



## Preparing for Retirement: **The Lost Generation Comes of Age**

### **About the Study**

*T. Rowe Price engaged Brightwork Partners to conduct a national study of 3,022 adults aged 18 and older who have never retired and are currently contributing to a 401(k) plan or eligible to contribute and have a balance of at least \$1,000. The online survey was conducted from March 3–14, 2017.*

*For more information on these and other findings from Retirement Savings and Spending 3, and other generational research, please contact your T. Rowe Price representative.*

Sandwiched between Baby Boomers and Millennials, Generation X (Gen X) is sometimes titled the “lost” generation. Americans born between 1965 and 1980<sup>1</sup> entered the workforce beginning in the 1990s, and are now likely well established in their careers. For most, early career financial priorities – paying off college loans and buying the first home – are behind them. Raising children and paying for their educations are current priorities, and retirement is coming into their consciousness, particularly as many observe their parents in the early stages of their own retirements.

For plan sponsors and advisors, Gen X has reached the prime position for targeted communications regarding retirement preparedness – the “sweet spot” when awareness and concern are rising, and there’s still plenty of time to adopt strategies and adjust them.

With this in mind, T. Rowe Price has focused the latest installment of its annual participant study<sup>2</sup> on Gen X. The findings provide valuable insights for sponsors and advisors who want to ensure that their plans garner maximum employee satisfaction among a group of participants often influential among coworkers.

This paper profiles Gen X’s financial goals and progress, their expectations, their attitudes toward advice, and a number of other factors, along with insights and suggestions from T. Rowe Price for plan sponsors and advisors as they design and operate 401(k) plans.

<sup>1</sup>Generational studies and naming conventions vary widely. For purposes of our studies, T. Rowe Price and Brightwork Partners define “Generation X” as people born between 1965 and 1980.

<sup>2</sup>Retirement Savings and Spending 3 © 2017 Brightworks Partners, LLC. Conducted by Brightworks Partners for T. Rowe Price.

## Gen X: Financial Goals and Progress

We asked all respondents about 16 different financial objectives. For all generations, the objective most often cited as “major” is “Having Financial Peace of Mind.” More than half of Gen X respondents identify it and four of the other objectives as major.

Priority	Gen X: Major Objective	Gen X: Some Progress	Gen X: Great Deal of Progress	Gen X: Total Progress
Overall, having financial peace of mind	77%	46%	34%	80%
Maintaining an acceptable quality of life	70%	47%	39%	86%
Saving for retirement through your current 401(k), or other workplace retirement plans currently held by you or other members of your household or through previous workplace retirement plans held by you or other members of your household	65%	44%	39%	83%
Reducing what you owe on debt such as college loans, credit cards or home equity lines of credit <sup>3</sup>	53% <sup>3</sup>	43%	32%	75%
Managing and budgeting for day-to-day expenses	50%	42%	42%	84%

<sup>3</sup>Have student loan or other household debt.

For Gen X respondents there were some priorities where they placed more (or in other cases less) emphasis on the priority than did the overall population. They place more emphasis than the national average on saving for college and reducing student loan and other debt. They place less emphasis than the national average on contributing to charity, saving for a primary residence, and saving for retiree healthcare expenses. That prioritization makes sense across the life stages—the closer retirement gets the more focus it receives, particularly as other financial goals (saving for a first home or starting a business) are either achieved or no longer seen as viable.

Gen X reports progress on the five goals they most often identify as major, with three-quarters or more reporting at least some progress on each. Among the five most-often cited as major objectives, it seems that Gen X is having the greatest struggle with reducing debt, including college loans. Here, as many as 25% report not very much or practically none for progress.

### Gen X 401(k) Contribution as a % of Personal Income<sup>4</sup>

1-2%	11%
3-4%	15
5-6%	21
7-9%	12
10-14%	23
15-19%	9
20-24%	6
25%+	3
Average	9
Median	7

Note: Progress is based on those citing each priority as a major or minor objective.

<sup>4</sup>Expect to contribute to 401(k).

## A Word of Caution

Millions of people defy broad generalizations, and some delight in doing so. We work hard to identify generational differences, and then without any effort can point out dozens of exceptions to each classification. Plan participants, too, are ultimately unique individuals with varying levels of engagement, understanding, and preparedness for retirement. We study generational differences to help us create tools and communications strategies to help as many people as possible, always recognizing that any strategy or tool is not directed exclusively at one generation or another.

## Gen X: Contributions to Plans

In general, members of Gen X are not contributing enough to their 401(k) plans to achieve the retirement goals they've set for themselves, and they know it. On average, their perception is that they should be saving at the rate of 11% of earnings.

In actual practice, they're saving 9% on average, and fully 59% are saving less than 10%.

T. Rowe Price recommends a contribution rate of 15% (including any employer contribution), but starting in one's 20s. After a decade or more of not saving at these rates, the appropriate amount for most Gen X members is likely considerably higher<sup>5</sup>.

### Major Reason for Not Contributing to My 401(k)<sup>6</sup>

Contributing all I can afford	51%
Paying back debt other than college loans	27
Saving for retirement through other vehicles	21
Don't want to lock up money I might need soon	20
Saving for a child's education	23
Paying back college loans	14
Don't need to save for retirement	9

Gen X participants offer a number of explanations as to why they're not saving at higher rates. Like all respondents, around half of Gen X respondents report that they are contributing as much as they can afford, as with the other generations, the most cited reason. Typical of the national average, this group is struggling to prioritize a number of both short- and long-term financial demands described above.

As reported in our earlier report, [\*\*\*Participants and the Advice They Want\*\*\*](#), we reported that the number-one source of help and advice for participants is the provider of their employer's 401(k) plan. Given that, the multitude of objectives, and the need to prioritize them, sponsors have the opportunity to contribute to financial wellness not only by providing a retirement savings vehicle, but by offering one that enables the participant to view, plan, and prioritize holistically.

<sup>5</sup>A note on averages: the amount an individual will need in retirement will vary widely, based on a range of factors, beyond just when retirement begins and how long it will last. Lifestyle choices, location, health, and availability of a partner's income have significant impact on the amount needed, and therefore on the savings rate. Plan sponsors can increase employee satisfaction and engagement with communications strategies and tools to help them measure their personal retirement income needs.

<sup>6</sup>Contributing below the maximum allowed to 401(k).

## Retirement Expectations

Most Gen X respondents expect to retire in their 60s or later. Unlike their millennial counterparts, where an optimistic 26% expect to retire before age 60, only 12% of Gen Xers do. We asked respondents about how their accumulated savings and current saving practices will affect the nature of their retirements. Gen X responses are shown in Figure 4. There are definite mixed emotions here, with roughly as many optimists as there are pessimists. About a third expects to have enough to pay for healthcare and to live as well in retirement as they did when working. At the opposite end of the spectrum, just over a third expects to have to reduce their standard of living and about a quarter expect their money to run out. The expectation of half that they will work part time in retirement may not be entirely pessimistic as people live longer and many retirees work because they want to, not out of necessity.

<b>Retirement Expectation</b>	<b>Gen X</b>
Will work at least part time in retirement	47%
Will have to reduce my standard of living	38%
Will have enough money to pay for health care	35%
Will live as well or better as I did when I was working	33%
Will run out of money	23%
Will be able to leave money to family members or charities	22%
Will be able to help out younger family members with tuition or housing expenses	19%

When it comes to Social Security, the majority (56%) of Gen X expects that it will be bankrupt by the time they retire. A full 73% agree with this statement: *"I'm expecting some Social Security benefits when I retire but nothing as generous as what today's retirees get."*

## Gen X and Advice

For each financial priority we asked respondents about the type of support and advice they'd like to receive, if any. The types of advice include:

- Selecting investments to achieve this objective
- Figuring out how much you need to save to achieve this objective
- Tracking your progress toward this objective and making changes as necessary
- Deciding whether this objective is more important than others and whether it should be funded first or later

## Generation or Age Group

*It's important to remember the distinction between "age group" and "generation." This paper describes findings about respondents to our survey who in 2017 were aged 36-51, the ages of people in "Generation X." In some cases, the findings might be attributable to behavior or attitudes of Generation X (e.g., Gen X tends to be more skeptical). In other cases, the findings might be attributable to age group. (i.e., people who are mid-career, raising families, etc.) and are behaving as previous mid-career people did. We think the findings are important for retirement plan sponsors and advisors, regardless of the cause and will leave the causal analysis to the psychologists and sociologists.*

When we examine their responses against their top-five priorities, Gen X is fairly comfortable without support and advice, with the exception of saving for retirement within their current 401(k) plan, and there, the advice most often cited is tracking progress.

However, when non-top-five priorities are considered, this group does want support and advice, particularly on retirement-related priorities. For example, 31% of Gen X respondents want help figuring out how much to save for retirement in vehicles outside their current 401(k) plans, and 16% want help in prioritizing saving for healthcare in retirement.

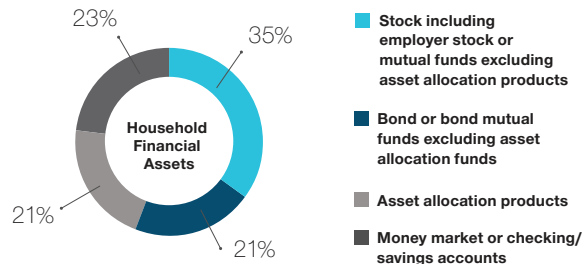
<b>Priority</b>	<b>No Advice</b>	<b>Selecting Investments</b>	<b>Amount to Save</b>	<b>Tracking Progress</b>	<b>Prioritizing</b>
Overall, having financial peace of mind	62%	N/A	N/A	N/A	38%
Maintaining an acceptable quality of life	65%	N/A	N/A	N/A	35%
Saving for retirement through your current 401(k)	30%	22%	27%	33%	13%
Reducing what you owe on debt such as college loans, credit cards or home equity lines of credit	48%	N/A	N/A	41%	16%
Managing and budgeting for day-to-day expenses	53%	N/A	N/A	36%	14%

Financial advisors seeking to expand their practices might do well to focus on Gen X. For each of the financial priorities we discussed, more Gen X respondents want advice than their Baby Boomer counterparts, and they have higher balances than Millennials. For advisors dealing with high-balance Gen X clients, the conflicting priorities, and multiple retirement-related options suggest a holistic broad plan that includes prioritization and tracking. Increased comfort or complacency with investing doesn't necessarily mean that these participants have made the right choices – or can't benefit from an investment review and rebalancing. It does suggest a different way to initiate the conversation.

For plan sponsors, those conflicts and the need for tracking suggest a program that focuses on overall financial wellness, with rich prioritization and tracking tools.

## Gen X: Assets, Investing and Debt

This generation reports average household financial assets of \$601,000 up from \$540,000 in 2015. The bulk of these assets (80%) is in tax-qualified retirement plans from current or former employers.



While 21% of their assets are in asset allocation funds (including target date, target risk, and/or balanced products), it is with these investments that Gen X is most satisfied. 81% reported that they were somewhat or

very satisfied with their investments overall, and 91% are somewhat or very satisfied with their target date products.

This Generation is more heavily in debt than either Baby Boomers or Millennials. For those having household debt other than first mortgages, the average level of debt is \$84,000 vs. \$53,000 for Boomers and \$73,000 for Millennials. And, fully 36% report debt levels of over \$50,000.

## Summary

The “lost generation” is finding itself. With significant progress on financial goals and an eye toward paying for their children’s educations and saving for retirement, this generation is focused but not fully confident. They expect to work into retirement. Saving an average of 9% of their incomes, and most believe that it’s all they can afford. Importantly they want help and support, and for it they turn most often to the provider of their 401(k) plan. As the age group with a clearer focus and retirement and the time to prepare, they are an important target for both plan sponsors and financial advisors.

### Considerations for Sponsors

- Aim communication strategies at this group
- Ensure that your provider has a clear Financial Wellness strategy
- Provide robust budgeting, prioritization, and tracking tools
- Consider auto-solutions
- Include quality target date funds

### Considerations for Advisors

- Target this group for advice
- Provide holistic solutions that consider debt levels and assets beyond the 401(k) plan
- Include periodic follow up discussions with a focus on remaining on track
- Support plan sponsors in provider searches with a focus on Financial Wellness

To learn more about this and other retirement-related and generational research along with other ideas for plan sponsors and financial advisors, please contact your T. Rowe Price representative.