(k)ollision (k)ourse: How Millennials, Small Businesses, and the Gig Economy are Set to Disrupt the 401(k) Marketplace

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The word "disruption" implies turbulence and sudden change. In financial services, that is very often the case, with notable disruptions happening seemingly overnight. But in the business world, there have been major disruptions that have happened over a considerable amount of time, as well. One of the interesting aspects of those longer-term disruptions is that the businesses being disrupted either failed to see it coming, or chose to continue doing business as usual.

The corporate landscape is littered with brands that failed to weather these disruptions. Names like Nokia, Kodak, and Blockbuster Video are examples of individual companies that failed to adapt to a disruption. Recently, though, it seems like whole industries are being disrupted as the pace of change is being driven by three main forces: generational demographics, social media, and technology.

Millennials' influence on almost everything will be felt for decades, much like when 76 million Baby Boomers progressed through various life stages. With a predicted 76 million Millennials in America by 2036, more disruption and change is on the horizon. One of the most cited examples of this is Uber, and how it has dramatically changed the transportation landscape. This serves as one of the best examples because although it did not put taxi companies out of business, it most certainly disrupted their business models, profitability, and dominance.

Despite a misconception that Millennials are lazy and entitled, they appear to have their priorities straight when it comes to retirement saving. According to the 2018 *Millennium Trust Small Business Retirement Survey*,[1] 94% of 18- to 34-year-olds said they would be likely to participate in a retirement savings program. Additionally, an overwhelming majority said that a retirement savings option is important to both staying with their current employer (90%) and considering a new employer (91%).

Given Millennials' increasing reliance on the gig economy as a primary source of income, and the fact that they are now the largest generation in the U.S. workforce, the 401(k) industry and its dependence on traditional business structures is ripe for disruption over the next decade and beyond.

401(K) CAN'T FIX THE ISSUE ALONE

The 401(k) industry is headed for similar disruption due to the three factors previously mentioned: generational demographics, social media,

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and technology. The good news is that the industry is aware of the building disruption, specifically by those "pesky" Millennials. The bad news is that the industry's best answer to the inevitable disruption seems to be slightly tweaking the existing way of doing business, believing that this will solve the issue.

The government is also trying to respond to the growing retirement crisis. Recently, there has been bipartisan legislation to expand multiple employer 401(k) plans (or MEPs). This is not a bad idea, since it would make 401(k)s accessible to more employers due to reduced cost and operational complexity—but it does not solve the retirement savings coverage issue that we have in the U.S. today. Even if open MEPs were to double the number of employers with 401(k) plans in this country, that would only take us to about 1.1 million businesses offering them.

But consider that there are around 23 million incorporated businesses and that around 5.5 million of those have employees. This forces one to consider that while a 401(k) is certainly *a* solution to the coverage issue, it is not *the* solution. Solving the coverage issue would require myriad solutions, even without disruptive age demographics and technology. Adding Millennials and the gig economy to the mix is the gasoline thrown on that fire.

Our policymakers seem stuck in a closed loop too, as their solutions often remind us of the movie, *Groundhog Day*. Instead of tax and policy changes, they opt for expanding products that already have limited reach. Some lawmakers just dusted off the idea of restarting the myRA program, a failed federal IRA program from 2014 that cost taxpayers $70 million.

SMALL BUSINESSES NEED ADDITIONAL SOLUTIONS

In the 2018 *Millennium Trust Small Business Retirement Survey*, 64% of small businesses that offer no retirement savings option to their employees cited the size of their business as the primary obstacle. This was not surprising, as numerous other surveys have shown similar results. What was surprising was that 55% of the employers surveyed had researched savings options for their workers, but still did nothing.

The prevailing belief was that they didn't have the time or desire to do research. And of those businesses that did research a retirement saving option, 75% of the time, they researched 401(k)s and stopped there. This implies that employers wanted to offer something and went to do research or get assistance from a financial services entity, but were shown one option—a 401(k).

When asked about interest in a retirement option for employees that had no ongoing cost to the company, 70% indicated that they were likely to offer something in the next 24 months. Only 10% responded as unlikely to offer something. It's simply supply and demand. There is demand for solutions, but the supply isn't synchronized with what many small businesses need. New, simpler solutions need to be added to the continuum.

THE DISRUPTORS ARE NOW THE "DISRUPTED"

401(k)s as we know them have not really been common for as long as it seems. They truly rose to prominence in the early 1990s and played the role of disruptor in a space that was previously dominated by defined benefit pensions. The defined benefit to defined contribution shift has been well-documented, but is important to remember: Why? Because the children of that "revolution" are now the stewards of a 401(k)-dominated retirement system that's now only relevant to a portion of today's marketplace. There is a need for a spectrum of well-designed savings options for all types of businesses, especially for gig economy workers and businesses that are too small to offer 401(k) plans.

WHY SOLVING FOR THE GIG ECONOMY IS CRITICAL

Estimates vary a bit, but most sources agree that by 2020, somewhere between 43% and 55% of all U.S. workers will be participating in the gig economy as freelancers, self-employed, or contract workers. Those are very large numbers, though they can be a little misleading. Data from Nation1099 recently estimated that the true number of full-time adults working primarily as full-time independent contractors will be closer to 11%.

Even that is a large number, and it fails to consider that many gig economy workers will string together several part-time "gigs" to constitute their income. Shouldn't there be meaningful retirement savings solutions for these people, as well? Wherever that number ends up, it's important to note that the overwhelming majority of them have no access to a 401(k).

Experts also predict gig participation to steadily rise beyond 2020. As it stands, 93% of the employers and 95% of the employees that Millennium Trust surveyed agree that Americans will not have enough money saved to maintain their lifestyle upon retirement. Together, the significantly low savings levels mixed with longer lifespans and increased medical expenses create a recipe for disaster for many Americans. With that in mind, meaningful private sector savings solutions will be paramount to solving this issue.

WHY THIS IS ALL GOOD FOR THE 401(K) INDUSTRY

401(k)s are not going away. They're a powerful tool in the hands of some employers, and open MEPs will expand their reach and give more Americans access to better retirement saving through plans.

The 401(k) service providers, advisors, and other financial professionals will continue their admirable and critical work on solving one part of the retirement savings crisis. Another part is access to innovative products for small businesses and gig economy workers. Yet another part of the retirement crisis is participation where a plan already exists. Thanks to the great work of policymakers and those in the industry, participation rates in existing plans are rising, as well as deferral rates. Auto-enrollment has caused 401(k) participation rates to climb above 70% or more. But, there's still plenty of work to be done there.

Why should the 401(k) industry welcome other players in the small business and gig economy spaces? Perhaps the best analogy would be an apple orchard. If everyone is only fixated on running around picking apples, then no new seedlings are planted, and no seedlings are properly nurtured to produce more apples for the farmers when they get to the correct size. There is no doubt that in time, many of these small businesses will become large enough for 401(k). Fostering an environment where providers of these "sub-401(k)" solutions can thrive is a way of ensuring a steady stream of future clientele for the 401(k) providers.

We must reimagine the retirement ecosystem to foster growth in retirement saving at every level of business or employment, for as many Americans as possible. The building blocks already exist in isolated places, across the retirement landscape: IRAs, Roth IRAs, payroll deduction IRA programs, state-sponsored savings plans and marketplaces (in some states), SEP plans, SIMPLE IRAs, and 401(k) plans. Americans don't need more plan types or investment vehicles. They need meaningful packaging of the existing ones in a way that builds a retirement saving infrastructure for all American businesses and workers.

Raising awareness, financial literacy, and providing education are critical to making progress on the retirement crisis in our country. The disruption is not coming—it's here. It's time to embrace a new generation with innovative and meaningful solutions.

NOTES:

[1]The *Millennium Trust Small Business Retirement Survey* was commissioned by Millennium Trust company, and conducted by CITE Research (www.citeresearch.com). The online survey was conducted among 500 decision makers at companies with less than 150 employees that do not offer any type of retirement savings option, and 500 employees who are working full-time at employers with no retirement savings option. The survey, one of the first of its kind to be conducted exclusively with employers that do not offer retirement benefits, was fielded between September 28 and October 8, 2018.