

Financial Capability among Young Adults

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Thanks to NEFE

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We are very grateful for this collaboration.

Overview of Millennials

- 70 to 80 million individuals born between the late 1970s and mid-1990s
- This analysis is focused on 23 – 35 year old individuals (in 2015)
- Most diverse generation
 - Minorities are broadly represented (38%)
 - 11% of all Millennials have at least one immigrant parent
 - 57% are female
 - Half (51%) are married
- Millennials are highly educated
 - 44% have at least a bachelor's degree
- Will soon makeup the largest share of the labor market
 - By 2025, 3 out of 4 workers globally will be Millennials

What Makes Millennials Unique?

Millennials are often referred to as the “instant-gratification generation”

- High expectations in their personal life
- Reliance on technology
- Maintain high confidence despite experiencing or entering the job market during a recession

2015 National Financial Capability Study

State by State Survey:

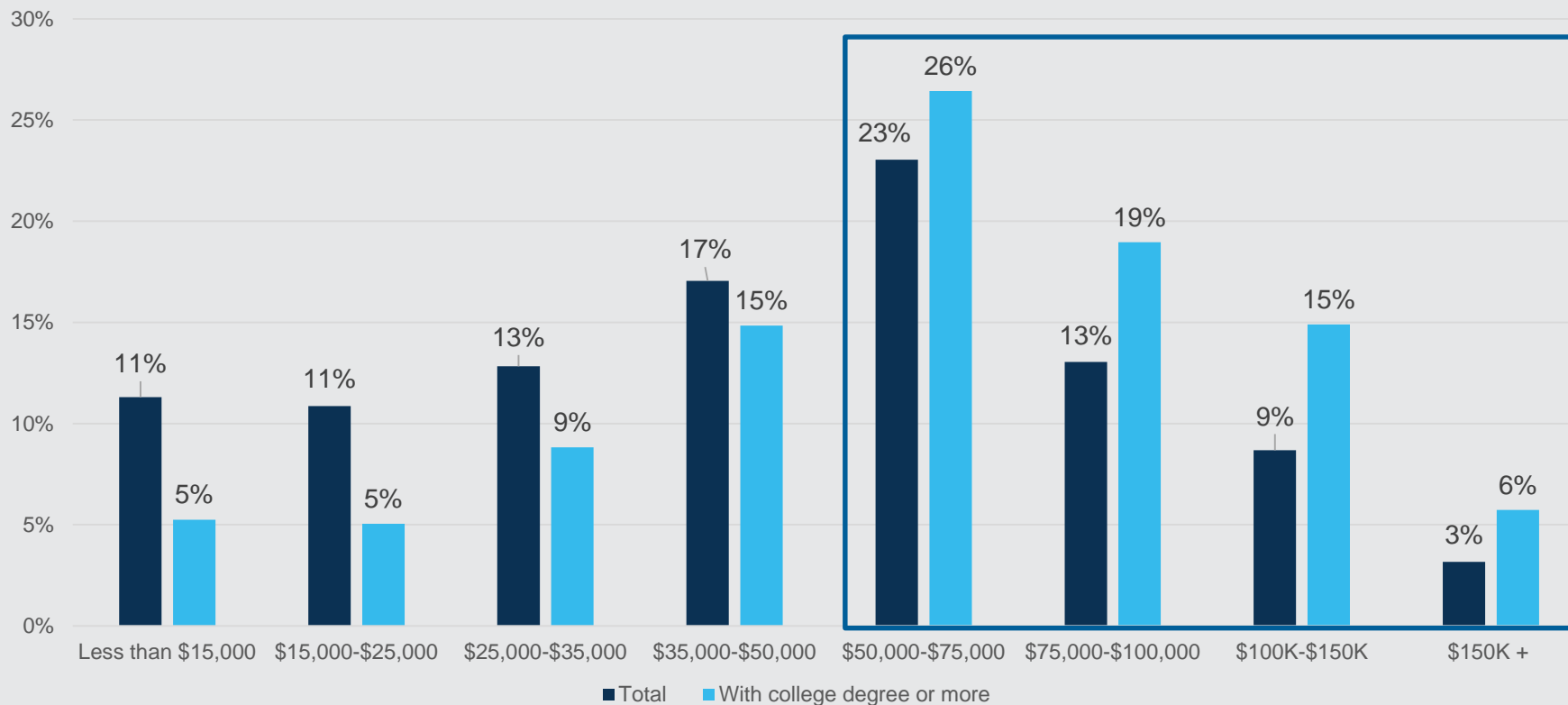
- Supported by FINRA Investor Education Foundation
- Online survey of over 27,000 respondents
- 2015 is the third wave (we also did an analysis on 2012 data)
- Survey includes several indicators of financial capability

Millennials Analysis:

- Analysis focuses on the financial capability of Millennials
- 6,608 total observations

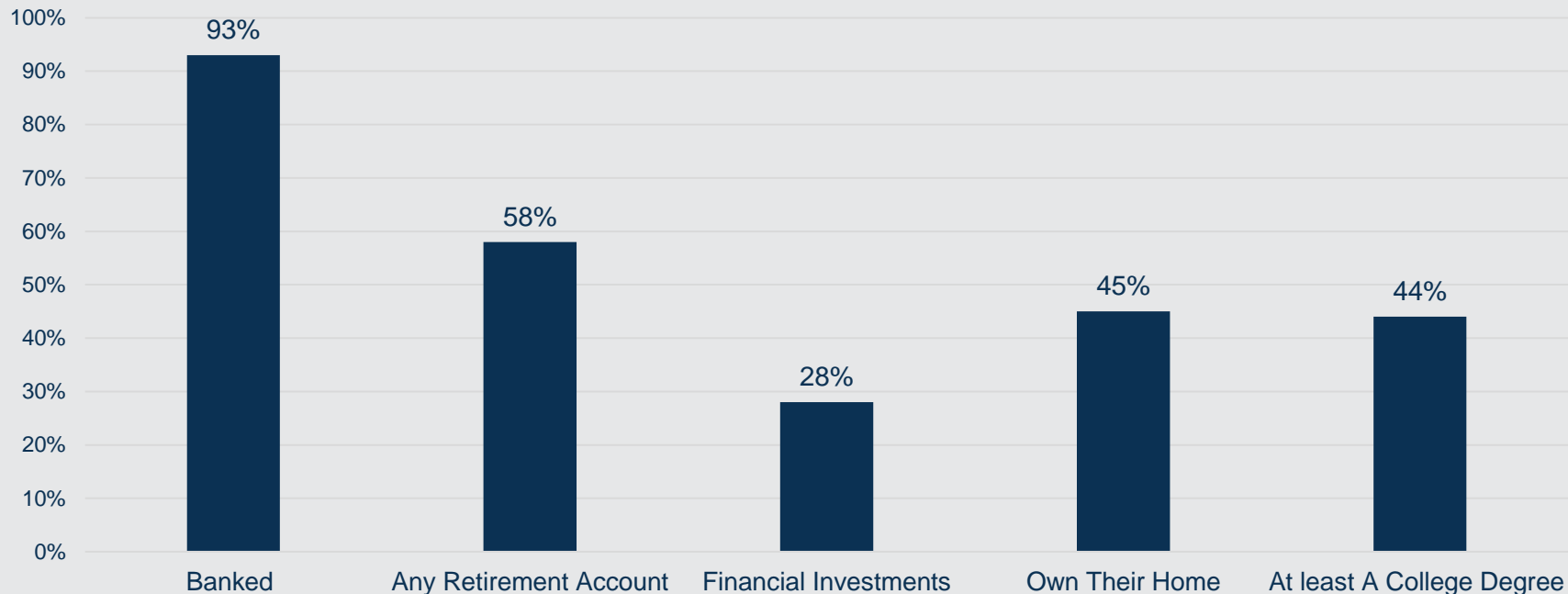


Some Initial Statistics: Income Distribution of Millennials



Those with at least a college degree are more likely to have an income over \$50,000 and hold a full time job.

Assets and Investments



Millennials overwhelming are banked and many have retirement accounts.

Assets and Investments (cont.)

- Many Millennials are financially active.
- This is an important life stage since many have made significant financial decisions.
 - Getting a college degree
 - Buying a home
 - Contributing to a retirement account
- The assets and investments only show one side of the balance sheet and provides only a partial representation of Millennials' finances.

Borrowing on their Assets and Investments

(conditional on having the assets & investments)

Have a checking account	90%
<i>Overdrew from their checking account</i>	<i>25%</i>
Own a home	45%
<i>Have a mortgage on their home</i>	<i>70%</i>
Have a self-directed retirement account	44%
<i>Took a loan from their retirement account (in the 12 months prior to the survey)</i>	<i>19%</i>
<i>Made a hardship withdrawal from their retirement account (in the 12 months prior to the survey)</i>	<i>16%</i>
<i>Either took a loan or made a hardship withdrawal</i>	<i>23%</i>
Have a college degree	44%
<i>Have an outstanding student loan</i>	<i>59%</i>

Long Term Liabilities

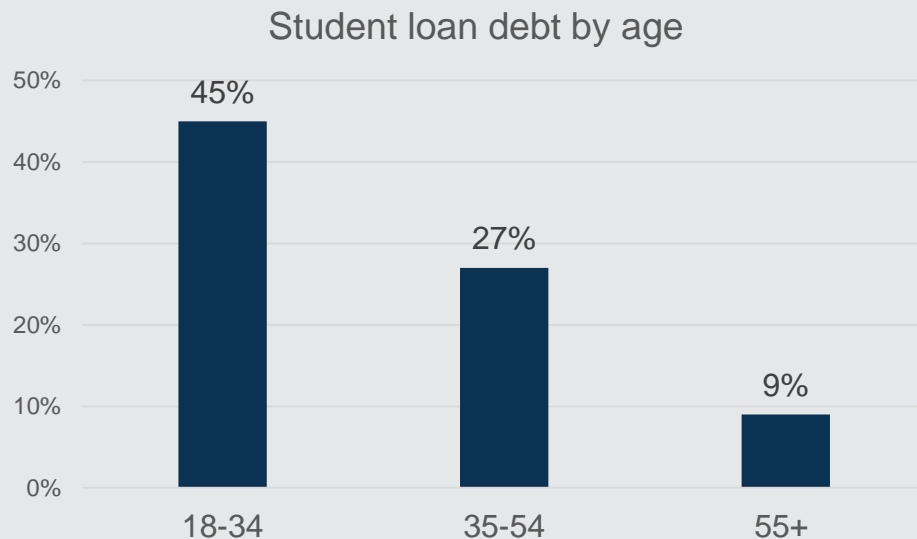
- Over 70% of Millennials have at least one source of long-term debt (student loan, home mortgage, car loan)
 - 34% have more than one source of outstanding long-term debt.
- Among Millennials with at least a college degree
 - 80% have more than one long term debt

Long Term Liabilities: Student Debt

Among Millennials

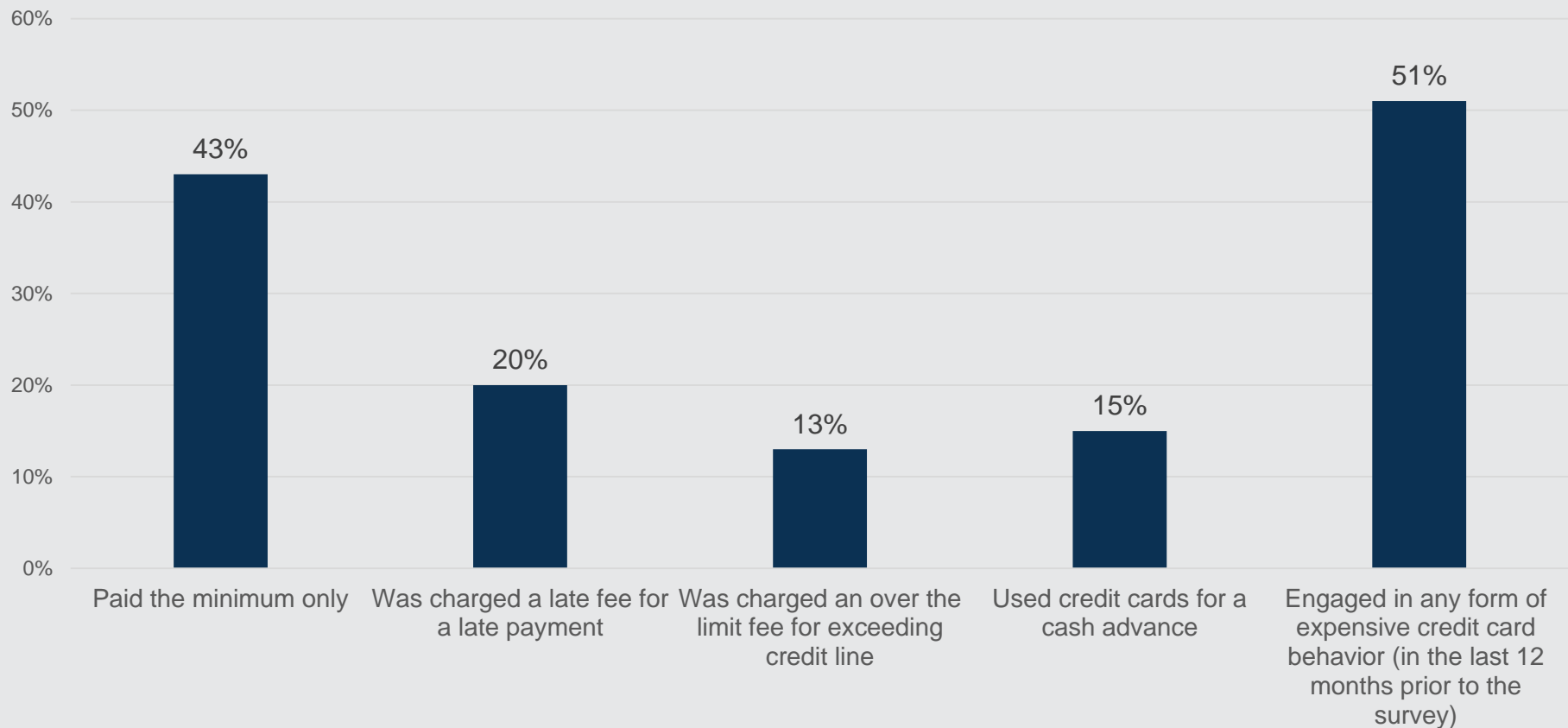
- 51% of Millennials ages 23-29 have student debt
- 46% of Millennials ages 30-35 still have student debt

Student debt is more prevalent among younger respondents but continues long after



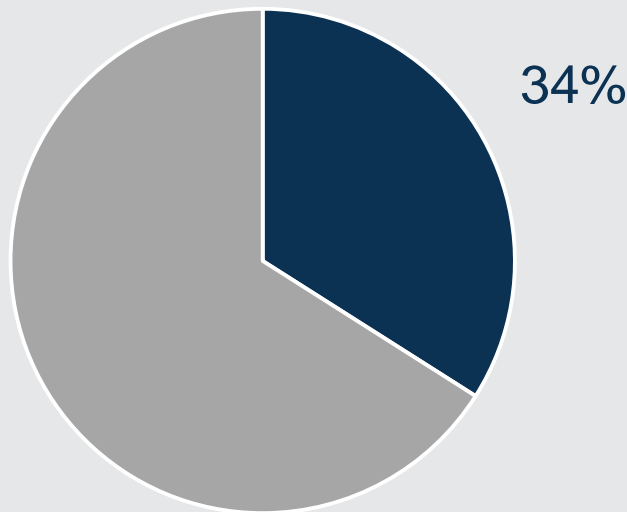
* Data is taken from total 2015 NFCS data with over 27,000 respondents

Short Term Liabilities: Credit Card Use



Short Term Liabilities: Use of Alternative Financial Services

Millennials show high usage of Alternative Financial Services (AFS) such as payday loans, pawnshops, auto title loans, and rent-to-own products.

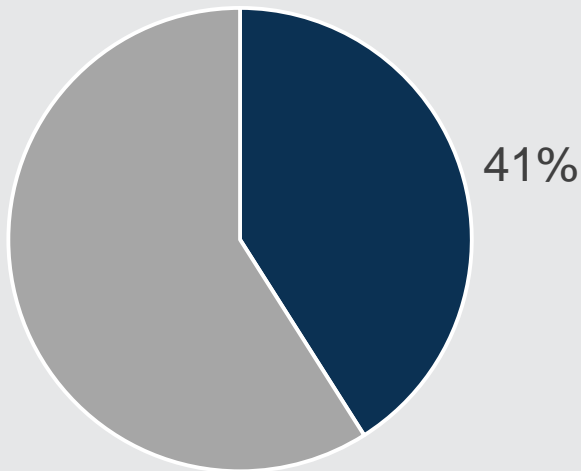


% of Millennials who used an AFS product in the last five years prior to the survey

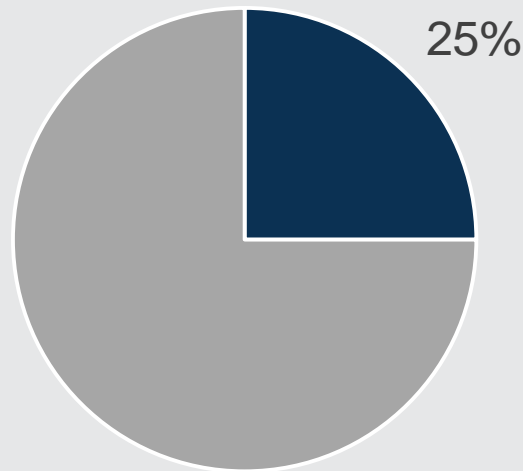
Use of Alternative Financial Services Across Education Level

There is a strong educational divide in AFS usage

No Undergraduate Degree



Have an Undergraduate Degree



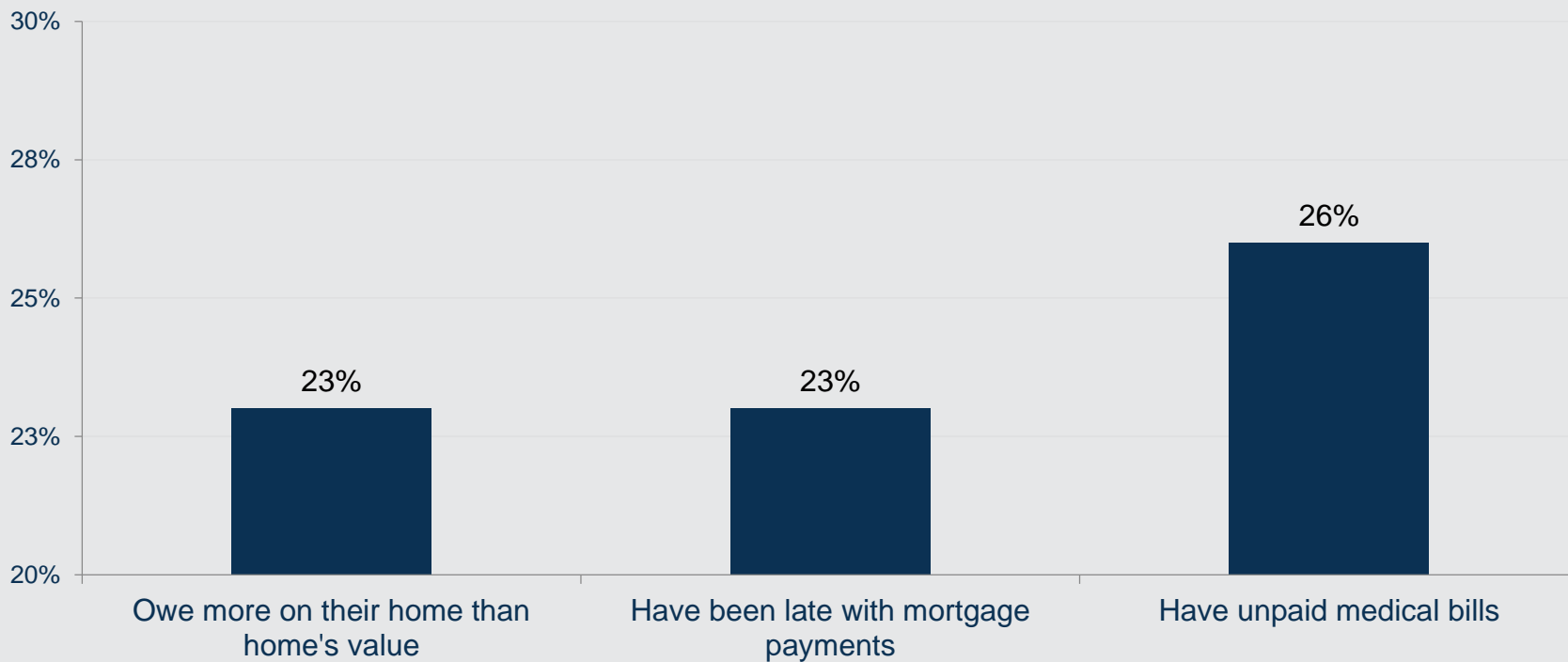
Summary Indicators

NFCS has several important indicators to assess financial distress

- Difficulties with keeping up with payments
- Having too much debt
- Concern over ability to repay student loans
- Financial fragility

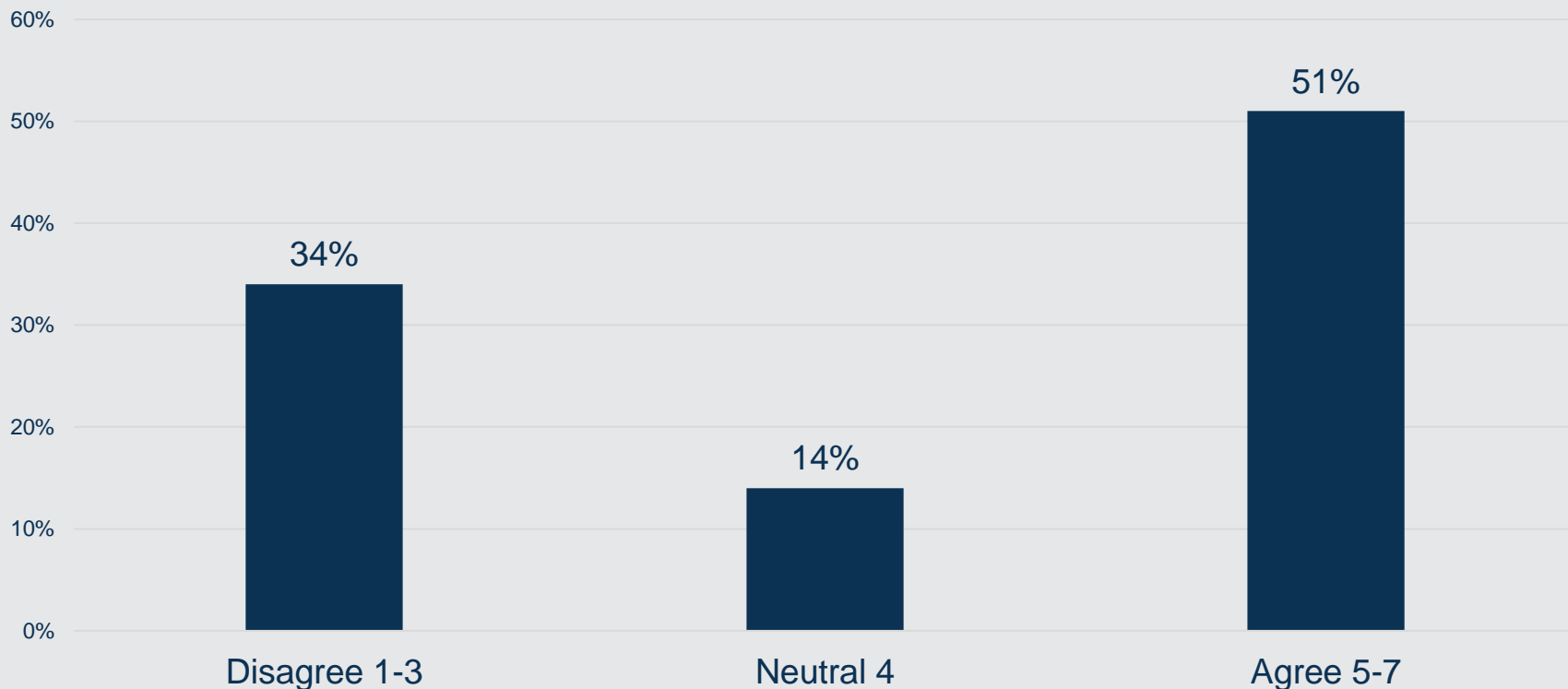
Financial Distress

Many Millennials report difficulty in keeping up with payments.



Too Much Debt

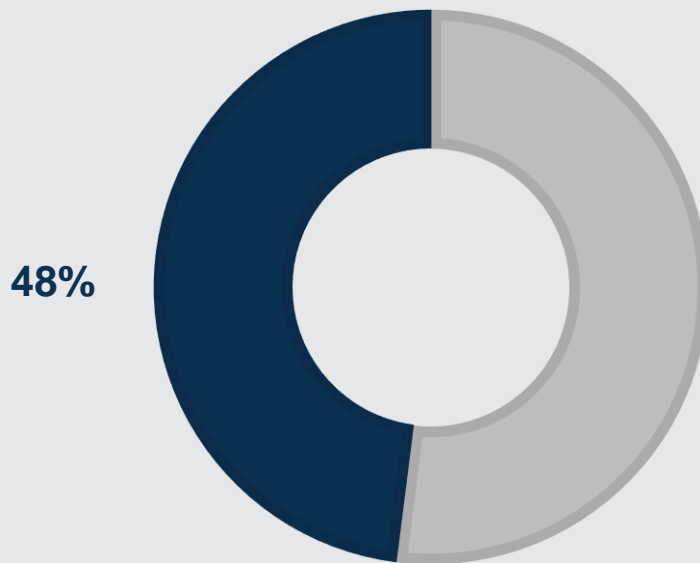
**How strongly do you agree or disagree with the following statement?
"I have too much debt right now."**



Note: Percentages do not add up to 100% because "don't know" and "prefer not to say" answers are excluded.

Concerns for Student Debt Repayment

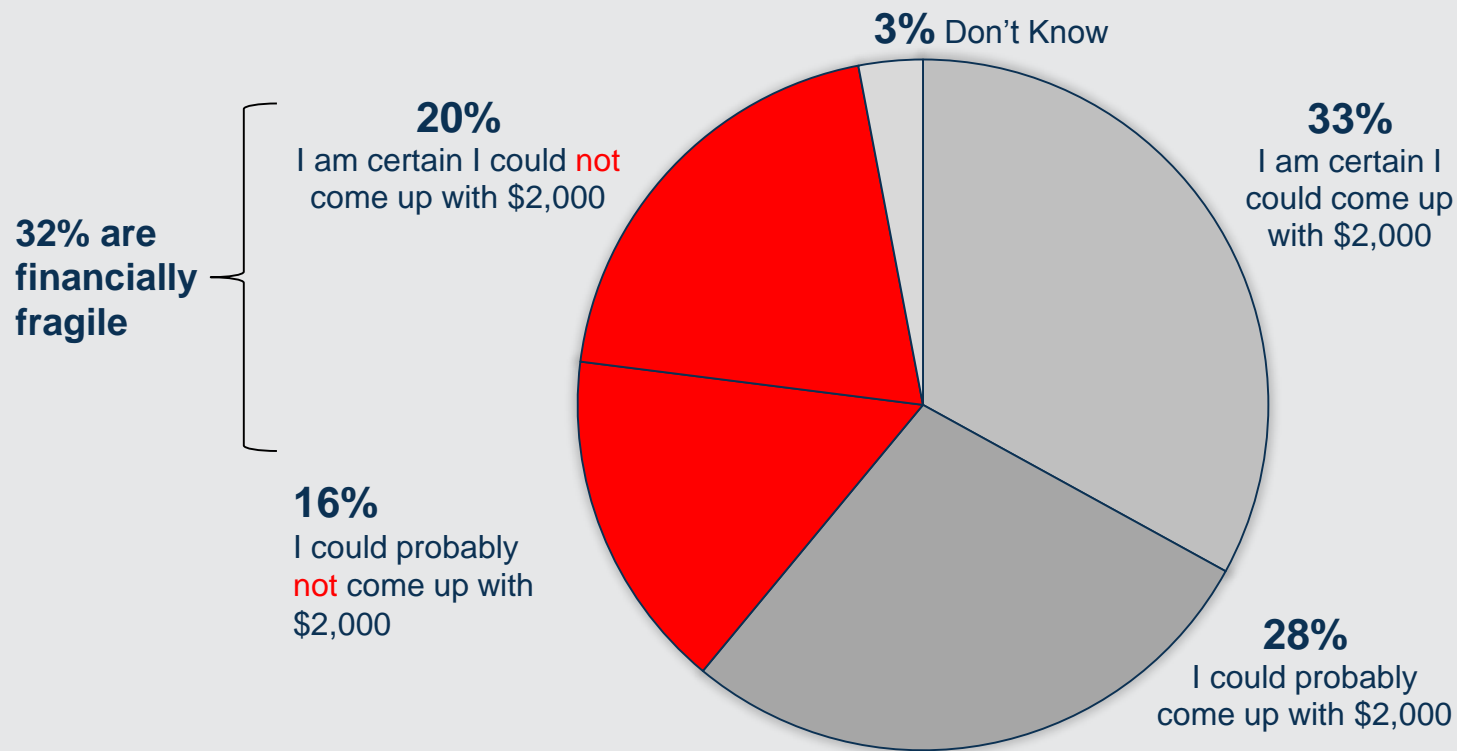
About half of Millennials have a student loan.
Among those, many are concerned about repayment



**% of Millennials with a student loan and
concerned about repayment**

Financial Fragility

“How confident are you that you could come up with \$2,000 if an unexpected need arose within the next month?”



Financial Fragility Among Millennials

A full-time job is an important indicator of financial stability.

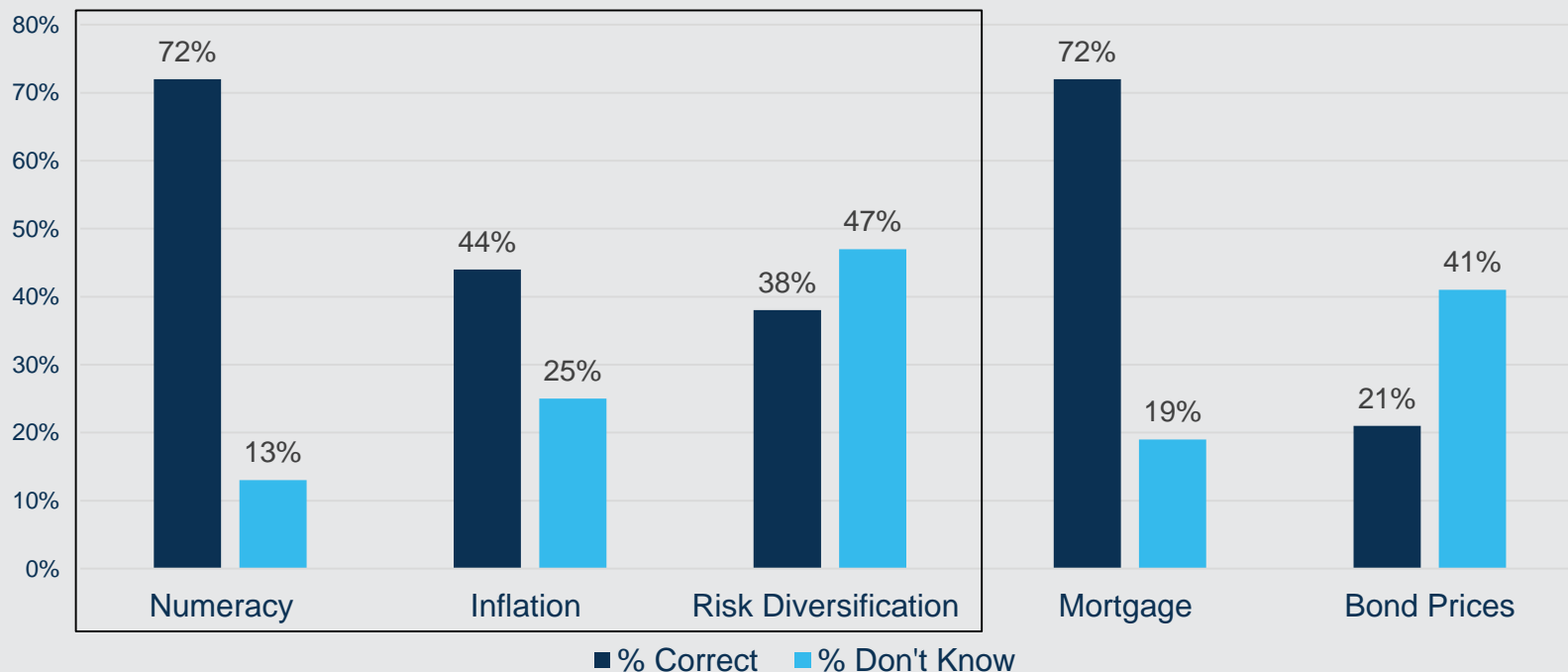
- Only 41% of Millennials who have a full time job report they certainly **could** come up with \$2,000 in one month.

Millennials at higher levels of education show much lower levels of financial fragility.

- 46% of college-educated Millennials are certain they **could** come up with \$2,000 in one month.

Financial Literacy Among Millennials

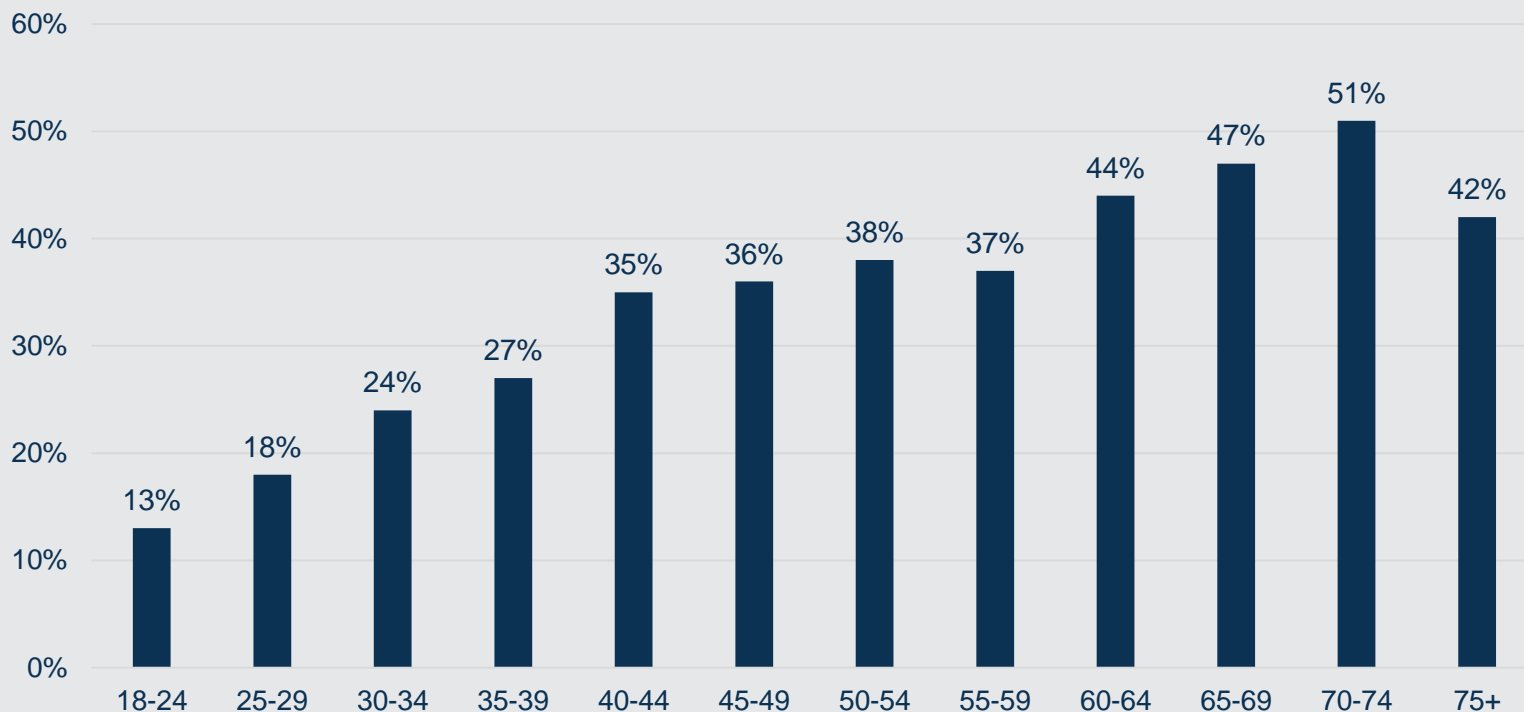
Answers to 5 financial literacy questions



Only 23% answered the Big Three questions correctly (Numeracy, Inflation and Risk Diversification)

Financial Literacy Across Age – 2015 NFCS

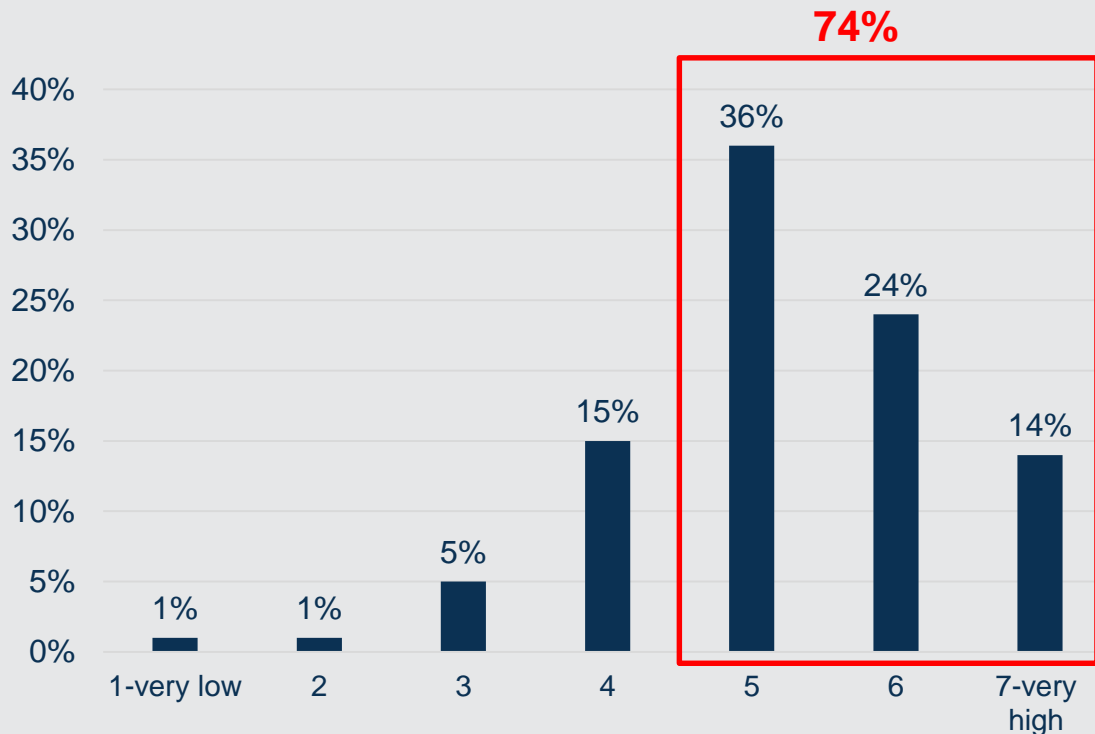
% answering Big 3 questions correctly



Financial knowledge increases slowly with age/cohort

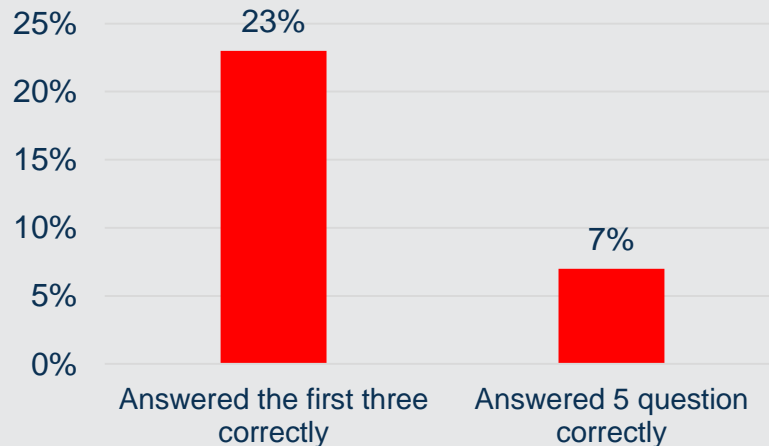
Perceived and Actual Financial Knowledge

Perceived Financial Knowledge



How would you assess your overall financial knowledge?

Actual Financial Knowledge

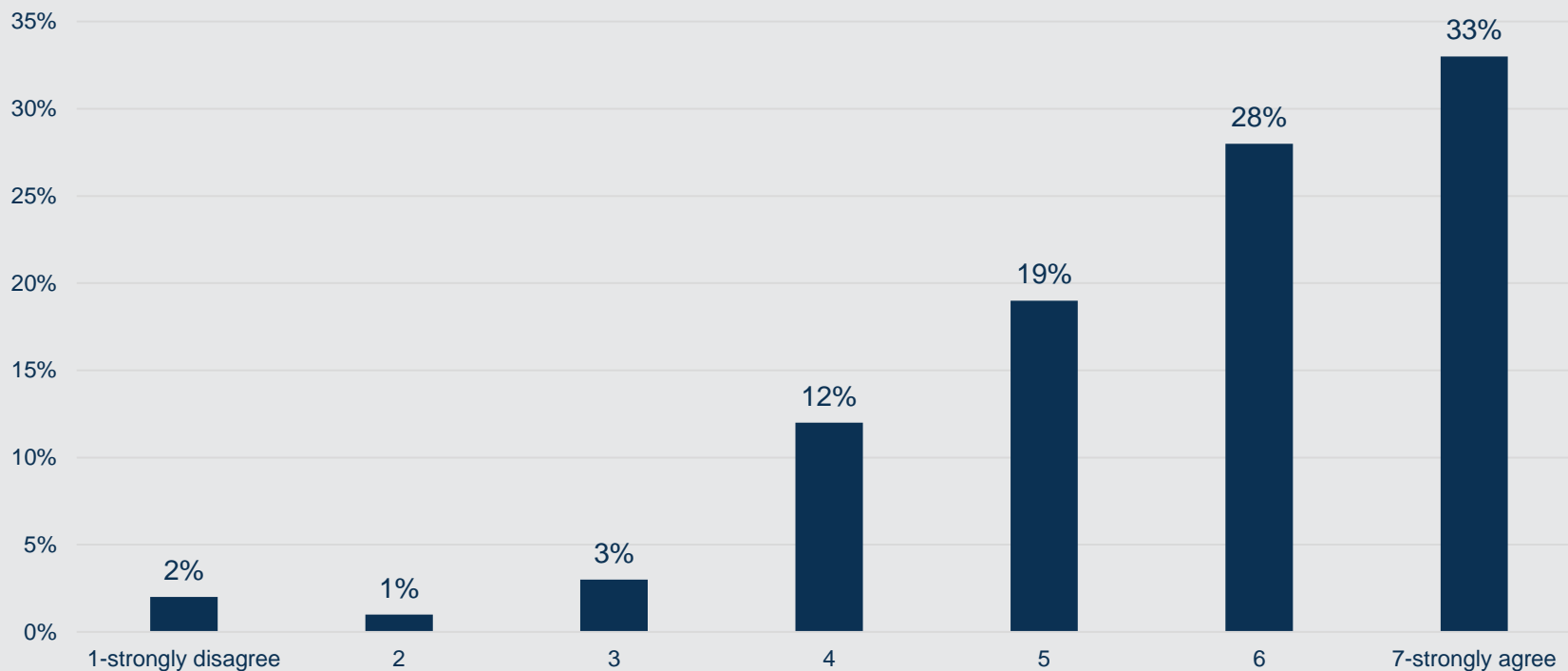


Answers to 5 financial literacy questions

Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

Signs of Overconfidence

“I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses.”



Note: Percentages do not add up to 100% because “don’t know” and “prefer not to say” answers are excluded.

Considerations on Financial Literacy

- Millennials are very confident about their financial knowledge and their financial management skills.
- This high confidence does not match with actual financial literacy levels: Less than a quarter of Millennials show basic financial literacy and only 7% show a high level of knowledge.
- Few Millennials have participated in some form of financial education.

Regression Results

VARIABLES	Too much Debt	AFS usage	Financial Fragility
3 Qs correct	-0.03* (0.02)	-0.16*** (0.02)	-0.09*** (0.02)
Some college education	0.08*** (0.02)	-0.01 (0.02)	-0.06*** (0.02)
College degree	0.04** (0.02)	-0.16*** (0.02)	-0.22*** (0.02)
Female	0.08*** (0.01)	-0.04*** (0.01)	0.06*** (0.01)
Income shock	-0.00*** (0.00)	-0.00 (0.00)	-0.00 (0.00)
Risk preference - medium	-0.00 (0.02)	0.06*** (0.02)	-0.17*** (0.02)
Risk preference - high	0.07*** (0.02)	0.25*** (0.02)	-0.31*** (0.02)
Observations	6,615	6,615	6,615
R-squared	0.02	0.09	0.12

Summary: 10 Key Findings

1. Millennials are already financially active. However, looking at assets only, such as savings or investments, provides a limited view of their financial situation.
2. Debt is widespread. Most of Millennials carry short-term or long-term debt or both.
3. Student loans are a major source of debt for college-educated Millennials and most are concerned about their ability to repay student loans.
4. Millennials use expensive methods of borrowing, such as credit cards, payday loans, and pawnshops.
5. There is an educational divide when it comes to the use of Alternative Financial Services (AFS)

Summary: 10 Key Findings

6. While many Millennials have retirement accounts, they have already tapped into those accounts and are borrowing from themselves.
7. Millennials feel overly indebted.
8. Millennials typically believe themselves capable of making day-to-day and long-term financial decisions, but there are signs of overconfidence.
9. There is a wide gap between the amount of financial responsibility undertaken by young Americans and their demonstrated ability to manage financial decisions and maximize financial opportunities.
10. Even though Millennials made or are making many decisions related to investments and debt, most of them lack financial literacy and are not aware of their lack of financial knowledge.

Looking at younger generations: Evidence from PISA

The OECD Programme for International Student Assessment (PISA) in 2015 showed many 15 year old students lacked even basic financial knowledge.

- 22% of students in the US score below the baseline level
- The mean financial literacy score for the US is around the OECD average.
- The average score in the US in 2015 has not improved in the last three years.

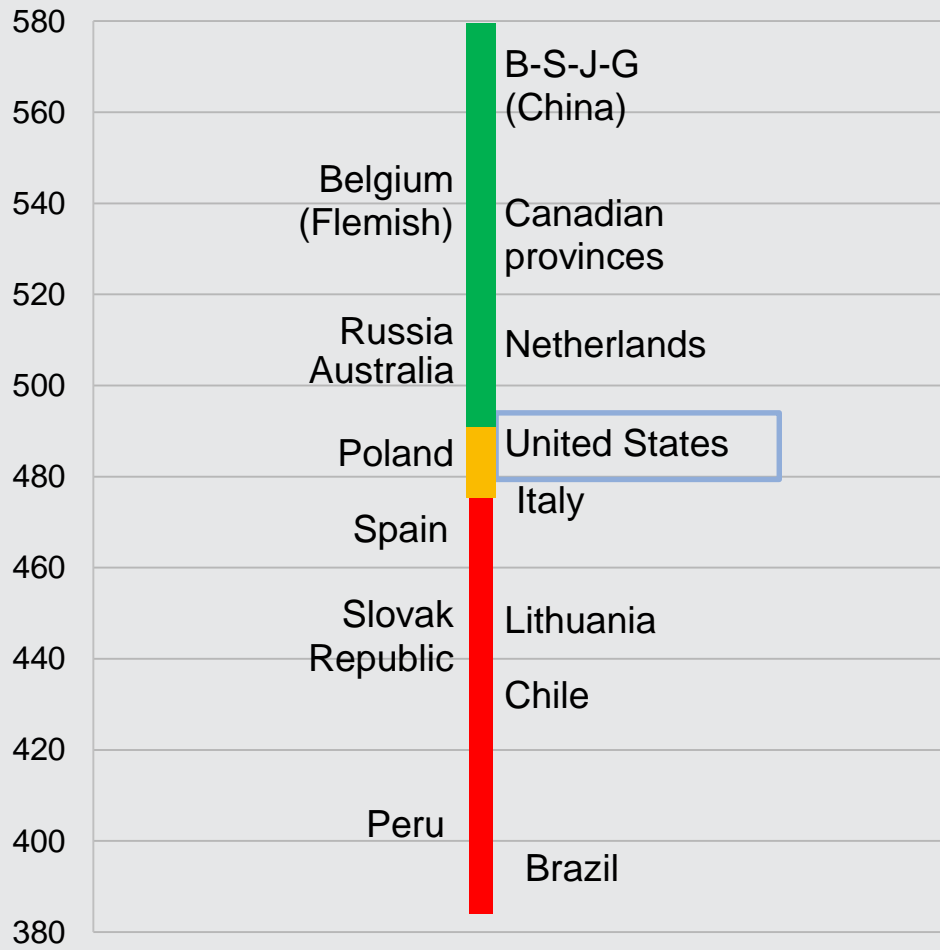
Evidence from PISA (cont.)

**Strong performance in
financial literacy**

**Average performance
of 15-year-olds in
financial literacy in 2015
PISA**

**Low performance in
financial literacy**

Mean score



Recommendations

- Greater access to financial education and tools starting early could help alleviate the wide gap between the amount of financial responsibility undertaken and their ability to manage financial decisions.
- Programs aimed at improving financial knowledge among Millennials could help Millennials better manage debt, improve their financial safety net and increase their financial security into the future.
- Strategies for debt management may be particularly needed in order to guide heavily indebted young adults toward good management of their financial obligations.

Thank You!

The report and paper cited in
this presentation are available at
www.gflec.org