

NEWS Retirement

# Millennials more retirement ready than boomers, study finds



Millennials are using three investment options to their advantage that weren't available for boomers.

December 7, 2023 *By Josh Welsh*



It's been said the younger you are, the more knowledgeable you are. From tech-savvy hacks to gym routines and now — life savings?

That's right — a recent study from Vanguard found that millennials, those between 37 and 41 years old, are on track to replace 58% of their pre-retirement earnings, while "late boomers" — defined as those 61 to 65 — will only be able to replace 50% of their earnings.

While this may seem like a positive forecast, neither of these stats are what they should be. Vanguard estimated that both groups would need to replace 83% of their pre-retirement income to meet their spending needs. Nevertheless, millennials are closer to reaching that goal than boomers.

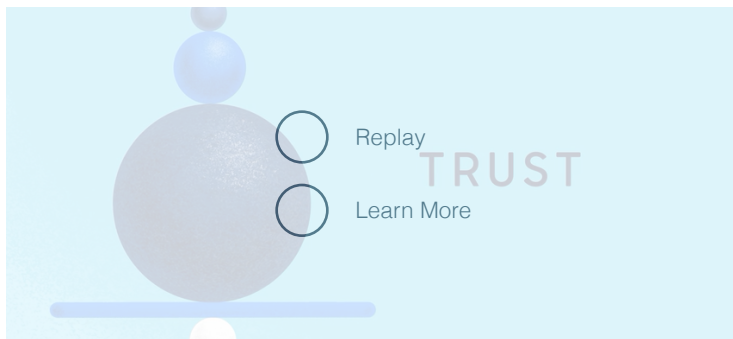
The study found that new innovations like automatic enrollment, automatic escalation and investments in target-date funds, are the main reason why **millennials are in a better position** than their parents or grandparents.

"The combination of these enhancements has made it easier for retirement savers to join their workplace plans, increase their savings rates over time, and invest in diversified portfolios appropriate for long-term financial goals," **the study said.**

Colin Day, financial advisor at Correct Capital Wealth Management, says he sees the same thing working with his clients.

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“The target-date fund is probably the most interesting thing there,” Day says. “That wasn’t an option for many folks that were establishing their careers. If I’ve learned anything from my decade-plus working with group retirement plans, once somebody is in a fund, they’re probably going to be in it for a while.

“I have never run into someone who said they wished they didn’t save that money if they were auto-enrolled or increased through an automated feature,” he added.

Vanguard notes that there’s no cause for celebration for millennials either, because they “are subject to exogenous risks and endogenous choices that can change their retirement readiness. The impacts are similar across generations.”

Not surprisingly, the study found lower-income workers are the ones facing the largest retirement savings gap. They are experiencing no improvement in retirement readiness. Meanwhile, the generational gains in retirement readiness are larger for higher-income workers.

Put simply, millennials make better investment decisions. Retirement plan features from ***employers now include automatically enrolling employees in 401(k)s*** and automatically increasing their contribution rate. Most advisors agree that boomers missed out on these innovations.

“They can certainly take advantage of it now,” said Catherine Valega, certified financial planner at Green Bee Advisory. “Boomers can certainly take advantage of all these options now; they just don’t have any time to really catch up.”

It remains to be seen whether the trend of millennials being retirement ready will continue as they work toward repaying student loans and deal with the cost of housing. As a result, they may not be able to save more than the match percentage in their 401(k)s, Rob Schultz, financial advisor and senior partner at NWF Advisory Group, said in an email.

“You should always prioritize your own retirement, but a lot of [boomers] don’t, they prioritize their kids,” Valega said. “As a result, they make a \$40,000-a-year contribution to a state-run university, when instead they should have done their \$22,500 and a 401(k) plan.”

Another leading aspect of why millennials are better prepared financially for retirement is the ready access they have to information about investing.

“If you want to look something up, you can go to TikTok or Instagram and have at least a general idea of what it is, but the boomers didn’t have access to that,” Valega adds. “If they had a financial question, they asked their cubicle buddy, who may or may not know what they’re talking about.”

For millennials looking to for other ways to save other than 401(k) plans, Roth IRAs are another investment tool worth considering.

“Many millennial and Gen Z clients are going to be more adamant about doing Roth contributions,” Day said. “That’s just because they think that they’re at a lower tax bracket than where they’re going to be in the future.”

As all things tend to go, as Valega says, the sooner you act, the better. “The earlier you get in as much money as you can into your retirement plan, the better off your long-term situation is.”

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