How the Millennial Generation Is Transforming Employee Benefits

According to a number of recent studies, the millennial generation, today's incoming young-adult employees, shows far more interest than older generations in a broad spectrum of employee benefits to protect them from various life risks. They are more cautious than boomers or Gen Xers in choosing their financial portfolios and more focused on planning for their long-term future. Millennials even value health insurance almost as much as older adults—despite the fact they're much less likely to use it. These findings are in broad alignment with broader millennial generational traits that LifeCourse Associates has been studying for many years.

by **Neil Howe** | *LifeCourse Associates*

According to MetLife's 2012 *10th Annual Study of Employee Benefits Trends,* nearly 60% of companies have begun taking measures to understand what different generations of employees want from their company benefits.[1] That share is growing, rising five percentage points just between 2011 and 2012.

It's no wonder that an increasing number of employers are thinking generationally about the benefits they offer. Several recent surveys reveal that millennials think about benefits differently than older generations did at the same age. Recession-strapped young workers are taking a conservative new approach to financial, medical and other life risks—and they want their employers to provide comprehensive benefits that support them, guide them and protect them from these risks.

This new approach, in turn, grows out of a greater aversion to personal risk taking and a greater inclination to plan for the future that millennials first began showing earlier in life as college-age youth, as teens and even as children. And these aren't the only new generational perspectives that millennials are bringing to the table. Across the board, from K-12 schools to colleges and now to the workplace, millennials have brought with them a very different set of attitudes and behaviors compared to the youth who preceded them. That includes not just risk aversion, but also a preference for group consensus, conventional aspirations about the "American Dream," confidence in their future success, an insistent need for feedback and mentoring, and a collective self-image as special and as worthy of protection.

In this article, we examine what millennials are really looking for in employee benefits, particularly in the key areas of financial planning and health insurance. Then we look ahead at new benefits trends that are just beginning to emerge—and make some unexpected predictions about how this will all play out.

The New *In Loco Parentis* Employer

To understand the attitudes of today's young workers, consider who the millennials are as a generation and how they have been raised.

Over the last 30 years, millennials have grown up as the focus of one of the most intense child-protection movements in American history, a crusade that has given us drug-free zones and childproof homes, school uniforms and bicycle helmets, V-chips and urban curfews, AMBER alerts and the *in loco parentis* school and college.

As such, they have grown up seeing the protective perimeters rise around every aspect of their lives. They cannot recall a time when there weren't video cameras in the nursery, metal detectors in the high school or "smart keys" in the college dorm.

Millennials are accustomed to trusting institutions—from schools to colleges to the workplace—to look out for their best interests. Millennials have also built incredibly close relationships with their protective parents. Even as this generation has grown up and left home, they have remained in constant contact with parents who view them as the center of their world and worthy of every possible protection. Millennials are much more likely than earlier generations to consult with their parents before accepting a job. This means if your employee benefits don't pass muster with the parents, they are unlikely to work for your young recruits.

Millennials themselves have also come to expect employers to play the same kind of protective role that schools, colleges and parents have long played. Prior generations of young employees would have assailed these institutional protections as unnecessary and intrusive. However, millennials view them as one more sign that older people consider them a special generation worthy of the extra thought and attention. Enter the *in loco parentis* employer.

Employee benefits are a sensitive litmus test for this generational shift. Most young boomers regarded long-term employee benefits as a relic of the old regime and seldom paid much attention to them. Most young Gen Xers never met a long-term benefit they didn't want to cash out—which, with the introduction of comprehensive "cafeteria plans" and "total rewards" packages, they often did. Millennials are reversing this trend. According to the MetLife study, nearly half (49%) of millennials strongly agree that they worry less about unexpected health and financial issues because of workplace benefits, compared to just 36% of Gen Xers, 35% of younger boomers and 32% of older boomers.[2]

Benefits are therefore a powerful tool for recruiting and retaining young employees. MetLife finds that millennials are the most likely to sign onto a company because of the benefits. Fifty-six percent of millennials agree that the benefits offered were an important reason why they came to work for their employer, a remarkable 25 points higher than older boomers. What's more, the benefits keep them there: 63% of millennials say that benefits are an important reason why they have stayed with their employer, more than any other generation.[3]

As the *in loco parentis* model suggests, millennials' conception of benefits goes far beyond the usual insurance offerings. *Why Generations Matter,* a LifeCourse Associates report, finds that it is millennials who most value employee support services like financial planning, tax preparation assistance and hands-on relocation assistance (61% of millennials want this, compared to 44% of older boomers).[4] The MetLife study similarly reports that more millennials "strongly value" education programs on individual finances and retirement planning (51% vs. 39% of boomers).[5] Paradoxically, the results run directly against the expected phase-of-life bias. All of these benefits would seem to be more attractive to older workers who have more complex taxes, broader investment portfolios and larger families. Once more, however, it is the young who most value their employers' guidance and support.

In addition, both millennials and Gen Xers are more interested than boomers in voluntary benefits that they can purchase and pay for on their own—though for very different reasons. Gen Xers feel empowered by choice and prefer to opt into benefits to fit their individual needs, rather than receiving a predetermined corporate benefits package. Millennials want a comprehensive benefits package that maximizes protection and minimizes uncertainty, and they also want to add voluntary benefits on top of it. When asked about individual voluntary benefits, millennials were the most likely to

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say they would be interested in actually purchasing them, from auto and home insurance to life, disability and critical illness insurance.

Since millennials began entering the workforce, employers routinely have missed their focus on comprehensive benefits packages, assuming that, like young Gen Xers and boomers, millennials prefer high pay, flexibility or prestige. In a 2007 Michigan State University survey, young adults ranked "job security" and "good benefits" as two of the most important characteristics they look for in a job.[6] Yet when (boomer and Gen X) corporate recruiters were given the same survey, they mistakenly supposed that young adults would rate job security and benefits far lower, while overestimating characteristics like pay and prestige.

Today, employers are finally beginning to take note of the generational differences that shape employees' approach to benefits. As millennials continue to enter the workplace in ever-increasing numbers, the importance of this topic will only grow.

So what do millennials *really* want out of employer benefits? Let's examine two benefit categories that are of special interest to millennials—long-term financial planning and health. Then we will take a look at some breaking trends that may help forward-thinking employers craft millennial friendly benefit packages long into the future.

Financial Planning for the Young and the Risk-Averse

One might assume older workers would be the most risk-averse when it comes to their finances. After all, they generally have more income and assets to protect than do young adults and are more likely to have larger families (or any family at all). Turns out, it is millennial workers who are the most risk-averse on every measure.

According to the 2012 MetLife study, millennials are the most worried about every kind of unforeseen financial risk, from sudden income loss (72% were "very worried") to uncovered medical costs (63%) to illness and disability (65%)—in each case, a remarkable 14-15 percentage points higher than boomers. Millennials are even the most likely to be very worried about the financial consequences of their own premature death (54% vs. 39% of boomers).[7]

Millennials are also the most risk-averse when it comes to investing, once again the precise opposite of what one would expect based on age—and contrary to the prorisk portfolio bias that investment advisors typically recommend for young adults. Eighty-one percent of today's young workers prefer "guarantees that offer stable but somewhat lower returns" over "a higher degree of risk because the returns could be greater." That's 6% higher than for Gen Xers, 7% higher than for younger boomers—and even three points higher than older boomers, who are just a few years from retirement.[8]

Other recent surveys have shown that millennials do, in fact, invest more conservatively than do older workers—and, amazingly, are more focused on retirement savings. Younger employees "are saving more rigorously than their parents and grandparents," runs the headline of a recent TD Ameritrade report.[9] A related TD Ameritrade survey found that 56% of workers under the age of 35 are making regular contributions toward their retirement savings—versus only slightly more (59%) for Gen Xers aged 36 to 45 and much less (46%) for older Xers and boomers aged 46 to 65. A larger share of these under-35 millennials (25%) are saving in *both* their 401(k)s and their individual retirement accounts than any older age bracket. TD Ameritrade also reports that this younger age bracket is starting to save for retirement much earlier in life (mid- to late 20s, on average) than boomers once did (mid-30s).[10]

Data from other financial institutions show similar trends. From 2000 to 2011, according to the Vanguard Group, employees under the age of 25 raised their participation rate in 401(k)s from 30% to 44%. Employees aged 25 to 34 raised their rate from 60% to 63%. Meanwhile, rates for the older brackets between the ages of 35 and 54 declined slightly.[11] The numbers from Fidelity are even more remarkable. In all of Fidelity's 401(k) plans, employees aged 21 to 33 now show the highest participation rate of any age group. And that rate has recently been rising, from 84% in 2008 to 86% in 2011.[12]

To be sure, these increases are partly due to a 2006 federal law allowing 401(k) autoenrollment by employers. Many young employees now join plans simply by failing to exercise their "opt-out" option. But autoenrollment is not the whole story: Contributions among those aged 21 to 33 are averaging double the default contribution rate, indicating that young employees are by no means passive savers.[13]

Indeed, millennials are planning ahead for the long term across a range of indicators and generally are focused on meeting their life milestones "on time." According to the MetLife study, young workers are by far the most worried about having enough money to buy a home and to pay off debts. This is expected, given their life stage, their high levels of student debt and their consequent struggle to buy homes. Yet this generation's long-term planning goes even further. A remarkable 56% are "very concerned" about having enough money for their children's college education. That's higher than any other age bracket, including Gen Xers (52%) and younger boomers (44%), who are far more likely actually to *have* children to save for.[14]

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Yet the basic attitudinal drivers behind this appetite—risk aversion, long-term planning and high institutional trust—have been with this generation for years. In a 2005 survey by Diversified Investment Advisors, 49% of millennials said retirement benefits were a very important factor in their job choices, and 70% of those who were eligible were contributing to their 401(k) plan.[16] A 2006 survey by the National Association of Colleges and Employers found two of millennials' top criteria when choosing an employer were a "good benefits package" and "stability (provides secure future)."[17]

In fact, the millennials' penchant for long-term planning reflects some of this generation's core traits. When boomers and Gen Xers were young, they showed an increasing willingness to take risks, a decreasing regard for institutional safeguards and relatively low interest in planning for the future. Millennials have been showing just the opposite tendencies. As children, they were pushed to avoid personal risks and take full advantage of the opportunities offered them. There is a new assumption that long-term success demands near-term organization and achievement—that what a young worker does this week will absolutely determine where she will be ten or 20 years down the line. That, at least, is the new perception, and it's a reversal of a 40-year trend.

Hooked on Health Insurance

Given their risk aversion and desire to plan ahead financially, it should be no surprise that millennial employees place a premium value on health insurance benefits. Twenty years ago, young adults rarely thought much about health care—and often saved a few bucks by "going bare" and letting their health insurance lapse. Today's young adults, according to a 2013 Kaiser Foundation survey, are adopting a very different attitude. More than seven in ten millennials

Today's Working Generations

- Boomers: Born 1943-1960 (aged 53-70)
- Generation X: Born 1961-1981 (aged 32-52)
- Millennials *(working age):* Born 1982-1997 (aged 16-31)

rate having health insurance as "very important," and a similar number feel that insurance is something they need and that it is worth the money.[18]

The headline conclusion of the Kaiser survey is that millennials are only slightly less likely than older generations to say that it's very important to them personally to have health insurance. Fully two-thirds of 18- to 30-year-olds say this, trailing only about ten percentage points behind the public overall. Only about a quarter of young adults say "I'm healthy enough that I don't really need insurance."[19]

This is a remarkable finding, given the millennials' current phase of life. Because young adults are much less likely to suffer serious illness than older adults, they consume much less in health care services—about $1,700 per person aged 18 to 24 in 2009 on average, versus $5,500 at the ages of 45 to 65 or $9,700 over the age of 65.[20] So of course young people traditionally have worried less about insuring against such losses. Young boomers often saw health insurance, especially employee packages, as a relic of "the system," while young Gen Xers often rushed to cash it out. Yet millennials are reversing this trend. In fact, the millennial focus on insurance actually rises for later-born cohorts. According to the Kaiser survey, millennials aged 18 to 25 (77%) are even more likely than millennials aged 26 to 30 (71%) to say insurance is very important to them personally.[21]

The Kaiser survey confirms the MetLife findings that, when it comes to medical expenses, millennials are remarkably risk-averse for their phase of life. They are just as likely to worry as older adults (both at nearly 70%) about paying medical bills for a serious illness or accident. More surprisingly, millennials are almost as worried as their elders about paying medical bills for routine health care—though they are far less likely to need it. (45% percent of 30-and-under workers say this, versus 49% of all workers.)[22]

The millennials' focus on constantly protecting their health also reflects more broadly how special and sheltered this generation was regarded in childhood. Throughout their lives, millennials have grown accustomed to consulting with experts about their problems. They have visited physicians and therapists more frequently than earlier generations of children—and are thus more familiar with clinics, labs and hospitals. A growing share of these young people is undergoing treatment for chronic maladies, like allergies and attention deficit hyperactivity disorder, that used to go untreated. They are accustomed to having a "team" of parents, doctors and counselors huddle to confer on tweaking the medication dosage or retesting the diagnostics.

Millennials' worries about paying medical expenses point to a broader desire among young adults to mitigate risk, plan long term and trust the system. When boomers and Gen Xers were their age, they routinely took risks and tried to game the system. "Chances are I won't get sick anytime soon," they would think, "so why should I pay? And if something really bad happens, well, Medicaid or some hospital will pick up the tab." By contrast, millennials are already thinking about what a catastrophic medical bill would mean for their finances and their family's finances over ten or 20 years. And this generation is not willing to take that chance.

Breaking Trends

A couple of emerging trends may point to how millennials look at employee benefits in some surprisingly new ways.

One major innovation in benefits is the implementation of the Affordable Care Act (ACA). This is likely to complicate the millennials' enthusiasm for health care benefit coverage. On the one hand, ACA allows young adults to stay on their parents' insurance until they turn 26, a popular provision with millennials and their families. On the other hand, the new law places a national ceiling on differential premiums between the oldest and youngest working-age Americans. That's great for 60-year-olds, whose premiums will now be cross-subsidied by their kids under the new system. But it's bad news for a certain group of 30-year-olds (men, especially) who will have to pay much more for individual coverage under the new system in most states unless they are poor enough to qualify for an "exchange" subsidy. ACA will cause premiums to rise for Americans under about the age of 40 and to fall for those over that age, essentially transferring income from the young to the old.

Of course, we're not talking about all millennials. Those without jobs or with low earnings typically will be better off because they'll receive subsidies to participate in the exchanges, while most of those who already have employer benefits will be unaffected. It is the remaining segment of millennials—those who currently receive no employer benefits but make too much money to qualify for subsidies—who will take the big hit.

Some claim that these millennials are likely to pay the modest penalty (only $95) to opt out of ACA, perhaps causing the entire system to collapse. Others (citing the example of Massachusetts) believe millennials will indeed sign up for the exchanges. We think it's likely that, given their generational inclination, even most affluent millennials who don't have employer coverage and aren't eligible for subsidies will indeed sign up for coverage simply because they really value being insured.

Overall, Americans disapproved of ACA at a rate of 49% in October 2013 compared to 41% who approved.

Yet while older Americans, who will benefit the most, disapprove the most, Gallup polls show that millennials are significantly less likely to disapprove of ACA (40%) than Gen Xers (54%) or boomers and *silents*—the generation that preceded boomers—(51%).[23] Millennials are also somewhat more likely than Gen Xers and boomers to say that ACA will make their family's or the nation's health care situation better. They also are far less likely to say that it will make their family's health care or the U.S. health care situation worse.

Nevertheless, millennial support for ACA remains tepid, with less than half (44%) saying they approve of the law—not a ringing endorsement from a generation that favors President Obama so strongly. Moreover, they are less likely than older generations to be familiar with the law. Fully 36% of millennials say they are "not too" or "not at all" familiar with ACA, compared to 28% of Gen Xers and 26% of boomers and members of the silent generation.[24] The catastrophic website glitches accompanying the initial rollout haven't helped ACA's public reception, either.

So what's the upshot of the new ACA-driven landscape? Certainly, millennials' positive attitudes toward health insurance will drive many to sign up for the new exchanges, even with high premiums. However, the higher costs for young adults on the exchanges likely will drive a wedge between those lucky millennials with employer-provided health insurance and their jobless, part-time or freelance peers, who will see that they are getting an increasingly bad deal. This will only further stoke the millennial desire to seek out the safe haven of a stable, benefits-offering employer—and further heighten their reluctance to strike out on their own.

More broadly, the mandate in ACA and the recent regulation of 401(k) contributions points to an important new trend in employee benefits. The new expectation may be that employers provide comprehensive benefits packages that apply by default unless employees specifically opt out. This aligns perfectly with the millennial generation's emphasis on a broad envelope of protection and its desire for fewer choices and more institutional guidance. The opportunity to "go bare" that Gen Xer young-adult employees once valued seems decisively on its way out.

As in earlier areas, like child safety and college security, society and lawmakers may coalesce around one comprehensive conception of benefits best practices. If there's a "best way" to do benefits, millennials will want that to be the default instead of facing an array of confusing choices that just opens them up to more risk.

One example of this approach is the new popularity of target-date funds that automatically allocate capital into the appropriate risk categories based on a person's planned retirement age and other personal factors. Nothing could be more millennial than an institution that precisely plans and programs one's optimal level of financial risk for the next 30 years.

Given the fact that protective regulations have followed millennials up every step of the age ladder, we would not be surprised to see legislators' spotlight turn to employee benefits. Certainly society, and perhaps the law, will assign employers greater responsibility in making sure that young employees have a basic agreed-upon level of benefits coverage. Pressure will mount to ensure that no employees slip through the cracks, and this may include rising pressure to extend benefits to part-time employees.

New attention also may be drawn to educational benefits that make sure that the new generation of young employees is being properly trained for the jobs of the future. Particularly if the economy continues to struggle, organizations may face increasing pressure to partner with schools and colleges to help prepare the rising wave of late-wave millennial employees for the kinds of jobs that will actually be out there.

With the millennial generation entering the workplace, the benefits landscape is changing. Forward-thinking employers that get ahead of the curve may have a major advantage in recruiting, retaining and energizing their young employees in the years to come.

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