Findings from the National Financial Capability Study suggest college-educated young adults are challenged with debt and credit management, and have gaps in their financial knowledge.

**Huge Implications for Individuals and the Economy**

They are young, tech savvy and confident; diverse, connected and idealistic. And, they face a host of financial challenges. We’re talking, of course, about Gen Y, represented by the 2,124 college-educated respondents age 23 to 35 who took part in the 2012 National Financial Capability Study.

To understand this group’s personal finances and financial-management practices, Annamaria Lusardi and Carlo de Bassa Scheresberg of the Global Financial Literacy Excellence Center, The George Washington University, and Paul Yakoboski, senior economist at the TIAA-CREF Institute, took a close look at the study’s data set. They found a generation confident in its financial prowess, but burdened by debt and engaged in potentially costly behavior.

**At 80 million strong, Gen Y is the largest generation in U.S. history.** Its members account for about a third of the country’s workforce, and their impact is expected to grow rapidly in the coming decade. As a result, helping these young adults achieve financial security has huge implications—not just for the individuals, but for the U.S. economy and the nation’s future.

So what does the data suggest about this important demographic? Here’s a financial snapshot of college-educated Gen Y.

**Struggles with debt payments**

- **Debt is widespread.** Four out of five have at least one source of long-term debt—student loan, home mortgage, car loan—and 44% have more than one source.

- **Repaying debt is a concern.** Nearly half fear they won’t be able to pay off their student loans, and 20% have been late with one or more mortgage payments in the past two years.

**Perceived financial literacy**

- **Most feel confident in their financial literacy** and ability to handle day-to-day financial matters.
Actual financial literacy

- Their difficulty answering financial questions indicates gaps in financial education and knowledge.

Aggregate scores on five-question test of basic financial knowledge

<table>
<thead>
<tr>
<th>Type of Question</th>
<th>Answered Correctly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numeracy</td>
<td>81%</td>
</tr>
<tr>
<td>Inflation</td>
<td>59%</td>
</tr>
<tr>
<td>Risk diversification</td>
<td>53%</td>
</tr>
<tr>
<td>Mortgage interest</td>
<td>81%</td>
</tr>
<tr>
<td>Bond prices</td>
<td>29%</td>
</tr>
</tbody>
</table>

Answered all questions correctly: 14%

Costly behaviors

- High-cost borrowing methods are used frequently by those who consider themselves financially savvy.

Conclusions

Three conclusions about college-educated members of Gen Y emerge from the analysis:

- Many need help with debt management—whether they realize it or not.
- Most are confident in their ability to make day-to-day financial decisions, but there are signs of overconfidence.
- Financial literacy cannot be taken for granted, even among highly educated people with college and advanced degrees.

Hard times: Gen Y faces harsh economic realities

- Recession occurred at the start of, or early in, their careers
- Student loan debt—at $1 trillion and counting—exceeds credit card debt
- The value of stocks and other investments has fluctuated wildly in the past 15 years

Financial behavior among those confident in their day-to-day financial management

- Expensive credit card behavior* 40%
- Used alternative financial services** in the 5 years prior to the survey 26%
- Carried over a balance and was charged interest 46%
- Overdraft from checking account 21%

* Pays the minimum only, late fees, over-the-limit fees, or uses a card for cash advances.
** Includes payday loans, pawn shops, auto title loans and refund anticipation loans.

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