5 Reasons Millennials Aren't Saving for Retirement

What's going on with millennials?

Low salaries and burdensome student loan payments make it difficult for many young people to begin saving for retirement. Younger workers frequently don't have access to workplace retirement benefits and are less likely than their older counterparts to contribute when a 401(k) plan is provided. Less than a third (31 percent) of millennials participate in a traditional pension or 401(k) plan through their job, according to a Pew Charitable Trusts analysis of Census Bureau data. That's significantly less than the half (48 percent) of all workers who use a retirement plan. Here's a look at why millennials are having a difficult time building wealth for the future.

They take jobs without retirement benefits. Startups and small businesses are attractive places to work for many young people, but they seldom provide retirement benefits. Some 41 percent of millennials age 22 and older don't have access to a pension or 401(k) through their employer, compared to 35 percent of all workers, Pew found. "Millennials change jobs a lot, and when people are making decisions about their next job, they are not always thinking about the 401(k) plan," says Vera Kelsey-Watts, a certified financial planner for Peace of Money in Newburyport, Massachusetts. Some careers and industries are also more likely to offer retirement benefits than others.

They aren't eligible for the 401(k) plan. Finding a job with retirement benefits isn't the only challenge millennials face. There might also be a waiting period or eligibility requirements that prevent new or young workers from immediately joining a 401(k) plan. Among millennials who worked for an employer with a 401(k) plan, but did not enroll, 51 percent said they weren't participating because they were ineligible for the plan, according to the Pew report. "You might have to work three months before you are eligible to join the plan or 1,000 hours in a year," says John Scott, director of the retirement savings project at The Pew Charitable Trusts. "Millennials are hit by these eligibility standards because they are younger, many are in their first jobs, they are willing to work part time and might be working part time in two jobs."
Millennials need to save somewhere else until they are able to contribute to the 401(k) plan and remember to sign up when the waiting period ends. "You need to have an IRA, so if you go right from one job to another, you can keep saving at the same level in an IRA until the 401(k) plan kicks in," Kelsey-Watts says.

They fail to sign up. When retirement benefits are provided by an employer, millennials are less likely than their older colleagues to enroll. Only about half (52 percent) of millennials sign up for a 401(k) plan when they have the opportunity to do so, compared to nearly three-fourths (72 percent) of all workers. However, company contributions motivate people of all ages to save in the 401(k) plan. When an employer matches contributions, 72 percent of eligible millennials save in their 401(k) plan. "Get at least the company match because you get a 100 percent return on that money," says Shawn Tydlaska, a certified financial planner and founder of Ballast Point Financial Planning in San Francisco. "You can't get that guaranteed return anywhere else."

Parenthood and homeownership responsibilities. Many millennials are now parents, and are facing the new and often overwhelming costs of raising children. Retirement can seem remote when facing the more immediate costs of child care or moving into a larger home with room for children. Millennial parents (36 percent) are slightly more likely than millennials without children (32 percent) to say they can't afford to participate in the 401(k) plan. "People want to buy a house and they have to come up with a down payment, and that may be a competing goal to retirement savings," Scott says. "You are balancing some very near-term financial needs against a long-term financial benefit which is a little hard to quantify."

Low salaries. Like other generations, millennials are more likely to participate in a 401(k) if they have a higher income. For example, about half (54 percent) of millennials earning less than $25,000 per year participate in a 401(k) if it is offered, while 70 percent of employees earning $50,000 to $99,999 and 80 percent of people earning $100,000 or more invest in 401(k)s. "Many people think putting $25 a month aside for retirement isn't worth it, so they don't do it," Kelsey-Watts says. "Saving for retirement is more of a mindset. Anybody at any salary level should be able to structure their life so they can live on less than they make."

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