Are Millennial Women Saving Enough for Retirement?

The available data is more encouraging than discouraging.

Provided by Mary Ahearn, CFP®

Women 35 and younger are often hard-pressed to save money. Student loans may be outstanding; young children may need to be clothed, fed, and cared for; and rent or home loan payments may need to be made. With all of these very real concerns, are they saving for retirement?

The bad news: 44% of millennial women are not saving for retirement at all. This discovery comes from a recent Wells Fargo survey of more than 1,000 men and women aged 22-35. As 54% of the millennial women surveyed were living paycheck to paycheck, this lack of saving is hardly surprising.[1]

The good news: 56% of millennial women *are* saving for retirement. Again, this is according to the Wells Fargo survey. (A 2016 Harris Poll determined roughly the same thing – it found that 54% of millennial women were contributing to a retirement savings account.)[1,2]

The question is are these young women saving enough? In the Wells Fargo survey, the average per-paycheck retirement account contribution for millennial women was 5.7% of income, which was 22% lower than the average for millennial men. One influence may be the wage gap between the sexes: on average, the survey found that millennial women earn just 74% of what their male peers do.[1]

In the survey, the median personal income for a millennial woman was $28,800. So, 5.7% of that is $1,641.60, which works out to a retirement account contribution of $136.80 a month. Not much, perhaps – but even if that $136.80 contribution never increased across 40 years with the account yielding just 6% annually, that woman would still be poised to end up with $254,057 at age 65. Her early start (and her potential to earn far greater income and contribute more to her account in future years) bodes well for her financial future, even if she leaves the workforce for a time before her retirement date.[1,3]

More good news: millennial women may retire in better shape than boomer women. That early start can make a major difference, and on the whole, millennials have begun to save and invest earlier in life compared to previous generations. A recent study commissioned by Naxis Global Asset Management learned that the average millennial starts directing money into a retirement account at age 23. Historically, that contrasts with age 29 for Gen Xers and age 33 for baby boomers. If the average baby boomer had begun saving for retirement at age 23, we might not be talking about a retirement crisis.[4]

In the aforementioned Harris Poll, the 54% of millennial women putting money into retirement accounts compared well with the 44% of all women doing so. The millennial women were also

14% more likely to voluntarily participate in a workplace retirement plan than male millennials were, and once enrolled in such plans, their savings rates were 7-16% greater than their male peers.[2]

In 2015, U.S. Trust found that 51% of high-earning millennial women were top or equal income earners in their households. That implies that these young women have a hand in financial decision-making and at least a fair degree of financial literacy – another good sign.[4]

Clearly, saving $136.80 per month will not fund a comfortable retirement – but that level of saving in their twenties may represent a great start, to be enhanced by greater retirement account inflows later in life and the amazing power of compound interest. So, while young women may not be saving for retirement in large amounts, many are saving at the right time. That may mean that millennial women will approach retirement in better financial shape than women of preceding generations.

Citations.

1 - time.com/money/4438063/millennial-women-not-saving-retirement/ [8/4/16]
2 - bloomberg.com/news/articles/2016-04-21/millennial-women-save-more-than-mom-but-less-than-men [4/21/16]
3 - investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator [3/23/17]
4 - bustle.com/p/5-ways-youre-better-at-managing-money-than-your-parents-were-44402 [3/15/17]

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