

# Financial Well-Being of the Millennial Generation: An In-Depth Analysis of Its Drivers and Implications

November 13, 2019

## Motivation

- Millennials have become the largest living adult generation
  - Ethnically diverse
  - Well-educated
- Many have low financial knowledge and exhibit costly money management behaviors
- Previous research suggests that financial well-being is lower among the young
  - More research is needed to understand the factors that influence financial well-being for Millennials and how these factors may vary by demographic groups.
- This paper aims to further understand the underlying factors that influence financial well-being to inform the development of financial education programs.

## Research Objectives

- Investigate how financial well-being varies among Millennials
- Examine potential factors that are associated with financial well-being
- Examine financial well-being by demographic subgroups

## Main Findings

- A) Many Millennials have lower financial well-being than older working-age adults and can vary widely
- Financial situations and experiences vary among Millennials
  - Need to take into account both sides of the balance sheet (assets & debt)
- B) There are subgroups that have lower financial well-being: old Millennials, women, those who are single, do not have a college degree, and the unemployed.
- The factors that are associated with financial well-being may vary by subgroup
- C) Financial literacy is correlated with financial well-being
- Even after accounting for many demographic characteristics, including income and education.

## 2018 National Financial Capability Study – NFCS

The NFCS is an nationally representative survey of the US population

### Sample selection

- Millennials: ages 23-37\*, non-retired
  - Sample size: 7,123
- Older working-age: 38-61\*, non-retired
  - Sample size: 9,869
- Commissioned by FINRA Investor Education Foundation. The NFCS started in 2009 and now has 10 years of data (collected every 3 years)
- Large number of observations allow researchers to study subgroups of Millennials
- Offers unique information on financial literacy, financial capability, and financial behavior

\*At the time the survey was taken in 2018

## 2018 National Financial Capability Study – NFCS (cont.)

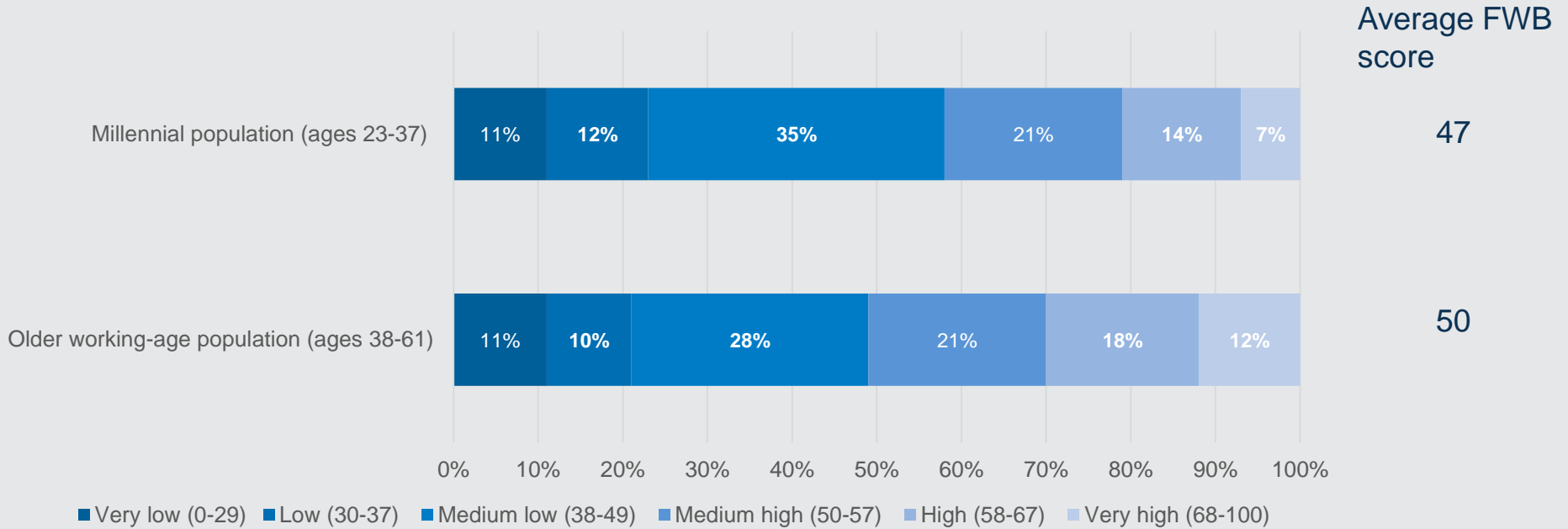
- 2018 wave is the first to include Abbreviated FWB scale (5 questions)
  - Average FWB scores of the NFCS have similar characteristics reported in the Financial Well-Being Survey
- Financial Literacy
  - Big Three financial literacy questions (measuring knowledge of interest rate, inflation, and risk diversification)
- Measures of financial situation and experiences
  - Several measures for individuals' financial situation (homeownership, retirement accounts, loans from retirement account)
  - Several measures of financial experiences (experienced a drop in income, unpaid medical bills, and financial fragility)

## Empirical findings

Empirical Findings –

(A) Many Millennials have lower financial well-being than older working-age adults and can vary widely

## Distribution of financial well-being scores

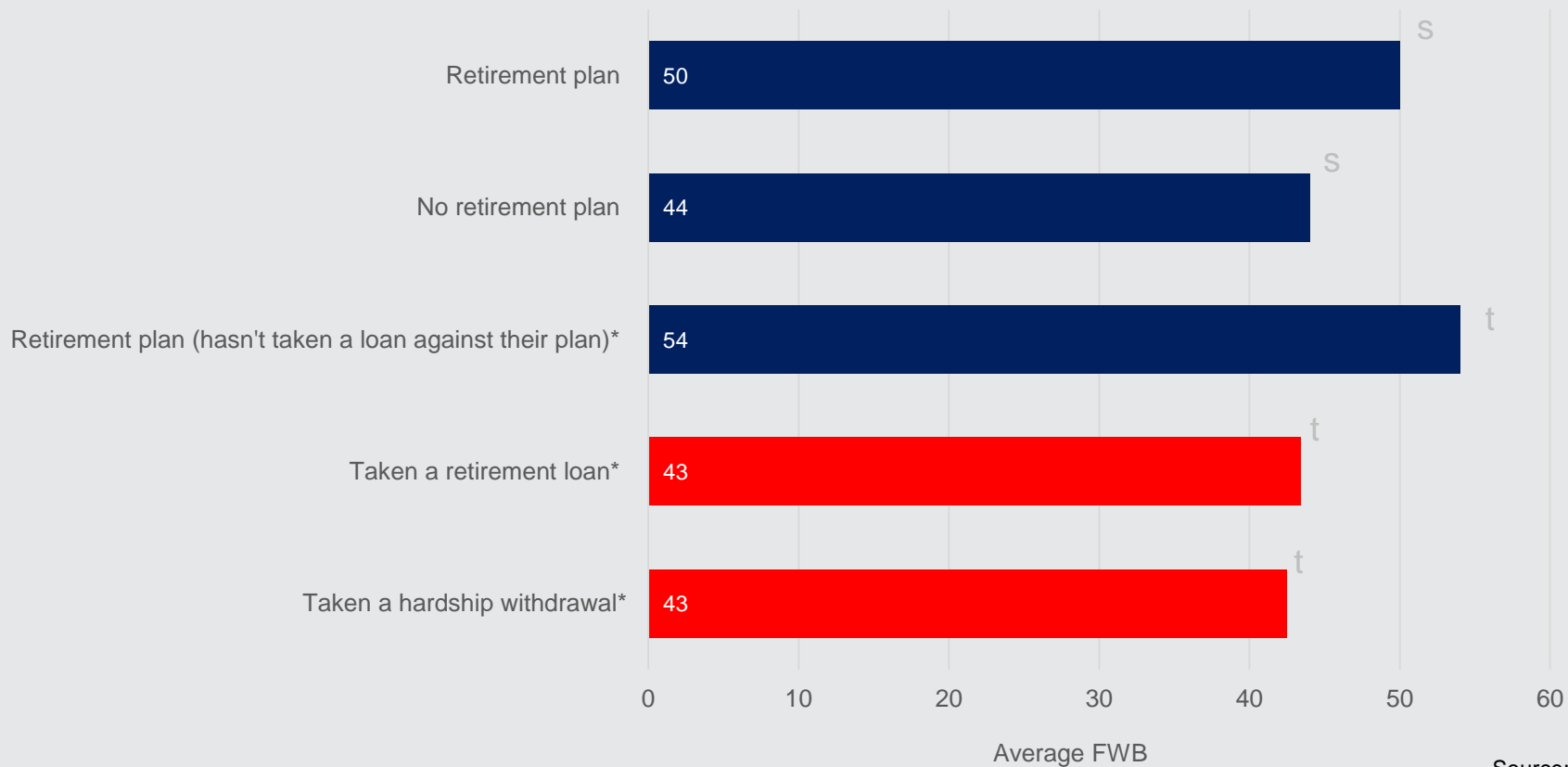


- Financial well-being is lower among Millennials than the older working-age population
- Greater percentage of Millennials fall within the very low, low, and medium low categories

Source: NFCS 2018



## Assets and Debt (Retirement Plan)

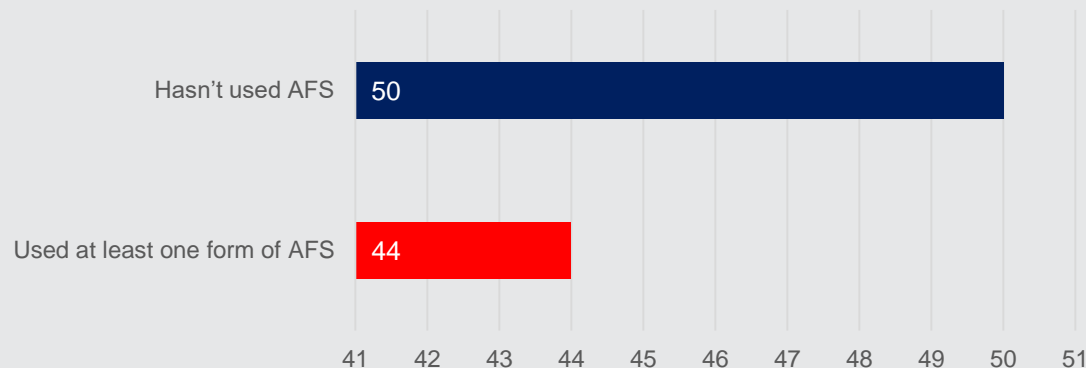


Source: NFCS 2018,  
23- to 37-year-olds

Note: \* Indicates statistics are conditional on having the related asset.

# Costly borrowing behavior

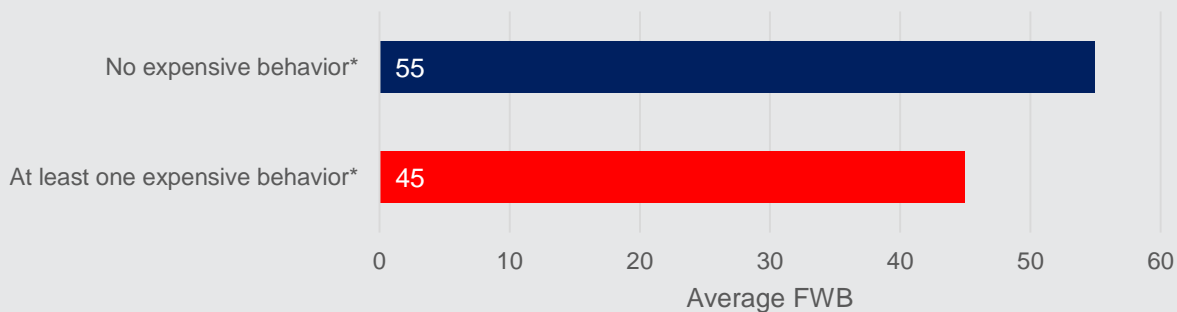
## Alternative Financial Services



Expensive borrowing behavior is high among Millennials

- 43% have used AFS

## Credit Card Management



- 61% have used their credit cards expensively

Source: NFCS 2018,  
23- to 37-year-olds

Note: \* Indicates statistics are conditional on having the related asset.

## Who has low financial well-being?

B) There are subgroups that have lower financial well-being: old Millennials, women, singles, those without a college degree, and the unemployed.

## Regression model

The full regression model is:

$$FWB = \beta_0 + \beta'_D D + \beta'_E E + \beta'_S S + \beta'_L L + \beta'_W W + \epsilon$$

Where

FWB: Financial well-being (continuous variable)

D: Demographic and family characteristics

- Gender, age, census region, education, income, race/ethnicity, marital status, children

E: Employment status

- Employed, unemployed, full-time student, out of labor force

S: Shocks to income and health

- Income shock (large unexpected drop in income in the previous 12 months), outstanding medical bills (unpaid medical bills that are past due)

L: Financial literacy

- Big Three financial literacy questions answered correctly (interest, inflation, risk div.)

W: Proxies for wealth

- Home ownership, bank account

## Full Sample

Dependent variable: financial well-being (continuous variable 0  
-100)

Model 4

	Coefficient	Standard Error
<b>Gender (omitted category: male)</b>		
Female	-1.623***	(0.311)
<b>Age (omitted category: ages 23-29)</b>		
Old Millennials (ages 30-37)	-1.417***	(0.308)
<b>Education (omitted category: high school degree or less)</b>		
Some college	-1.709***	(0.376)
Bachelor degree	-0.246	(0.463)
Post graduate degree	-0.175	(0.584)
<b>Marital Status (omitted category: Single)</b>		
Married	2.347***	(0.353)
Divorced/Separated	0.548	(0.730)
Widowed	-1.968	(2.589)
<b>Work Status (omitted category: Employed)</b>		
Unemployed	-2.696***	(0.620)
Full-time student	0.0951	(0.692)
Homemaker/sick, disabled or unable to work	-0.750	(0.474)
Additional control variables	Yes	
Observations	6,623	
R <sup>2</sup>	0.248	

FWB is lower among

- Women
- Old Millennials
- Some college
- Single
- Unemployed

Source: NFCS 2018, 23- to 37-  
year-olds  
Robust standard errors in  
parentheses. \*\*\*p<0.01,  
\*\*p<0.05, \*p<0.1

## Family characteristics

Dependent variable: financial well-being (continuous variable 0 -100)	Female Millennials	Male Millennials
<b>Marital Status</b> ( <i>omitted category: Single</i> )		
Married	3.317*** (0.450)	1.222** (0.566)
Divorced/Separated	1.121 (0.872)	-0.369 (1.258)
Widowed	-2.487 (3.350)	-2.163 (4.044)
<b>Have children</b> ( <i>omitted category: No financially dependent children</i> )		
Have financially dependent children	-0.620*** (0.172)	0.329 (0.242)
Demographic variables	Yes	Yes
Employment status	Yes	Yes
Shocks to income	Yes	Yes
Financial literacy	Yes	Yes
Proxies for wealth	Yes	Yes
Observations	3,856	2,767
$R^2$	0.247	0.258

### The impact of family characteristics differ by gender

- Being married is more significant for females
- Having financially dependent children is negatively correlated to FWB for females only

## Financial literacy and financial well-being

C) Financial literacy is correlated with financial well-being

# Financial literacy

Dependent variable: financial well-being (continuous variable 0 -100)	Model 4
<b>Financial Literacy</b>	
Three questions correct (interest, inflation, risk)	2.458*** (0.410)
Demographic variables	Yes
Employment status	Yes
Shocks to income	Yes
Financial literacy	Yes
Proxies for wealth	Yes
Observations	6,623
$R^2$	0.248

Financial literacy remains correlated with FWB

- Total sample of Millennials



## Financial literacy by subgroup

	Gender	
Dependent variable: financial well-being (continuous variable 0 -100)	Female Millennials	Male Millennials
<b>Financial Literacy</b>		
Three questions correct (interest, inflation, risk)	2.436*** (0.578)	2.520*** (0.600)
Demographic variables	Yes	Yes
Employment status	Yes	Yes
Shocks to income	Yes	Yes
Financial literacy	Yes	Yes
Proxies for wealth	Yes	Yes
Observations	3,856	2,767
$R^2$	0.247	0.258

Financial literacy remains correlated with FWB

- Across gender

Source: NFCS 2018, 23- to 37-year-olds  
Robust standard errors in parentheses.  
\*\*\*p<0.01, \*\*p<0.05, \*p<0.1

## Discussion

- Financial well-being is lower among Millennials than older working-age adults
- Costly money management behaviors (i.e., the use of high-cost methods of borrowing) are correlated with lower financial well-being.
- Financial literacy remains significant across almost all subgroups, even after controlling for many other variables
- Need more holistic programs to improve financial well-being among Millennials
  - FWB varies widely
  - Should not focus on one behavior only

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