Engaging a Generation Lost

Q&A

with Vince Pacilio

Executive Vice President and Global Head, Insurance Client Segment at BNY Mellon

Vince’s responsibilities include working with BNY Mellon’s Investment Services and Investment Management business in establishing priorities and strategies specific to the insurance segment to create long-term client value. In addition, he leads the Insurance Global Client Management team focusing on the firm’s top insurance clients and is personally responsible for developing strategic relationships with several key platinum clients.
We discovered four key insights.

BNY Mellon is committed to considerably greater challenges than not surprisingly, millennials face in the retirement industry. Notoriously, millennials face challenges from those of Baby Boomers and Generation X.

Each generation faces challenges different from the last. Demographic changes and a trend away from pensions mean the cost of retirement provision is rising. High student debt, low job certainty and a low-growth global economy mean millennials have a completely different set of financial challenges from those of Baby Boomers and Generation X.

We discovered that financial services providers (such as life insurers, banks and asset managers) are not engaging as much as they could with this generation of potential new customers; in fact, more than 40% of millennials surveyed say they receive no financial information from their workplace or educational establishment and half of survey participants admit relying on a “blind guess” to estimate their required retirement fund.

As the financial responsibility for retirement increasingly shifts to the individual across the globe, the need for truly targeted, impactful financial education that speaks to millennials — in a way that they best relate to — is paramount. Time is on their side: helping them understand and act upon the two most significant variables affecting their ability to retire well (the power of compounding and investment returns over time) should be important considerations for financial service providers.

Q: To begin, what role does BNY Mellon play in helping clients of all ages plan, and save, for retirement?

A: BNY Mellon is committed to providing services and solutions to a variety of retirement market participants. This ranges from individuals through our Wealth Management platform and our Pershing business unit, to plan sponsors, to recordkeepers and retirement platform providers, to consultants and state and federal retirement experts. This diverse client base provides us with insights and perspectives that help us be better strategic partners within our client community.

The annual “Generation Lost” millennials survey is a perfect example of our efforts, designed to help financial services providers better understand the needs and motivators of this generation. Another initiative is BNY Mellon’s annual Retirement Summit, which brings together industry-leading experts, companies and plan sponsors for a full-day summit on best practices and new perspectives for addressing the challenges we are facing in the retirement industry.

Q: Tell us about the “Generation Lost” retirement study and its impact on financial services.

A: The BNY Mellon “Generation Lost” annual study explored millennials’ understanding of the financial choices available to them to help advance their personal financial situation. More than 1,200 millennials (those born between 1980 and the turn of the century) were surveyed across six key markets — Australia, Brazil, Japan, the Netherlands, the U.K. and the U.S.

Not surprisingly, millennials face considerably greater challenges than their parents when it comes to providing for their retirement. However, we found that millennials do not have a true understanding — or appreciation — of the massive challenge in front of them. For example, ongoing advances in healthcare and technology over their lifetime may lead to increasing lifespans, and while this is a positive thing, it can also be a hindrance if they have not saved enough to cover their needs in retirement.

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Q: What findings were particularly insightful?

A: We discovered four key insights: that apply to financial services providers, but by extension, also to U.S. plan sponsors, as they strive to better engage with this demographic.

First, millennials have little understanding of just how big a task they face in providing for their retirement. This lack of knowledge is not due to a lack of interest; rather, it is due to limited (or non-existent) financial education, especially in school curriculums. It’s critical that they understand that this issue is not going away; they need to pay attention now and start saving early and often.

Second, most millennials want financial services providers (and by extension, plan sponsors) to be brutally honest with them regarding the obstacles they will face if they do nothing to build an adequate retirement income. They want providers to use more shocking messaging and to speak to them in language they understand.

Third, social finance — or the use of socially responsible investments — has a very strong appeal to millennials, yet they do not feel that adequate impact-oriented investment options are accessible. However, just offering these products is not enough: the industry has a responsibility to ensure that the social finance products created not only meet socially conscious goals, but also produce positive returns for the investor.

Q: For financial service providers, what are some best practices and new perspectives that help us be better strategic partners within our client community?

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Third, social finance — or the use of socially responsible investments — has a very strong appeal to millennials, yet they do not feel that adequate impact-oriented investment options are accessible. However, just offering these products is not enough: the industry has a responsibility to ensure that the social finance products created not only meet socially conscious goals, but also produce positive returns for the investor.
Lastly, millennials feel today’s financial service products are not tailored to their needs. They want new products that dovetail with the paths their lives are likely to take, not the paths of their parents. It’s important for the industry to develop investment products that reach millennials in terms of what they are interested in, in conjunction with the goal of their retirement security.

### Q: More U.S. companies are now focusing on the concept of holistic wellness, which incorporates general health, mental health and financial health. How does this help both employees (of all ages) and their companies?

#### A: In the U.S., the retirement industry has just begun to broaden its thinking around a holistic approach to “wellness” and its impact on a company’s bottom line. For example, if an employee is stressed about debt or other financial obligations, not only does it impact their ability to save for their retirement, but studies show that it also negatively impacts work productivity. For companies that incorporate holistic wellness into their benefit plans, the advantages for both employees and employers can be profound. The merging of general health, mental health and financial health puts an even greater responsibility on the industry and employers, but with greater potential outcomes for all. The rise of in-plan financial wellness programs in the U.S. — helping plan participants understand and manage debt and other financial obligations — can lead to a healthier and more productive workforce overall.

### Q: How does the move from defined benefit to defined contribution impact millennials across the globe?

#### A: The world of the defined benefit (DB) pensions is effectively closed to millennials in the private sector, and the defined contribution (DC) landscape is complex and challenging. DC market structure and product offerings vary from country to country because they have been molded by the nature of different nations’ state provision, political and fiscal drivers, and the structure of the labor market. Thus, individually led approaches in the U.S. and U.K. create different challenges from those experienced in countries such as Sweden, Denmark and the Netherlands where collective DC arrangements exist.

In both cases, engagement and education remain critical since parents in DB plans may not be the best mentors for their children in this area. In particular, as this generation has so much more competition for their savings, the proposition for retirement savings must be compelling since planning for life in 40 years is an understandably low priority item to most. Clearly, we know that those who save early can significantly increase the probability of their retirement readiness due to the benefits of compounding — there is no more significant variable than time. Therefore, reaching this cohort early is vital.

It is also likely that there will need to be continued structural changes to the workplace to accommodate more part-time, higher-skilled work in retirement to allow more people to have rewarding employment into their 70s if their savings prove inadequate.

### Q: Talk about social finance and its appeal to millennials.

#### A: Social finance has a strong appeal to millennials, yet it is an option that is virtually inaccessible through today’s mainstream retirement savings products. We found that millennials would allocate an average of 42% of their portfolio to social finance products. As mentioned earlier, it’s critical that the social finance products created not only meet socially conscious goals, but also produce positive returns for the investor.

Social finance involves investing for a financial return and a social/environmental impact. One of the many tracks within social finance is socially responsible investing (SRI), which can take the form of either positive screening (selecting firms with overall positive socially responsible performance ratings or involved in positive social activity, such as green energy, food security, human rights or helping growth in less developed countries) or avoidance screening (avoiding firms with negative socially responsible performance ratings or involved in “socially damaging” activities such as fossil fuel production, gambling, adult entertainment or tobacco products, weapon manufacture, child labor and animal testing).

The global research shows that 95% of millennials feel that pension funds and insurers only provide limited, poor or no options for investing in social finance products. Attitudes to social finance vary from country to country, but across the world this growing area offers a unique opportunity for financial services providers to connect with millennials.

### Q: How can U.S. plan sponsors benefit from the survey recommendations?

#### A: The research leads me to believe that plan sponsors can achieve engagement with millennials in four ways: 1) by promoting financial education for all employees, tailored to their demographic profile and stage in life; 2) by speaking to millennials in language they understand, with more honest, direct messaging around retirement readiness; 3) by working to shape policy and design products that meet the changing needs of today’s young people; and 4) by engaging with social finance products through implementing or putting their existing socially responsible in-plan investment options at the forefront.
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