

**REPORT**

# **Gen Y Personal Finances: A Crisis of Confidence and Capability**

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## **ACKNOWLEDGMENTS**

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The logo for Fiserv, featuring the word "fiserv." in a bold, lowercase, orange sans-serif font.

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# Executive Summary

## Overview

Despite Generation Y's optimistic nature in regards to their financial capabilities and happiness, they struggle with managing their assets and debts. This report highlights the challenges this generation faces and how credit unions can help.

## MEET THE AUTHORS



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Generation Y will leave a lasting imprint on American history. The largest, most diverse generation America has seen, Generation Y comprises millions who were born between the late 1970s and the mid-1990s. Young. Educated. Ethnically diverse. Optimistic. Even in the face of a staggering recession, Generation Y is buoyant and ambitious—especially when it comes to personal and professional achievement.

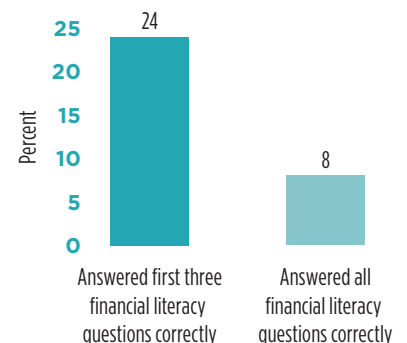
While this generation is confident, they face financial pressures that will jeopardize and limit their economic opportunities. A fragile economy, student debt, and an unstable job market are a few of the hurdles they face. Looking at the data from the most recent National Financial Capability Study (NFCS), we are concerned about their unprecedented levels of student debt and their overconfidence in financial matters.

## What Is the Research About?

The NFCS, with a sample of more than 25,000 respondents, benchmarks Americans' financial capability and provides information on their short-term financial management and medium- and long-term financial planning. This study uses a subsample of the NFCS data to examine financial capability among young Americans aged 23–35. With a sample of over 5,500 observations, this study is able to break down the data by demographic characteristics such as marital status, ethnicity, education, household income, and employment type.

The report provides information on several aspects of Gen Yers' personal financial characteristics, from asset ownership to debt to financial literacy. The study reveals that the vast majority of Gen Yers, also known as Millennials, have a checking or savings account at a bank or credit union, though a troubling minority, even those with access to credit cards, use payday lenders. Respondents identified student loans as their number one source of long-term debt. As the financial assets and obligations of Gen Yers grow, the need for sound

## MILLENNIALS' PERFORMANCE ON FINANCIAL LITERACY PORTION OF SURVEY



financial literacy and understanding intensifies. This report provides key findings that can drive credit union solutions.

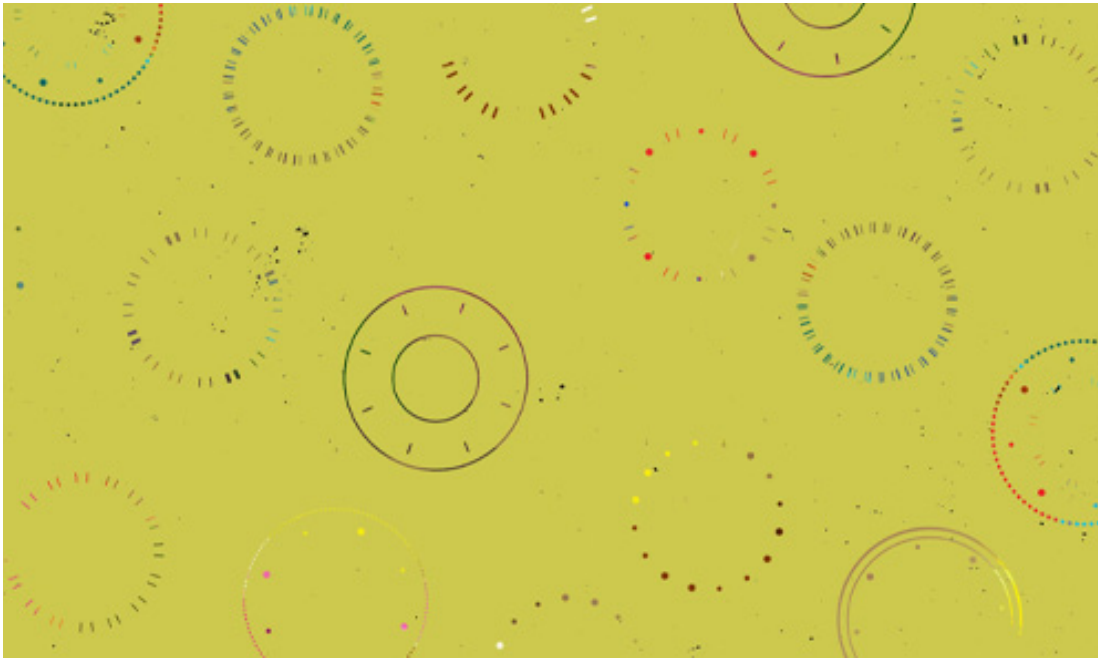
### What Are the Credit Union Implications?

Since most Millennials lack adequate personal financial management skills and have high levels of indebtedness, credit unions have an opportunity to intervene and help. Efforts to serve this generation should include debt management and targeted financial literacy support, making it more likely that Millennials will engage with financial advisors who can help them improve and stabilize their finances. The authors offer several insights for credit unions based on their analysis of the NFCS data:

- **Debt management tactics will resonate with Millennials.** Credit unions can encourage proactive debt management by understanding Millennials' sources of debt.
- **Millennials will be difficult to engage.** Since Millennials believe they fully comprehend their financial situation, getting them to realize they lack financial knowledge can be a daunting task, demanding engaging and creative tactics.
- **A degree doesn't guarantee financial literacy.** Even among Millennials with high levels of education and income, financial literacy is typically low. Credit unions can tackle this problem by developing educational resources and tools that positively impact Gen Yers' decision making.
- **Millennials are accessing high-cost borrowing products too often.** Many Millennials, especially those without a college degree, rely on alternative financial services such as payday loans and pawnshops. Credit unions can intervene and better serve these individuals by offering services that won't create additional financial strain.

Gen Yers may be ambitious and driven, but a closer analysis reveals a generation deeply indebted and relying too heavily on alternative financial services. Credit unions should promote financial literacy through products and real-life behaviors in order to create a meaningful impact with young adults. The Millennial generation reminds us that financial illiteracy is a serious issue even for those who are highly educated and have high income levels. Credit unions should step in to help.

# Gen Y Personal Finances: A Crisis of Confidence and Capability



## CHAPTER 1

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# Introduction

Every generation plays an important role in the economy, but Generation Y, also known as the Millennial generation, promises to carry special impact. Gen Y, the largest generation in US history, comprises young, educated, ethnically diverse, and economically active individuals. Most importantly, Millennials are arriving at critical points of financial decision making in their adult lives.

Despite emerging into the workplace in the unstable economic environment of recent years, Gen Y continues to be energetic and highly optimistic. But their impact is linked to their financial behavior. Indeed, Gen Yers' personal finances are more relevant to the state of the economy than those of any preceding generation. Against that backdrop, it is becoming increasingly apparent that the financial position of Gen Yers is more fragile than expected.

*Gen Yers have specific financial needs, and credit unions' ability to serve these needs will translate into strategic advantages today and in the future.*

This report discusses key factors associated with Gen Yers' personal finances and identifies issues critical to the financial future of the Gen Y population. Respondents included in this sample are at critical stages of long-term financial decision making, poised to make choices that carry serious implications for the future. The report ends with a list of strategies specifically addressing actions available to credit unions to better serve the needs of Millennials. Gen Yers have specific financial needs, and credit unions' ability to serve these needs will translate into strategic advantages today and in the future. With support from credit unions, Gen Y can better understand how to efficiently manage and control their personal finances.

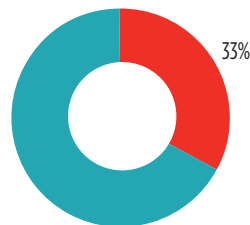
CHAPTER 2

## An Overview of Generation Y

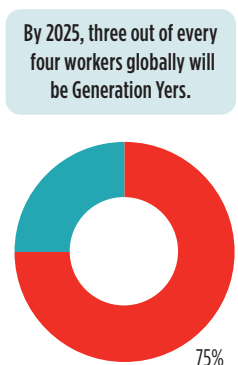
Distinct from its predecessors—the Baby Boomers and Generation X—Generation Y is the largest, most diverse generation in American history. It is made up of the 70–80 million individuals born between the late 1970s and the mid-1990s. Its racial composition also makes it distinctive: Minorities are more broadly represented among Generation Y's most educated, high-achieving members, and 11% of all Gen Yers have at least one immigrant parent (National Chamber Foundation 2012). In addition to being more ethnically diverse than previous generations, Gen Y is “on course to become the most educated generation in American history” (Fry and Parker 2012). Within the group of 25- to 29-year-olds alone, one-third have earned at least a bachelor's degree. Furthermore, in the United States and abroad, Gen Y will soon become the largest share of the labor market. It is predicted that, by 2025, three out of every four workers globally will be Gen Yers (Schawbel 2012).

Often referred to as the “instant-gratification generation,” Gen Yers have been characterized as

**FIGURE 1**  
25- TO 29-YEAR-OLDS WITH AT LEAST A BACHELOR'S DEGREE



**FIGURE 2**  
GLOBAL WORKFORCE 2025



having high expectations for both their professional and personal lives (Bishop 2006). The literature attributes this generation's buoyant optimism, supreme confidence, and high achievement to changed social values regarding children and family life. The confidence instilled in this generation has, indeed, informed its attitudes about professional achievement. Additionally, Gen Yers are the first truly digital generation, raised amid laptop computers, cell phones, tablets, and other rapidly advancing technologies that are changing the way consumers conduct business.

**FIGURE 3**

**KEY CHARACTERISTICS THAT DISTINGUISH GEN Y FROM OTHER GENERATIONS**

- Self-confidence
- Need for flexibility
- Belief that government should do more to solve problems
- Experienced a deep financial crisis at a young age
- Experienced a weak job market and/or entered job market during a recession

**CHAPTER 3**

# Evidence from the 2012 National Financial Capability Study

## The Data

The first National Financial Capability Study (NFCS), supported by the FINRA Investor Education Foundation, was conducted in 2009 to assess and establish a baseline measure of the financial capability of American adults.<sup>1</sup> The 2012 study updated key measures from the 2009 wave and covered highly relevant new topics such as student loans and medical debt. Working with a sample size of more than 25,000 observations, the overarching research objectives of the NFCS are to benchmark key indicators of Americans' financial capability and to evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics. Consistent with surveys on financial capability in other countries (Atkinson et al. 2007), the NFCS looks at multiple indicators of both financial knowledge and capability. These indicators include how people manage their resources, how they make financial decisions, the skill sets they use in decision making, and the search and information elaboration that goes into their choices. In other words, financial capability is assessed by looking at both short-term financial management and medium- and long-term financial planning.



Our analysis uses data from the 2012 wave and focuses on individuals aged 23–35. Even though the definition of Gen Y is broader, individuals who are 22 years old and younger may still be in school, making them less financially engaged than those who have already started professional careers. Additionally, we excluded 16 observations in which respondents were recorded as retired. Our final sample is composed of 5,525 observations.<sup>2</sup>

Nearly 60% of respondents in our sample of Gen Yers are women, and the average age is 29 (see Figure 4). Married respondents make up 47% of the sample and many of them have at least one child. About half (47%) are employed full time. Millennials, as defined in our sample, are relatively well educated. Nearly 40% have at least a college degree, and 29% have some college education. Because of our age restriction, full-time students make up only 6% of the sample. Minorities make up two-fifths of the sample, a characteristic that, as mentioned earlier, sets this generation apart from previous ones. Respondents were asked to report their yearly household income using eight ascending categories. Since income tends to increase with age and experience, it is not surprising to find that our sample’s average household income is lower than the national average. Nationally, about 50% of Americans have an annual income above \$50,000; for our Gen Y respondents it is 40% (Figure 5). Respondents with a college degree, however, tend to fare better: 60% of respondents in this subgroup report annual income above \$50,000.

**FIGURE 4**

**SAMPLE DEMOGRAPHICS**

Male	41%
Female	59%
Age 23–29	50%
Age 30–35	50%
<i>Ethnicity</i>	
White	61%
African-American	13%
Hispanic	15%
Asian-American	6%
Other ethnicity	5%
<i>Marital status</i>	
Married	47%
Single	46%
Separated	2%
Divorced	4%

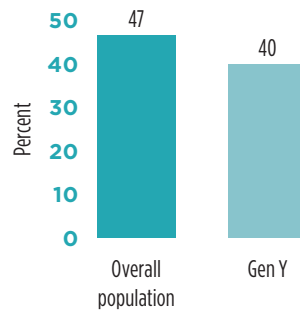
**FIGURE 4****SAMPLE DEMOGRAPHICS (continued)**

<i>Number of financially dependent children</i>	
1	21%
2	18%
3 or more	15%
No financially dependent children	4%
Do not have any children	42%
<i>Living arrangements</i>	
I am the only adult in the household	22%
I live with my spouse/partner/significant other	59%
I live in my parents' home	11%
I live with other family, friends, or roommates	9%
<i>Employment status</i>	
Self-employed	7%
Work full time for an employer	47%
Work part time for an employer	11%
Homemaker	16%
Full-time student	6%
Permanently sick, disabled, or unable to work	3%
Unemployed or temporarily laid off	10%
<i>Income</i>	
Less than \$25K	30%
\$25K–\$35K	14%
\$35K–\$50K	16%
\$50K–\$75K	18%
\$75K–\$100K	11%
More than \$100K	11%
<i>Education</i>	
Did not complete high school	10%
High school graduate—regular high school diploma	15%
High school graduate—GED or alternative credential	7%
Some college	29%
College graduate	26%
Post-graduate education	13%
Financial decision maker in the household	85%

Note: N = 5,525 respondents aged 23–25.

FIGURE 5

AMERICANS WITH ANNUAL INCOME ABOVE \$50,000



## Assets of Generation Y

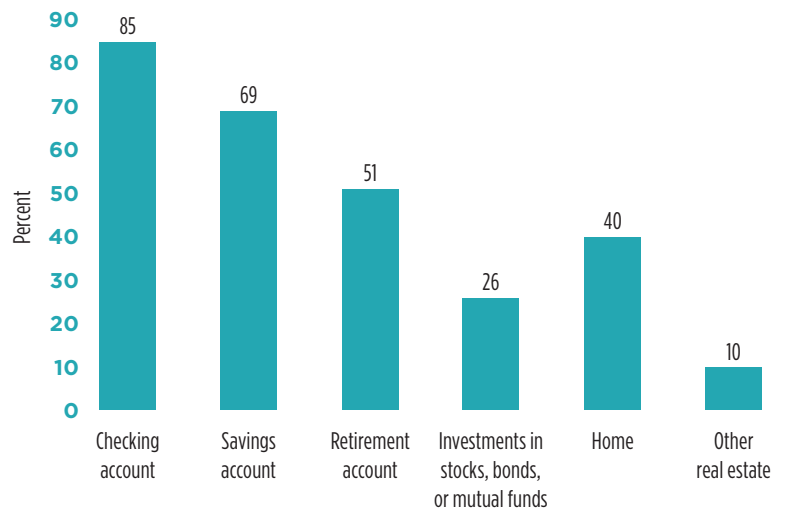
The NFCS provides information that allows researchers to track asset ownership and respondents' involvement in asset management. Among these indicators are whether respondents have bank accounts, real estate, financial investments, and retirement accounts. Most Gen Yers own a variety of assets (Figure 6). Even though the percentage of unbanked Gen Yers is higher than the percentage among the general population,<sup>3</sup> the vast majority of Millennials have a deposit at a financial institution. Some 88% of Gen Yers have either a checking account or a savings account at a bank or credit union; the remaining 12% are unbanked. Moreover, 51% of survey respondents report having a retirement account, whether employer based or independent,<sup>4</sup> and one-fourth of respondents have investments in stocks, bonds, or mutual funds. That latter statistic compares with a national average of 37%. Third, 40% of respondents own their home, and nearly 10% report owning additional real estate, such as a second home, investment property, or a farm.

## Long-Term Liabilities

The most common type of long-term liability among Millennials is student debt. According to a report by the Federal Reserve Bank of New York (2013), 38 million Americans currently owe more than \$1 trillion in student debt, the largest form of consumer

FIGURE 6

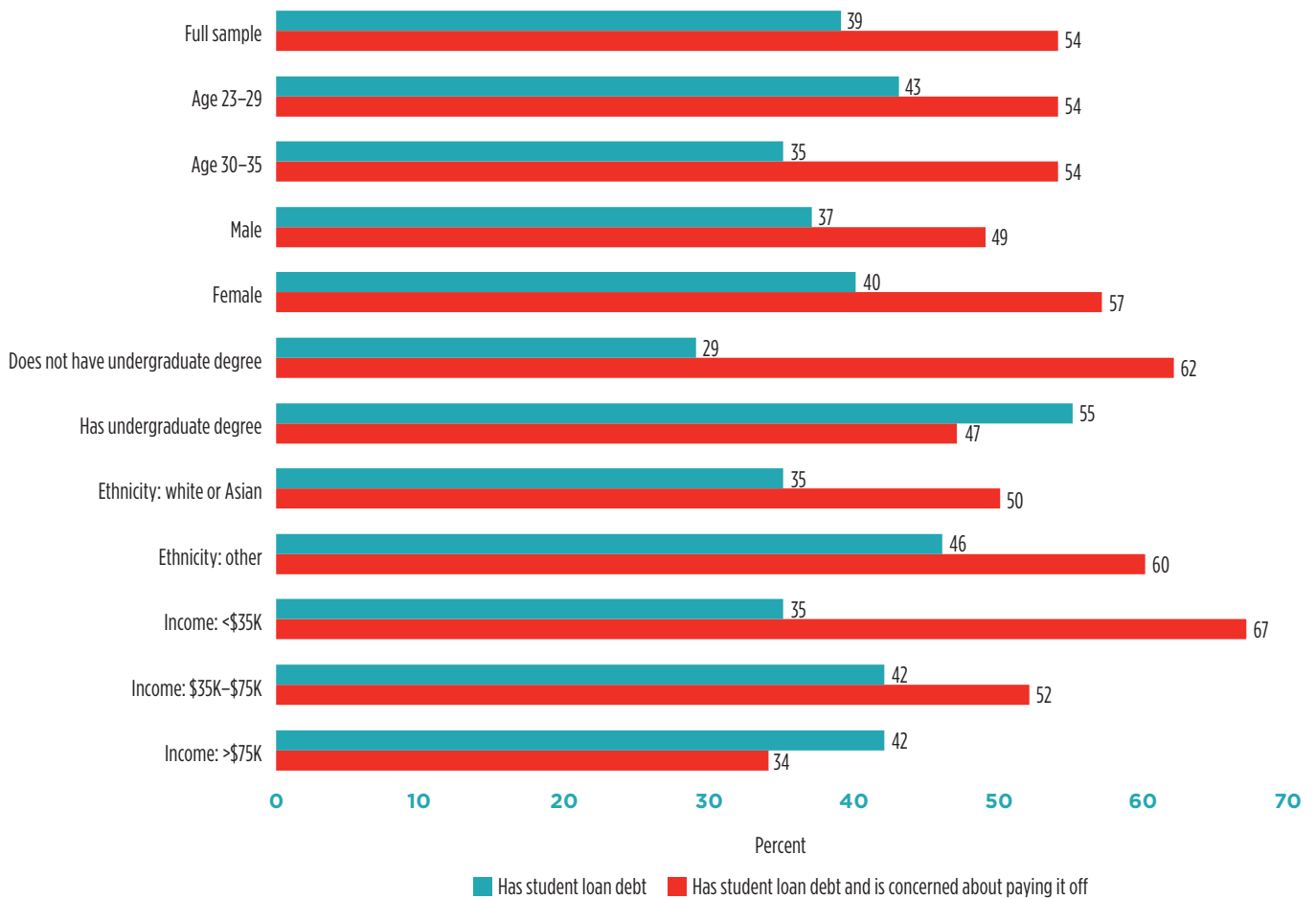
ASSET OWNERSHIP



Note: Ten percent of respondents did not answer the question on investments.

**FIGURE 7**

**STUDENT LOAN DEBT BY DEMOGRAPHIC CHARACTERISTICS**

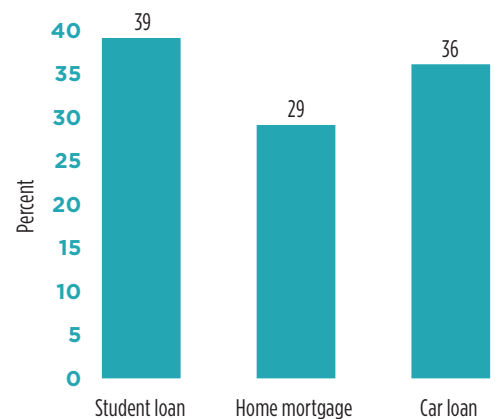


debt after home mortgages. Student debt is particularly important for Gen Y. Fry and Parker (2012) show that between 2007 and 2010 student loans significantly increased as a proportion of young household debt, rising from 34% to 40%. In our sample, we find that nearly 4 out of 10 respondents have student loans, whether private or federal (Figure 7).

Student debt is a transversal liability that crosses demographics such as gender, ethnicity, and income,<sup>5</sup> but, as expected, it disproportionately affects those with higher education: 55% of college-educated respondents carry student loans. Further, more than one-third (36%) of Gen Yers have an auto loan (see Figure 8).

**FIGURE 8**

**SOURCES OF LONG-TERM DEBT**



*Note:* The statistics relative to home mortgage and car loan are unconditional means.

By combining the information on these long-term obligations, we develop a comprehensive overview of Millennials' long-term obligations—and the results are striking. Two-thirds (66%) of all Millennials have at least one source of outstanding long-term debt, whether student loan, home mortgage, or car loan, and 30% have more than one source of long-term debt. Among the 2,124 college-educated respondents in our sample, a staggering 81% have at least one source of outstanding long-term debt, and 44% have more than one source. In other words, a sizable share (if not the major share) of young adults' financial decision making has to do with debt and debt management.

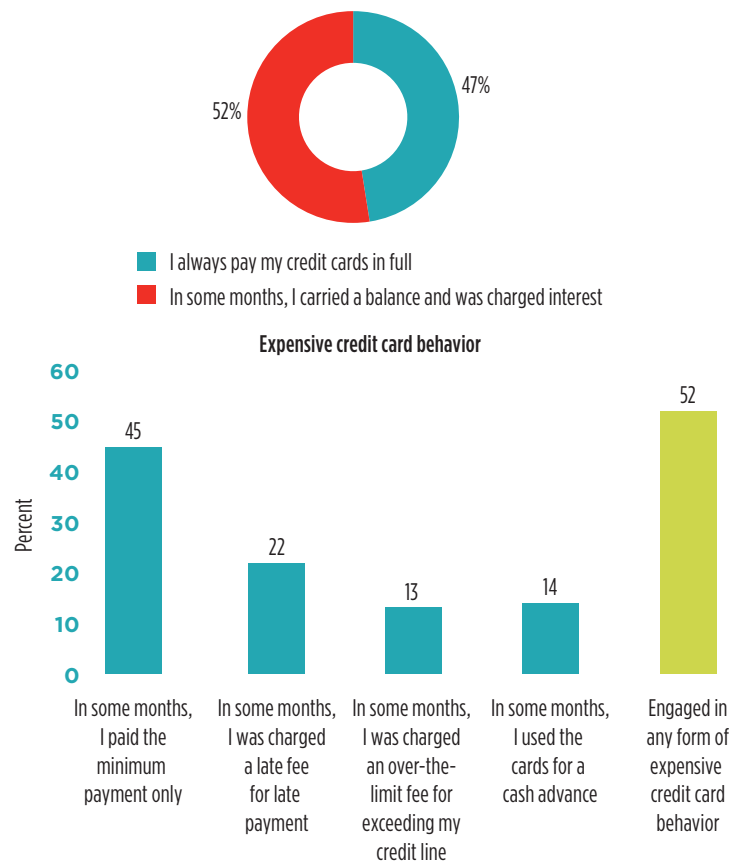
### Fifty-four percent of Gen Yers older than 30 are worried about repaying student loans.

A majority of Gen Yers have too much debt, struggle to make debt payments, and worry about it (see Figure 7). Concerns about the ability to pay off student loans were found among 54% of respondents with these loans, especially women (57%), non-Asian minorities (60%), and respondents who have student loan debt but not a college degree (61%). Respondents with lower income tend to be more concerned than higher-income earners, but even 34% of Gen Yers with annual household income above \$75,000 doubt they will be able to repay their student loans. Moreover, the percentage of individuals worried about repaying student loans remains high even several years after college. Fifty-four percent of Gen Yers older than 30 who have student loans are worried about repaying them.

### Short-Term Liabilities

In addition to long-term debt, Gen Y also carries short-term debt. The most prevalent source of Millennials' short-term debt is credit cards. The NFCS data show that 68% of Gen Yers have at least one credit card, and one cardholder in five has four or more cards.<sup>6</sup> More than half (52%) of credit card users report carrying over a balance—for which they were charged interest—in the last 12 months (see Figure 9). Forty-five percent report making only the

**FIGURE 9**  
**CREDIT CARD USE**



Notes: Percentages are calculated over the sample of credit card holders only (N = 3,757). The graph reports the answers to the question: "In the past 12 months, which of the following describes your experience with credit cards?"

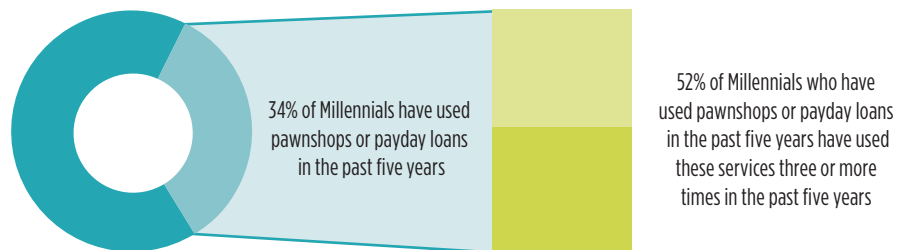
minimum required payment on their balance. Moreover, a sizable share of cardholders have been charged late fees (22%), over-the-limit fees (13% percent), and fees for taking cash advances (14%). When we look at those who borrow at potentially high costs (i.e., pay the minimum only, have been charged a late or over-the-limit fee, or use the card for cash advances), we find that as many as 52% of Gen Yers who have credit cards engaged in one or more potentially expensive credit card behaviors in the 12 months prior to the survey.

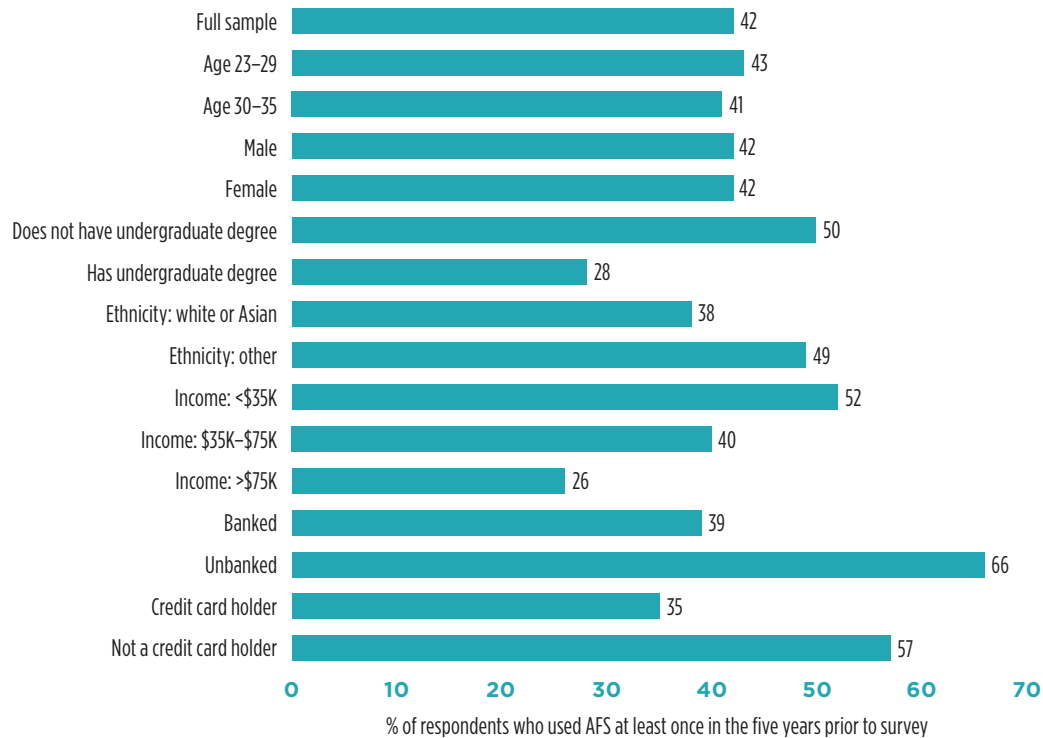
### *The most prevalent source of Millennials' short-term debt is credit cards.*

Use of alternative financial services (AFS) represents another significant source of short-term debt for Millennials (see Figure 10). This report looks at five types of AFS products: auto title loans, payday loans, pawnshops, rent-to-own loans, and tax refund advance loans. These services carry steep fees and, as such, they have also been defined in related research as high-cost borrowing methods (Lusardi and de Bassa Scheresberg 2013). More than two respondents in five (42%) used AFS at least once during the five years prior to the survey. Nontraditional financial services are a widespread method of borrowing, common even for households generally referred to as middle class. For example, AFS products were used by more than a quarter of Millennials with annual household income higher than \$75,000, or about four times the poverty line for a standard household of three (Figure 11). Moreover, many Gen Yers use nonbank services on a recurrent basis. For example, 19% of Millennials reported having used payday loans in the five years prior to the survey. Among these, more than two in five (45%) used them three or more times. Similarly, 27% of Millennials used pawnshops, and among them, nearly half (47%) reported having used these services three or more times in the past five years. Our analysis confirms the findings by Lusardi and de Bassa Scheresberg (2013), who documented a strong educational divide in AFS use among Millennials. Thus, these methods of borrowing have become common among large segments of the young population.

In addition to relying on AFS, Millennials are tapping into their bank accounts or retirement accounts. Twenty-nine percent of respondents who have a bank account reported occasionally overdrawing their account, and 22% of retirement account owners took loans or hardship withdrawals from their retirement account in the 12 months prior to the survey.

**FIGURE 10**  
**GEN YERS' RECURRENT USE OF NONBANK SERVICES**



**FIGURE 11****USE OF AFS BY DEMOGRAPHIC CHARACTERISTICS**

*Note:* The graph reports answers to the question: “In the past 5 years, how many times have you . . . ? Taken out an auto title loan; Taken out a short term ‘payday’ loan; Gotten an advance on your tax refund; Used a rent-to-own store; Used a pawn shop.”

## Financial Literacy, Confidence in Financial Knowledge, and Self-Perceptions

While many Millennials carry large amounts of debt and engage in behaviors that generate high interest payments and fees, they give themselves high marks on their personal financial management skills. NFCS data show that most Gen Yers are confident about their ability to make financial decisions and perceive themselves as having a good handle on financial matters. Seventy-four percent of respondents in our sample agreed with the statement “I am good at dealing with day-to-day financial matters, such as checking accounts, credit and debit cards, and tracking expenses” (see Figure 12).

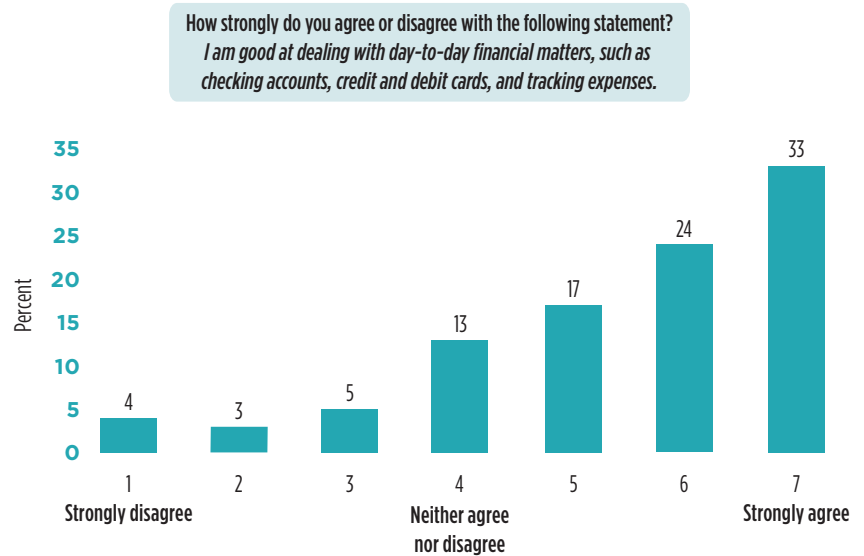
Similarly, there is a disconnect between self-assessed financial literacy and the actual level of financial literacy measured by looking at questions assessing the knowledge of fundamental concepts at the basis of financial decision making. Nearly 70% of respondents rated themselves as having high financial knowledge (Figure 13). That finding was even stronger among men, 75% of whom ranked themselves as being highly knowledgeable. In

stark contrast to this self-perception, responses to five financial literacy questions indicate that Generation Y has a generally low level of financial literacy. To measure financial knowledge, the survey included a set of financial literacy questions originally designed by Lusardi and Mitchell for the US Health and Retirement Study and subsequently included in numerous surveys in the United States and abroad (Lusardi and Mitchell 2008, 2011a).<sup>7</sup> All of these concepts are very important for Millennials, given that they are already active investors and carry both short- and long-term debt. Roughly speaking, correctly answering the first three questions indicates a basic level of financial literacy. Correctly answering all five questions shows a high level of financial literacy.

Despite high self-perceptions of financial knowledge, only 8% of Gen Yers answered all five questions correctly, and only 24% answered the first three questions correctly (see Figures 14 and 15).<sup>8</sup> Not only is the percentage of correct answers low, but many respondents indicated they did not know the answers to the questions, which has been shown to indicate a very low level of financial knowledge (Lusardi and Mitchell 2008, 2011a, 2011b, 2014). While financial illiteracy is widespread, it is particularly severe among specific subgroups. Women are much less likely than men to correctly answer the first three financial literacy questions, and minorities are less likely to answer correctly than whites or Asians. Financial literacy also seems

FIGURE 12

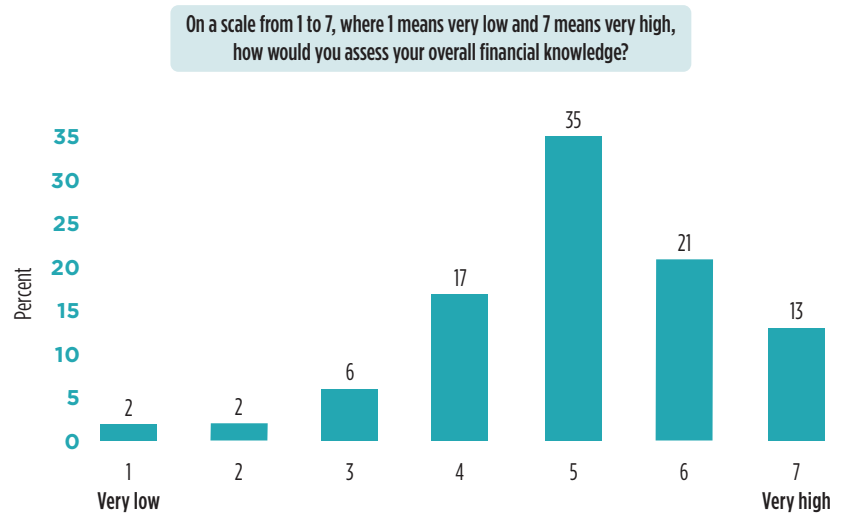
CONFIDENCE IN DEALING WITH FINANCIAL MATTERS



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

FIGURE 13

CONFIDENCE IN PERSONAL FINANCIAL KNOWLEDGE



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



FIGURE 14

MILLENNIALS' PERFORMANCE ON FINANCIAL LITERACY PORTION OF SURVEY

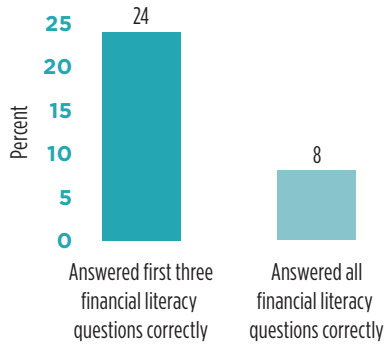


FIGURE 15

FINANCIAL LITERACY AMONG MILLENNIALS

	% correct	% don't know
Numeracy question	73	13
Inflation question	46	27
Risk diversification question	40	48
Mortgage question	72	17
Bond prices question	22	42
Answered the first three questions correctly	24	—
Answered all questions correctly	8	—

to increase with income: respondents with annual income higher than \$75,000 are more likely to correctly answer the first three financial literacy questions than are respondents with annual income lower than \$35,000.

*While financial illiteracy is widespread, it is particularly severe among specific subgroups.*

CHAPTER 4

# Summary, Implications, and Conclusions

## Summary of Key Findings

The analysis of Millennials' personal finances highlights 10 key findings:

1. Looking only at assets, such as savings or investments, provides a limited view of Gen Yers' financial profile.
2. Debt is widespread among Gen Yers; most carry short- or long-term debt or both.
3. Members of Generation Y feel overindebted.

4. Student loans are a major source of debt for college-educated Millennials, and most of them are concerned about their ability to pay off student loans.
5. Gen Yers use expensive methods of borrowing, such as credit cards, payday loans, pawnshops, and other AFS.
6. There is an educational divide in the use of AFS. While 28% of Millennials with a college degree used AFS in the five years prior to the survey, 50% of respondents with a high school education or less have relied on AFS.
7. While many Millennials have retirement accounts, many have already borrowed on those accounts.
8. Millennials give themselves high marks in their ability to make day-to-day and long-term financial decisions, but there are clear signs of overconfidence.
9. Professional financial advice is used sparingly. Many Millennials lack trust in financial professionals and think that professional financial advice is too expensive for them.
10. Even though Millennials make many decisions related to investments and debt, most of them lack financial literacy and are not aware of their lack of financial knowledge.

FIGURE 16

#### LESSONS LEARNED

- Gen Yers are deeply indebted
- Gen Yers have concerns with their ability to pay off debt
- Level of education dictates AFS utilization
- Gen Yers lack trust in financial professionals
- Financial literacy is an area for improvement among Millennials

*Gen Yers use expensive methods of borrowing, such as credit cards, payday loans, pawnshops, and other AFS.*

## Implications for Credit Unions

This report shows that Millennials face several challenges. Gen Yers' level of indebtedness and their deficiencies in personal financial management skills pose important questions for individuals and institutions that try to serve this generation. For credit unions, the implications of this research are as follows:

- ➔ **Gen Yers would benefit from assistance with debt management.** The analysis shows that an understanding of the asset side of their balance sheet is not sufficient to fully comprehend the financial profile of America's largest generation. Liabilities must also be considered in order to offer services that truly help young

customers. To be at the forefront of customer service, credit unions should proactively address debt and debt management.

*To be at the forefront of customer service, credit unions should proactively address debt and debt management.*

➔ **Since they are unaware that they lack financial knowledge and are confident about their financial management skills, Millennials may be difficult to engage.** When asked to evaluate their level of financial knowledge, the vast majority of Millennials give themselves high marks. However, data on their actual level of financial literacy show that most Gen Yers lack the basic knowledge needed for effective day-to-day financial management. This disconnect between what Gen Y thinks it knows about personal finance and its actual level of knowledge may make it difficult for credit unions to engage this generation. One potential strategy might be to leverage the confidence of Millennials. Gen Yers want to be at the center of their financial decisions, and an approach that recognizes and leverages this trait may provide better results than a more standard delegation of decision-making power.

FIGURE 17

HOW CREDIT UNIONS CAN HELP

- Debt management programs can help Gen Yers improve their personal financial management skills
- Improving financial literacy may be the key to effective engagement
- Offering products that specifically cater to individuals' education and income levels may increase membership base

*Gen Yers want to be at the center of their financial decisions, and an approach that recognizes and leverages this trait may provide better results than a more standard delegation of decision-making power.*

➔ **Financial literacy cannot be taken for granted, even among highly educated individuals.** The analysis reveals a striking lack of financial literacy. Even among Millennials with high levels of education and income, financial literacy is typically low. That leaves the largest generation in US history poorly equipped to deal with their assets and debt. Institutions and organizations that seek to be thought leaders and provide the best financial services to young adults must recognize the gravity of this failing and take an active role in mitigating it. Credit unions could actively tackle this problem through the development of financial education tools that positively impact Gen Yers' decision making. These tools are likely to be more effective if they target specific financial products, such as mortgages, student loans, or credit cards.

*The largest generation in US history is poorly equipped to deal with their assets and debt.*

➔ **Gen Yers should be steered away from high-cost borrowing products.** Many Millennials, in particular those without a college degree, rely on AFS, such as payday loans or pawnshops. Credit unions may be able to better serve these potential customers, especially by segmenting the population of Millennials according to education in addition to income.

## Conclusions

Despite encouraging signs in terms of their assets, the analysis reveals that Millennials are deeply indebted and struggle to meet payments on both short- and long-term obligations. Furthermore, Gen Yers use credit cards in expensive ways, tap their retirement accounts and bank accounts, and rely on AFS, often even if they have a bank account or a credit card. Even more troubling, their high level of financial engagement is not matched with a correspondingly high level of financial literacy. Even though most Gen Yers feel good about their financial knowledge, data show that they lack the basic skills needed to make savvy financial decisions.

*Even though most Gen Yers feel good about their financial knowledge, data show that they lack the basic skills needed to make savvy financial decisions.*

These findings suggest that the promotion of financial capability is much needed among Millennials. Programs aimed at improving financial literacy could help Gen Y minimize the costs incurred in managing its debt, improve its financial safety net for emergencies, and fortify its financial security. The gap between the amount of financial responsibility young Americans have and their demonstrated ability to manage financial decisions and take advantage of financial opportunities is rapidly widening. Unless there is significant action taken to alter this, financial illiteracy will remain a significant obstacle to both financial market efficiency and Gen Y's use of traditional financial services.

# Endnotes

<sup>1</sup> For a detailed analysis of the 2009 NFCS data, see Lusardi (2011).

<sup>2</sup> Because we focus on a specific subgroup of the population, the statistics we report do not use the NFCS weights, as those weights are calculated to make the NFCS data representative of the US population.

<sup>3</sup> According to a report by the Federal Deposit Insurance Corporation (2012), in 2011 the percentage of unbanked in the United States was approximately 8%.

<sup>4</sup> That compares with a 60% national average.

<sup>5</sup> Forty-two percent of Gen Yers with annual household income higher than \$75,000 have a student loan.

<sup>6</sup> Cardholders are 72% of the total US population (as observed in the full NFCS data).

<sup>7</sup> For an international comparison of financial literacy, see Lusardi and Mitchell (2011b, 2014).

<sup>8</sup> The first three questions aim to measure basic financial knowledge.

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