

How Will Millennials Invest Differently Than Their Parents?

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Abstract

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How will Millennials invest differently than their parents? Each generation has its differences and Millennials will be no different. For financial advisors it is absolutely necessary to understand the clientele with which they are working. For this reason a roadmap needs to be created to show who Millennials are and how financial advisors can help them navigate their way through their life. In order to do this it is necessary to look at the last generation's trends and values and how they are similar and different from Millennials as well as view the financial world around Millennials and the financial instruments available to them to determine a proper investment strategy. It was found that Millennials will use ETFs, insurance policies, and financial advice differently than their parents in order to properly prepare for their retirement.

Introduction

I think in some small way we all like to see ourselves as rebellious. That doesn't mean we all go around wearing leather jackets and riding used Harleys, but very few people like to embrace their lack of individuality in favor of simply following the same path used by those before them. This individuality is often closely related to the generation of young people today referred to as Millennials. This idea leads me to the question, how will Millennials invest differently than their parents?

I would first like to emphasize the goal and the viewpoint I will use for this thesis. First, my goal is to provide some sort of roadmap, perhaps simply a starting point to help Millennials begin to invest, invest wisely, and move from working investors to retirees in a smooth and easy way. Second, I want to emphasize that this thesis will be from the viewpoint of a financial advisor, not a financial analyst. The significance of this is that I will not be discussing risk tolerance, smart betas, or maximizing portfolio gains. Those are analytical, quantitative measurements that should remain somewhat constant as each generation comes and goes. I want to look at the personal aspect of investing. A financial advisor will focus the majority of their time on working to make clients happy. Sometimes that means secure; sometimes that means risk exposed, and sometimes that means working through life's plans and problems. The key element that an advisor has to overcome in order to build his or her business is the human element. Whether that means providing the proper information in the proper way, or finding the right client at the right time, both scenarios require an extensive look at how people view money and financial advice. This human element is the element that changes from generation to generation and is something that is closely tied to generational values and ideals. This is why

the study of the generational differences will be crucial and important to the life of a financial advisor.

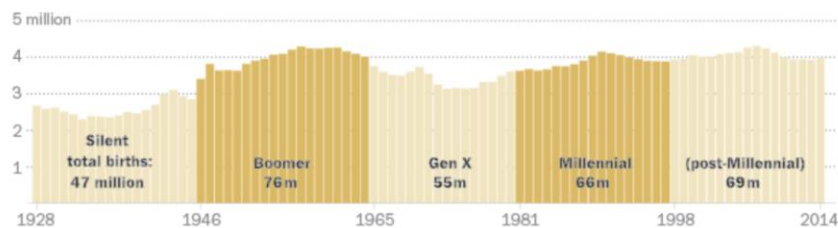
It is of utmost importance that Millennials are sought out by financial advisors because they are at the ideal age to seek financial advice. Most advisors recommend seeking advice 40 years before you retire; however, 35 is the age where most people begin to even consider financial advice (Unbiased, 2015). This means that at best most people get financial advice ten years too late. This trend cannot continue.

Generation X and The Baby Boomers

First things first, generational boundaries need to be determined. Any generation separation has some degree of interpretation involved. The sun did not turn purple on the day the first millennial was born and then blue the day of the last, so it is important to first define who are considered Millennials and their parents. According to The Center for Generational Kinetics, Millennials are broadly defined as anyone born between 1977 and 1995, Generation X members were born between 1965 and 1976, and the notorious Baby Boomers were born between 1946 and 1964 (The Center for Generational Kinetics, 2016). This generational makeup makes determining the parents of Millennials a little tricky. For the purposes of this thesis I will assume that the parents of Millennials are all members of Generation X. This is of

Births Underlying Each Generation

Number of U.S. births by year and generation



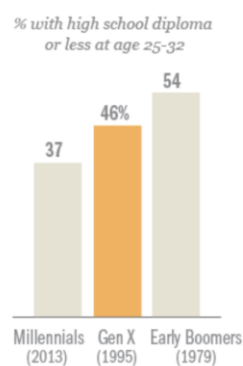
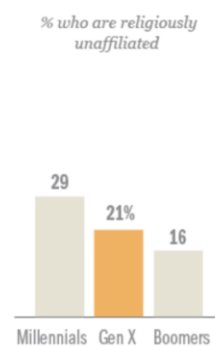
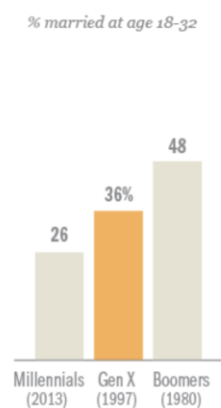
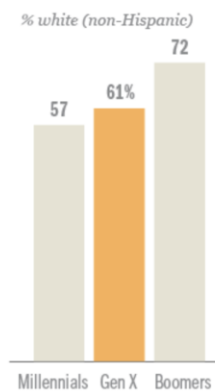
Source: U.S. Dept. of Health and Human Services National Center for Health Statistics

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course not universally true, but it should be the truth for the majority of Millennials.

I want to spend a little time discussing who Generation X is and a little bit about them. Generation X is often one of those generations that get lost in the grand shuffle of terminology. But in all honesty, that is how the story of Generation X begins. Generation X is sandwiched between two giant generations. Generation X had only 55 million births as compared to the Millennials coming in at 66 million and the Baby Boomers coming in at 76 million. This leaves them stuck in the middle of these two generations.

Even though Generation X was in a great position to be silenced, they did manage to make some great cultural strides. First, even though Millennials often get credit for lots of technological advances, without Generation X none of these would be possible. For instance, Facebook, the brainchild of Mark Zuckerberg, would have never been possible without Baby Boomers like Wozniak, Jobs, and Gates. Some credit also goes to the adoption and widespread use of technology by Generation X.



Another major move that Generation X made was a movement toward a more anti-corporate mindset. This meant several things and was caused by several different major shifts in the workplace. First, large-scale corporate layoffs are an item of recent history. The Baby Boomers were some of the first to actually be laid off by corporations during economic downturns; however, they were already too engrained

in their own individual careers to turn back and find something else. Generation X saw these layoffs happen to their parents and began an anti-corporate shift, which lasted until the millennial generation.

Going back on the sentiment that Generation X is a middle generation. It turns out that Generation X was a major stepping-stone from the Baby Boomers to the Millennials in more ways than one. Generation X is in the middle when it comes to ethnic diversity, early marriage rates, religious affiliation, and education as can be seen from these graphs from the Pew Research Center (2014). There was one more way in which Generation X was a major stepping-stone and that was in how they prepared for retirement.

Retirement planning for most of the Baby Boomer generation was relatively simple, especially in their younger working years. You would work for a company for a set amount of years. Usually for every five or so years you worked for a company you were guaranteed a certain payout at retirement, so someone who was with a company for thirty or forty years never needed to worry about what kind of investments to hold for how long or in what company. All they had to do was continue working and at retirement know that they would have a certain percentage of their previous salary given to them monthly. Now this meant very little saving was required of the Baby Boomers. In reality, that pension would not entirely fund their retirement, but with a house paid off, kids out of the house, and hopefully little to no debt, these new retirees could save from their 40's to retirement a small amount of money to help cover costs of a dream boat, vacation, or emergency medical bills. The companies themselves handled all the paperwork. This all changed in 1978.

In 1978 a small change to the US tax code called the 401(k) was made and that small piece of legislature changed the way Generation X would have to live (Employee Benefit

Research Institute [EBRI], 2005). The 401(k), though seemingly harmless, shifted the burden of retirement savings from corporations to the American people. The history of this major shift took only a few years to occur.

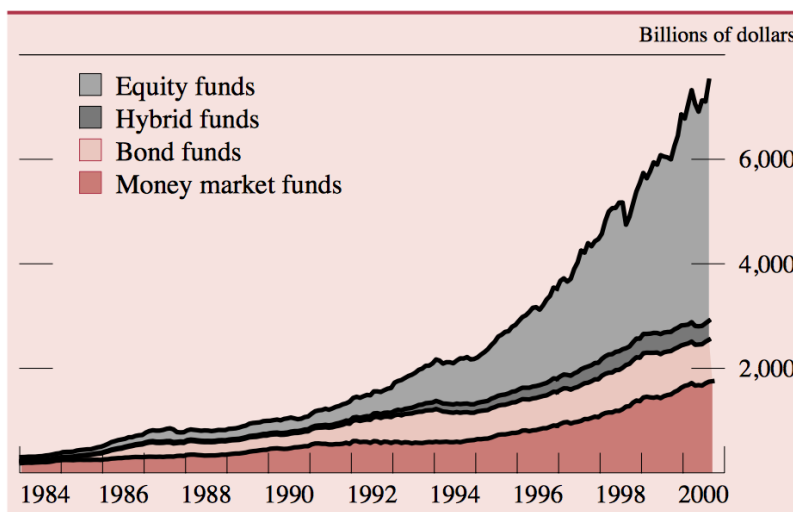
Before 1978 there were other deferred compensation plans; their use was not largely accepted especially by the general public, but in 1978 the first company to deploy the 401(k) was Hughes Aircraft Company followed shortly by, “Johnson & Johnson, FMC, PepsiCo, JC Penny, Honeywell, and Coates” adopting new 401(k) plans by 1982 (EBRI, 2005). The success of the 401(k) was unprecedented when it comes to changes in retirement planning. In its beginning stages of the 401(k) in 1984 there were an estimated 7,540,000 participants involved in the system with an estimated \$91.75 billion dollars in assets. Fast forward to 2003 and there were an estimated 42.4 million participants with assets totaling \$1.81 trillion dollars in the program.

Why was this a popular option for companies? The reason is simple. The passing of the 401(k) made it easy for companies to pass the buck of retirement from them to their employees. Any company who has a large pension plan has a lot of work to do. They need to first, determine what promises they can make about retirement to their employees, then they have to find the proper fund managers in order to keep this fund paying out pensions for perpetuity, and finally they have to continue to make the payments in good and bad times into the pension. If you think this is an easy system to maintain and care for ask a retired Dallas police officer how flawless the system is.

What this meant for Generation X was they were going to have to act a lot differently than their parents had. Instead of simply finding a company to work with until retirement they had to plan for retirement on their own. This made them look for a financial advisor, cut back

on their spending to ensure they had available funds to spend, and be disciplined enough to put away funds so that they could have the ability to retire when and how they wanted. This also came with a side effect for Generation X. 401(k) plans are highly flexible and extremely mobile. This meant that at any time and for any reason an employee could quit his or her job and move to another firm, and their retirement would stay entirely intact. All of their funds would remain in their name. This greatly decreased the loyalty of employees to employers. Now the question became, how would Generation X invest all of this money they were saving?

The resounding answer to this question is mutual funds. Mutual funds are investment companies, which allow you to place your money into the hands of fund managers, and for a small fee they can invest your money in whatever way the firm specializes. For instance, an American Funds mutual fund named American Growth and Income allows investors to invest their money into American companies some of which are poised to grow rapidly and some of which help provide consistent growth for the fund. Now it is worth mentioning that mutual funds are no new concept. The idea for a mutual fund is not new and actually dates back to the 1700's; however, their popularity skyrocketed sometime around the 1990's as seen below. This



NOTE. Data show month-end assets.
SOURCE. Investment Company Institute.

sharp increase in the popularity of mutual funds seems far too close to the beginning of the 401(k) system to be purely coincidental. But why are mutual funds so popular among Generation X? The

answer is not overly complex. Mutual funds offer diversification that is very easy and straightforward. A lot of stocks are required to gain the same amount of diversity as one mutual fund.

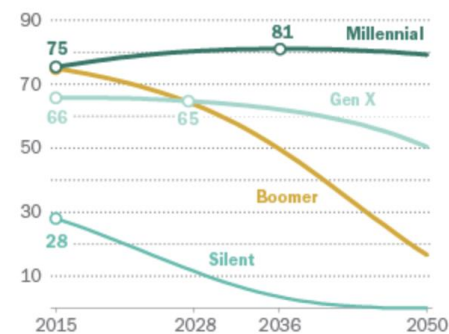
Now, I'm not saying that mutual funds are the only thing that Generation X invests in, but with the movement of Generation X into mutual funds a very distinct cultural shift occurred in the United States. Mutual funds "hold about one-fifth of publicly traded U.S. corporate equities" (Engen & Lenhart, 2000). This means that because of the 401(k), mutual funds, and the investment decisions of Generation X the American people are highly invested in the U.S. Stock Market in a way they have never been before. This brought about a wave of change in the way individuals looked at the economy.

Millennials

Generation X was an interesting generation to say the least, but that doesn't mean that the Millennials that followed them will not have anything unique to add. Currently, the age of Millennials range from 21-39 years old. This is a broad range of ages, and so it should be noted that any generalizations would be difficult to make. The reason behind this is that there are

Projected population by generation

In millions



Note: Millennials refers to the population ages 18 to 34 as of 2015.
 Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2015 population estimates

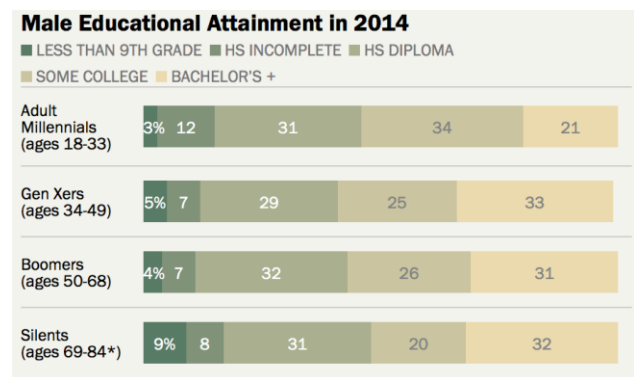
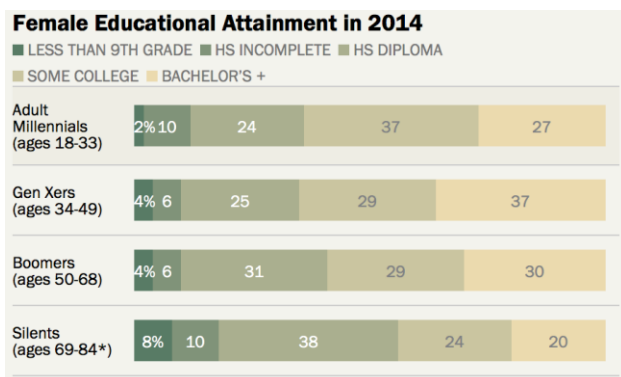
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many Millennials that already have three kids, a house, and two cars while there are also Millennials eating ramen noodles off of a Frisbee in a college dorm. As you can imagine these two people will have vastly different levels of investible income.

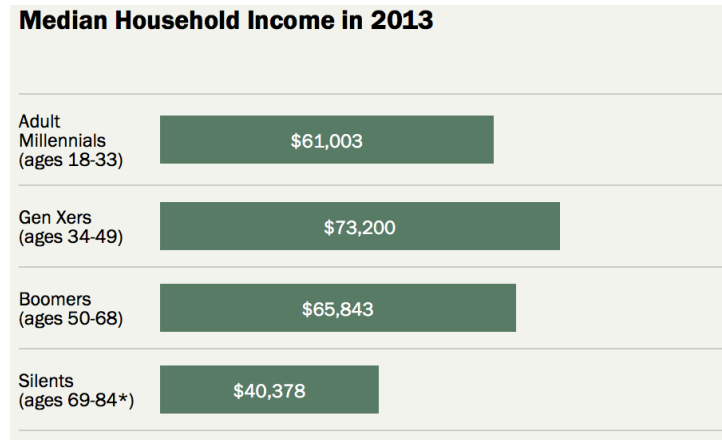
First, I want to mention that Millennials are currently the most populous generation in America. In 2015 Millennials officially overtook the Baby Boomer

generation (Fry, 2016). It can be seen from the graph posted earlier that there were ten billion more baby boomers born than Millennials, so how could this occur? Well, unfortunately Baby Boomers are entering the later parts of life, which means some of them are beginning to die. This coupled with the fact that Millennials are the most common immigrants into the United States, and you very quickly begin to realize how this movement has occurred. Millennials are not only the largest generation, but also they are on track to stay this way for some time. The graph above shows the growth of Millennials alongside several other generations. There are some other important demographics involving Millennials that are worth mentioning.

First, Millennials are the most ethnically diverse generation in America with only 57% of Millennials being white (Pew Research Center, 2016). This added diversity will be something any new advisor ought to know. Education is something that sets Millennials apart. For Millennial males, there is lower college attendance than that of the previous generation and a stark decline in the number of students continuing on beyond a bachelor’s degree (Pew Research Center, 2016). It is worth noting that a large portion of Millennials are not yet old enough to complete this amount of education. Also, Millennial women are more educated than men. A quick look at the below graphs will describe this very quickly.

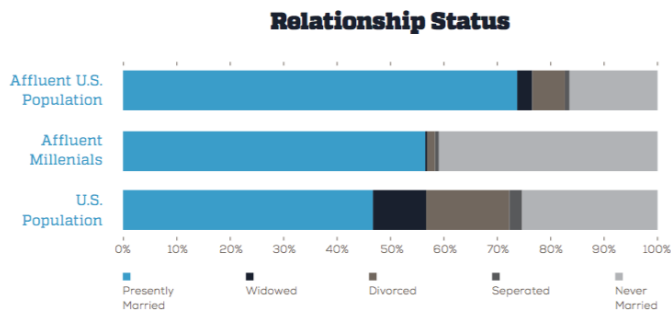


When it comes to income, Millennials are also a little bit behind the other generations. This is in large part due to the age range of Millennials, but should not be ignored. As you can see by the figure below, Millennials are still behind when it comes to household income.



Now that we know who Millennials are it is important to begin to understand the values and trends Millennials follow. It would be extremely difficult to focus on Millennials in their entirety because,

once again, Millennials are a very large and diverse group. So, I want to focus on one specific group of Millennials, affluent Millennials. It might seem rude or inconsiderate to only focus on affluent individuals as a financial advisor, but in reality this is the only group you can truly help invest. In this scenario I want to define affluent Millennials as being those with a combined yearly household income of one hundred thousand dollars. In reality this is not an ultra wealthy group of people. This is either two married individuals making an average income or one Millennial with a six-figure income. The reason a financial advisor can primarily focus on affluent individuals, at least by this definition, is that you must have a certain level of income in order to have enough funds to invest to merit a financial advisor. Now I want to look at some

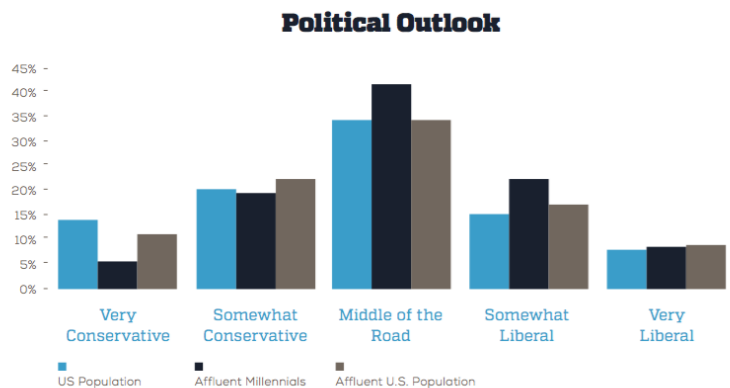


trends that follow affluent Millennials. In order to best identify trends in Millennial behavior instead of looking at specific research on individual traits of Millennials I opted to use the more broad research style of market research.

First, “affluent Millennials are a female dominated group” (Future Cast, 2014). According to recent market research as many as 64% of all affluent Millennials are women. This is similar to the earlier research that found higher levels of education among women. This new trend is interesting, and I believe is related to the second major trend of affluent Millennials. The trend is that affluent Millennials are far more likely to be married than Americans who are not affluent

The connection of affluence and marriage are very interesting. There are multiple reasons this trend could exist. It could be that marriage offers some emotional stability, which allows for better work and lower spending; it could be that marriage helps reduce the cost of living because living spaces can be shared to reduce rent or mortgage payments, or it could be that the tax benefits that come along with marriage allow for more financial flexibility. At any rate, affluent individuals in any generation, especially Millennials are often married.

Next, affluent Millennials have an interesting political outlook. Over 40% of affluent Millennials claim to have a “middle of the road” political policy meaning a large amount of Millennials do not hold strong ties to either political side.



This lack of political polarization is something to look into as a financial advisor. You need to be aware of some the general viewpoints of your ideal clientele in order to provide proper service.

Finally, Millennials have a very distinct way they choose to purchase items. Generation X and the Baby Boomers had a tendency to look for items that displayed their wealth not necessarily because of their quality, but more for the status these items carry. For example, a Rolex watch was often a goal for previous generations. Now, Millennials have no problem spending large amounts of money on things they want, but Millennials want a reason for the extra cost. One example of that was cited in Future Cast's market research was Bose audio (2014). Bose audio is a premium product with a premium price tag. According to Future Cast, Bose is a product that resonates with affluent Millennials because the added value is worth the added cost. This can also be seen with products like Toms and Yeti. These two companies have blossomed in the Millennial's era. Both companies are somewhat premium products that have the added price for a reason. Toms is a company devoted to helping give shoes to impoverished parts of the world. This resonates with Millennials and in return they pay the extra price. Yeti is a company founded on and devoted to adventure. Because of this and the quality that each product has, Millennials will shell out the extra cash required to maintain that spirit of adventure so they can keep their dirty chai latte warm through an entire season of their favorite Netflix series.

Now that several of the trends that drive Millennials have been discussed, I believe it is important to discuss several of the factors of the world surrounding Millennials. This is a very

important part of being a competent advisor because the changing landscape of any financial industry can be crucial for success.

One major change, which will greatly and directly affect Millennials is the new Department of Labor's (DOL) ruling on the management and fee structure of retirement accounts. This ruling that was originally set to go into practice in April of 2017 has been pushed back until June of 2017 and that is causing some major problems for financial advisors and many clients. The reason why this ruling is problematic is partially because of its complexity. This was not a new line of tax procedure, but rather a twelve hundred page legal document describing the new rules and regulations that will be placed upon anyone providing financial advice related to retirement.

As you can imagine this massive legal document is quite intricate and specific on many of the issues it seeks to solve, but I will summarize the affects of this new piece of legislature on Millennials. First, it requires anyone giving specific retirement advice to sign a fiduciary responsibility agreement with his or her clients. This means any financial advisor is signing a legal contracting claiming that he or she will make every investment move that they can in line directly with the investor.

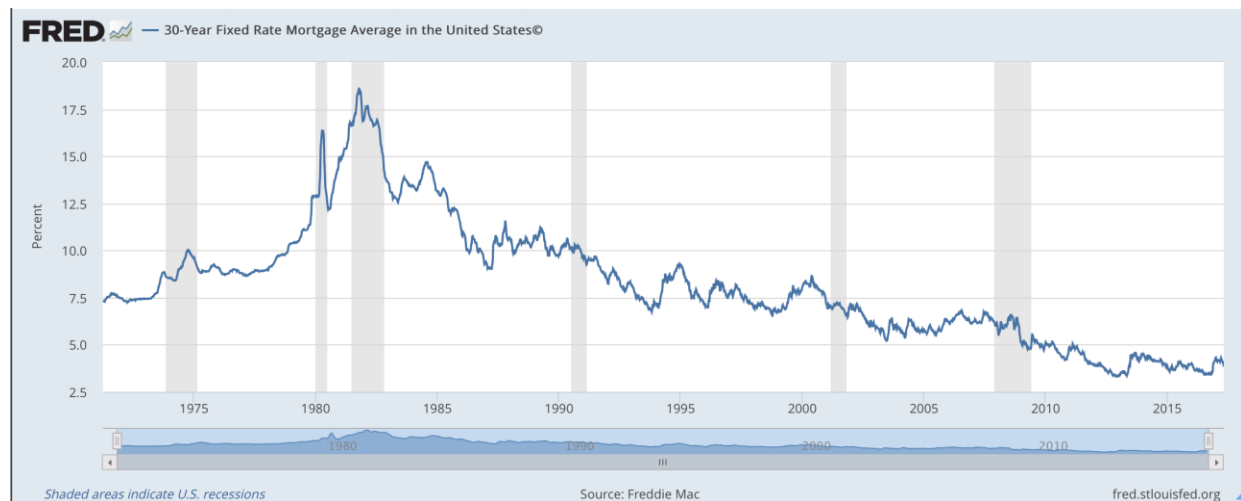
How this rule has come to fruition is that now next to no financial advisors will work on commission. Advisors will work with a fee-based structure that is based on the amount of assets contained in an IRA or 401(k) plan. These fees will vary some, but the majority of advisors at the present moment are looking to charge between eighty and one hundred and fifty basis points. This is a fairly large yearly fee.

The second major change in the world surrounding Millennials is the historically low interest rates. Interest rates on almost any long-term investment are very low. This means a

couple things for Millennials. First, investment vehicles like CDs and government bonds will not be viable option for wealth accumulation. These vehicles may provide stability in retirement, but quite frankly these investments at their current rates guarantee long-term value loss because they are not keeping up with inflation.

This means that Millennials will be forced into the stock market harder than any generation before them. This will cause Millennials to absorb more risk than past generations and could potentially have unknown affects on the US stock market. These low rates do however come with a major upside.

Millennials who wish to buy homes and property or start businesses will be in luck. Historically low interest rates will make lending very easy for the Millennials with the level of affluence and credit required to attain these loans. This should allow Millennials to grow their wealth at a higher rate than past generations without the negative effects of high interest on their mortgages and other common household investments.



How Can Financial Advisors Help?

Now that we have discussed whom Millennials and their parents are and the trends Millennials are following I want to now take some time to address how Millennials will invest differently and how advisors can help them do so.

First, advisors have to look to help the large number of affluent women and minorities who are going to be looking to invest. One major way advisors can look to do this is to help support hiring more diverse advisors. The added perspective will be highly appreciated by the diverse Millennials of today.

Secondly, advisors are going to be very careful about what kind of persona they portray. This is going to be very important in multiple ways. First, with the more middle of the road political tendencies of the affluent Millennials we need to ensure that advisors have a very neutral stance when it comes to politics. I know this may sound very odd to mention, but in the small amount of work I have done alongside financial advisors I often heard clients make bold attempts to discuss politics. This is a terrible trap because you cannot actively disagree with a client. If you actively disagree with someone even if they seem wrong to you then you are going to make them mad. If someone is mad at you and thinks you are wrong they are not going to trust you, which will greatly hinder your ability to do your job properly and help your client save and invest effectively. So what can you do to help? In my experience anytime someone brings up politics in relation to their investments they are having an emotional response to some political action. This is one way Millennials will invest differently than their parents. They are going to invest emotionally. They cannot help it. The stock market has become more emotional in recent years. For example, take the Brexit vote. When Brexit happened companies that primarily conduct business in America dropped like a rock. Why did these companies lose value? There were no real effects of Brexit on these companies. Many of

which did little to no business in the European union, but the stock market was surprised, and the surprise bred fear, which is largely an emotional response. So, advisors need to help Millennials invest emotionally, or at least convince them that they are investing emotionally. The way to do this is when politics are discussed; we need to look at what analysts for our companies have to say about the issue. The client will have questions and concerns; they are very rarely unfounded, but that does not mean they are accurate. Advisors need to help their clients move from an emotional response of fear to an emotional response of trust.

This brings us to another important way Millennials will invest differently. The company will matter to Millennials. I mean this in more ways than one. Now that all financial advisors will have fiduciary responsibility and now that investments will be almost entirely fee based Millennials will have a lot more leverage in choosing not only who they invest with, but also what companies with which to invest.

This is why advisors need to pick a solid advising firm that really places the client first. Millennials have seen the names of JP Morgan, Morgan Stanley, and Goldman Sachs plastered across the TV screen during the 2008 crisis and are not fans of these banks. Also, movies like the Big Short in which popular actors such as Steve Carell and Brad Pitt play a rag tag bunch of investors who are directly against the enemies of the movie, the big banks. With the new fee structures Millennials will now be paying a premium price for their financial advice. With that premium they will expect premium advice. This is why it will be very important that advisors choose advising firms that take a very client-first approach to investing. That means if a company has advisors that only work for a couple years to just make a lot of money and then leave with their Rolex and vacation home, Millennials will not appreciate those values and will not pay for that type of experience. Since Millennials now have the option to invest in many

different ways virtually, they will be looking for advisors to truly give them life advice, and I believe they will invest differently than their parents by looking for advisors that resemble a lifestyle similar to theirs. That is why the company you work for will matter greatly.

This brings me to my next question I want to answer. What financial instruments will Millennials use to invest that are different than their parents? First, I want to continue the idea that the company will matter. Generation X might have been anti-corporate, but Millennials do not take that stance. Millennials hold companies to a high level of scrutiny when it comes to social responsibility. Because of this I believe it will be important to pay attention to the investments you are suggesting to your clients based on social responsibility. This will be a very slippery slope because at some point any large corporation is going to have some bad news come its way. Even Disney, the self-proclaimed happiest place on Earth, had some problems when an alligator attacked a child. Since advisors cannot foresee these PR nightmares we are going to have to look for companies that deal with tragedies quickly and effectively.

Second, the mutual fund was the choice of investment for Generation X and the Baby Boomers, but Millennials are making a distinct shift away from how their parents invested. The Exchange Traded Fund (ETF) has grown in popularity at a shocking rate. Currently there are \$2.8 trillion dollars in ETFs, which is “twice as much in assets as they held just four years ago” (Goodman, 2017). ETFs are similar to mutual funds, but often referred to as passively managed funds. Basically, an ETF is a set mixture of stocks that do not change, unlike a mutual fund, which changes constantly. ETFs have become highly popular among investors because of their extremely low fees. ETFs are growing in popularity, but the market has made some definite favorites. Three companies, Vanguard, Black Rock, and State Street hold more than 80% of the assets held within ETFs in the US (Goodman, 2017). As advisors, it is our job to use ETFs

however we see fit. Millennials will likely invest differently than their parents in that they will use more passively managed financial instruments in a more actively managed style. By that I mean that ETFs are by definition passively managed, but that does not mean they cannot be used in an actively managed portfolio. ETFs can and are traded often within portfolios to maintain certain levels of risk, income, and liquidity required by individual investors. In fact, Mark Wiedman of Black Rock investments made the claim, “We reject even the idea of active versus passive. All portfolios are active. How you build that portfolio is an active decision. When people talk about active versus passive, they are really talking about price- high-cost versus low-cost funds” (Goodman, 2017). This statement will be especially true with Millennials. With the new fee-based structure of retirement funds, there are far less downsides to being more active in a portfolio. Since you are being billed the same every year by your advisor, you might as well have a portfolio that will adjust quite often (barring the tax consequences that may result).

Another major part of your portfolio is a source of stable, safe income. For past generations a staple of this income has been the 10-year U.S. Treasury, but currently that is posing some issues. First, these treasury notes are paying next to nothing. Currently they only have a 1.6% yield. That is essentially worthless since that will barely be over 1% after taxes and will certainly not keep up with inflation. What this year’s team of Barron’s round table income experts recommend is to look for other forms of safe income with higher yields. Some examples include, “high quality munis [municipal bonds], corporates, and agency bonds [mostly mortgaged backed securities issued by government agencies]” (Stone, 2016). These will hopefully provide investors with some form of yield that should stay somewhat above inflation. It might be recognized that these bonds are far from risk free and unfortunately that may be the

reality of future income vehicles. Millennials saw the U.S. government go through a ratings downgrade following 2008, and Millennials will have to live with the fact that risk free may simply not exist. That is another way Millennials will invest differently than their parents; Millennials will diversify with more intensity.

All of these examples make mention of how Millennials will have to diversify to lose as much risk as possible. The now apparent uncertainty of the stock market demands that Millennials do their very best to diversify. Luckily they have all the tools necessary to do so. With the new fee structures Millennials have plenty of mobility within their IRAs and 401(k)s. With ETFs Millennials have access to levels of diversity that used to come with high fees. Finally, with the loss of commission fees Millennials lose incentives to stay with one company such as Vanguard in order to reach their tiers where investors get a break from some fees. ETFs and mutual funds will now have to fall into the fee-based system of advising that will now become the norm. I believe this is very positive. Study after study shows that it matters very little what individual investments make up a portfolio, but what matters most is the diversification throughout the portfolio. Millennials will have to truly take this seriously and I believe they will reap the rewards of following these practices.

The final part of a financial advisor's job with any Millennial will be helping to navigate through retirement. In today's technological age there will be plenty of online options to use for Retirement saving and investing, but this is an opportunity to really help your clients, specifically Millennials. Retirement advice and planning breaks down into three basic categories: Lifestyle in early retirement, healthcare costs, and estate planning. All of these client needs will provide financial advisors a chance to bring value to the table that technology

cannot provide. These parts of life are often very stressful and difficult to manage, but having the ability to bring some peace of mind to your clients will be very helpful.

Spending in retirement is often oversimplified using the 4% rule. The 4% rule is a basic rule of thumb that means your living expenses should not exceed 4% of your original retirement savings. This rule is designed to help you have an estimate for what is required of your retirement savings, but it is very oversimplified. The reason why is because not all years of retirement are created equal. If we assume you retire at age 65 and live to be 95, which 43% of affluent Americans will do (Goodman, 2016). A 65 year old and a 95 year old will have very different expenses. First, the 65 year old will still be very active. This is important to realize that even though a person could survive in retirement on \$25,000 a year it may actually cost them \$100,000 a year to really live the life they want especially at the beginning of retirement when they now have the time and freedom to travel or pursue other dreams. That is why it is important to look at special expenses. For instance, if a client wants to go travel the world in the first five years of retirement that is a very specific expense that ought to be planned. Another way to solve this problem is to set up the payout plan of a retirement plan to increase significantly each year. This is why advisors need to work very hard to ask the right questions, not only what the goals for clients are, but also ask them what their worries and fears are (Goodman, 2016). The question, “what is keeping you up at night?” can go a long way in determining how a financial advisor can help a client truly retire well. If you think about it, any new retiree has probably had an increased income nearly every year for forty years. So every year they have gotten used to their life becoming a little better, but when retirement planning is conducted it is always assumed that retirees will want to live off a fixed income. Even if a fixed income is high, the idea that someone has to live at the same level for life can be depressing.

This is why I believe that we should design policies that pay out on an increasing basis so retirees can continue to improve their life at least for the first twenty years of retirement. This is also beneficial because if an unexpected expense must happen it is far easier to adjust levels of income to not increase as much as opposed to having to decrease what you have already considered a baseline required to live. I believe this will lead to better saving and overall higher lifestyle of Millennials in retirement. I have had the opportunity to watch a few individuals retire. It is really surprising how quickly someone who has only wanted to relax and watch TV in the evenings can suddenly become a world traveler after they no longer must work forty hours a week. Another option, specific to Millennials, would be to work in retirement. Unlike the work-life balance of Generation X, Millennials have made great leaps in being able to incorporate their life into their work. There should be no reason this shouldn't be done in retirement. In fact, in a recent Barron's retirement Roundtable article the benefits of working in retirement are surprisingly quite numerous. First, being able to make an extra \$10,000 a year is the equivalent to having another \$200,000 in your retirement account (Goodman, 2016). Second, Millennials truly have a desire to be part of something greater, and that is also a benefit of working in retirement. This doesn't have to be a full-time job or even the job Millennials have worked their whole lives, just something to help get Millennials out of bed in the morning.

Second, advisors need to be more proactive in helping Millennials deal with rising healthcare costs. The reason this is unique to Millennials and not their parents is the rate of rising costs in healthcare. Healthcare expenses have been rising at a rate of 6% to 7% in recent years and do not have any imminent signs of decreasing (Goodman, 2016). This can be a major problem for Millennials. The most concerning idea surrounding these rising rates comes from the mistake insurance companies have made. "Insurance companies have dramatically

underestimated how much long-term care costs would rise, and how much longer people could live. It used to be that a person got to be 83 years old, needed long-term care, then lived another three years. But now they could live to 100 if they've got the opportunity, you're going to be paying their catch-up costs" (Goodman, 2016). This brings me to another major point when it comes to how Millennials will invest differently than their parents. With the rising costs of health care and the staggering costs of certain long-term illnesses, I believe we could see a shift in Millennials investing in less real savings in say an IRA for retirement and more investment in insurance plans. The reason for this is the rapid creation of options for insurance needs. For Generation X insurance plans were often cut and dry life, health, or liability policies, but that is not necessarily true for Millennials especially when it comes to long-term care. In return for the higher prices paid for long term care insurance Millennials are getting the added benefit of life insurance riders and other refundable policies. This could very well be an option for Millennials. Let's say that a certain Millennial worries about long term care insurance, but wants to be sure to leave their grandchildren an inheritance of some kind. There are now options that would allow a lump sum payment into a long-term care insurance plan, which would provide long-term care funding if needed, but should the owner die before long-term care is needed then the policy will pay out a lump sum payment to his or her heirs. This will allow some Millennials to spend the majority of their retirement savings, but still be able to afford long-term care if needed and have inheritance for their children. This is a very possible solution to be used by a generation who is very interested in paying higher prices for premium items.

Finally, death is something no one wants to talk about, but Millennials need to consider. Financial advisors need to help earn their salt by being able to make clients happier and more secure. One way to do this is to help be a communicator among family members. With the rise

in technology and the changing communication tactics of Millennials it is possible some miscommunication could occur among families of loved ones as they age. This is something financial advisors to Millennials will have to address and work to solve.

Conclusion

It can be seen that Millennials are different from their parents in many ways. This is no shock as most generations tend to forge their own path to success, but in the end Millennials will be similar to their parents in their finances in many ways. They will have to save money from their paychecks at their own discretion, they will need to use the stock market in order to acquire enough wealth to truly retire well, and they will need to plan their retirement properly in order to enjoy their retirement experience. That being said Millennials will do all of these things differently than their parents, and it is the job of financial advisors to help guide them through this process.

I believe this thesis has provided a road map to help explain some of the nuances advisors will need to navigate in order to truly serve Millennials. I hope I can do my job to the best of my ability so that the next generation of retirees will have a chance to enjoy a peaceful and fulfilling retirement.

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