

Generation Why!

Take notice of millennials – they're devoted, educated, and focused to succeed.

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Millennials are not the first generation to want to make positive changes to the world they will inherit. What makes millennials different is that they are starting their careers with a better skill set and education than any previous generation, although there are indications that they may need to improve their financial literacy in order to truly excel.

Millennials are coming of age in a world that has seen incredible advances in technology and a rate of change that shows no sign of slowing down. Rather than stand in the way of the coming wave of millennials and the changes they are bringing, we should be looking forward and embracing the many positives to come.

Millennials – at one time referred to as **Generation Y** – are often criticized by baby boomers and generation Xers for being self-centered, immature, entitled and too keen to upset the status quo. These characterizations are strangely reminiscent of similar charges laid years earlier by the establishment when threatened by the new ideas and approaches of the generations that are the critics today.

Acclaimed author Tom Wolfe called baby boomers “self-absorbed and spoiled” in his 1976 New York Magazine article [The Me Decade](#).¹ In 1990, **Time** magazine described generation X as “skeptical, poor at making decisions, and having”:



attention span[s] ... as short as one zap of a TV dial.²

So it is hardly fair – yet not at all surprising – that **Time** magazine also criticized the current **20-something** generation in 2013 when it ran a cover describing millennials as the “**Me Me Me** generation”.³

George Orwell, author of the dystopian novel *1984*, masterfully described this conflict between generations way back in 1945 when he wrote:



every generation imagines itself to be more intelligent than the one that went before it, and wiser than the one that comes after it.⁴

Like it or not, millennials are inheriting this world with its ever-increasing rate of technological advances. Maybe it's time to embrace the many positive changes that this generation will bring.

Millennials are better equipped

There's nothing new about a desire for change in the coming generation. However, millennials are better equipped to make positive changes by virtue of their skills and education, which exceed those of any previous generation at the starting point of their careers. Millennials have shown to be more philanthropic, and are more willing than their older colleagues to devote their time, resources and energy to help others.⁵

In Canada, there are as many millennials as baby boomers in the population, but millennials now represent the largest component of the labour force.⁶ This trend will magnify as younger millennials enter the work force and older boomers and generation Xers retire.

Millennials and other generations in numbers

	Millennials	Generation X	Boomers	Pre-Boomers
Birth year	1981–2000	1966–1980	1946–1965	Before 1946
Age in 2015	15–34	35–49	50–69	70 and older
Population in 2015 (millions)	9.5	7.2	9.5	3.9
Proportion of total population	27%	20%	27%	11%
Proportion of labour force	37%	31%	30%	1%

Source: Environics Analytics, 2015.

The percentage of millennial Canadians who have completed a post-secondary education program is very high, with women getting degrees at a higher rate (75%) than men (65%).⁷ Yet, millennials experience higher rates of part-time employment and unemployment than the population as a whole.⁸ Many millennials have focused on higher education as the best path to increase their opportunities in a challenging and competitive employment market. Currently, over two million students are pursuing post-secondary education in Canada,⁹ more than twice the number among gen Xers at a similar point in their development.¹⁰

Making choices when faced with limited opportunities

Despite the economic challenges they face today, millennials are focused on developing themselves and their careers. The choice to pursue further education, including postgraduate degrees, often has to be traded off against the accumulation of additional debt. According to the Canadian Federation of Students, Canadian millennials carrying student debt owed an average of nearly \$27,000 in 2015.¹¹ For those working part time, or still trying to find employment in their chosen fields, this level of debt can limit their options and development.

Millennials are now the **largest component of the labour force.**

BMO Wealth Management commissioned a survey to find out what Canadian millennials thought about a number of issues that uniquely affect them.¹² Carrying too much debt was cited by 29% of millennials surveyed as the one financial issue that concerned them the most. Financing large expenditures such as a home purchase or a wedding (22%) and saving for retirement (14%) followed. Older millennials (aged 25–34) were more than twice as likely (19% vs. 8%) as younger millennials (aged 18–24) to be most concerned about saving for their retirement.

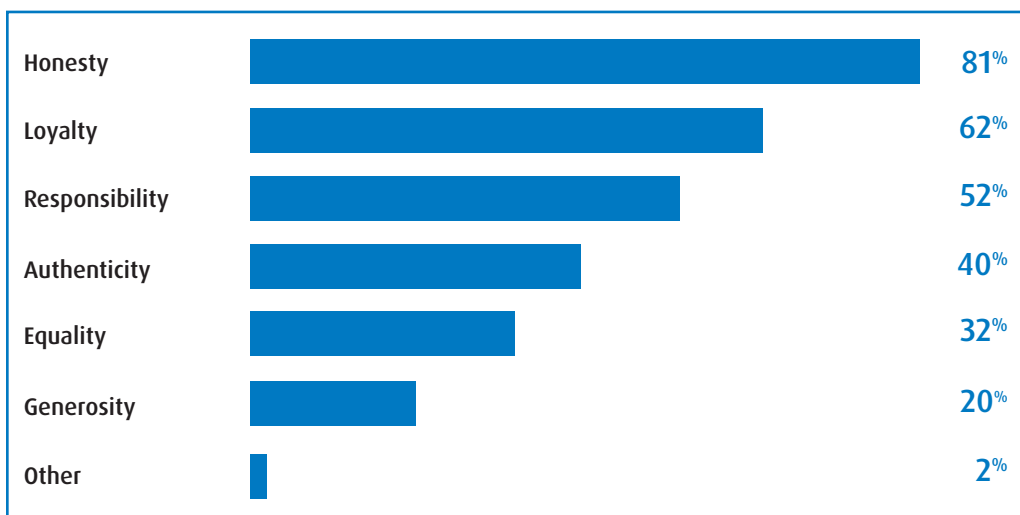
The opportunity to indulge

Research suggests, even when faced with limited resources at this stage in their lives, one interesting characteristic of millennials is that they are pragmatic about their choices. Millennials are a generation that understands that they can make trade-offs. As an example, for a generation that generally likes to **eat healthy**, certain high-sugar, high-fat treats can be an occasional, low-cost indulgence. According to the CEO of Hostess Brands, millennials are consuming Twinkies because they **have a belief that you only live once and you should enjoy yourself**.¹³ With the mindset to live life fully, millennials are well suited to adapt to their changing circumstances; they focus on the experiences that they collect, and enjoy both the big and the little things when they can.

A complex picture that values individuality and integrity

When asked which personal traits they most value, the majority of millennials surveyed chose honesty (81%), loyalty (62%) and responsibility (52%).

Top three most valued personal traits for millennials



Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

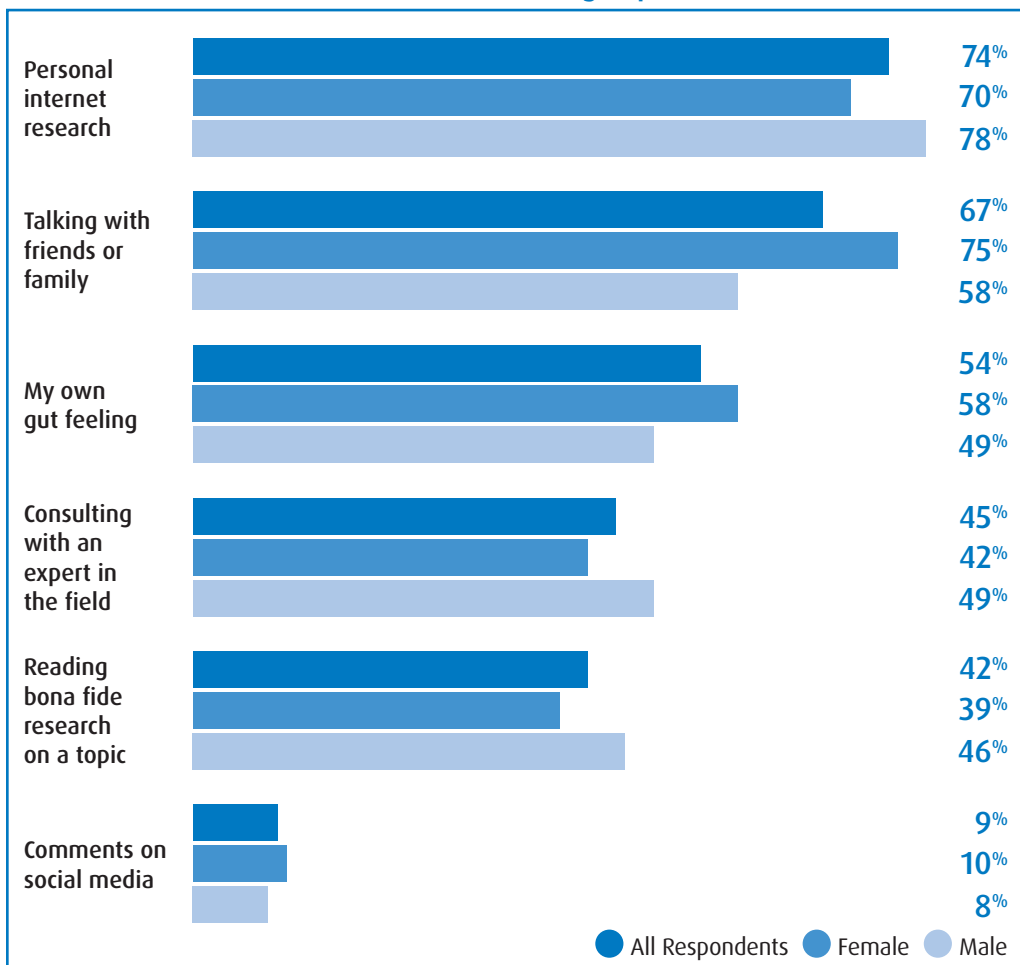
29%
of millennials consider **carrying too much debt** their greatest concern.

The survey respondents also felt that the most important characteristics required for them to achieve success today are confidence (25%), resiliency (19%), proactivity (17%), the ability to innovate (14%) and flexibility (11%). These values are universal and are relevant from generation to generation.

One of the common misconceptions about millennials is that they are highly influenced by others in their decision making. Nearly three-quarters (73%) of millennials use social media on a daily basis, almost twice the incidence of regular use among generation Xers (42%) and three times as much as baby boomers (24%).¹⁴ When asked about the sources of information that they rely on most when making important decisions, millennials showed that they did not rely on social media. Instead, millennials did their own internet research (74%), discussed the decision with friends or family (67%), went with their own gut feelings (54%) and consulted an expert in the field (45%). Women (75%) were much more likely than men (58%) to discuss important decisions with friends and family. Despite being such frequent users of social media, comments on social media only made the top three sources of information for important decisions for less than one in ten (9%) of millennials surveyed.

73%
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Most reliable sources of information for making important decisions

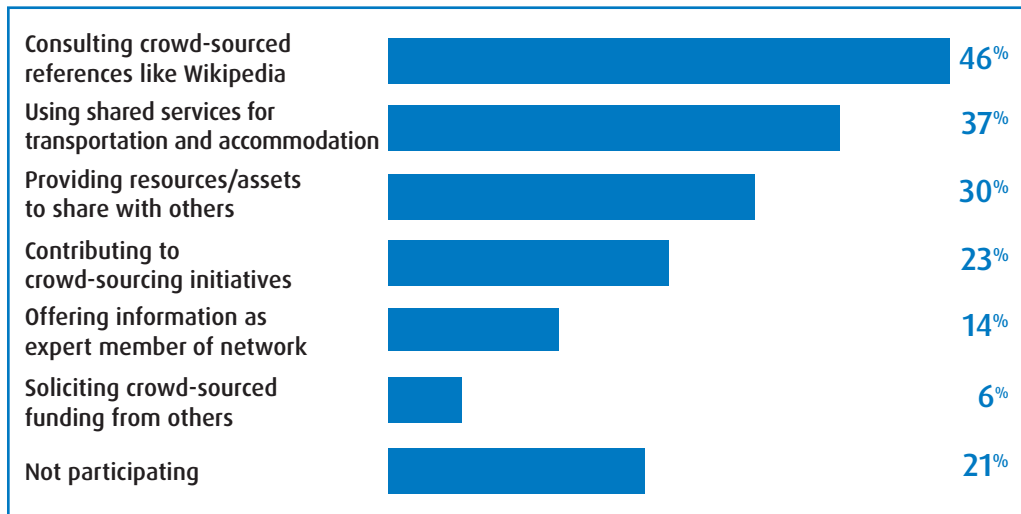


Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Sharing is important

Millennials are also known for their desire to own less, yet still have access to goods and services when required. The survey asked respondents about their participation in the sharing economy, either as users or as suppliers of resources. Most reported that they participate in the sharing economy, including 46% using crowd-sourced references such as Wikipedia, 37% that use shared services for transportation or accommodation, and 30% that provide resources or assets to share with others.

Millennial participation in the sharing economy



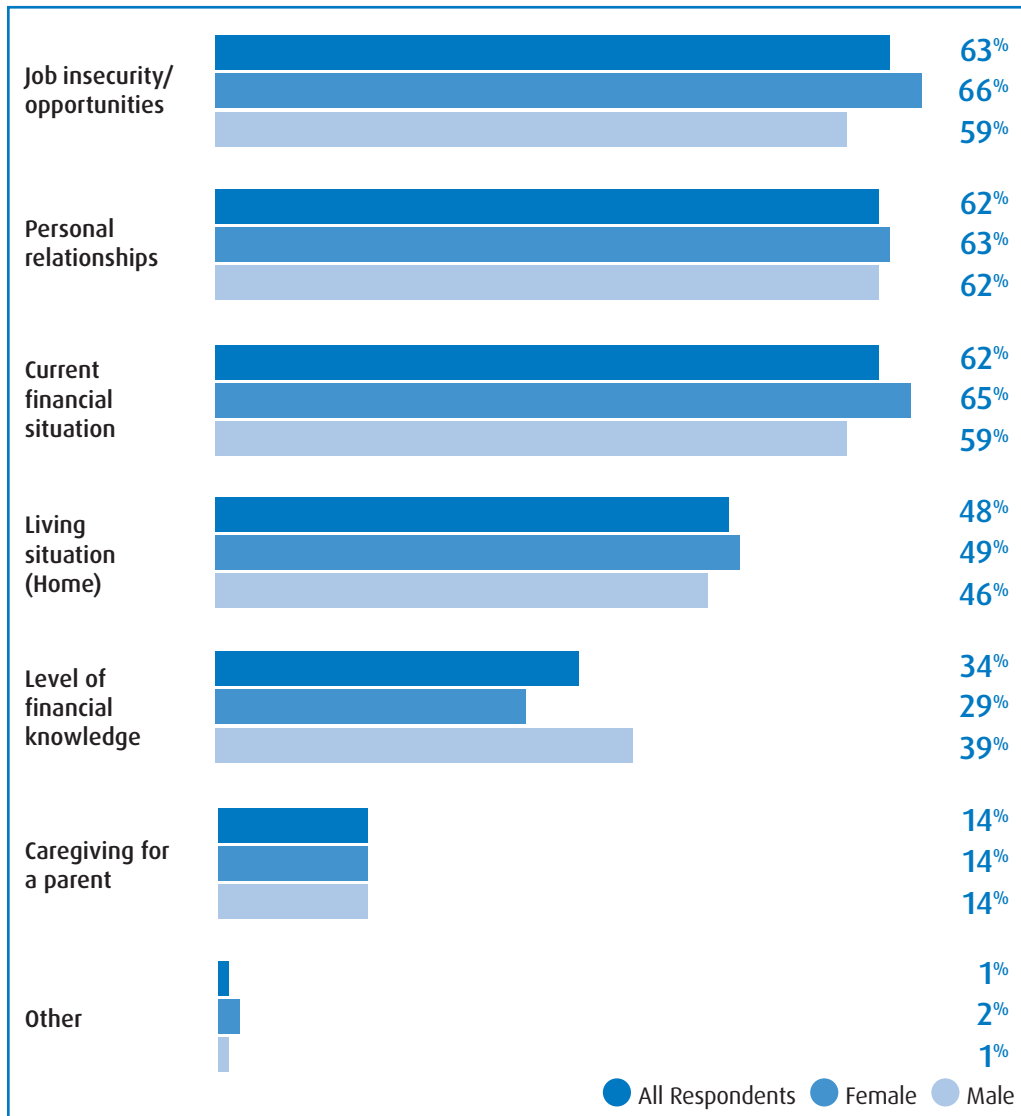
Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Concerns about the present and future

A recent federal government study found that millennial Canadians aged 28–34 are better off financially than any preceding generation at this age. While the report highlighted the high average net worth of millennial Canadians, concerns were raised about the disparity between the wealth held by millennials at the top of the income spectrum compared to those at the lower end.¹⁵ These concerns were echoed in the survey results. When asked which three personal matters they were most concerned about, the top three answers were shared by almost two-thirds of all survey participants.

79%
of millennials
participate in the
sharing economy.

Top three most concerning personal matters for millennials



Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Younger millennials aged 18-24 (67%) were more worried about job insecurity than millennials aged 25-34 (59%), while concerns about their current financial situation were raised more frequently by older millennials (66%) than by younger millennials (58%).

When they do have the ability to save, millennials are generally found to be very conservative. One study named the millennial generation as the most fiscally cautious generation since the Great Depression.¹⁶ This conservatism was confirmed by the BMO Wealth Management survey. When asked if they were saving for a specific purchase or to buy or upgrade their home 72% of respondents indicated that they were able to save. The most frequently mentioned method was to use a savings account, rather than tax-advantaged accounts such as a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA).

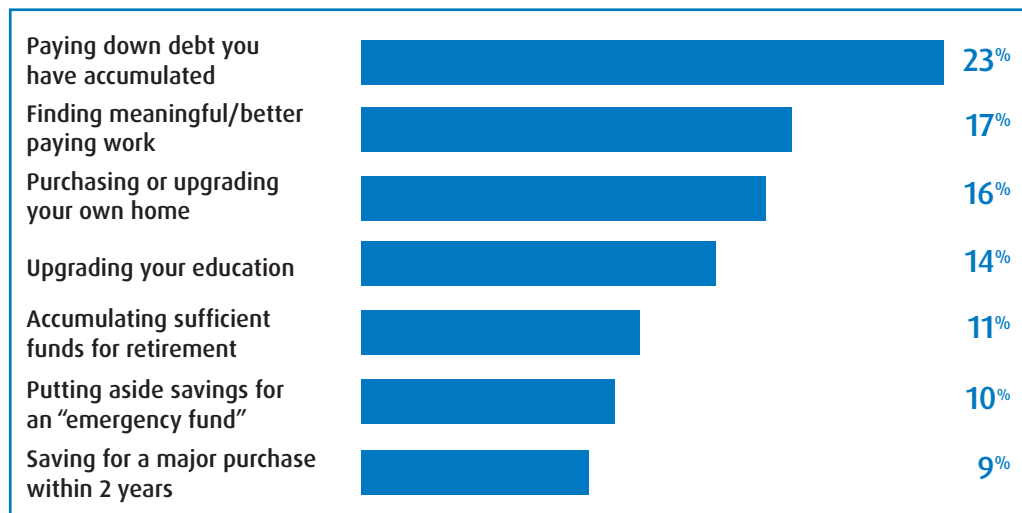
72%
of millennials
are **saving for a
specific purchase.**

Financial literacy and opportunities to learn

As a group, millennials have an opportunity to increase their financial literacy. A recent study by PWC found that millennials tend to have inadequate financial knowledge. Only 24% of millennials in the PWC study demonstrated basic financial literacy and a scant 8% showed a high level of financial literacy. This lack of financial expertise may have an impact on the ability of millennials to attain the financial success they desire.¹⁷

Participants in the BMO Wealth Management survey were asked to name their highest financial priority. Paying down accumulated debts was most frequently cited (23%), followed by finding meaningful or better paying work (17%), purchasing (or upgrading) the home (16%) and improving their education (14%).

The financial goal that has the highest priority among millennials



Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Saving for longer-term goals, such as retirement or specific larger purchases, was only priority for a minority of millennials surveyed.

Millennials and retirement

When asked about their feelings about their own retirement, the millennials that replied to the survey strongly indicated that retirement was too far off and that they had more immediate priorities (41%). Nearly a quarter of respondents (24%) were worried about their ability to ever afford to retire. Interestingly, older millennials were almost twice as worried (30%) as younger millennials (17%) about their ability to afford retirement.

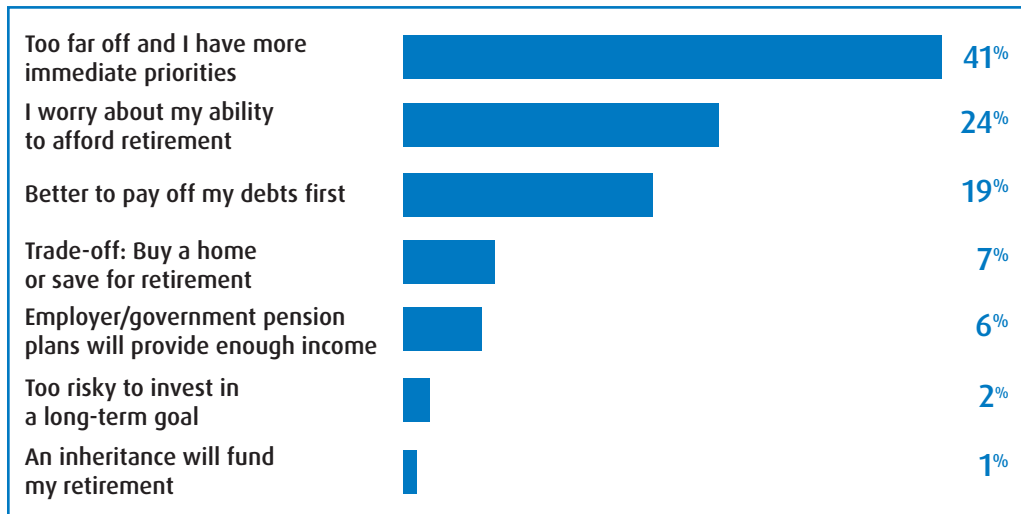
Further, one in five (19%) of those asked indicated that they would rather pay off their accumulated debts first before starting to save for retirement. A smaller percentage indicated that they would rather save to buy a home than save for retirement.

24% of millennials have **only a basic level of financial literacy** and just

8% are **highly financially literate**.

Retirement not an immediate priority for millennials.

How do millennials feel about their own retirement?



Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Future inheritances can help millennials

As the baby boomer generation ages, a major component of their financial plan concerns the distribution of their accumulated wealth, both through the estate planning process and by sharing their wealth now while they are able to enjoy making such gifts. Boomers who give part of their estate to their millennial heirs now can exert more control over the tax costs of distributing their wealth and reduce the tax burden on their estates after their deaths.

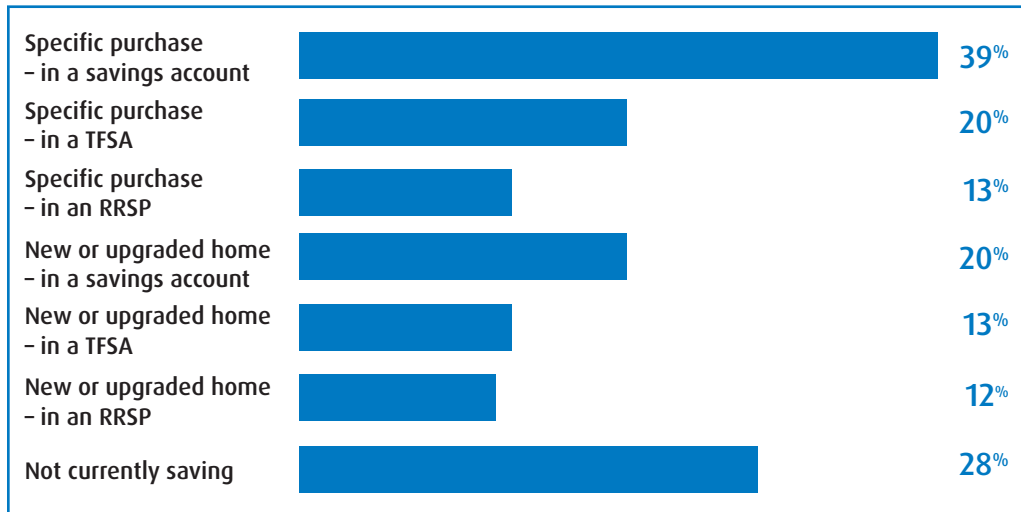
While very few (just 1%) of the millennials surveyed expect inheritances to fund their retirements, baby boomer parents can help in other ways, such as helping with the costs of their grandchildren's education or contributing to the purchase of their children's home. This topic is discussed in depth in the BMO Wealth Report called [The Family Bank – a source of comfort for everyone](#).¹⁸

Inheritances and transfers of this kind are expected to increase significantly after 2025 and carry on at a high level for the next 20 years or more.¹⁹ For this reason, millennials have to be prepared to receive and effectively manage this incoming wealth. A good place to start the process of learning the skills required to make the best use of this transfer of wealth is to be involved when parents have estate planning discussions with their financial advisors.

Efficient ways to save

Whether saving for a specific major purchase or to buy or upgrade a home, the survey indicated that millennials favour savings accounts over RRSPs or TFSA's by about two to one. The following table shows how the survey respondents choose to save for important purchases.

The reasons and preferred methods for saving by millennials



Source: BMO Wealth Management survey by Validatett Technologies Inc., April 2017.

While savings accounts enable easy access to accumulated funds for any potential use, they do not provide any of the additional advantages of RRSPs or TFSA's.

Advantages of RRSPs

Registered retirement savings plans offer both immediate and longer-term tax savings. Contributions to an RRSP are tax deductible up to the contributor's RRSP contribution room limit, resulting in immediate tax savings at the contributor's marginal rate of tax. Savings that are invested within the RRSP account grow, tax deferred, for as long as the funds remain in the account. This can result in years of tax-deferred growth and the accumulated funds are only taxable when withdrawn from the RRSP.

While RRSP accounts are traditionally used to save for retirement, there are two other potential uses of RRSPs that correspond well with the financial goals expressed by millennials in the survey. Under the right circumstances, RRSP holders can use a Home Buyers' Plan (HBP) to borrow up to \$25,000 from their RRSP account to fund the purchase of a home, or use the Lifelong Learning Plan (LLP) to borrow up to \$20,000 to help pay the costs associated with post-secondary education. Under these programs, amounts borrowed are not taxable at the time of withdrawal, but do have to be paid back to the RRSP account over a specific number of years.

When they have been repaid to the RRSP, any amounts borrowed will be available in the future for retirement purposes. This means that an RRSP account can serve multiple purposes: saving toward the purchase of a home, saving for post-secondary education, and saving for retirement.

Millennials favour savings accounts over RRSPs or TFSA's.

Advantages of TFSAs

Tax-Free Savings Accounts are a valuable complement to RRSPs, and have unique tax advantages. Amounts contributed to a TFSA can be invested and all investment earnings are tax free. Funds can be withdrawn from the TFSA and used for any purpose, such as financing a large expense such as a wedding, educating children, or caring for aging parents. Any withdrawals can be recontributed to the TFSA in later years to earn further tax-free income. This flexibility gives TFSAs more options than are available for RRSP accounts.

The millennial dilemma: non-registered saving account, TFSA or RRSP?

The burning question for some millennials may be: [What kind of account should I use for my savings?](#) The advantage of the TFSA over non-registered savings is that income earned is tax free. While the notion that none of the income earned in a TFSA will ever be taxed is appealing to all income and age groups, it may be most beneficial for millennials.

Younger millennials early in their careers may not be earning enough to benefit from the tax credit for RRSP contributions. For them, it makes sense to contribute to a TFSA initially, and then to an RRSP as their income increases. The TFSA is particularly advantageous to millennials because of their youth, which means there should be a long time to compound the investment returns in a tax-free environment. Also, as illustrated earlier by the survey, they aren't in the mindset for saving for retirement at their stage in life. They want to have flexibility to target their savings and investments according to their current priorities.

For millennials who plan to make use of the HBP to purchase a house, investing in a TFSA can help build a down payment more quickly once their RRSP balances exceed the \$25,000 withdrawal limit allowed under the HBP. For those who plan to go back to school with financial help from a LLP based on their RRSP investments, a TFSA can provide additional funds with more flexible re-contribution terms.

Should I be insured?

Millennials may think they have nothing to protect at their stage in life. Nothing could be further from the truth, as their most valuable assets may be their health and youth. Protecting their earning power and their dependents is an important financial priority. After all, millennials may be the generation least equipped to cope with the out-of-pocket expenses that may accompany an accident or illness.

Unforeseen events, such as illness or death, can happen at any time, even for the young and healthy. Affected individuals, and their families, are likely to experience considerable financial strain as a result of such unfortunate life events. Inadequate insurance coverage can layer financial hardship upon what is already a challenging time.

When making plans for the future, whether they are personal or for the family as a whole, insurance can help make sure those plans are not derailed by disability or death.

TFSAs offer the flexibility to target savings according to current priorities.

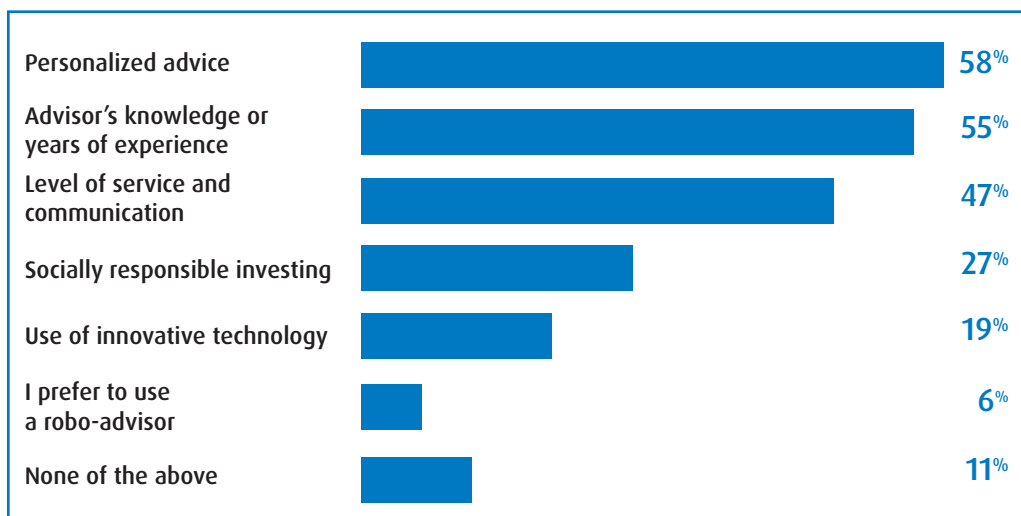
Improving financial literacy

According to the survey, millennial men are more worried about their level of financial knowledge (39%) than millennial women, of whom a still significant minority (29%) are concerned. Gaps in financial knowledge also become more of a concern as income increases.

Working with the right financial advisor can provide you with support and guidance to answer your questions about making the most of your financial resources to address each of your personal financial goals and priorities.

The millennials surveyed were asked for the top three characteristics that they look for in a financial advisor. These included the ability to provide personalized advice (58%), knowledge and experience (55%) and a high level of service and ongoing communication (47%). Such responses could apply to any generation, although more millennial answers like socially responsible investing and the use of innovative technology were also cited, but less frequently.

Qualities that millennials look for in a professional financial advisor



Source: BMO Wealth Management survey by Validatelt Technologies Inc., April 2017.

Technology improves the relationship

While not as highly rated as [personalized advice](#) and [experience and service](#) in the survey, using innovative technologies can help financial advisors improve the way they communicate with millennials, presenting information in a format that they prefer. Digital solutions provide a quick and efficient way to access information, share data and communicate, but nothing can replace the value of a strong relationship and timely, personalized advice.²⁰

Prioritizing goals and actions with a financial plan

The development of a financial plan may help to prioritize your goals and determine the actions that can be taken to achieve them. The right financial advisor also can provide information and guidance that will help increase your financial literacy in the areas specific to your financial concerns.

The idea of working with a financial advisor to improve your financial skills is similar to the way that hiring managers are looking to tech-savvy millennials for the skills that prior generations of workers may lack.²¹ When a knowledge gap is recognized, employers seek to hire talented people that have the education and expertise to improve the results of the team.

Conclusion

With the convergence of new technologies and the growth of the millennial working population, many businesses are trying to figure out what the next trends will be²² and how to capitalize on them. Millennials are uniquely positioned to help in this process with their ability to grasp and use the new technologies which are having a growing impact on society.

Some millennials will also benefit from the generosity of baby boomer parents that pass on some of their accumulated wealth to the next generation. Managing all of these changes will be an important challenge going forward.

It takes time and experience to grow the wealth that you will earn and receive, and with the right BMO financial professional as your partner you can be better positioned to meet your goals.

Footnotes

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