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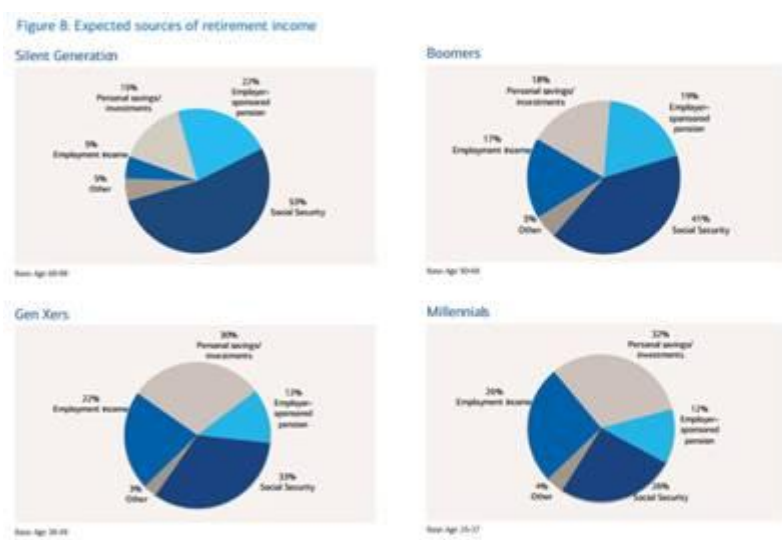
Recession-Battered Millennials Have Retirement Hardships to Come

By Danny Vinik | June 8, 2014

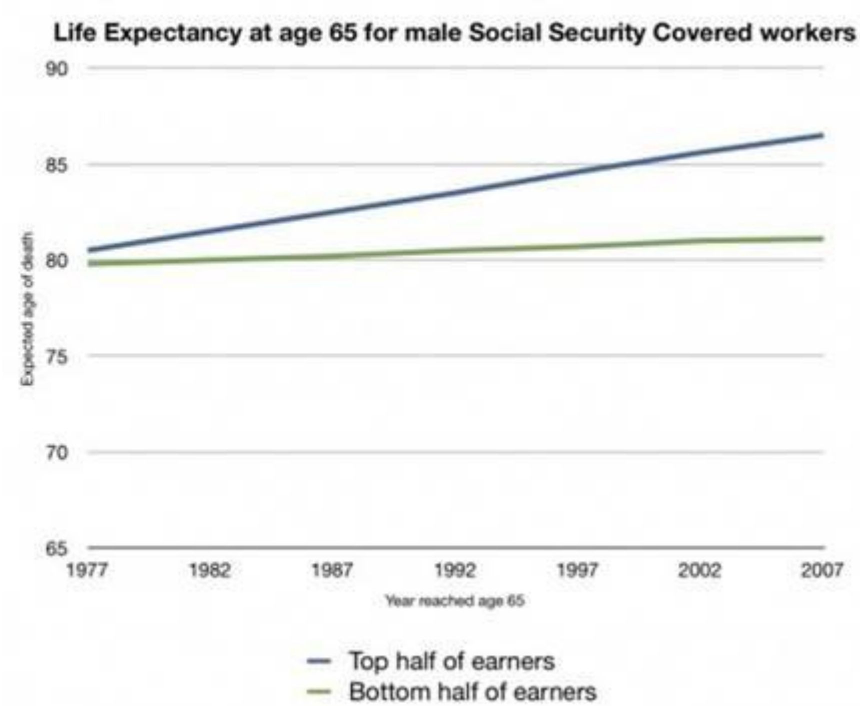
The Great Recession spared no one, but it fell especially hard on millennials. They suffered the highest unemployment rates, which academic evidence shows this will permanently reduce their wages. In the meantime, student debt has skyrocketed to record levels. The result: Their greatest financial hardship may come decades from now, when they retire.

Merrill Lynch released a report Wednesday intended to highlight the positive motivations for Americans working in retirement. The study found that 78% of pre-retirees above the age of 50 intend to work after they retire. Many are driven by reasons other than money. If these Boomers—and future generations—want to work in retirement, maybe the feared retirement crisis won't materialize.

But the report also provides a glimpse into the retirement expectations of successive generations, showing that the retirement crisis is still a major threat: Millennials are unprepared for retirement and they are counting on income sources that are unlikely to materialize. Merrill Lynch asked members of the past four generations (Silent, baby boomers, X and millennials) about their expected sources of retirement income. Each successive generation expects to depend less on Social Security and employer-provided pensions. Boomers, for instance, expect Social Security and employer-sponsored pensions to make up 60% of their retirement income. For millennials, it's only 28%:



In turn, millennials expect employment income and personal savings to make up 58% of their retirement income, compared to 35% for boomers and 20% for those in the Silent Generation. The Merrill Lynch report notes that life expectancy has increased significantly over the past few decades, rising from 75 years in 1990 to 78 in 2010. If people are living longer, conservatives often argue, then the retirement age should rise as well. But those gains have accrued entirely for the rich. Life expectancy for the bottom 50% of households has barely changed since 1977:



In other words, those who will have personal savings to fund their retirement are living longer, but those who won't have savings are not. Merrill Lynch did not break down their report by income level so we don't know how much low-income millennials intend to rely on employment income and personal savings in retirement. But since the entire millennial generation expects to depend heavily on employment income and personal savings, it's likely that low-income millennials intend to do so as well.

But what happens if those savings don't materialize in 30 years? A 2013 Wells Fargo report found that less than half of millennials are currently saving for retirement. If that rate does not increase, the millennial generation is counting on savings that won't exist. The millennials who don't save are likely to be the same ones who haven't seen an increase in life expectancy and have less faith in Social Security. Upon retirement, they will have no choice but to work longer—whether they want to or not.

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