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The universal challenge of retirement readiness

Concern about having enough money for a comfortable retirement is something all generations of Americans have in common, but solutions such as lifetime income can help

Whatever the cultural differences of America's generations, there's one thing most baby boomers, Gen Xers, millennials and even Gen Zers can agree on: trepidation about not having enough money to retire.

One report found that outliving their savings and investments is US workers' greatest retirement fear. Nearly half (48%) of millennials and 57% of Gen Z report having trouble making ends meet, and Gen X and baby boomer workers are worried that social security benefits will disappear altogether or become only minimal.[1]

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> Head of retirement investing at Nuveen

"The fear of outliving savings is increasing across all American workforce cohorts, and rightfully so," says Brendan McCarthy, head of retirement investing at Nuveen. "Recent inflation has only exacerbated that fear."

An overwhelming majority of Gen Z, millennial, Gen X and baby boomer workers are saving through employer-sponsored 401(k)s or similar plans.[1] Yet the cloud of uncertainty of when they will have enough money to retire—and whether the amount they've saved will last for their lifetime—weighs heavily on workers' minds.

Even in industries such as energy and utilities, a sector that features some of the most widespread and comprehensive access to benefits, many younger workers say they are unhappy with how retirement benefits are communicated and managed.[2] The industry is facing a talent shortage, due in large part to an aging workforce, new technologies and skills deficiencies. Organizations looking to differentiate themselves in recruiting should leverage not only salaries, but also better retirement benefits, says Corey Kravitz, managing partner at Nenni & Associates, an executive search and consulting firm focusing on the energy and infrastructure services sector.

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Corey Kravitz
Managing partner at Nenni & Associates

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Younger generations are also much less reliant on the corporate structure itself, recognizing that working at one company for a majority of a person's career is now an old-fashioned concept. Median employee tenure for wage and salary workers hovers around 4.1 years, according to the Bureau of Labor Statistics.[3] As a result, younger generations are more autonomous and increasingly aware of the need to manage their own retirement nests.

Awareness, however, doesn't equate to preparedness. Retirement planning can often take a backseat to other concerns, such as the expenses of daily living and college loans. "There's a big portion of the emerging generation that is interested, intrigued and aware, but also overwhelmed by the idea of managing their own portfolios," Mr Kravitz says.

"The reality is that there is a good chance an increasing number of people may run out of money in retirement. This risk is even greater in sectors such as energy and utilities that are predominantly a blue-collar workforce that looks forward to an earlier retirement because of the physical nature of the work."

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Just 15% of private industry employees in the US have a defined benefit retirement plan,[4] a decline from 38% in 1980.[5] This retreat of pensions has given rise to defined contribution plans, held by 54% of private industry employees in 2022, up from just 8% in 1980. Whereas pension payments provide employees with a guaranteed retirement income for life, defined contribution plans such as 401(k)s do not. A defined contribution plan is an investment account often established and subsidized by employers, but owned and controlled by employees. And, given that defined contributions are invested in the stock market, they are subject to investment risks and market volatility.

"The reality is that there is a good chance an increasing number of people may run out of money in retirement," Mr McCarthy warns. "This risk is even greater in sectors such as energy and utilities that are predominantly a blue-collar workforce that looks forward to an earlier retirement because of the physical nature of the work. We constantly see demands for the return of pensions and return of guaranteed income to those sectors."

Managing the rollercoaster of the stock market and having some guarantee of a payment may be one reason why demand for annuities such as lifetime income products, which companies can use to provide workers with a guaranteed retirement check for life, is on the rise. Fixed annuity sales totaled $208bn in 2022, 49% above the record set in 2019.[6] And 54% of retirement savers say the current economy makes them more likely to consider purchasing a guaranteed lifetime income product.[7] What's more, nearly two-thirds (64%) of Gen Z and millennial workers say they would be interested in contributing to an in-plan annuity offered by their employer.[8]

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Source: Life Insurance Marketing and Research Association, 2024

Today's annuity plans need to come with technological advantages and ease of use. "There is something to be said for the gamification of benefits to help appeal to a modern and younger audience," Mr McCarthy suggests. "Look at frequent-flier programs or hotel rewards programs. They are presented in a way that motivates the individual to focus on that reward. We need to work on a way to present retirement planning in a similar way, helping workers see the value over time."

Given the compounding effects of retirement savings, starting early is important as it helps to grow a retirement account over the long term. Pensions may be out of reach for younger generations, but lifetime income products, updated for a new generation, can help fill the gap.

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