Preparing Millennials for Retirement: Solutions for Both the Short & Long-Run

Introduction:

Examining the current economic climate of the United States, we face major concerns as to how we can work to improve the quality of life for our younger generations. Part of that desired improvement for the quality of life is the ability for U.S. citizens to retire and live comfortably through their elderly years.

We want to evaluate the current systems in place as to how governments are helping Millennials prepare for retirement. Furthermore, we will examine and rank states as to how prepared they are for the Millennials' retirement. We will also focus primarily on our own state, Massachusetts (MA) and as to how MA compares to other states in terms of preparing Millennials for retirement. Lastly, we will pose policy recommendations that look to solve and improve current conditions for Millennials to prepare for retirement, and hopefully improve MA's rank.

States' Rank for Preparing Millennial Generation for Retirement in 2040

Our ranking of the states in terms of preparing Millennials for retirement was comprised of a weighted average of four surveys we decided were most relevant to young people preparing for their financial futures. The four categories were on the topics of student loan debt (30%), financial literacy (30%), consumer debt (20%), and health care (20%). The weights we assigned to each survey reflects our team's opinion of its relevance; while all four categories play an important role in retirement planning we believe student loan debt and financial literacy are marginally more important to our demographic's retirement preparation. The data itself was collected from independent studies on the four individual topics and sorted through manually to piece together the most relevant statistics pertaining specifically to Millennials.

Once the relevant statistics were sorted and rankings for each category were found, we came up with a weighted score for each state and found the overall ranking based on that score. According to our methodology, Utah is the best prepared state in terms of Millennial retirement, ranking ninth in student loan debt. The five worst prepared states for the retirement of the Millennial generation are: Arkansas, Ohio, West Virginia, Alabama, and Mississippi. While these states fared relatively well in terms of student loan debt with the lowest being Ohio (43), none fared well in the other topics.

Our Ranking of States in Terms of Preparing Millennials for Retirement:

State	Student Loans	Financial Literacy	Consumer Debt	Healthcare	Overall Score	Rank
Utah	9	2	14	17	9.5	1
Virginia	21	3	9	5	10	2
Maryland	22	8	7	4	11.2	3
District of Columbia	5	30	6	1	11.9	4
Hawaii	2	28	10	11	13.2	5
Colorado	12	15	20	9	13.9	6
New Jersey	40	4	1	7	14.8	7
Massachusetts	**37**	**10**	**2**	**6**	**15.7**	**8**
Washington	14	21	16	12	16.1	9
California	6	22	26	14	16.4	10
Wyoming	4	31	23	13	17.7	11
Minnesota	47	5	4	10	18.4	12
New York	27	18	11	18	19.3	13
Nebraska	28	14	14	22	19.8	14
New Hampshire	50	1	25	3	20.9	16
Vermont	31	20	5	23	20.9	15
South Dakota	35	6	26	20	21.5	17
North Dakota	51	7	12	19	23.6	18
Connecticut	41	35	3	2	23.8	19
Wisconsin	42	13	12	25	23.9	20
Illinois	45	12	21	16	24.5	22
Iowa	46	15	7	24	24.5	21
Oregon	22	26	28	26	25.2	23
Alaska	18	41	33	8	25.9	24
Idaho	33	9	35	33	26.2	26
Kansas	29	27	18	29	26.2	25
Pennsylvania	49	11	23	21	26.8	27
Florida	11	23	48	36	27	28
North Carolina	18	37	17	48	29.5	29
Indiana	32	25	32	31	29.7	30
Tennessee	14	33	36	42	29.7	31
Montana	34	19	29	41	29.9	32
Maine	39	17	34	32	30	33
Oklahoma	8	40	43	39	30.8	35
Texas	17	39	42	28	30.8	34
Arizona	10	43	41	34	30.9	36
Missouri	25	32	39	30	30.9	36
Georgia	20	36	37	38	31.8	38
Nevada	1	49	49	40	32.8	39
Louisiana	6	48	40	44	33	40
New Mexico	2	47	45	47	33.1	41
Rhode Island	47	46	19	15	34.7	42
Michigan	36	42	22	35	34.8	43
South Carolina	30	24	51	43	35	44
Delaware	43	38	30	27	35.7	45
Kentucky	16	44	46	45	36.2	46
Arkansas	13	50	38	49	36.3	47
Ohio	43	34	31	37	36.7	48
West Virginia	37	29	44	51	38.8	49
Alabama	24	45	50	46	39.9	50
Mississippi	26	51	47	50	42.5	51

Where Does Massachusetts Rank Compared to Other States?

Massachusetts ranked 8th in our model with regards to preparing Millennials for retirement, displaying strong grades in the categories of consumer debt and health care. Holding Massachusetts back from ranking higher in our survey was student loan data, where the Commonwealth finished 37th. The average student loan debt for a student at a four-year college in Massachusetts is $28,565, and Massachusetts consistently ranked towards the bottom of all states regarding per capita debt per graduate and percent of students graduating with debt. Where the state ranked especially well was in the category of consumer debt, were MA ranked consistently at the top in categories such as average household income ($90,576) and average debt in collection ($4,602). Massachusetts also performed well in our health care rankings, finishing 6th in the survey of states. Massachusetts was ranked very highly in a number of categories, including immunization rates, physicians per residents, teen birth rates, and heart disease rates. Our state also ranked 10th in financial literacy, including a second place ranking in financial planning and daily habits. Our rankings uncovered many positive indicators for Millennials in Massachusetts planning for retirement, but there are a few areas in need of improvement in order for our generation to retire comfortably.

Important Observance: Our Generation vs. The Past

Past generations have primarily been successful in securing financial stability for their households because of the economic prosperity in which they came of age. The generation that preceded the baby boomers, lived in a post-war and post-depression era in which the price of living was relatively low in terms of housing and in terms of the value of money. Although many suffered, people who were able to escape the depression era bubble, managed to accrue a sense of personal financial security which promoted investments and a more efficient use of money. However, the baby boomers have hit a phase where spending is a lifestyle and saving no longer a priority. Their generation was bound to the successes of a series of dramatic innovations, which have led to a mindset that focuses on spending more than it does on saving.

Nowadays, the Millennials are bound to a culture that emphasizes the purchase of luxury goods, at the expense of purchases made of necessity. With all the technological advances, the vast majority of choices in products, and methods that facilitate these purchases, Millennials tend to concentrate more on the spending as well. Although this is the case, this generation has witnessed the effect of the 2008 financial crisis and its effects on the US economy. This has led the millennial generation to focus on the means with which to prepare for retirement, and to focus on the alternatives in terms of financial preparation (Wang 2014). However, assuring a safe future is difficult because of the various costs that are incurred through use of loans and other forms of debt. These costs vary primarily from education to the payment of health services. The millennial generation is exposed to a more difficult financial environment, in which education is not a luxury, but rather a necessity for the acquisition of a stable future income. Although the idea of having a more educated labor force may seem positive for society at large, educational costs create limitations on spending, and especially on saving in practice.

The costs that have been inflicted upon the millennial generation are different than those inflicted upon earlier generations. Past generations were better off financially because of the opportunities they were presented, without being inflicted with many of the complications entailed for young people today. This has created a limitation on the extent to which this generation will be able to provide a stable future for themselves, and for their families.

On the other hand, this investment in education, if made wisely, could pay dividends for our generation. As the needs of an economy for qualified workers increase, so does the potential size of a qualified workforce. This could lead to a more efficient future for people with the willingness to take risks, and break through the limitations imposed by aversion to investing in one’s future wellbeing.

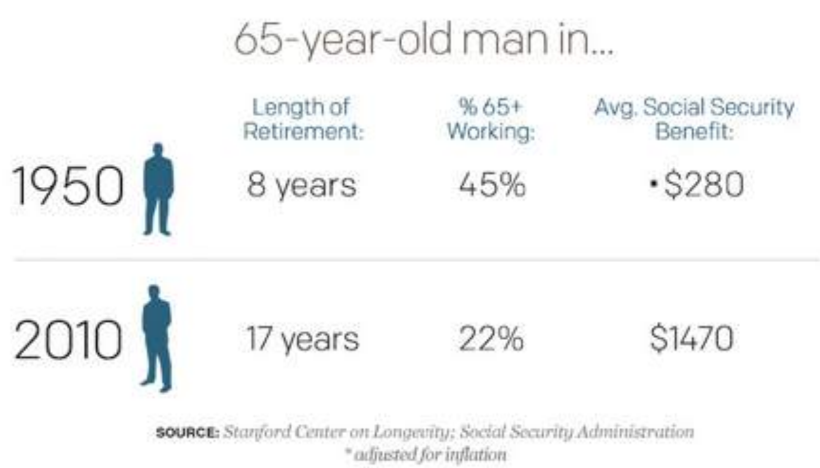
There is a big difference between the current generation and the generations that preceded it. Based on the different needs of society, different generations are bound to adapt to different lifestyles. This mainly affects them financially, which leads to future difficulties.

When comparing previous generations to Millennials, a concept that stands out greatly is “time cost,” as explained by a research scholar at the Center for Health Policy and Inequalities Research at Duke University, Chris Conover. Conover portrays the idea that a consumer nowadays is able to purchase a vast amount of products for less working hours than an individual could about 60 years ago. Conover’s main approach, which is comparing working hours and relativizing those hours in terms of products that could be potentially purchased, is eventually used to efficiently compare the costs of health care between the 20th century and the 21st century. As Conover focuses at the beginning, in portraying the idea that the "time cost" of purchasing luxuries is less nowadays than it was about half a century ago. He then replaces luxuries with healthcare, and demonstrates the way in which healthcare acts opposite in terms of the "time cost" concept.

> *"In 1958, per capita health expenditures were $134. This may seem astonishingly small, but it actually includes everything, inclusive of care paid for by government or private health insurers. A worker earning the average wage in 1958 ($1.98) would have had to work 118 hours—nearly 15 days–to cover this expense. By 2012, per capita health spending had climbed to $8,953. At the average wage, a typical worker would have to work 467 hours—about 58 days" (The Cost of Healthcare: 1958 vs. 2012).*

These calculations offer an overview of the main cost differences that are present between our generation and past generations. This said, by 2040, prices will have increased dramatically, meaning that the price of retiring in terms of healthcare services will be more expensive as a whole.

However, when it comes to social security, a study conducted by Steve Vernon, Consulting Research Scholar, presents the idea that social security benefits nowadays are more beneficial than they were about 60 years ago (Data shows retirees better off today than 1950). This argument promotes the idea that retirement for Millennials is better today than it was in the 1950s.



This graph portrays the major differences between both generations, and the extent to which the average person in 2010 is better off than individuals were in the 1950s.

Introduction to Policy Recommendations

In order to best advise the National Governors' Association (NGA) to create an optimal environment, within both Massachusetts and the United States, in order to best prepare Millennials for retirement, we would like to pose a myriad of policy recommendations. Our policy recommendations will fixate on seven primary issues, which we see as the major obstacles for Millennials to prepare for retirement within both Massachusetts and amongst the United States. The issues that we would like to focus on include **1.** Student Loan Debt, **2.** Hardship Withdrawals, **3.** Financial Literacy, **4.** Personal Savings Rate **5.** Curtailing Debt Consumption **6.** Healthcare, and **7.** Social Security. Our rationale for how we organized our policy recommendations hopes to follow the chronology of the obstacles that Millennials face over the course of their lifetime. We confidently believe, through the implementation of our policy recommendations, that we can best alleviate our seven obstacles amongst Millennials, thus best providing an optimal environment for their preparation for retirement.

Policy Recommendations

1.) Student Loan Debt

As student loan debt levels are increasing at a record pace, and even pose concerns to a possible so-called 'bubble', the need to lessen the burden of student loan debt upon Millennials seems extremely timely (White House 2014). As we look to create economic conditions in which Millennials can best prepare for retirement, we would like to make recommendations that can increase millennial employment, especially within entry-level positions which are both financially sustainable and not idempotent.

In regards to the rising level of student loan debt, we look to challenge the current value and necessity of Bachelor's degrees in certain areas of study, as well as pose incentives for higher level education in sectors and vocations that offer sustainable pay for Millennials, while minimizing the overall student debt level. Noted in Figure 1.1 (Adams 2014), we see substantial discrepancies in entry-level salaries across different disciplines.

Major	2013 Average Salary	2012 Average Salary	
Engineering	$62,600	$62,700	-0.10%
Computer Science	$59,100	$59,200	-0.20%
Business	$55,100	$53,900	2.30%
Communications	$44,600	$43,700	1.90%
Math & Sciences	$43,000	$42,500	1.10%
Education	$40,600	$40,700	-0.20%
Humanities & Social Science	$38,000	$37,000	2.90%

Figure 1.1 (Adams 1, 2014)

It is important to examine such significant variances existent amongst entry-level positions, as student loan debt will be more burdensome for some Millennials than others, depending on their chosen major. Meanwhile, as observed in Figure 1.2 (Kohli 2014), downward trends are existent for Millennials studying the majors in college that provide higher entry-level salaries. In relation, job demand for such downward-trending majors is much higher than those majors with increasing trends, as noted in Figure 1.3 (Adams 2014). Overall, not only are Millennials pursuing less demanded skill-sets in college, they are also choosing areas of study that most likely make paying off their student loan debt harder.

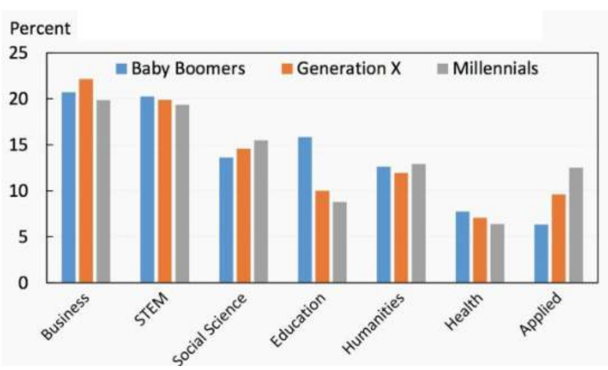


Figure 1.2 (Kohli 2014)

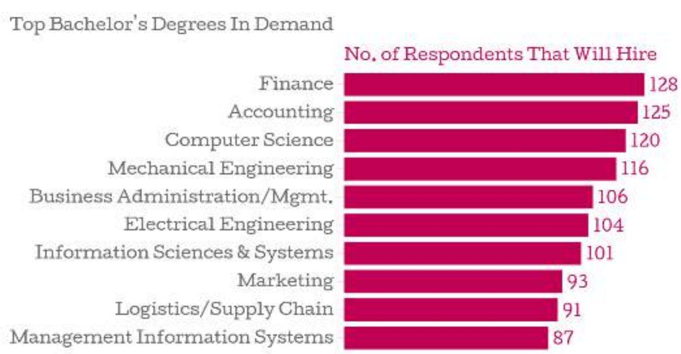


Figure 1.3 (Adams 2, 2014)

Our incentive-based program promotes the study of Science, Technology, Engineering, Math (STEM) and Business majors at a Bachelor's Degree level, as well as the study of vocational jobs at a secondary-education level. Our program has a two-pronged approach: 1.) To provide tax credits to families and their dependent Millennials who enroll in STEM majors or vocational schools; and 2.) a lower student loan interest rate, mostly amongst Pell grants and state-college financial assistance, for those who enroll in STEM majors or vocational schools. We believe that both incentive proposals should reduce the impact and burden of student loan debt, thus allowing Millennials to better prepare to retire, especially at a younger age. We also believe that both incentive proposals should greatly benefit the economy overall, providing Millennials with the necessary skills to satisfy the higher-in-demand skills that current employers predominately seek.

For the first "prong" of our proposal here, we seek to provide tax credits to families and their dependent Millennials who enroll in STEM majors or vocational schools. The level of the tax credit shall be calculated through the increase in income tax revenue due to an upward shift in the median income amongst Millennials as a result from our posed incentive. Due to our specific recommendation here, a downward trend should arise from our recommendation in the short-run, as government budgetary constraints should increase via the granted tax credits; however, in the long-run, we see this program to be economically sustainable and profitable for governments due to increased implicit multipliers and elevated tax revenues from an upturn in wage and job growth within the STEM and vocational sectors. The tax credit shall also be indexed to the Consumer Price Index (CPI) in order to maintain its value over time for American households.

For the second "prong" of our proposal, we seek to impose a lower student loan interest rate, mostly through Pell grants and state-college financial assistance, for those who enroll in STEM majors or vocational schools. We primarily see this recommendation to apply to public secondary education schools, as private institutions may simply increase the tuition for such STEM and vocational programs. The imposed interest rate shall not be substantial as to pull majority of Millennials into those fields of study; rather, the lower interest rate shall provide a further incentive to specifically target students who feel undecided and undeclared after enrolling in secondary education. In regards to public institutions however, we see our second "prong" to build further upon our first "prong", in which we provide further financial incentives and assistance within job sectors that can best assist the economy as well as, most importantly, help Millennials stave off student debt loan burdens in order to better prepare for retirement.

2.) Hardship Withdrawals

The United States government has recently taken initiative to lower the average age of retirement among the US population. This ideal has been incentivized as the government looks for alternative ways to better the millennial generation's preparation for retirement through proper allocation of capital and spending. We believe that the issues that should be at the forefront of this movement include, a lowered hardship withdrawal tax penalty and an installment of proper savings techniques in the minds of the millennial generation. This installation of proper saving techniques primarily revolves around the understanding of a 401k plan and a hardship withdrawal. Many costly expenditures of human life in the 21st century, such as medical bills and college tuition, trigger the need for a hardship withdrawal thus, shrinking savings plans and ultimately increasing the average age of retirement. We have developed a few strategies the government can utilize to counter the problem of an increased retirement age.

When people qualify for a hardship withdrawal they display the qualities of a person who needs immediate financial support. This is shown as people battle very difficult financial situations that they did not purposefully impose on themselves through unwise investments. The way that individuals access this financial support is commonly undergone through the use of a 401k plan. While in theory, one may think that is the purpose of the 401k is to provide support for an individual when the time for retirement arises, many do not realize all that is associated with a 401k plan. Much of the US population is blind to what the implications of a hardship withdrawal may be. After the withdrawal is taken, the individual loses that amount of money from their 401k plan and then is further charged with a 10% early withdrawal penalty, along with prohibition of making new contributions to the 401k plan for a minimum of six months (Thompson 2012). With this rule established, the individual now misses out on the tax break and employer match going forward. However, even more than the tax rate on early withdrawal from a 401k, the tax penalty from an early withdrawal from a Simple IRA is 25% rather than a 10% penalty (Paychex 2015). This aspect of the withdrawal policy penalizes those who need the liquidation of cash most and forces them to suffer because of these needs.

The people heavily affected by the penalty of the hardship withdrawal are not commonly among the population with the highest income, and in taking a hardship withdrawal, their monetary struggles typically worsen rather than alleviate. We believe the liquidation of cash should be more readily available to the average individual and in doing so; the penalization for taking this withdrawal should not be as grand. In this instance, the people who need to liquidate cash would not be penalized as heavily. Potentially, the percentage charged on the individual who seeks financial support could be differentiated based upon income. For example, someone who has a salary of $35,000 a year may not have the same financial backing as an individual that makes $100,000 a year and this will result in a variation of difficulty in order to pay off a 10% early withdrawal fee. If the government were to increase the tax rate on a hardship withdrawal fee for individuals over a certain threshold of income while lowering it for individuals under a certain threshold of income, the tax revenue would balance out and reduce debt for those who struggle so greatly to pay it off. Hospital bills, college fees, and many other costly expenditures of a millennial's life attribute to the need for this withdrawal, but as of now there is no way to counter this devastating penalty implemented when the withdrawal is taken.

As the average age of retirement continues to increase, individuals realize they must save more money in order to retire at their preferable age. However, with withdrawal penalties as high as 10%, and in some cases, 20%, more money must inevitably be made in order to retire at this said preferable age. If there were a way to differentiate the rate of tax penalty based on level of income it would be sensible to decrease the rates charged for those making less money. Currently, 35% of the US population has a household income of less than $35,000 per year and with the costly prices of medical bills and a college education, this portion will be forced to take out a hardship withdrawal diminishing their savings accounts and hurting future savings (My Budget 2015). With a salary of this magnitude it is not always possible to pay such penalties and often times, they are paying off this debt and must continue to save beyond the age of sixty. This is directly correlated to the constant increase in retirement age over the last twenty years. Much like taxes, we believe this differentiation would be a valuable strategy to implement.

Lowering the tax penalty for those who are in need would enable people to pay for the costly items (college tuition, hospital bills, etc.) necessary without losing disposable income to a tax penalty. However, the government would then lose the tax money previously made by this principle. As stated before, we believe the government could increase the penalty based upon salary, the higher the salary, the greater the penalty. This tax would occur while the population with a lower salary faced a lower penalty. We do not believe one should be penalized for making more money; however, the more money one makes, the less effect the tax penalty of the withdrawal will have on an individual. With something as costly as an education, not everyone can pay full tuition out of pocket and there is only so much financial aid to be distributed among families in need of financial support. Missing out on a college education due to the impact a hardship withdrawal would have on a family illuminates this topic as a problem.

In theory, differentiating the magnitude of the hardship withdrawal penalty is a strong idea to help those who are in need, however the more one makes, the less he or she will actually need to take out a hardship withdrawal. This will advance the solution, but certainly not fix it.

In addition to the differentiation, the government could implement a tax on luxury goods. The tax of luxury goods is historically known as a strategy used by the government to boost revenue in times of deficit. While the average age of retirement increasing is not exactly a deficit, the age will inevitably continue to rise forcing the elderly to continue working beyond a typical retirement age. In 1995, the average age of retirement was 60 years old, and in a mere 20 years the average age of retirement has increased by six years (Riffkin 2015). As shown by statistics, this number will only continue to increase as the price of medical bills and college tuition fees increases respectively. This steady rise will create more job competition and an increased scarcity of jobs as more and more of the population competes in the job market. In order to counter this potential problem the government should implement a luxury tax on goods $250,000 and up to boost tax revenue.

In this scenario, the tax penalty on hardship withdrawals could be lowered as the tax on luxury goods compensates for that lost revenue. In the early 1990's the government imposed a tax on luxury goods with the cost of $30,000 and up, however this drastically cut the spending on those specific goods lowering consumption and the circulation of money throughout the economy (Economy Watch 2010). The problem with this method was $30,000 was a price of goods with more elastic demand and much of the middle to upper-middle class was discouraged from spending when this tax was imposed. With this historical knowledge we can anticipate the effect this principle would have if the goods with a luxury tax were not of a great enough inelastic demand. Many SUVs, renovations to a home, and other necessary expenditures are in the vicinity of this price range. With the use of the luxury tax, it would be ill-advised to impose a tax that would cut consumer spending. Instead, the government needs a tax that will only apply to a portion of the upper class. In response, the tax should be placed on goods $250,000 and up, yet the percentage could be higher than a 10% luxury tax. Generally speaking, the more costly the good the greater inelastic demand it withholds thus, increasing the price will not drastically affect consumption as much as it would products at a lower price point. The earned revenue from this added luxury tax could compensate for the tax drawn from hardship withdrawals.

It is a perceptive and intelligent notion for the government to attempt to sustain the average age of retirement; however, the majority of the millennial generation is uninformed as to what it takes to retire. In order to do so, we must educate the millennial generation as well as future generations on the topic of the retirement age. Once they fully understand the components, specifically pertaining to hardship withdrawals and 401k plans, only then, can we maintain the retirement age.

The ability to retire is directly correlated to the amount one has saved, and if one's debts have been paid off. If one's funds have been hindered as a result of a hardship withdrawal, there is no way the average age of retirement can be held constant. This ideal is a goal not meant to be fixed overnight, but rather worked towards. With the use of these techniques paired by other government strategies we believe it will be attained.

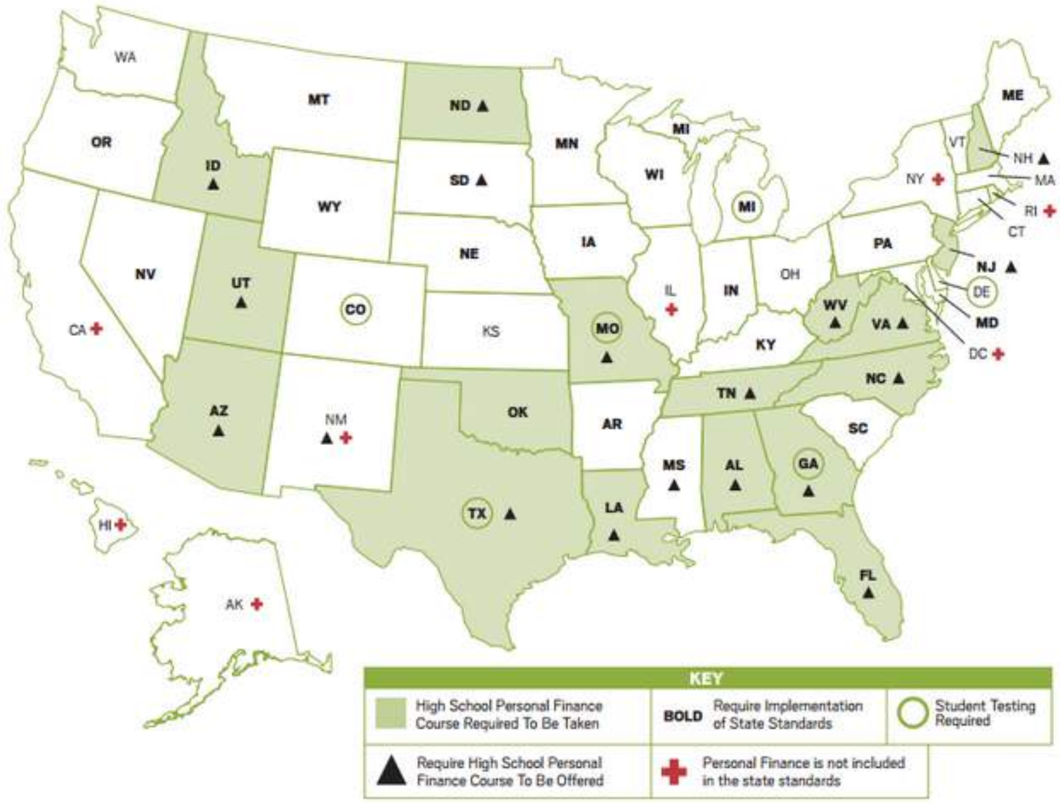
3.) Financial Literacy

The absence of financial literacy amongst the millennial generation is alarming. Currently there is no system in place in which the millennial generation is required to be taught about their personal finances. A study by the Financial Industry Regulatory Authority (FINRA) stated that "those who are financially literate are more likely to save for retirement" (Lusardi 2015). Alongside a growing trend of inequality in the world, having a financially literate population is going to be vital for macroeconomic success.

The problem for Millennials begins very early in their financial life. According to a 2013 study by Demos the average dual headed household carries a student loan debt of $53,000 which in turn leads to a lifetime loss of $208,000 because of lost potential home equity and retirement savings (Hiltonsmith 2015). A staggering 36% of the millennial generation has student loan debts compared to 20% overall (Council 2015). The long-term macroeconomic effect that this loss will start to have is massive. The car market and the real estate market are going to struggle if people in their twenties are unable to make purchases because of the student debt that they bear. Furthermore this generation will be not be able to save as much for retirement because they cannot start saving money from an early point; instead they will be forced to pay off their student loans.

What can be done to prepare the millennial generation for entry into the financial market? Much like how American History is a required in all high schools, personal finance class must be required as well. As you can see in Figure 3.1 the options for personal finance classes range all across the United States.

Status of Personal Finance Education Across the Nation - 2014 (3.1)



Currently, only 24 states require a high school course on Economics to be offered. This is one less than it was three years prior, portraying the stagnation in the situation. Furthermore, only 19 states require a personal finance course to be offered.

Ultimately teaching personal finance to the millennial generation does not have a high enough priority. There appear to be multiple problems with these numbers. First, a majority of the states don't require economics or finance classes that are offered. There can be a variety of levels of the classes provided; however, every high school student needs to be taught personal finance. Topics such as filing taxes and student loans can be discussed in order to keep the students interested and to not be teaching abstract topics that are too far off. This provides a system called "Just in Time" education. With "Just in Time" education, students will learn about what they need to know to be financially literate. As long as students are aware of their present financial circumstances, they will be more knowledgeable as to how such circumstances will affect them in the future.

Secondly, testing should be put in place so that a level of financial education can be upheld. There are many standardized tests that K-12 students are subject to taking. If a financial portion was added to state standardized testing Millennials will eventually become more financial literate. Furthermore states will be able to keep track of financial literacy improvements.

The biggest counter argument to traditional financial literacy classes is that it simply does not work. A study done by Lewis Mandell and Linda Klein led to the idea that financial education has no impact on high school students because they don't retain any information (Mandell and Klein, 2015). Rather the studies point to the idea that "Just in Time" education would be more beneficial. Teaching students topics that are relevant to them at that time rather than simply teaching about retirement is vital. These policies accomplish just that. For instance instilling knowledge about student loans can be effective for high school students. The distinction between grades is vital in ensuring that financial literacy is accomplished amongst the Millennials, preparing them to save for retirement.

Embracing New Financial Education Tools

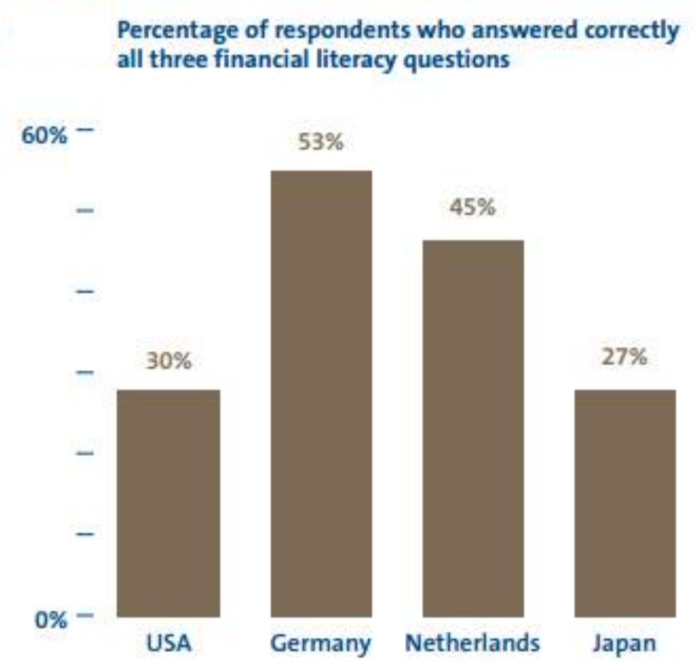
When the millennial generation is discussed at any length we must consider the impact of technology. On the IRS website there is a series of 401k fix-it guides that aim to help people properly save for retirement (IRS 2015). While this concept is something that is beneficial, the layout of the fix-it guides would need to be overhauled. The millennial generation likes to use resources, such as the internet, so if the 401k fix-it guides were set in a more interactive manner, many more people could benefit from the guides and ultimately help in retirement savings.

Financial education games are another option that would allow the user to put the skills that they have learned in their classroom into practice in a virtual reality. By being able to practice real world scenarios before they come up, the user can be more aware of what to look for in real life. Games also make learning financial education more fun and interesting. Having something that can be accessed on an iPhone, tablet, or computer makes it easily available across the United States providing great opportunities for scale. An engaging program model that focuses on personal finance games available in an app has the power to reach many more people than a financial education class.

Gamification could also be used to engage users. Different than games, gamification is the points, rewards, and badges system that was made popular recently by fitness apps. Gamification helps keep users engaged with their finances and striving to do better to earn rewards along the way. Both of these concepts could be applied to traditional financial entertainment to increase user engagement and receptiveness.

Stanford University had huge success motivating Millennials to plan and save for retirement by introducing students to an older avatar of themselves in their virtual reality laboratory, then having participants imagine their future self, where they want to live, and their future hobbies (Zweig 2011). This concept could easily be combined with gamification. Using the "future self" avatar as motivation, a player could earn badges by completing challenges. In this way the students could be active participants in considering their financial future. We believe more programs like these could help orient Millennials to be saving for the lifestyle they eventually would like to have.

Why should these policies be enacted? They are vital because the majority of the American population is financially illiterate. The Investor Education Foundation prepared a short three question financial literacy test given to a sample population across various countries (Lusardi 2015). The questions were about personal savings, interest rates, and stock options. Amongst the likes of Germany, the Netherlands, and Japan, the United States scored well below Germany and the Netherlands and just above Japan (As seen below). The United States also had the highest amount of people who chose the option stating "Do not know." This exemplifies how all ages of American society need to be taught personal finance.

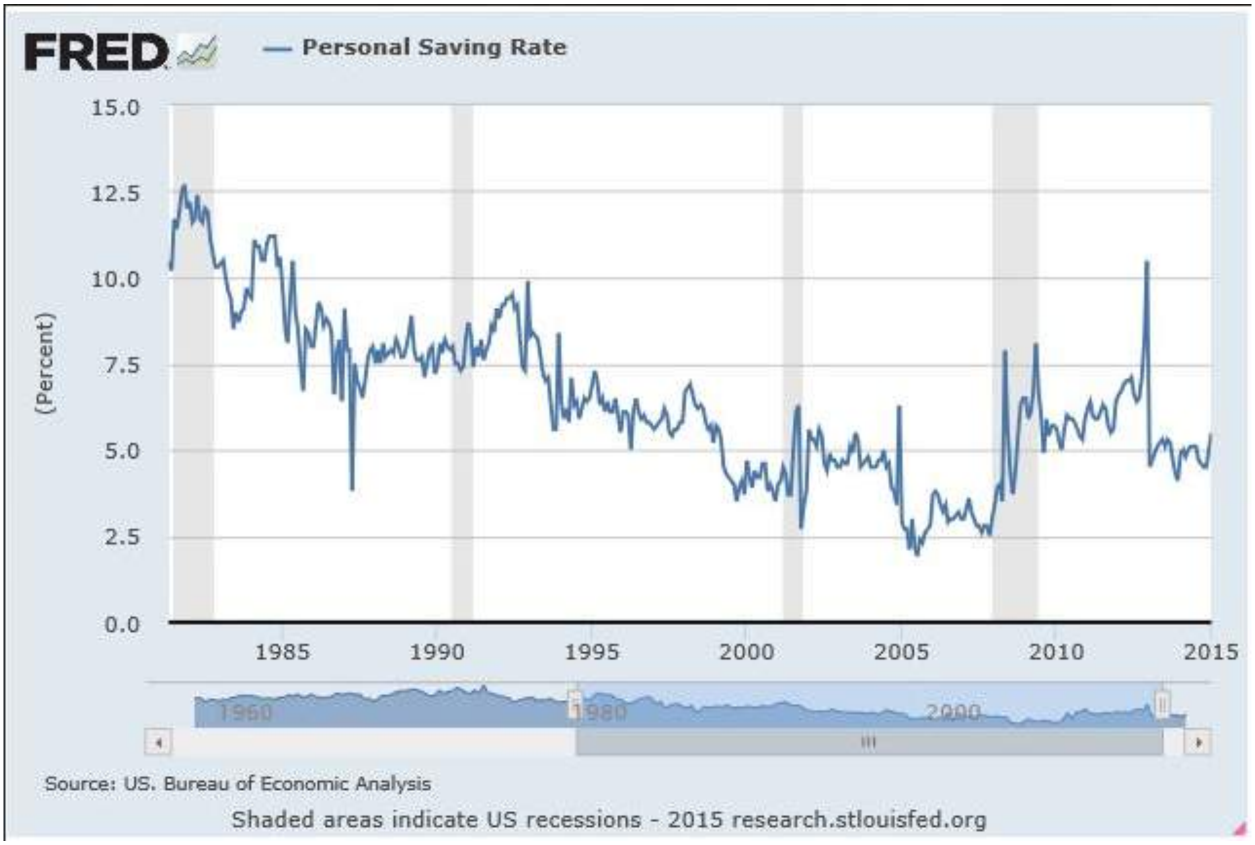


NOTE: *The graph reports the percentage of survey respondents who answered the same three financial literacy questions on interest rate, inflation and risk diversification correctly. In order to allow for comparison, the graph does not include countries that asked slightly different financial literacy questions.*

Overall, to reform retirement for Millennials financial education needs to receive increased priority. The focus must be on "Just in Time" education in order to keep Millennials informed about the financial issues that are relevant to them. This will keep people interested and will be more effective in the long run as the millennial generation will be more informed about the state of their retirement savings.

4.) <u>The Personal Savings Rate: Advertising and Incentivizing Solutions</u>

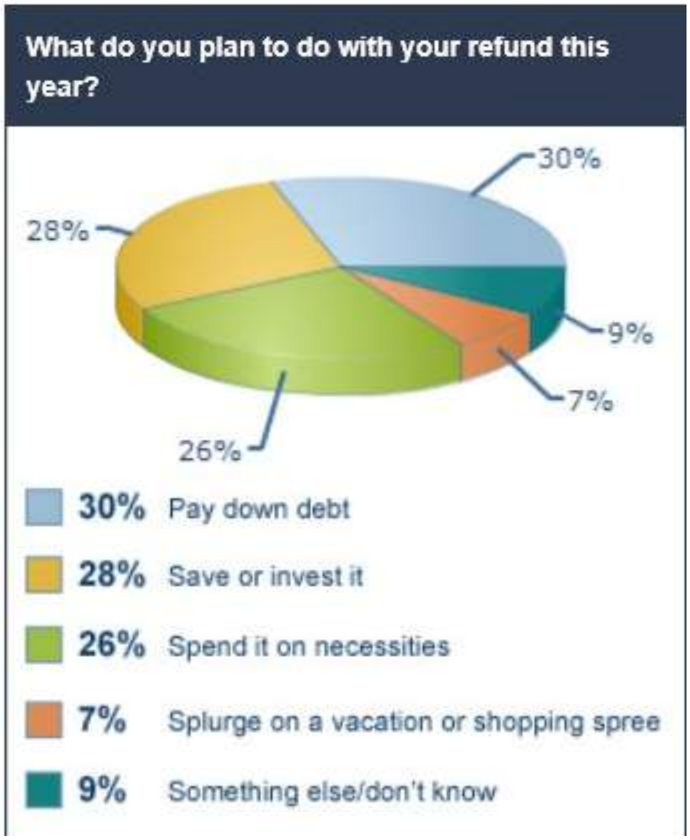
The personal savings rate in America is declining steadily into the 21st century as wages, especially for the millennial population, continue to stagnate, leaving the percent of disposable income dedicated to saving for future needs in retirement low. The key to ensuring financial stability for Millennials in retirement is providing easy and incentivized ways to save. Millennials are at a prime point to begin accumulating savings for retirement. Because of this, convincing Millennials to start saving now is crucial to ensuring stability 50 years from now. $500 deposited at age 20 accrues to much more than any savings deposited past age 50. Unfortunately for many Millennials, it is tough to prioritize saving for retirement when current needs seem much more pressing.



Advertising the Tax Time Opportunity

By not investing money in a Roth IRA, young people are hugely missing the benefits of early saving. The Roth IRA offers a unique opportunity for those making less than $95,000 to accumulate savings tax free and remain tax free among distribution (The Internet Retirement Alliance 2011). This option could have a huge impact in making Millennials more prepared for retirement.

Finding a lump sum to contribute to future needs when you're paying rent monthly, paying off school loans, and making a starting salary is admittedly difficult. However, once a year around 80 million Americans receive a lump sum of money from the government in the form of a tax return (Wang 2012). The tax return is a unique savings opportunity. This money has been already withheld from an individual's paycheck which can be directly deposited into any account you choose (Steiner 2010). Most notably the average tax return in 2013 was about $3,000 (Wang 2012).



(Steiner 2010)

One way to capitalize on this tax time opportunity is by making the future retirement benefits of savings one's tax return more obvious for the millions of people who have their taxes prepared by VITA sites annually, and embedding this message into self-preparer methods, such as Turbo Tax and HR Block software. The current set up of the tax return form allows users to select the way they want to receive their return. If an individual wanted to deposit their refund into a Roth IRA account then they would have to have a previously existing account. To have an even bigger impact, the tax return form could be used as a lead-in to creating a Roth IRA. This would simply require adding an option on the form recommending and suggesting that individuals participate in the Roth IRA for the reasons that it will accrue money annually tax-free and also be tax-free upon deduction. By advertising this option instead of leaving the account selection open-ended many more people could realize the benefits to be gained from a retirement account. If the individual does not want to put the whole tax return into their retirement then the option to split the tax return already exists. This provides a nice balance to prioritize savings as well productive use of a tax return.

Most Millennials currently working will receive a tax refund due to low salaries. This lump sum of money that has been already been withheld from week to week budgeting could be the perfect segway to creating and then subsequently investing in a Roth IRA account.

Prize-Linked Savings: A Lottery with No Losers

Tax-saving opportunities only exist for a few months of the year, yet it seems that the disinterest in savings lasts year round. For this reason there is a general need to incentivize savings, especially for retirement, at an early age, so that money can accrue over time. An interesting way to incentivize savings is by increasing availability of prize-linked savings programs. Such programs are already active in multiple states.

Prize-Linked savings play into the appeal and risk associated with the state lottery, except in this "lottery" there are only winners. Prize-linked savings accounts usually follow a format where each $10 amount deposited into a savings account counts as an "entry" into the monthly lottery. The lump sum of the lottery each month is a combination of the interest from the bank's accrued interest. The pennies in interest gained monthly on normal savings accounts are not appealing. However, in this format a combined interest of $25,000 is raffled off each month, becoming an incentive to save. The key feature of this system is that even if you technically "lose" that month's lottery you still keep the principal amount that you deposited into your savings.

The nonprofit, the Doorways to Dreams Fund (D2D) currently runs the "Save to Win" prize-linked savings program in four states: Washington, Michigan, North Carolina, and Nebraska (Hahnel and Duch 2015). "Save to Win" has been in operation since 2009 and has seen a total of 50,000 account holders save $94 million dollars. D2D reports that 62-81% of account holders in each state were financially vulnerable in which many account holders were also identified as first-time savers, showing that the design of the program attracts those who aren't currently saving

2013 YEAR FINANCIALLY VULNERABLE ACCOUNTHOLDERS [iii]

FINANCIALLY VULNERABLE GROUP	DEFINITION	% OF SAVE TO WIN ACCOUNTHOLDERS IN 2013
Non-Savers	Individuals who reported that they were not regular savers before opening their Save to Win account	45%
Asset Poor	Individuals with $5,000 or less in financial assets (excluding home equity)	38%
Low- to Moderate-Income	Individuals with household income $40,000 or less	36%
Single Parents	Single parents with one or more children	9%
Any Indicator of Financial Vulnerability	Accountholders were non-savers, asset poor, or low- to moderate-income	64%

(Hahnel and Duch 2015)

Recently, the American Savings Promotion Act (HR 3374) was signed into law to allow prize-linked savings programs to be available in every state, provided state legislation acceptance (Walker 2014). The bill passed unanimously at the federal level, transcending partisan lines, and received a score of 0, representing that the overall direct cost on the government of passing this legislation and allowing these programs would be close to nothing (Wells 2015). The benefits, of course, have become plentiful: stimulated personal savings for Americans, increased availability of innovative financial programs, an incentivized approach to the normally boring task of saving, a self-sustaining model that does not require government funds, and a method utilizing behavioral economics transforming something like the lottery into a tool for saving. This approach is also highly successful because of the appeal the lottery currently has amongst low to medium income populations, blue collar communities, and Millennials. In some of the poorest towns in Massachusetts, the average resident spent $1,179 on lottery tickets in 2013 alone (Cloutier 2014).

Due to the successes seen in already operating prize-linked savings programs, we would recommend that these programs be expanded so more Americans, especially Millennials, will have an opportunity to participate in this savings "lottery."

5.) Consumer Debt

Millennials who are not attending college will face a very different set of issues throughout their life when it comes to saving. These individuals should not be forgotten in our policy recommendation and so we'd like to take a moment to focus on this particular group of Millennials and their challenges.

Outsourcing of labor is often cited as a primary reason for the underemployment faced by the middle class today, and consequentially, increased propensity for consumer debt. The effort to combat outsourcing has been met with legislation providing tax breaks and incentives to keep jobs here in the United States, like the "Save New York Call Center Jobs Act" (Kennedy 2015). An inconvenient truth however is that the automation of labor has robbed more Americans of their jobs than offshoring. (Khanna 2012 & Koebler 2014). This trend towards automation has been documented in a piece by KPMG International's Cliff Justice titled "The Death of Outsourcing" (Justice 2012). Such a trend is relevant because it means that while individuals in past generations who did not attend college had blue collar manufacturing jobs to turn to, meanwhile the millennial generation will not. A piece titled "The Future of Employment" by Carl Benedikt Frey and Michael A Osborne at Oxford Martin predicts that up to 47% of total US employment is at risk of being automated in the next two decades (Frey and Osborne, 2013). Jobs that have proven tremendously hard to automate like waiting tables and retail positions are all that could be left for Millennials without college degrees. This means that they will not be working with fixed salaries. The income earned in these positions is determined by hourly wages and their income becomes unpredictable. The implication of this new working class is that they're more exposed to financial shocks. A death in the family, an uninsured accident or getting sick and being forced to take time off work could all lead to these Millennials falling into debt. Thus the true concern becomes one's potential loss of liquidity. It's not that these Millennials don't have the capability to pay for all their expenses over the course of a year; it's just that they don't have the ability to pay for them when they're required to. States that understand and embrace attacking this problem will best be able to serve the Millennials facing these challenges.

This illiquidity problem is already being taken advantage of through short-term lending organizations, commonly referred to as "PayDay" lenders. These "PayDay" lenders aim to take advantage of household's liquidity crises through short-term loans with exorbitant interest rates, typically targeted towards workers with low wages.

> *"Only 4% of payday loans are made to consumers earning more than $60,000 per year. Meanwhile, more than two-thirds of payday borrowers have annual incomes below $30,000. The largest chunk of borrowers came from those making between $10,000 and $20,000 per year" (Morran 2013).*

Often times these loans are catalysts for families to become trapped in debt. "Over the course of 12 months, more than one-third of borrowers will take out between 11 and 19 payday loans. 14% of borrowers will take out 20 or more payday loans within this same time period." (Morran 2013). The District of Columbia and some states like Georgia have done a great job of legislating PayDay loans. However there still remains room to improve as 38 states are yet to have any PayDay loan legislation at all. If states act soon enough they'll be able to prevent PayDay loans from becoming nearly as large a problem as they have been for older Americans.

While states need to remain vigilant in combatting the PayDay loan industry, there are alternatives for them to assist the illiquidity issues that we predict Millennials will encounter. A relatively new option for households facing illiquidity is Rotating Savings and Credit Associations (ROSCAs). ROSCAs are small groups of people who agree to save and borrow together for a defined period of time. The actual fixed amounts of capital and time deadlines are individual to each group of participants within a ROSCA in which the ROSCA becomes a flexible tool for each to ward off illiquidity issues. In November of 2006, the Federal Reserve Bank of Philadelphia (The Fed) published a paper examining ROSCAs and their potential role in the United States, stating:

> "*Like financial institutions in the formal sector, ROSCAs provide participants with the savings and credit mechanisms necessary to smooth their consumption cycles. ROSCA participants can access larger sums of money than they currently have at their disposal with the convenience of a monthly repayment schedule, or they can participate in a ROSCA in anticipation of future cash-flow constraints. While it may be difficult to assess the precise economic impact of ROSCAs on their participants or in the informal sector, 2001 data released by the Small Business Administration may hint at ROSCAs' real economic impact" (Hevener 2006).*

The Fed went on to list the potential challenges and adverse effects states may face in regards to legislating ROSCAs, including the potential increased cost of capital. Therein lies an opportunity for states to aid in the expansion of ROSCAs. By providing incentives to either the participants or the ROSCA organizers, states can steer people away from PayDay loans while still providing their constituents with a method to fight illiquidity.

6.) Healthcare Policies

Preventive healthcare measures are crucial to the financial stability of Millennials preparing for retirement. In the last 25 years, coverage has changed from defined benefit annuity plans to 401k programs that individuals are responsible for, in which many individuals are making mistakes. Fidelity Investments estimates that the average 65-year-old couple on Medicare will need $220,000 for healthcare expenses over their retirement (Fidelity, 2014).This is concerning for Millennials because the aforementioned $220,000 value is actually a decrease from before and associated healthcare costs may rise in the future. By focusing on improving preventative healthcare policies now, Millennials will avoid unforeseen illnesses that may inhibit their ability to prepare for retirement.

We suggest vetting specific online health information websites such as WebMD. Our proposals focus here is to lead Millennials to proper health awareness and educational information. To begin, understanding the competition websites face for viewers explains why some information is intentionally twisted leading Millennials to uneducated decisions regarding their health. Smartphone applications, online articles, and web searches are all easy ways to obtain health information which can sometimes be misleading. To further add, contacting a doctor requires more effort and human interaction. Thus the younger generations, including the Millennials, frequently follow online medical advice without consulting a proper source, such as a doctor.

The implementation of the proposal described above will improve the quality of healthcare diagnoses for U.S. states. Thus ultimately decreasing the number of health problems Millennials may face throughout their preparation for retirement due to a lack of understanding of how to use health information available.

Most retirees currently use Medicare. In 2011, according to The Agency for Healthcare Research and Quality, Medicare accounted for 47% of all hospital billings. The Kaiser Family Foundation forecasts that by 2022, Medicare expenditures will exceed $1 trillion and account for 17% of the Federal Government’s budget (Portez 2011). As it stands, nearly all analysts agree that Medicare will not survive the next 25 years, much less be a viable option for Millennials entering retirement. The future of the American healthcare system is uncertain and presents a foreboding outlook for the future of retirement.

Healthcare has always been a big-picture, long term problem, and steps need to be taken now to better prepare future retirees from drowning in healthcare costs. Another major problem in the system is uninsured patients, who typically come from low income backgrounds, and cannot afford coverage. The

Kaiser Institute reports the uninsured pay for one-fifth of their health care costs out-of-pocket, at prices higher than patients covered by insurance. These patients can be denied care due to their lack of coverage and often cannot afford unexpected care needs are in turn more likely to postpone care. In a 2013 survey, 61% of uninsured adults cited high costs or losing their job as the reason they are uninsured (Kaiser 2014). The Affordable Care Act works to expand access to Medicaid for the uninsured, but such efforts have been met with resistance by governors of many states. Uninsured Americans have excess stress put on their household budgets.

Even for those who do have insurance, healthcare costs are wildly unpredictable. One of the major issues facing patients is figuring out how much their care will cost. As it stands, the actual price of procedures and treatments is ambiguous; oftentimes patients do not know how much their coverage will cost them until they receive their bill. An interesting trend in patient advocacy is price transparency; the push to make healthcare pricing information freely available and easy to access. By creating a market for healthcare services, organizations are subject to the economic principle of price competition, and consumers are empowered to choose the coverage that best suits them. A study published in Jama Internal Medicine reported 3 out of 20 Philadelphia hospitals could estimate the costs of simple procedures such as a heart rate test (Bernstein 2014). The inability to predict and plan for health care expenditures makes retirement planning vastly more difficult, so measures by the states to bring clarity to how much care will cost would go a long way to helping all generations, including Millennials, prepare for retirement.

7. Social Security and Entitlements

If you have been paying attention to the debates surrounding Social Security you have seen the disconcerting predictions that the millennial generation will pay for the entitlements of the baby-boomers while the system will provide them reduced or negligible benefits by the time their retirements begin. These predictions are in danger of becoming reality if we do not change the system. Currently the Social Security Trust Fund has about $3 trillion in their accounts, which should keep the fund solvent until the mid-2030s (Blahous 2014). After that, the current revenue stream is only projected to cover about three quarters of current benefits. This will result in a steep reduction in benefits for collecting seniors at that time if nothing is done to fix this trajectory. We have identified some policy changes which would alleviate some of the stress on the system so that it can serve Millennials as well.

Currently Social Security pays out normal benefits and Supplemental Security Income benefits to about 65,000 beneficiaries each month to people over age 65 and people with disabilities under 65. About 82% of these benefits, or $60,802,000, are paid as Old-Age and Survivors insurance, with the other 18%, or $11,107,000, of benefits being paid out to disabled workers and their families. The program is funded primarily through payroll taxes along with Medicare which brought in about $959 billion in FY 2013. The payroll tax rate currently sits at 6.2% for both employee and employer or 12.4% total (Just Facts 2015).

Social Security is a federal program which is not under the direct control of governors and states. However governors can play a vital role in the lobbying for certain policy changes. Social Security has been a vital source of retirement income ever since its inception in the New Deal and should continue to be a source of retirement income for future generations. The recommendations discussed below should be the focus of the lobbying efforts by the NGA on Congress and other federal policy makers to ensure that the Social Security program will be a dependable source of income for future retirees.

Workers with Annual Earnings over $118,500, $250,000, and $400,000, by State

	$118,500		$250,000		$400,000	
State	Percent	Number	Percent	Number	Percent	Number
All	6.1	9,034,430	1.5	2,278,795	0.7	1,032,121
AL	3.9	80,610	1.4	30,070	0.1	1,236
AK	6.0	23,220	1.1	4,171	0.0	150
AZ	4.9	141,320	1.6	45,157	0.1	1,822
AR	3.4	43,255	1.4	17,474	0.0	109
CA	8.4	1,468,301	1.7	301,886	1.3	229,716
CO	6.7	178,972	1.4	38,319	1.2	30,838
CT	9.6	172,387	2.8	49,776	1.1	19,255
DE	5.5	24,417	1.1	4,855	0.1	643
DC	15.6	53,214	3.2	10,818	1.4	4,785
FL	4.5	394,471	1.4	117,862	0.1	7,810
GA	5.2	233,748	1.4	62,661	1.2	52,664
HI	4.5	31,746	1.2	8,335	0.0	287
ID	3.6	25,880	1.5	10,663	0.1	792
IL	6.6	409,116	1.6	99,151	1.1	69,820
IN	3.7	114,830	1.3	40,730	0.1	2,312
IA	3.4	53,918	1.2	19,574	0.1	1,699
KS	4.5	65,360	1.6	22,870	0.1	1,057
KY	3.6	71,116	1.4	26,843	0.0	596
LA	4.8	98,645	1.5	31,536	0.0	980
ME	4.1	27,274	1.1	7,216	0.0	0
MD	9.4	286,333	1.5	46,564	1.1	32,191
MA	8.9	307,524	2.0	67,564	1.2	41,981
MI	4.4	195,075	1.2	54,813	0.0	1,582
MN	5.8	165,538	1.5	43,532	1.1	31,376
MS	3.1	38,389	1.4	17,427	0.0	315
MO	3.9	113,209	1.4	40,676	0.1	2,083
MT	3.8	18,582	1.6	7,858	0.1	597
NE	3.7	36,207	1.4	14,080	0.1	882
NV	3.9	51,134	1.3	16,924	0.1	915
NH	6.9	48,794	1.0	7,224	1.0	6,932
NJ	10.7	459,218	2.4	101,914	1.2	52,409
NM	4.2	37,725	1.6	14,229	0.0	244
NY	8.1	761,080	2.1	193,327	1.3	124,893
NC	4.8	216,762	1.2	54,935	0.1	2,393
ND	4.2	17,021	1.4	5,725	0.4	1,681
OH	4.4	241,581	1.3	71,569	0.0	2,507
OK	4.1	72,642	1.6	28,340	0.0	829
OR	4.7	85,312	1.4	26,172	0.1	1,196
PA	5.5	337,160	1.4	86,388	1.2	70,653
RI	5.6	29,961	1.2	6,295	1.1	5,875
SC	3.6	76,867	1.2	25,127	0.0	441
SD	3.6	16,109	1.5	6,508	0.0	44
TN	4.3	125,811	1.4	42,177	0.1	1,996
TX	6.1	749,510	1.4	173,378	1.1	134,484
UT	4.8	64,856	1.6	21,889	0.1	825
VT	3.6	11,903	0.6	1,844	0.6	1,844
VA	8.9	370,377	1.4	57,593	1.1	45,102
WA	7.2	241,010	1.4	47,362	1.1	37,681
WV	3.3	25,525	1.1	8,865	0.0	181
WI	3.8	110,209	1.3	37,456	0.0	1,418
WY	3.6	11,206	0.3	1,073	0.0	0

Source and notes: See Table 1.

The main proposal has been eliminating the payroll tax cap. In 2015, the payroll tax cap is $118,500 and is indexed to the CPI. That means any income someone makes over $118,500 is not subject to the payroll tax (Just Facts 2015). The current set up for the payroll tax is regressive and will ultimately result in Millennials paying for the baby boomer generation's benefits, meanwhile receiving little or none themselves. The payroll tax cap should be done away with entirely in order to help save the fund. One line you always hear from older generations, especially as they get closer to qualifying for Medicare and Social Security, is "I paid and worked for the benefits I will receive." This line is actually false because current projections put baby boomer's benefits-to-contribution ratio for Social Security to mostly equal for someone who turned sixty-five in 2010. For that same person however, Medicare benefits will be two to six times for what they paid into the system.

Another disparity is the tax rates the two generations have paid when entering the workforce. Workers that entered the workforce in the late 1960s paid only 6.5% of earnings into Social Security. This figure can be compared to workers entering the workforce today who pay 12.4% of their incomes into the system (Bass 2012). Eliminating the payroll tax cap will create a fairer environment for Millennials since they will not receive as much in benefits as baby boomers. Projections from the Center for Economic and Policy Research show that only the richest 6% of the population would be affected by the removal of the cap which would solve about 80% of the projected long-range deficit (Woo 2012). The table above lists out the percentages of workers by state who would see their taxes raised by the elimination of the payroll tax cap.

Critics of eliminating the payroll tax cap often argue that the plan is flawed for a few reasons. The main reason they cite is that the increase in taxes would be bad for the economy. They argue that if the cap is eliminated that 5.2% of workers would face higher taxes and at least one in five workers born after 1951 would see an increase in taxes over their lifetime. Critics argue that this will hurt savings and investment because high-income workers will cut back on hours worked. These cutbacks however would only be marginal and come from the top 5% of workers. The economy would certainly adapt in the short run. The benefit of cutting the long term Social Security deficit and making the system solvent well past the 2030s far outweighs these costs in the short run.

Another popular argument against raising the payroll tax cap is that it does not encompass enough of the issues regarding Social Security's long run deficit. Even critics of the proposal agree that the elimination of the payroll tax cap would decrease the long-term 75 year actuarial debt by 66%. They point out that when increases in benefits are included the cash-flow, improvements would be 36%.

These projections still assume that benefits are paid out to people aged sixty-five or above. That is why we also recommend that the retirement age be changed to keep pace with life expectancy rates and medical advancements. This will mitigate much of the projected debt because people in the future will be living longer and working past sixty-five. Social Security will not be needed at age sixty-five for Millennials and should be changed to reflect that. Our two-pronged plan of eliminating the tax cap and raising the retirement age to better reflect life expectancies of future retirees is the best way to solve the long term deficit for Social Security. Lawmakers should act now to allow as much time for behaviors to adapt to the changes without shocking the economy.

In addition to the proposal to eliminate the tax cap, another suggested action to mend the Social Security system is to raise the age at which people can begin collecting benefits. According to the current legislation, the earliest eligible age at which people can retire is 62, in which they can begin collecting full benefits four years later. With people living longer and retiring later, it seems rational to raise the age people can collect full benefits to align with when people are retiring. Raising the age today or in the near future would harm the poorest beneficiaries because they are typically the ones who retire earlier due to the physical nature of their jobs. This is why a raise in the retirement age should be instituted not now but later to give these laborers enough time to adjust their retirement savings. Millennials are projected to work until age 73 on average, according to a Nerd Wallet Hub study (Egoian 2013). This suggests that raising the full benefit collecting age in the future to somewhere around 70 would not impact the poorest retirees in the way it does now. Raising the retirement age does seem to be a logical policy for the government to implement in the future.

To conclude, the worries of the Social Security system going bankrupt in the near future are not off, just a bit premature. While the problems presented by an aging baby-boomer generation are difficult, they remain solvable. It is our recommendation that the payroll tax cap be eliminated to better fund the system in the future. We also recommend that the eligibility age be raised to adjust for advancements in medicine and to the reality that people will be working later in life. We believe that both of these recommendations will help Millennials be better suited for retirement.

Conclusion:

Upon review of our rankings and the conclusions we have reached within this report, it is evident there are steps every state can take to better prepare its Millennial population for retirement. Each state has unique strengths and weaknesses in their systems, but no state is without room to improve. By following our policy recommendations, states can begin to solve the flaws in their preparation for Millennial retirement. These are recommendations that governors can begin to implement and advocate for right now. The sooner states take action to fix the areas of focus within this report, the better prepared the Millennial generation will be for their retirement years.

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