

Generation Why!

Take notice of millennials – they're devoted, educated, and focused to succeed.

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Millennials are not the first generation to want to make positive changes to the world they will inherit. What makes millennials different is that they are starting their careers with a better skill set and education than any previous generation.

They are coming of age in a world that has seen incredible advances in technology and a rate of change that shows no sign of slowing down. Millennials' financial literacy, however, is an area where further growth will be beneficial. Rather than stand in the way of the coming wave of millennials and the changes they are bringing, we should be looking forward and embracing the many positives to come.

Millennials – at one time referred to as “**generation Y**” – are often criticized by baby boomers and generation Xers for being self-centered, immature, entitled, and too keen to upset the status quo. These characterizations are strangely reminiscent of similar charges laid years earlier by the establishment when threatened by the new ideas and approaches of the generations that are the critics today.

Acclaimed author Tom Wolfe called baby boomers “**self-absorbed and spoiled**” in his 1976 New York Magazine article “**The Me decade.**”¹ In 1990, Time magazine described generation X as skeptical, poor at making decisions, and having:

“attention span[s] ... as short as one zap of a TV dial.”²

So it is hardly fair – yet not at all surprising – that Time magazine also criticized the current “**20-something**” generation in 2013 when it ran a cover describing millennials as the “**Me Me Me**” generation.³

George Orwell, author of the dystopian novel 1984, masterfully described this conflict between generations way back in 1945 when he wrote that:

“every generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it.”⁴

Like it or not, millennials are inheriting this world with its ever-increasing rate of technological advances. Maybe it's time to embrace the many positive changes that this generation will bring.

Millennials are better equipped

There's nothing new about a desire for change in the coming generation. However, millennials are better equipped to make positive changes by virtue of their skills and education, which exceed those of any previous generation at the starting point of their careers. Millennials have shown to be more philanthropic, and are more willing than their older colleagues to devote their time, resources, and energy to help others.⁵

In the U.S., there are now more millennials than baby boomers in the population, and millennials now represent the largest component of the labor force.⁶ This trend will magnify as younger millennials enter the work force and older boomers and generation Xers retire.

Millennials are now the **largest component of the labor force.**

Millennials and other generations in numbers

	Millennials	Generation X	Boomers	Pre-Boomers
Birth year	1981-1997	1965-1980	1946-1964	Before 1946
Age in 2015	18-34	35-50	51-69	70 and older
Population in 2015 (millions) ⁷	79.4	65.7	75.5	32.1
Proportion of total population	24%	20%	23%	10%
Proportion of labor force	35%	34%	29%	2%

Sources: Pew Research and Knoema

The percentage of age 25 to 29 millennial Americans who have completed a post-secondary education program is very high, with women getting degrees at a higher rate (46%) than men (36%). These rates are significantly higher than was achieved by earlier generations at the same age.⁸ Yet, millennials experience higher rates of underemployment than the population as a whole.⁹ Many millennials have focused on higher education as the best path to increase their opportunities in a challenging and competitive employment market. Currently, 20.5 million students are pursuing post-secondary education in the United States, an increase of 5.2 million students since 2000.¹⁰

Making choices when faced with limited opportunities

Despite the economic challenges they face today, millennials are focused on developing themselves and their careers. The choice to pursue further education, including postgraduate degrees, often has to be traded off against the accumulation of additional debt. Approximately 40% of American millennials have student debt. Only mortgages constitute a larger amount of consumer debt for millennials than the total student debt that they have accumulated.¹¹ For those working part time, or still trying to find employment in their chosen fields, this level of debt can limit their options and development.

BMO Wealth Institute commissioned a survey to find out what American millennials thought about a number of issues that uniquely affect them.¹² Carrying too much debt was cited by 35% of millennials surveyed as the one financial issue that concerned them the most. Financing large expenditures such as a home purchase or a wedding (17%), the cost of raising and educating children (15%), and saving for retirement (13%) followed. Older millennials (aged 25–34) were almost twice as likely (16% vs. 9%) as younger millennials (aged 18–24) to be most concerned about saving for their retirement.

The opportunity to indulge

Research suggests, even when faced with limited resources at this stage in their lives, one interesting characteristic of millennials is that they are pragmatic about their choices. Millennials are a generation that understands that they can make trade-offs. As an example, for a generation that generally likes to “eat healthy,” certain high-sugar, high-fat treats can be an occasional, low-cost indulgence. According to the CEO of [Hostess Brands](#), millennials are consuming Twinkies because they:

“

have a belief that you only live once and you should enjoy yourself.¹³

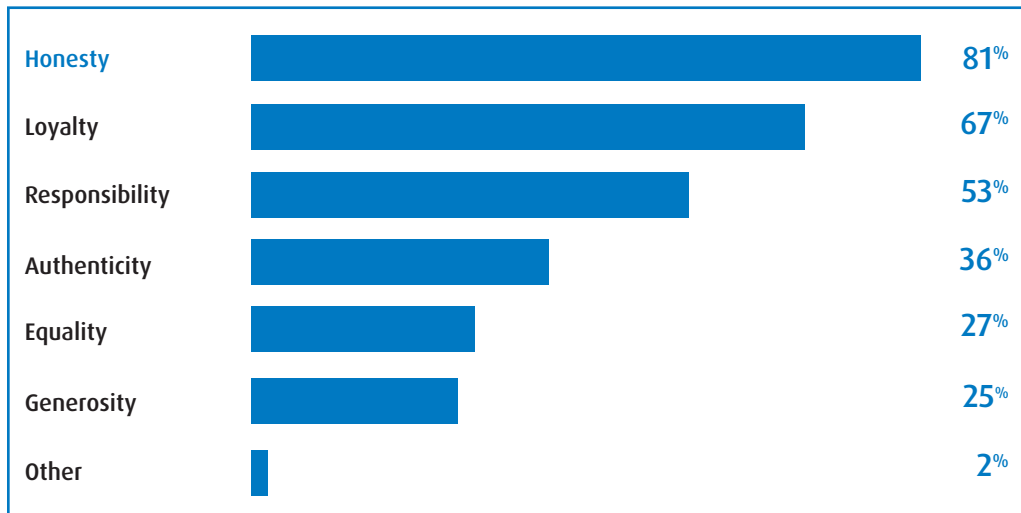
With the mindset to live life fully, millennials are well suited to adapt to their changing circumstances; they focus on the experiences that they collect, and enjoy both the big and the little things when they can.

A complex picture that values individuality and integrity

When asked which personal traits they most value, the majority of millennials surveyed chose honesty (81%), loyalty (67%), and responsibility (53%).

35%
of millennials consider
**carrying too much
debt** their greatest
concern.

Top three most valued personal traits for millennials



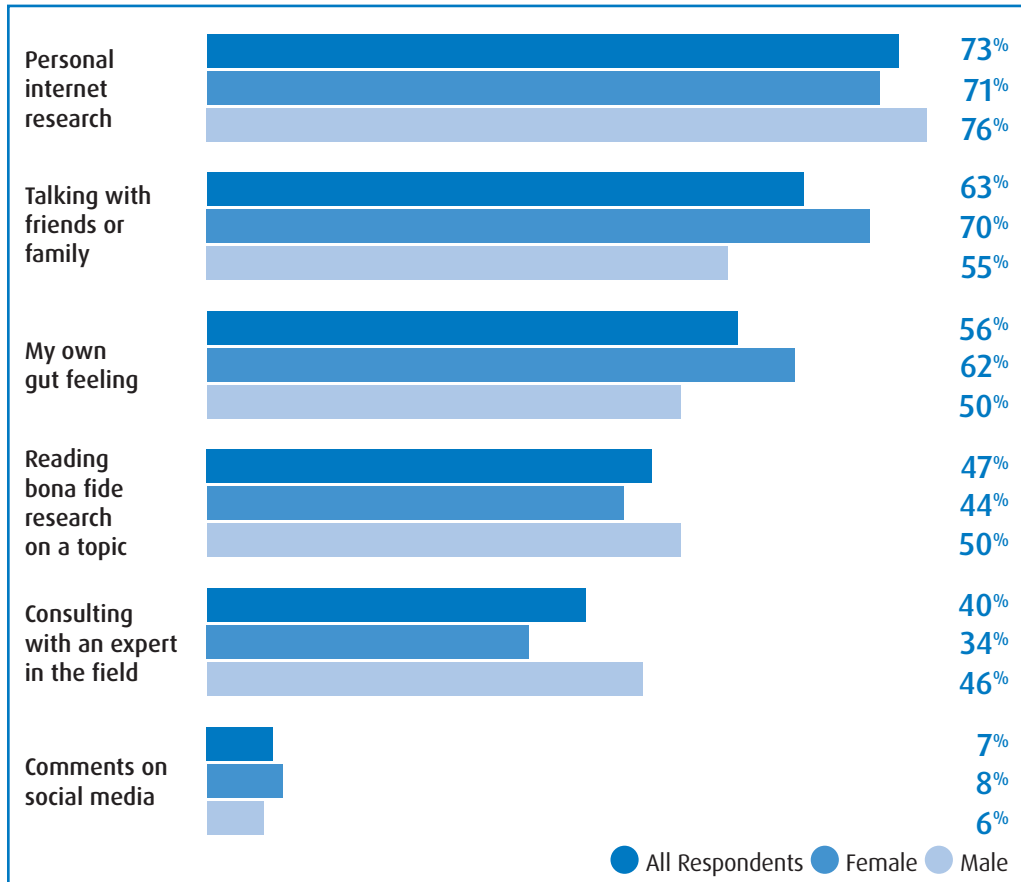
Source: BMO Wealth Institute survey by Validatell Technologies Inc., April 2017.

The survey respondents also felt that the most important characteristics required for them to achieve success today are confidence (23%), proactivity (19%), resiliency (16%), the ability to innovate (14%), and creativity (12%). These values are universal and are relevant from generation to generation.

One of the common misconceptions about millennials is that they are highly influenced by others in their decision making. More than four out of every five millennials regularly use at least one social media platform, slightly higher than regular use among generation Xers, and about one-third more than baby boomers.¹⁴ When asked about the sources of information that they rely on most when making important decisions, millennials showed that they did not rely on social media. Instead, millennials did their own internet research (73%), discussed the decision with friends or family (63%), went with their own gut feelings (46%) and read bona fide research on the topic (47%). Females (70%) were much more likely than males (55%) to discuss important decisions with friends and family. Despite being such frequent users of social media, comments on social media only made the top three sources of information for important decisions for a very small percentage (7%) of millennials surveyed.

Females more likely than males to discuss important decisions with friends and family.

Most reliable sources of information for making important decisions

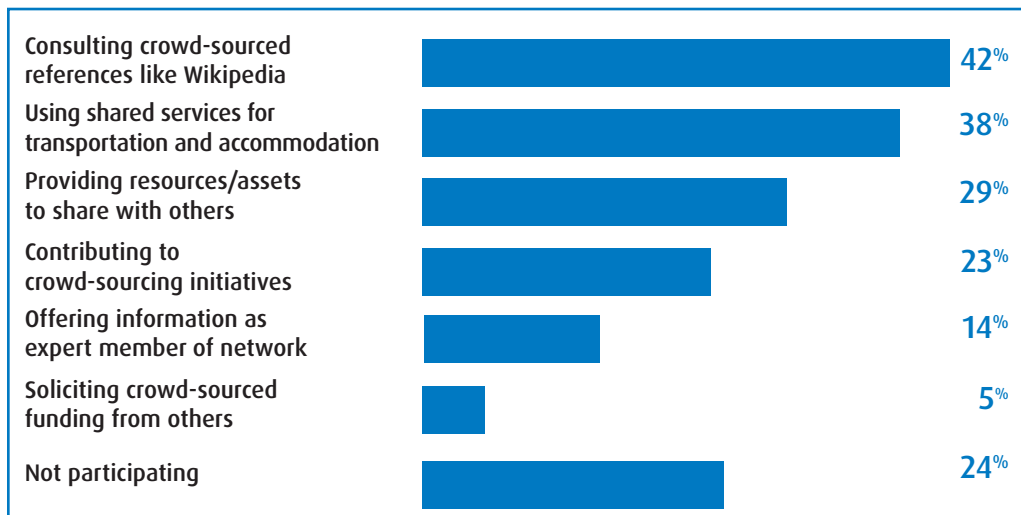


Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., April 2017.

Sharing is important

Millennials are also known for their desire to own less, yet still have access to goods and services when required. The survey asked respondents about their participation in the sharing economy, either as users or as suppliers of resources. Most reported that they participate in the sharing economy, including 42% using crowd-sourced references such as Wikipedia, 38% that use shared services for transportation or accommodation, and 29% that provide resources or assets to share with others.

Millennial participation in the sharing economy

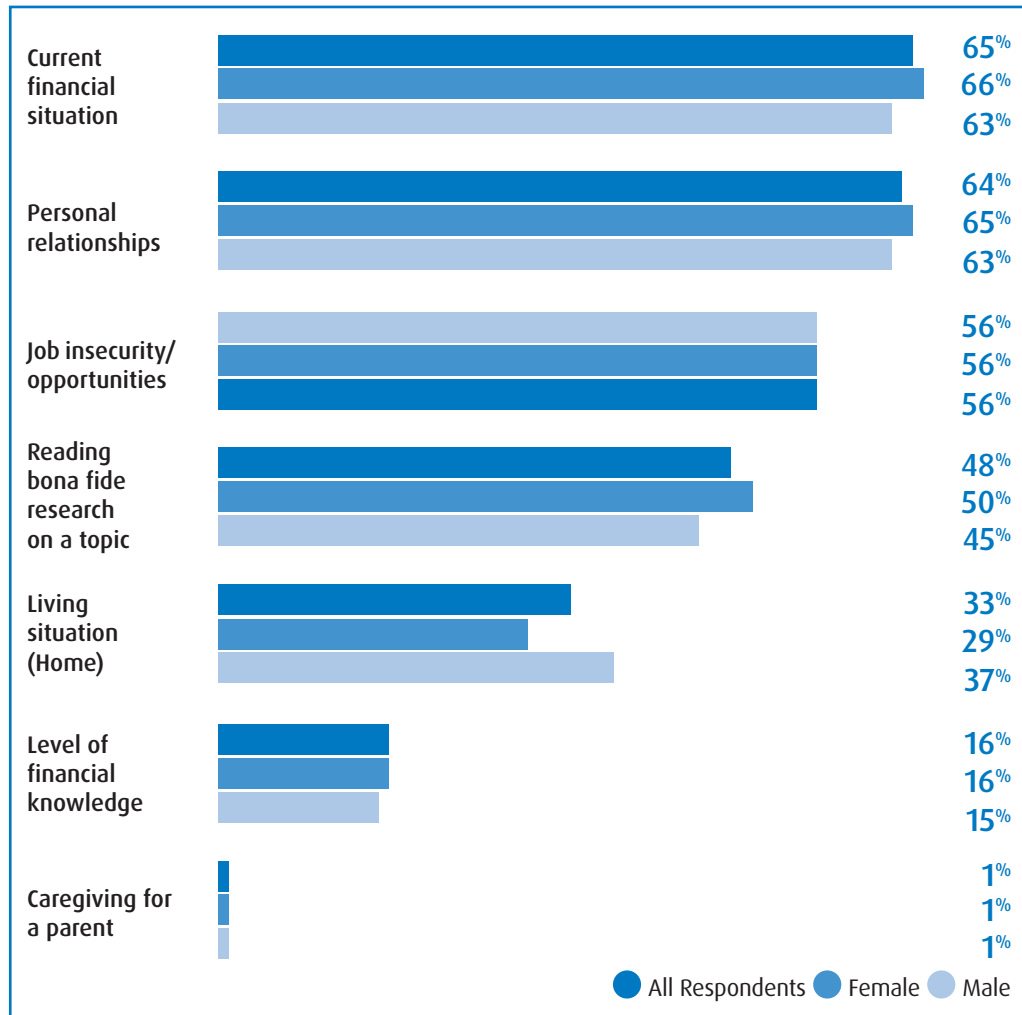


Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2017.

Concerns about the present and future

A recent study by the Federal Reserve found that millennials earn 20% less than their baby boomer parents did at the same age.¹⁵ These concerns were echoed in the survey results. When asked which three personal matters they were most concerned about, the top three answers were shared by almost two-thirds of all survey participants.

Top three most concerning personal matters for millennials



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2017.

Younger millennials aged 18-24 (59%) were more worried about job insecurity than millennials aged 25-34 (53%), while both groups were equally concerned about their current financial situation – older millennials (65%) and younger millennials (64%).

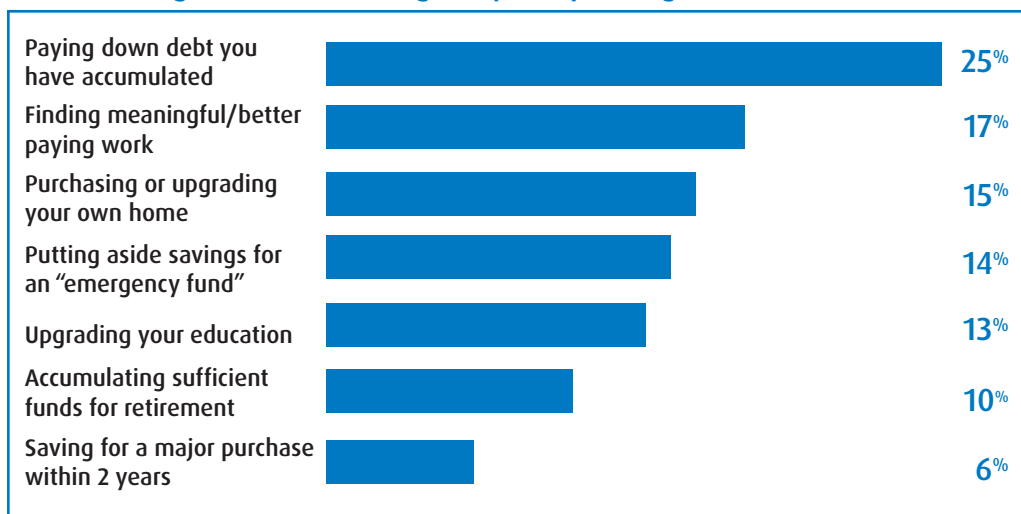
When they do have the ability to save, millennials are generally found to be very conservative. One study named the millennial generation as the most fiscally cautious generation since the Great Depression.¹⁶ This conservatism was confirmed by the BMO Wealth Institute survey. When asked if they were saving for a specific purchase or to buy or upgrade their home, 66% of respondents indicated that they were able to save. The most frequently mentioned method was to use a savings account, rather than tax-advantaged accounts such as an IRA, 401(k) or Roth IRA.

Financial literacy and opportunities to learn

As a group, millennials have an opportunity to increase their financial literacy. A recent study found that millennials tend to have inadequate financial knowledge. Only 24% of millennials in the study demonstrated basic financial literacy and a scant 8% showed a high level of financial literacy. This lack of financial expertise may have an impact on the ability of millennials to attain the financial success they desire.¹⁷

Participants in the BMO Wealth Institute survey were asked to name their highest financial priority. Paying down accumulated debts was most frequently cited (25%), followed by finding meaningful or better paying work (17%), purchasing (or upgrading) the home (15%), and putting aside savings for an “emergency fund” (14%).

The financial goal that has the highest priority among millennials



Source: BMO Wealth Institute survey by ValidateIT Technologies Inc., April 2017.

Saving for longer-term goals, such as retirement or specific larger purchases, was only a priority for a minority of millennials surveyed.

66%
of millennials
are **saving for a
specific purchase.**

24% of millennials
have **demonstrated
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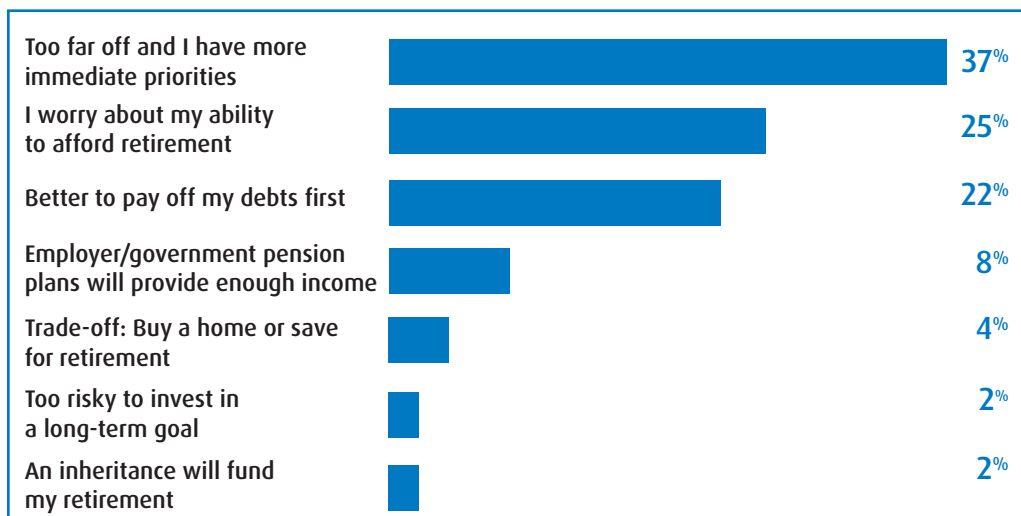
Retirement?

When asked about their feelings about their own retirement, the millennials that replied to the survey strongly indicated that retirement was too far off and that they had more immediate priorities (37%). One quarter of respondents (25%) were worried about their ability to ever afford to retire. Interestingly, older millennials were twice as worried (32%) as younger millennials (16%) about their ability to afford retirement.

Further, more than one in five (22%) of those asked indicated that they would rather pay off their accumulated debts first before starting to save for retirement. A smaller percentage indicated that they would rather save to buy a home than save for retirement.

Retirement is not an immediate priority for millennials.

How millennials feel about their own retirement?



Source: BMO Wealth Institute survey by Validatell Technologies Inc., April 2017.

Future inheritances can help millennials

As the baby boomer generation ages, part of their financial planning relates to the distribution of their accumulated wealth, both through the estate planning process and sharing the wealth they have accumulated while they are alive and able to enjoy making these gifts. Making gifts while alive will also provide better ability to control the tax costs of distributing their wealth and reduce taxes that their estates would be facing.

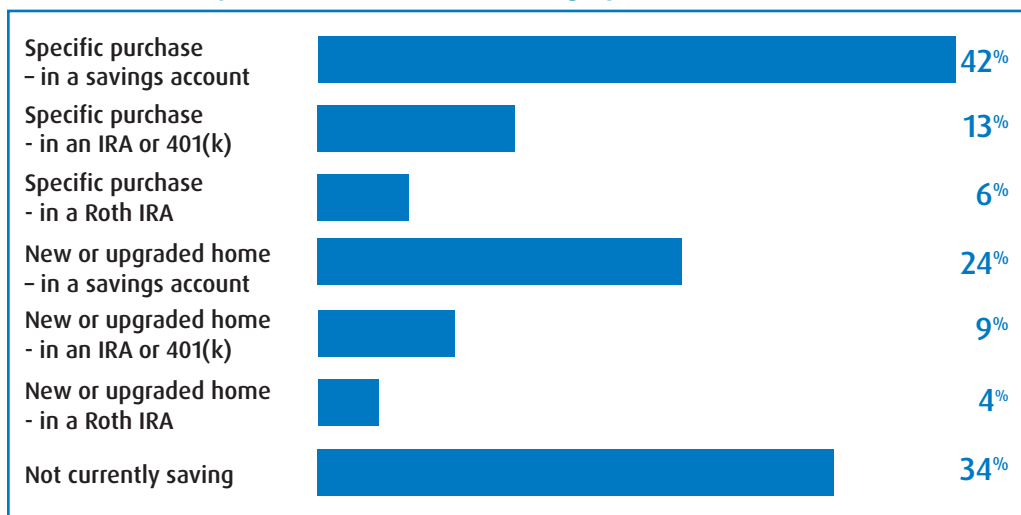
While very few (only 2%) of the millennials surveyed expect inheritances to fund their retirements, baby boomer parents may help with other costs that may include helping to educate their grandchildren or contributing to the purchase of a home. This topic is discussed in depth in the BMO Wealth Institute Report called [“The Bank of Mom and Dad – a source of comfort for everyone.”](#)¹⁸

Transfers of this kind, and through inheritances, are expected to increase significantly after 2025 and carry on at a high level for the next 20-plus years.¹⁹ For this reason millennials have to be preparing to be able to effectively receive and manage this incoming wealth. Initially, working with their parents and their parents' financial advisors will be a good place to start to learn the skills required to efficiently manage this wealth transfer.

Efficient ways to save

Whether saving for a specific major purchase or to buy or upgrade a home, the survey indicated that millennials favor savings accounts over saving in an IRA, 401(k), or Roth IRA by a wide margin. The following table shows how the survey respondents choose to save for important purchases.

The reasons and preferred methods for saving by millennials



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2017.

While savings accounts enable easy access to accumulated funds for any potential use, they do not provide any of the additional advantages of IRAs, 401(k)s, or Roth IRAs.

Advantages of IRAs and 401(k)s

Retirement savings plans, such as Individual Retirement Accounts (IRAs) and company sponsored 401(k) plans, offer both immediate and longer-term tax savings. Contributions to an IRA are tax deductible up to the contributor's annual limit, resulting in immediate tax savings at the contributor's marginal rate of tax. Amounts contributed to a 401(k) are deducted from pay on a pre-tax basis resulting in an immediate tax benefit.

Savings that are invested within the IRA and 401(k) account grow, tax deferred, for as long as the funds remain in the account. This can result in years of tax-deferred growth and the accumulated funds are only taxable when withdrawn from the plan.

Millennials favor savings accounts IRAs or 401(k)s

Funds can be accessed at any time and are treated as taxable income. Withdrawals done before the age of 59½ are also subject to an additional 10% tax penalty. Some notable exceptions where the 10% additional tax does not apply include certain withdrawals for college education (for yourself or a close family member), the purchase of a first home, substantial medical expenses, or as a result of the loss of employment.

Funds can be borrowed from 401(k) plans where permitted by the employer plan. Restrictions on these loans generally require repayment within five years. Further, any funds withdrawn will not earn tax-deferred income towards your retirement goals until amounts are repaid into the plan.

Advantages of Roth IRAs

Roth IRAs are a valuable complement to both IRAs and 401(k)s, and have unique tax advantages. Amounts contributed to a Roth IRA can be invested and all investment earnings are tax free. Contribution amounts can be withdrawn from the Roth IRA and used for any purpose, such as financing a large expense such as a wedding, educating children, or caring for aging parents. Additional conditions restrict the ability to withdraw earnings from a Roth IRA on a tax free basis.

The millennial dilemma: saving account, IRA, 401(k) or Roth IRA?

The burning question for some millennials may be: “[What kind of account should I use for my savings?](#)” The advantage of the Roth IRA over traditional IRA accounts and 401(k)s is that income earned is potentially tax free. While the notion that none of the income earned in a Roth IRA will ever be taxed is appealing to all income and age groups, it may be most beneficial for millennials.

Younger millennials early in their careers may not be earning enough to fully benefit from the tax savings for IRA or 401(k) contributions. For them, it makes sense to contribute to a Roth IRA initially, and then to an IRA or 401(k) as their income increases. The Roth IRA is particularly advantageous to millennials because of their youth, which means there should be a long time to compound the investment returns in a tax-free environment. Also, as illustrated earlier by the survey, they aren't in the mindset for saving for retirement at their stage in life. They want to have flexibility to target their savings and investments according to their current priorities.

For millennials who plan to make use of their savings to purchase a house, investing in a Roth IRA can help build a down payment more quickly. Each of the plans also permits withdrawals to be made that are not subject to the 10% early withdrawal penalty for the purchase of a first home.

Roth IRAs offer the flexibility to target savings according to current priorities

Should I be insured?

Millennials may think they have nothing to protect at their stage in life. Nothing could be further from the truth, as their most valuable assets may be their health and youth. Protecting their earning power and their dependents is an important financial priority. After all, millennials may be the generation least equipped to cope with the out-of-pocket expenses that may accompany an accident or illness.

Unforeseen events, such as illness or death, can happen at any time, even for the young and healthy. Affected individuals, and their families, are likely to experience considerable financial strain as a result of such unfortunate life events. Inadequate insurance coverage can layer financial hardship upon what is already a challenging time.

When making plans for the future, whether they are personal or for the family as a whole, insurance can help make sure those plans are not derailed by disability or death.

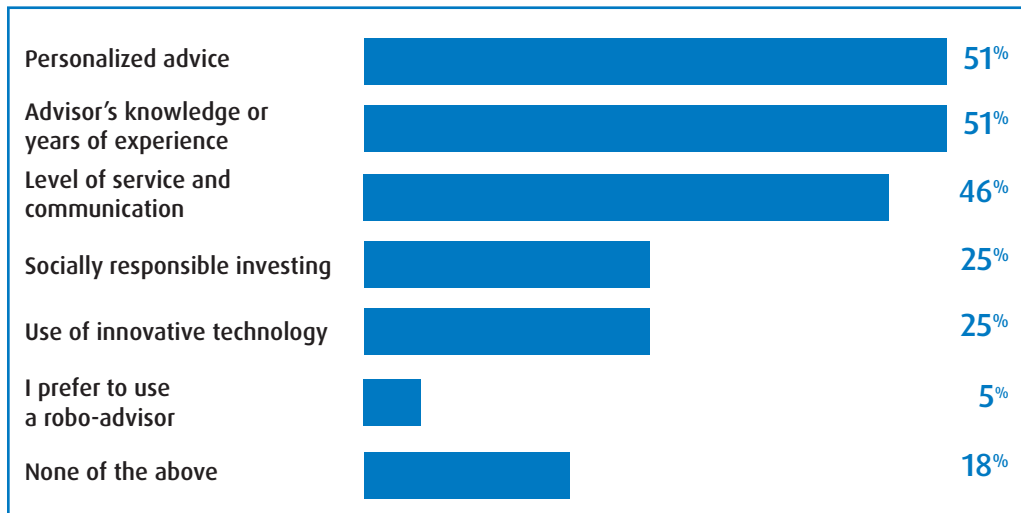
Improving financial literacy

According to the survey, millennial men are more worried about their level of financial knowledge (37%) than millennial women, of whom a still significant minority (29%) are concerned. Gaps in financial knowledge also become more of a concern as income increases.

Working with the right financial advisor can provide you with support and guidance to answer your questions about making the most of your financial resources to address each of your personal financial goals and priorities.

The millennials surveyed were asked for the top three characteristics that they look for in a financial advisor. These included the ability to provide personalized advice (51%), knowledge and experience (51%), and a high level of service and ongoing communication (46%). Such responses could apply to any generation, although more “[millennial](#)” answers like socially responsible investing and the use of innovative technology were also cited, but less frequently.

Qualities that millennials look for in a professional financial advisor



Source: BMO Wealth Institute survey by Validatelt Technologies Inc., April 2017.

Technology improves the relationship

While not as highly rated as “personalized advice” and “experience and service” in the survey, the use of innovative technologies is an area that financial advisors can use to better communicate with millennials and also provide them the type of experience that they prefer. Digital solutions provide a quick and efficient way to access information, share data and communicate, but nothing can replace the value provided by a strong relationship and timely, personalized advice.²⁰

Prioritizing goals and actions with a financial plan

The development of a financial plan may help to prioritize your goals and determine the actions that can be taken to achieve them. The right financial advisor also can provide information and guidance that will help increase your financial literacy in the areas specific to your financial concerns.

The idea of working with a financial advisor to improve your financial skills is similar to the way that hiring managers are looking to tech-savvy millennials for the skills that prior generations of workers may lack.²¹ When a knowledge gap is recognized, employers seek to hire talented people that have the education and expertise to improve the results of the team.

Conclusion

With the convergence of new technologies and the growth of the millennial working population, many businesses are trying to figure out what the next trends will be²² and how to capitalize on them. Millennials are uniquely positioned to help in this process with their ability to grasp and use the new technologies which are having a growing impact on society.

Some millennials will also benefit from the generosity of their baby boomer parents that pass some of their accumulated wealth to the next generation. Managing all of these changes will be an important challenge going forward.

It takes time and experience to grow the wealth that you will earn and receive, and with the right financial advisor as your partner you can be better positioned to meet your goals.

Footnotes

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Global Asset Management

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