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The Financial Capability of Young Adults—A Generational View

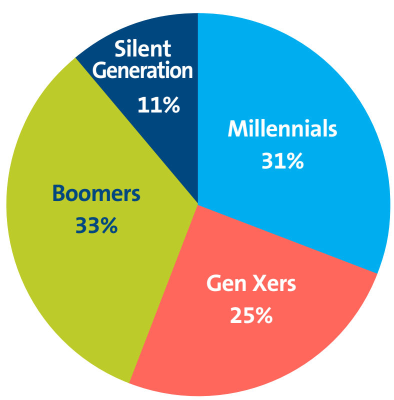
Summary

An examination of data from the FINRA Investor Education Foundation's National Financial Capability Study (State-by-State Survey) found that millennials are struggling financially. In particular, they exhibit a number of problematic financial behaviors, display low levels of financial literacy and express concerns about their debt. Within the millennial generation, females and minorities display signs of lower financial capability relative to males and whites, but it is millennial households with dependents that struggle the most. Despite the higher financial strain that millennials face, they express levels of financial satisfaction that are on par with gen Xers and boomers, but significantly lower than the silent generation.

Background

Americans born between 1978 and 1994—commonly referred to as millennials—came of age in an America that is different than it was for previous generations. Millennials grew up in a country characterized by more racial diversity,[1] a narrower gender gap in educational attainment,[2] large increases in the cost of higher education[3] and the defining events of September 11, 2001. In addition, millennials faced the Great Recession early in their lives and/or careers. In its wake, they continue to wrestle with the financial challenges of a struggling post-recession economy. Making up nearly a third of the population, millennials are a significant force in the U.S. economy **(Figure 1)**.[4]

Figure 1. Generation Size



Source: 2012 National Financial Capability Study (State-by-State Survey)

1. Hobbs and Stoops, 2002; Humes, Jones and Ramirez, 2011.
2. Theodos, Kalish, McKernan and Ratcliffe, 2014.
3. College Board, 2013.
4. Barton, Koslow and Beauchamp, 2014.

Given the financial challenges they face, the ability to make well-informed and effective financial choices is important for millennials. Evidence suggests, however, that younger Americans lack the financial knowledge to make well-informed decisions, and that they engage in behaviors that are detrimental to their financial health.[5] This issue brief uses data from the FINRA Investor Education Foundation's National Financial Capability Study (NFCS) to provide researchers, practitioners and policy makers with a better understanding of the financial capability of millennials.

Financial capability encompasses multiple aspects of behavior related to how individuals manage their resources and make financial decisions. Therefore, this brief presents data explicating many dimensions of financial capability, including how respondents make ends meet, plan ahead, manage financial products and demonstrate financial knowledge.

"Millennials grew up in a country characterized by more racial diversity, a narrower gender gap in educational attainment, large increases in the cost of higher education and the defining events of September 11, 2001."

Before exploring these aspects of financial capability, it is important to gain an understanding of the demographic characteristics of each generation so that data can be interpreted in the appropriate context. **Figure 2** contains demographic profiles of four American generations—millennials, gen Xers, boomers and the silent generation.

Figure 2. Demographics by Generation

	Millennials	Gen Xers	Boomers	Silent Generation
Birth Years	1978 to 1994	1963 to 1977	1946 to 1962	Less than or equal to 1945
Age Range[6]	18 to 34	35 to 49	50 to 66	67 and older
Sample Size	6,865	6,642	8,951	3,051
Percent				
Female	49%	51%	53%	54%
Minority	47%	37%	26%	9%
Household Income < $50,000	65%	47%	48%	47%
Married	36%	60%	62%	66%
Dependents	45%	63%	26%	8%
Unemployed	13%	9%	8%	2%
College Degree	25%	29%	26%	21%
Community College Student	7%	2%	1%	0%
Four-year College Student	13%	2%	0%	0%

Source: 2012 National Financial Capability Study (State-by-State Survey)

5. FINRA Investor Education Foundation, 2013.
6. Ages are as of 2012.

Not All Millennials Are the Same

As with all generations, there is demographic and behavioral diversity among millennials. Young millennials (ages 18 to 26) face different circumstances than the older millennials (ages 27 to 34). For example, only 20 percent of young millennials are married, compared to 52 percent of older millennials. Similarly, nearly one-third of young millennials have dependents compared to 57 percent of older millennials, and the younger respondents in this generation are 35 percent more likely to have household incomes under $50,000 than the older respondents. Strikingly, only 18 percent of young millennials exhibit high levels of financial literacy—that is, they can answer four or five questions on a five-question financial literacy quiz correctly—compared to 30 percent for their older counterparts.

Source: 2012 National Financial Capability Study (State-by-State Survey)

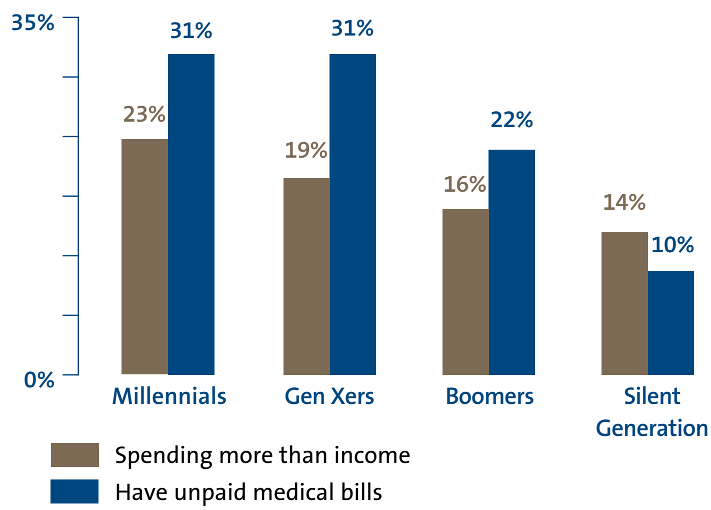
Demographically, millennials differ from previous generations on a number of dimensions. For example, they are a much more racially diverse generation—47 percent are minority, compared to 26 percent for boomers and 9 percent for the silent generation. Further, about a third are married, nearly half have dependents and nearly two-thirds, or 65 percent, make less than $50,000 a year in household income. One quarter of millennials have college degrees, which is on par with the other generations, and 20 percent are currently enrolled in either a community college or a four-year college (either full- or part-time). The combination of millennials with degrees and those pursuing degrees suggests that millennials will likely be the most-educated generation in American history.[7]

Financial Capability by Generation

Given the younger age and lower household incomes of millennials, it is understandable that they are struggling a little more than older generations to pay their bills and make ends meet. As **Figure 3** shows, 23 percent of millennials spend more than their income, and 31 percent have unpaid medical debts—a figure that is three times higher than the 10 percent of the silent generation with unpaid medical debt.

Millennials are also less likely to plan ahead—but given their youth, this is not entirely unexpected. Thirty-three percent of millennials have rainy day funds, a figure that is actually higher than gen Xers (32 percent), but lower than boomers and the silent generation. And only about four in 10 millennials are saving for retirement, which is significantly lower than all the other generations.

Figure 3. Making Ends Meet



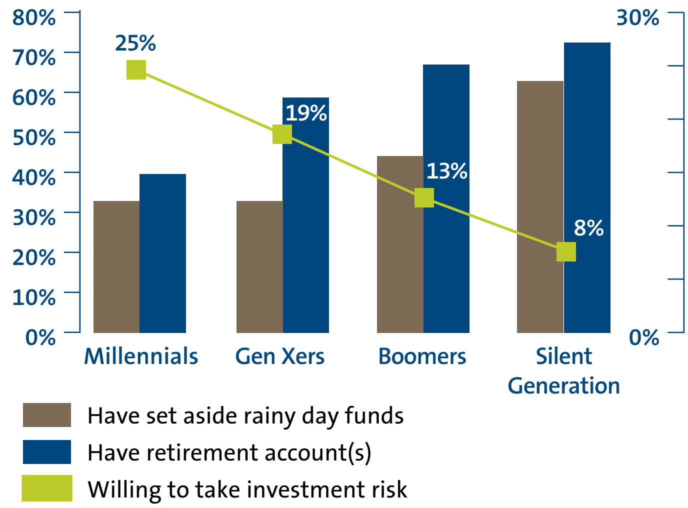
Source: 2012 National Financial Capability Study (State-by-State Survey)

7. A 2010 Pew report entitled *Millennials: A Portrait of Generation Next* also projects that millennials will be the most-educated American generation.

Saving for a rainy day or retirement often involves using investments that contain some degree of risk—like mutual funds in a 401(k) plan. The line in **Figure 4** shows the percentage of all respondents in each generation that said they were very willing to take risk with their investments.[8] While the overall willingness to take investment risk is fairly low, there is a clear linear relationship between generation and risk. One in four millennials is willing to take on investment risk compared to 19 percent for gen Xers, 13 percent for boomers and 8 percent for the silent generation—a finding that likely reflects the millennial's younger age and potential ability to recover from stock market shocks.

In the management of financial products, millennials do differ from the other generations on some important measures (**Figure 5**). Twelve percent of millennials are unbanked—a figure that is more than double the boomers' and silent generation's unbanked rates.

Figure 4. Planning Ahead



Source: 2012 National Financial Capability Study (State-by-State Survey)

Figure 5. Managing Financial Products

	Millennials	Gen Xers	Boomers	Silent Generation
Banking Status				
Unbanked (neither checking nor savings)	12%	7%	4%	1%
Used non-bank borrowing methods[9]	43%	35%	21%	8%
Credit Card Behavior				
Owns at least one credit card	62%	69%	76%	88%
Engaged in three or more costly credit card behaviors[10]	34%	33%	24%	13%
Loans				
Have mortgage	22%	43%	40%	31%
Have auto loan	28%	37%	30%	24%
Have student loan	36%	21%	10%	2%
Payment Methods				
Uses pre-paid debit cards	31%	26%	16%	9%
Uses mobile payments	13%	7%	2%	1%

Source: 2012 National Financial Capability Study (State-by-State Survey)

8. Respondents were classified as willing to take on investment risk if they chose an 8, 9 or 10 on a 10-point Likert scale, where 1 indicated they were not at all willing to take risks and 10 indicated they were very willing. All respondents were asked about their investment risk, regardless of whether or not they indicated that they had investment accounts.
9. Used at least one method in the last five years.
10. Over a 12-month period, and among credit card holders.

Non-bank borrowing—that is, using typically costly forms of borrowing like payday loans, pawn shops, rent-to-own stores, auto title loans and tax refund services—is fairly common. Forty-three percent of millennials have used one of these five forms of non-bank borrowing in the last five years. And non-bank borrowing is not just an issue for low-income millennials. While 47 percent of respondents with less than $50,000 in household income engage in non-bank borrowing, a substantial 37 percent of respondents with household incomes of $50,000 or greater use these high-cost services. Further, when compared with the relatively low rates of non-bank borrowing among the older generations, namely boomers and the silent generation, millennials appear to be a generation that relies less on traditional banking services than previous generations.

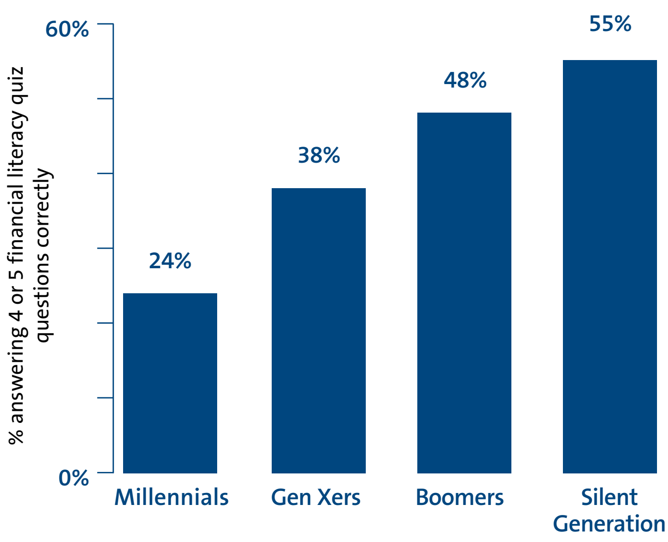
"Millennials are also much more likely to use newer forms of payment—including pre-paid debit cards and mobile payments."

While fewer millennials have credit cards, their credit card behavior is similar to that of the gen Xers and somewhat more problematic than the behavior of boomers and the silent generation. More specifically, there are several credit card behaviors that can be costly for card holders. These include carrying a balance, paying only the minimum, being charged late fees, being charged over-the-limit fees and taking out a cash advance. Survey results suggest that millennials and gen Xers engage in more costly credit card behaviors than the older generations. Thirty-four percent of millennials participating in the NFCS survey engaged in three or more of these costly credit card behaviors over a 12-month period, similar to the 33 percent figure for gen Xers. Compare this with boomers and the silent generation, among whom only 24 percent and 13 percent, respectively, engage in costly credit card behaviors.

Millennials are less likely than the other generations to have a mortgage, but more likely to have student loans. Millennials are also much more likely to use newer forms of payment—including pre-paid debit cards and mobile payments.

To evaluate financial knowledge, respondents were asked five questions covering fundamental concepts of economics and finance expressed in everyday life, including calculations involving interest rates and inflation, principles relating to risk diversification, the relationship between bond prices and interest rates, and the impact that a shorter term can have on total interest payments over the life of a mortgage.[11] Millennials exhibit very low levels of financial literacy—only 24 percent can answer four or five questions correctly on a five-question financial literacy quiz. As seen in **Figure 6**, the financial literacy level rises in a steady fashion across the generations, peaking at 55 percent for the silent generation.

Figure 6. High Financial Literacy by Generation



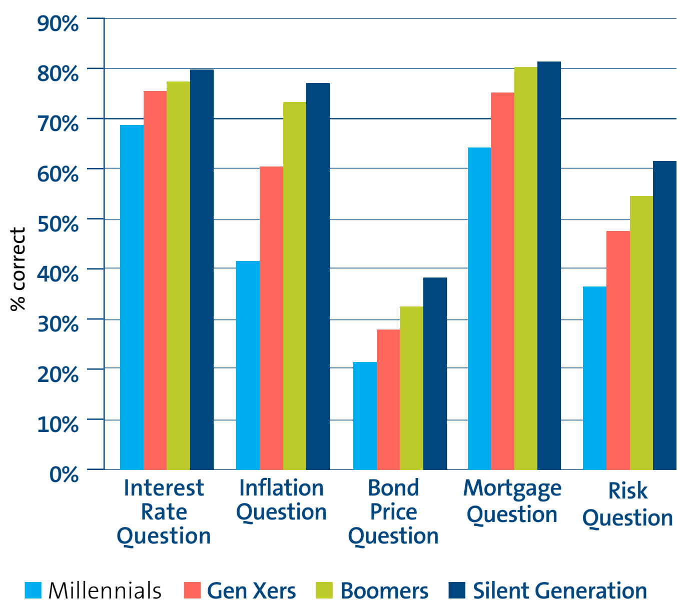
Source: 2012 National Financial Capability Study (State-by-State Survey)

11. The five-question financial literacy quiz can be found at www.USFinancialCapability.org.

> *"Millennials exhibit very low levels of financial literacy—only 24 percent can answer four or five questions correctly on a five-question financial literacy quiz."*

A closer look at each generation's performance shows that, for the most part, this linear generational pattern holds true for the individual questions (**Figure 7**). However, millennials tend to be further behind the other generations on the inflation question—perhaps because millennials came of age in an era when inflation was under control, so their low score on this question may reflect the fact that inflation has not been a salient issue in the U.S. economy in recent years.[12] Conversely, millennials performed best on the interest rate question, and keeping interest rates low has been a prominent issue in the post-recession economy.

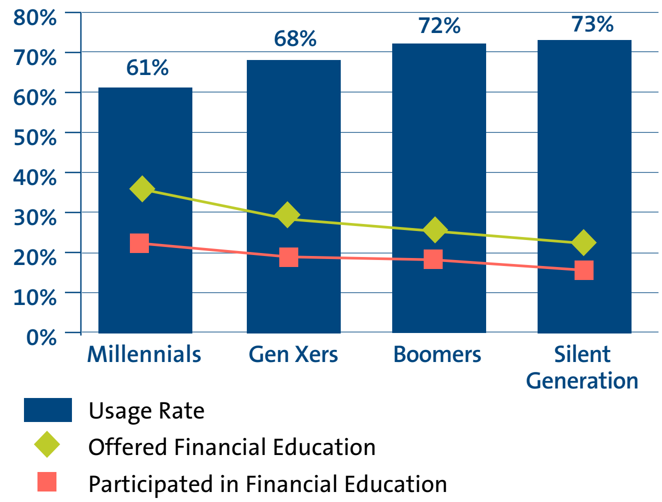
Figure 7. Financial Literacy Quiz Questions by Generation



Source: 2012 National Financial Capability Study (State-by-State Survey)

Millennials are more likely to have been offered financial education and to have participated in it. Thirty-six percent of millennials were offered financial education either in high school or college, or by an employer, and 22 percent availed themselves of this opportunity (**Figure 8**). The percentage of respondents who have participated in financial education decreases in a steady fashion for the older generations—a sign that formal financial education may be more common in America now than in past years.

Figure 8. Financial Education by Generation



Source: 2012 National Financial Capability Study (State-by-State Survey)

However, a smaller proportion of millennials take advantage of financial education opportunities when such opportunities are offered to them—61 percent of millennials participated in financial education that was offered to them compared to 68 percent, 72 percent and 73 percent of gen Xers, boomers and the silent generation, respectively. Opportunities may exist to make financial education more attractive to millennials so that both the demand for it and participation levels can be increased.

12. Lusardi (2013) found that knowledge of inflation correlates with an individual's financial experiences.

Debt Concerns

Millennials and gen Xers share similar worries about their debt levels. Fifty-five percent of millennials with student loans are concerned that they may not be able to pay off their debt, a figure that is identical to gen Xers, and only slightly higher than the 50 percent figure for boomers. Beyond student loan debt, there are concerns across the generations about too much debt in general. Almost half, or 46 percent, of millennials are concerned that they have too much debt, slightly less but on par with gen Xers (50 percent)—but much higher than the 38 percent of boomers and 23 percent of respondents from the silent generation who feel they have too much debt.

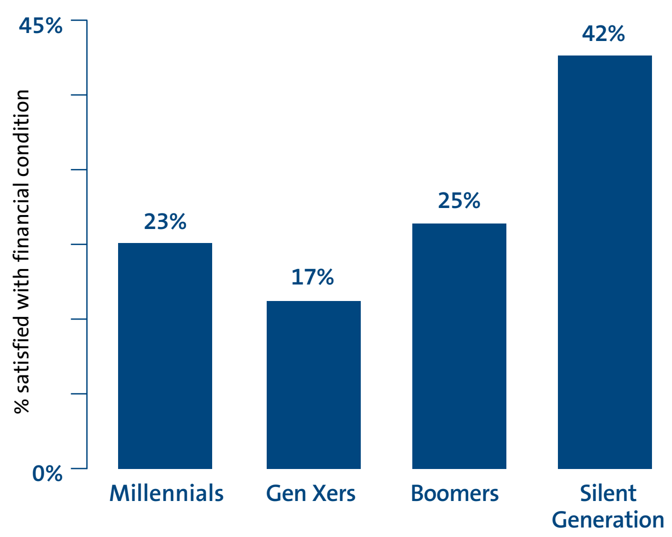
Source: 2012 National Financial Capability Study (State-by-State Survey)

Despite the many differences among the generations regarding financial capability, the generations show similar levels of satisfaction with their personal financial situation—except for the silent generation, which is much more financially satisfied than the younger generations. As seen in **Figure 9**, 23 percent of millennials are satisfied with their personal financial condition—which is higher than the 17 percent for gen Xers, but slightly lower than the 25 percent value for boomers.[13] Over four in 10 respondents from the silent generation are satisfied with their financial condition—much higher than the generally low levels of financial satisfaction found in the younger generations.

Demographic Differences among Millennials

Millennials are not a monolithic group, and there is a fair amount of variability in financial capability levels among the different demographic subgroups within the generation. Millennial females and minorities display signs of lower financial capability, but it is lower-income households and households with dependents that struggle the most.

Figure 9. Financial Satisfaction by Generation

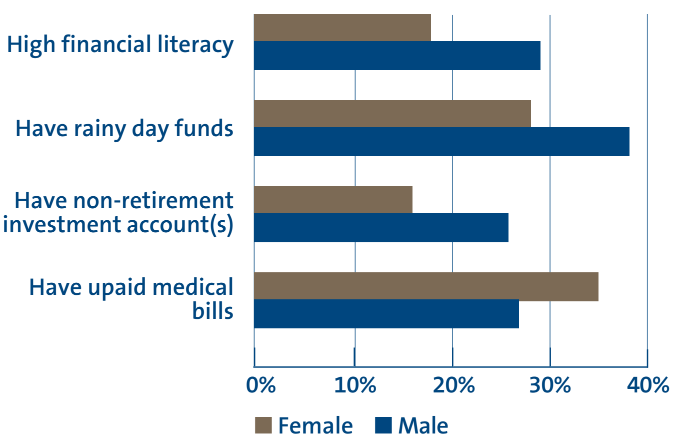


Source: 2012 National Financial Capability Study (State-by-State Survey)

13. Respondents are classified as satisfied with their financial condition if they respond with an 8, 9 or 10 on a 10-point Likert scale that assesses satisfaction with their personal financial condition (1=Not at All Satisfied and 10=Extremely Satisfied).

Figure 10 shows several measures where men and women tend to differ—ordered with the greatest absolute difference between the genders on top and the smallest difference on the bottom. Like males in general, male millennials have higher financial literacy levels than female millennials—29 percent of males have high financial literacy compared with 18 percent for females. The good news is that the gender gap in financial literacy is smaller for millennials than other generations—an 11 percentage-point gap for millennials compared to a 21-point gap for gen Xers, 25-point gap for boomers and a 21-point gap for the silent generation. Women are also less likely to have rainy day savings and investment accounts outside retirement. Further, they are less likely to have been offered financial education—perhaps because women are more likely than men to spend time outside the workforce during child-rearing years, so they have fewer opportunities to receive financial education through the workplace.

Figure 10. Gender and Financial Capability among Millennials

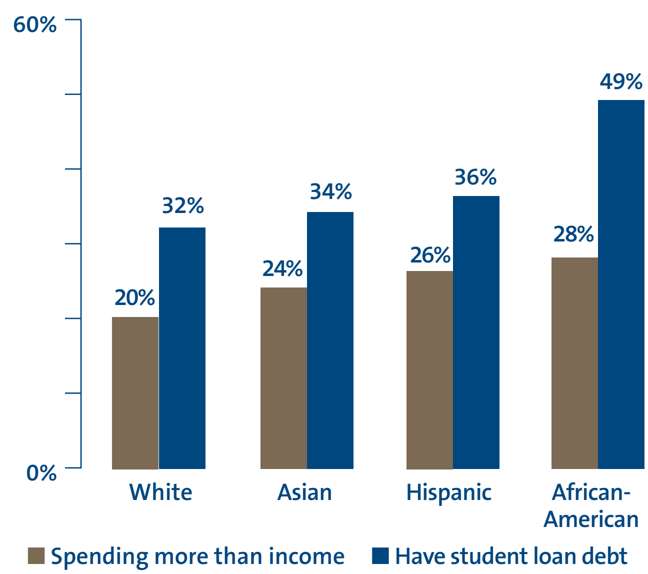


Source: 2012 National Financial Capability Study (State-by-State Survey)

Note: Sample size is 2,799 for males and 4,066 for females. Sample sizes vary slightly depending upon response rates to the questions.

Most financial capability measures do not vary by race much within the millennial generation, with two exceptions: minorities are more likely to spend more than their income and have student loan debt (**Figure 11**). Twenty percent of millennials who are white spend more than their income, but this figure rises slowly across the minority groups and peaks at 28 percent for millennials who are African-American. African-American millennials also have high levels of student loan debt relative to the other racial groups—49 percent for African-Americans compared to 36 percent for Hispanics, 34 percent for Asians and 32 percent for whites.

Figure 11. Financial Strain by Race among Millennials



Source: 2012 National Financial Capability Study (State-by-State Survey)

Note: Sample size for white is 4,163, African-American is 915, Hispanic is 1,091 and Asian is 362. Sample size for each race varies slightly depending upon response rates to the questions.

As noted earlier, 20 percent of millennials are currently enrolled in either a community college or a four-year college. Financial capability levels for those in college are similar to those who are not attending college, but they do vary in some meaningful ways. As seen in **Figure 12**, while about the same percentage of students and workers spend more than their income, full-time students are much less likely to have medical debt—perhaps because they are still on their parents' health insurance plans. Full-time workers, regardless of whether they are attending school part-time, are more likely than other groups to save for emergencies and save for retirement. Over 50 percent of respondents in school, both part-time and full-time, have student loan debt.

"Over 50 percent of respondents in school, both part-time and full-time, have student loan debt."

Financial literacy levels are fairly low across the board for students and workers, but full-time workers have the highest level of financial literacy, with 32 percent being classified as high financial literacy—compared to a low of 15 percent for respondents who are both part-time workers and part-time students.

Figure 12. Financial Capability among Millennial Students and Workers

	Full-time Student (n=968)	Full-time Worker (n=2,753)	Full-time Worker and Part-time Student (n=328)	Part-time Worker (n=634)	Part-time Worker & Part-time Student (n=217)
Making Ends Meet					
Spending more than income	22%	20%	26%	26%	27%
Have unpaid medical bills	16%	30%	38%	29%	29%
Planning Ahead					
Have rainy day funds	34%	41%	52%	28%	39%
Have retirement account(s)	16%	59%	58%	32%	28%
Managing Financial Products					
Have mortgage	10%	34%	34%	15%	15%
Have student loan debt	53%	37%	52%	29%	56%
Unbanked (neither checking nor savings)	10%	7%	3%	11%	4%
Financial Knowledge					
Offered financial education	47%	39%	60%	34%	45%
Participated in financial education	29%	24%	36%	20%	27%
High financial literacy	25%	32%	24%	17%	15%

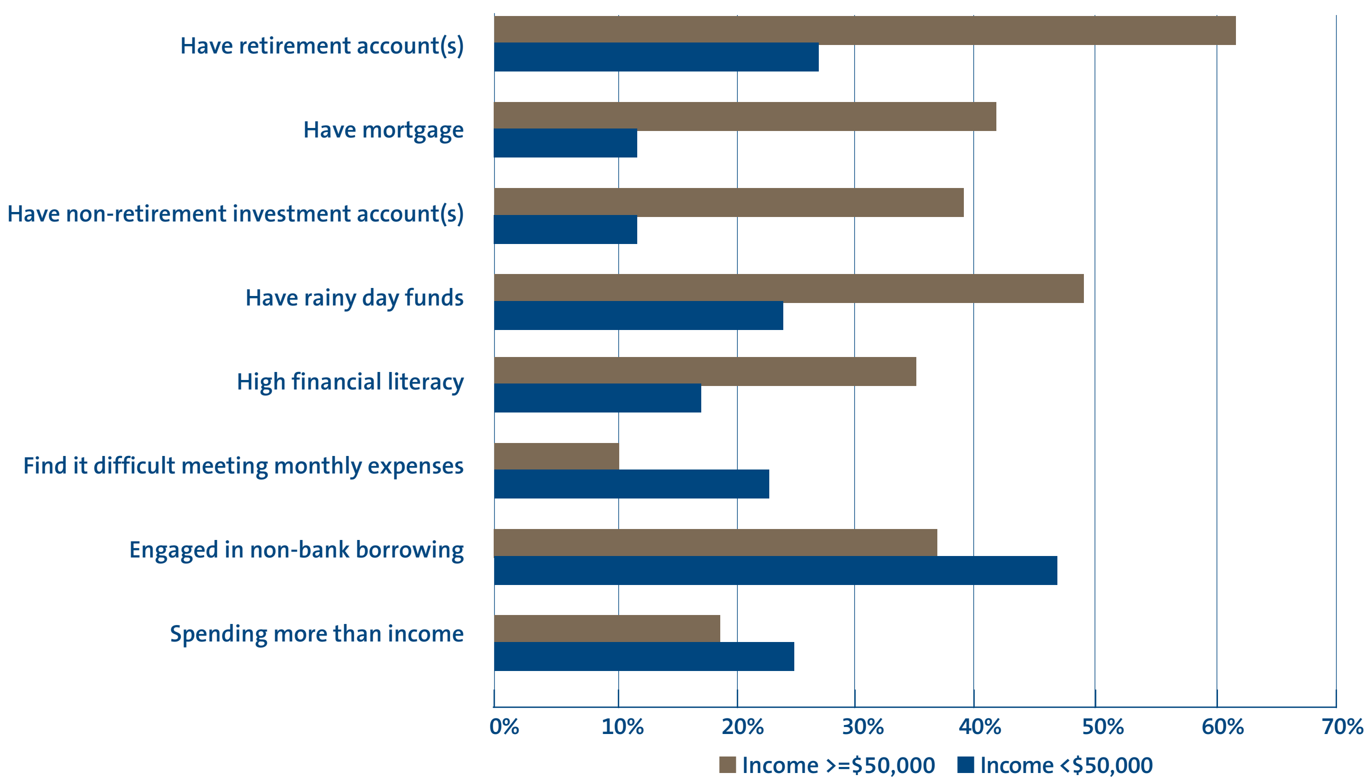
Source: 2012 National Financial Capability Study (State-by-State Survey)

Note: Sample sizes reported in this table vary slightly depending upon the response rates to the questions.

> *"Lower-income milliennial households are much less likely to have retirement accounts, non-retirement investment accounts and rainy day funds."*

More pronounced differences in financial capability among millennials emerge when you look at financial capability by household income. **Figure 13** shows several key financial capability measures split by millennials who make less than $50,000 in household income and those who make $50,000 or more in household income. The variables in the figure are ordered from largest to smallest based on the absolute difference between high- and low-income households on the measures. As is evident in **Figure 13**, lower-income millennial households are much less likely to have retirement accounts, non-retirement investment accounts and rainy day funds. Their financial literacy levels are substantially lower—17 percent of lower-income millennials exhibit high levels of financial literacy compared to 35 percent for higher-income millennials. Households with less than $50,000 are more likely to feel financial strain than households with $50,000 or more. For example, 23 percent of millennials with less than $50,000 in household income have difficulty meeting their monthly expenses, compared to 10 percent for their more affluent counterparts. Similarly, 25 percent of lower-income households spend more than their income compared to 19 percent for higher income households.

Figure 13. Differences in Financial Capability among Millennials, Based on Household Income



Source: 2012 National Financial Capability Study (State-by-State Survey)

Note: Sample size is 4,479 for the household income < $50,000 group and 2,386 for the household income >= $50,000 group. Sample size for each group varies slightly depending on response rates to the questions.

Like household income, marriage and the presence of dependents in the household tend to be strongly related to performance on financial capability measures. For example, twice as many married respondents with dependents spend more than their income compared to married respondents without dependents, 27 percent and 13 percent respectively (**Figure 14**). Unmarried respondents with dependents display even more worrisome behavior—for instance, 64 percent of unmarried respondents with dependents engage in non-bank borrowing and nearly half (48 percent) engage in three or more costly credit card behaviors. This is particularly concerning given that millennials are more likely to have dependents and not be married, relative to the other generations (see Figure 2). One bright spot for married respondents is that they are more likely to have retirement accounts and rainy day savings.

Conclusion

Each generation in America faces its own unique challenges and opportunities, and millennials are no exception. Millennials grew up in a country and financial environment that was very much shaped by the Great Recession, and many of their behaviors and attitudes reflect this fact. Millennials—particularly lower-income households and households with dependents—are under a fair amount of financial strain. Further, the financial literacy level of millennials is low, and as such, they may not be fully prepared for many of the financial challenges they may face. Despite their financial situation, millennials report levels of financial satisfaction that are very similar to the gen Xers and boomers, which may reflect different financial expectations for millennials in the wake of the Great Recession.

Figure 14. Financial Capability by Marital Status and Dependents among Millennials

	Married		Not Married	
	Dependents (n=1,892)	**No Dependents** (n=681)	**Dependents** (n=1,226)	**No Dependents** (n=3,066)
Making Ends Meets				
Spending more than income	27%	13%	30%	20%
Have unpaid medical bills	43%	22%	45%	20%
Planning Ahead				
Have retirement account(s)	55%	59%	32%	29%
Have rainy day funds	34%	44%	25%	33%
Managing Financial Products				
Have mortgage	40%	36%	16%	12%
Engaged in non-bank borrowing	51%	32%	64%	33%
Engaged in three or more costly credit card behaviors	40%	26%	48%	27%
Financial Knowledge				
Offered financial education	36%	38%	32%	38%
Participated in financial education	21%	25%	20%	23%
High financial literacy	23%	37%	13%	25%

Source: 2012 National Financial Capability Study (State-by-State Survey)

Note: Sample sizes reported in this table vary slightly depending upon the response rates to the questions.

Looking to the future, it is promising that more millennials report being offered financial education and participating in financial education programs relative to the other generations. Of course, financial education is only one contributing factor to financial capability—for example, age and experience contribute to overall financial capability as well—but it is encouraging that financial education may be more common today than it has been in the past.

About the Report

This brief uses data from the State-by-State Survey of the 2012 National Financial Capability Study. The National Financial Capability Study was funded by the FINRA Investor Education Foundation and conducted by Applied Research and Consulting. The study used a sample of 25,509 adults age 18 and older (approximately 500 per state plus the District of Columbia) obtained from Research Now, SSI (Survey Sampling International) and EMI Online Research Solutions via proprietary, online panels of individuals who have agreed to participate in the panel and who are compensated for completing surveys. Nonprobability quota sampling was used to obtain the sample.

All statistics reported are weighted, but the sample sizes reported are unweighted. The weights make the data representative of the U.S. adult population (age 18 and up) based on age by gender, ethnicity, education and census division. Data from the U.S. Census Bureau's American Community Survey were used to construct the weights. The survey was fielded from July 2012 through October 2012, and the average time to complete the survey was 15 minutes. A pure probability sample of this size would have an estimated margin of error of half a percentage point (*i.e.*, plus or minus 0.5 percent), with the margin of error increasing somewhat for sub-groupings of the sample. As in all survey research, there are possible sources of error, such as coverage, nonresponse and measurement error that could affect the results. More information about the National Financial Capability Study—including the questionnaire and detailed methodology documents—can be found at *www.USFinancialCapability.org*.

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