice, but instead of human advisors, young professionals are turning to software tools to guide them in getting their initial financial information. The good news for Millennials is that although returns are likely to be lower in the medium term, given the lower interest rate environment and fair valuation in equity markets, Millennials are investing for the next 30+ years. Although a 100 percent equity portfolio is likely to be volatile for most investors, they should consider equities forming the core of most Millennials' portfolios.

Millennials want to keep it simple — they want to be asked just a handful of questions about their goals.

- What is your risk tolerance?
- What is your investment horizon?
- Average salary?
- Define a monthly savings mark and have a computer model calculate an asset allocation.

Contrary to the Millennial's beliefs, proper financial planning is important and sometimes cannot be achieved through a computer model.

How is human capital calculated? The value of human capital is effectively the net present value of estimated future earnings. From a financial standpoint, high-income earners have more human capital than low-income earners; however, the quantity of earnings only matters more for insurance considerations than asset allocation or portfolio considerations. The percentage of human capital as a portion of one's overall balance sheet is about the same across the lifecycle regardless of income, and requires the same discipline in overall saving rates.

Generation X

Generation X, the sandwich generation, while smaller than Boomers and Millennials in size, face an even bigger challenge as many may have neglected financial planning or savings altogether as other priorities, of aging parents or assisting their children with college costs challenge them to accumulate any type of retirement savings for their future.

One advantage that Generation Xers have is the opportunity to set money aside in an HSA (Health Savings Account) program. What's the tax advantage? Within limits, HSA contributions are tax deductible. If made by an employer, the employer gets the deduction and the employee excludes the contributions from income for federal income-tax purposes. An employer-sponsored plan can allow employees to make HSA contributions on a pretax basis.

Money set aside in an HSA, plus account earnings, may be used *tax free* to pay qualified medical expenses that aren't reimbursed by insurance. Qualified expenses do *not* include premiums paid to purchase the coverage. Any withdrawals not used for qualified medical expenses are taxable and generally subject to a 20 percent penalty.

After age 65, funds can also be used for nonmedical expenses with no penalty. However, you will have to pay federal income tax on those withdrawals. And, once you enroll in Medicare, you can no longer contribute to your HSA.

Baby Boomers

Boomers face many decisions as they are about to retire and need their retirement savings for income. Most Boomers have included Social Security in setting their income stipend. Deciding when to start collecting Social Security will affect the monthly payments received. Some Boomers choose to take their benefits as early as possible because they need income for living expenses, however, waiting until age 70 can earn Boomers delayed retirement credits. These credits increase future benefits by 8 percent a year in addition to any yearly cost of living adjustments. If Boomers continue to work and delay Social Security they may increase their wage base from which future benefits will be calculated.

Boomers have another important healthcare consideration if they plan to retire before age 65, and that is how to maintain and pay for healthcare coverage until they qualify for Medicare.

When estimating retirement income needs, understanding the basics of Medicare can help Boomers refine their overall costs. Generally, participants won't be charged a premium for basic Medicare-Part A coverage, but it is important to understand the limitations of what Part A includes.

For Doctors visits, laboratory testing, and certain preventive screening and other outpatient services, Boomers also need Part B coverage. Part D is another layer for prescription drug coverage. Part C is another alternative for Boomers, which combines Part A and Part B and often provides prescription drug coverage as well for a premium[1].

How can employers alleviate some of this stress as 42 percent face a financially dependent child along with a parent over age 65? Employers can't ignore the stress, concern, and lack of sleep that can result in increased absenteeism from work for months at a time[2].

Strategies

Whether employers hire credentialed professionals who inspire confidence in assisting their employees with their personal and financial goals, or whether they adopt electronic or do-it-yourself computer programming, they still need to coordinate a strategy that is customized for each group based on the various stages of their lives and career path.

Solutions may include combining financial wellness with health, and promoting these programs so that they are viewed as one wellness program. Adding an automated single sign-on website, or a consolidated landing page of all their benefits allows employees to follow and keep track of their expenditures for healthcare and retirement savings.

Financial planners can offer the intellectual capital to assist Millennials with insurance needs, Generation Xers with financial savings program, and Boomers with a realistic financial expenditures program that takes all their needs and challenges into consideration. Listening and planning around each individual's unique needs and circumstances is something that computer software programs don't provide and can only be found through use of a financial planner. Boomers in particular need direction on preservation of assets and have to make sure they end up in the right hands when they eventually plan the final chapter of their lives.

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[1] UBS Financial Services, Inc., *Retirement Planning Social Security, health and long term care considerations* (2013), 2–7

[2] Kim Parker and Eileen Paten, *The Sandwich Generation* (PEW Research Center, 2013), 8.