Research Brief

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

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Executive Summary

The Millennial generation, comprised of individuals ages 23 to 37, is well educated and ethnically diverse and is currently the largest living adult generation. Millennials have experienced changes in the financial landscape that have shifted more financial responsibility onto the individual, and our paper finds that, overall, Millennials are struggling with this increased responsibility and with achieving financial well-being.

Our paper provides an in-depth empirical analysis of the factors that influence financial well-being among Millennials, as measured by the Consumer Financial Protection Bureau (CFPB)'s abbreviated financial well-being scale. Using data from the 2018 National Financial Capability Study (NFCS), we examine the factors that are associated with financial well-being. We investigate differences in financial well-being using measures of assets, debt, money management behavior, and shocks to income. We also examine financial well-being by subgroups to shed more light on the heterogeneity of financial well-being among Millennials.

Key Findings

- Financial well-being is lower among Millennials than older working-age adults and can vary widely.
- Within the Millennial population, women, those without a college degree, those who are single, and the unemployed display particularly low levels of financial well-being.
- Financial literacy is correlated with financial well-being.

Findings show that many Millennials experience financial hardship and engage in costly borrowing behavior. The prevalence of such behavior may contribute to their lower average financial well-being scores. Moreover, we find particular groups may face greater challenges in achieving financial well-being. This is notable as these subgroups are large portions of the Millennial population. We do find that Millennials who are financially literate are more likely to have higher financial well-being which suggests that programs that improve financial knowledge and skills may also help in improving financial well-being for Millennials.

This research highlights the importance of designing and offering financial education programs that will optimally meet the needs and address the concerns of this diverse population. To improve financial well-being, programs should be tailored to the financial situation of their participants.

1. Background

In the last few decades, the economic landscape has changed considerably. There has been a shift to greater individual responsibility for saving and investing, and people are now faced with complex and consequential financial decisions related to, for example, saving for retirement and investing in education. One of the generations most impacted by this shift is Millennials. This generation has experienced rising education costs and, as a result, many Millennials have started their working careers in debt. Research shows that many Millennials are highly indebted and struggling to meet both long- and short-term payment obligations.[1] Thus, it is increasingly apparent that the financial position of Millennials may be fragile and their ability to achieve financial well-being challenging.

Research from the CFPB suggests that financial well-being is lower among the young.[2] Financial well-being is a measure of an individual's perceived financial security and can be influenced by many factors. In order to find ways to effectively improve financial well-being, more evidence is needed to understand its determinants. Our paper builds on previous research by examining the relationship between financial well-being, demographic characteristics, and measures of financial capability among Millennials.

2. About the Study

Using data from the 2018 NFCS, this paper provides an in-depth empirical analysis of Millennials' financial well-being. We examine the relationship between financial well-being and assets, debt, money management behavior, and shocks to income. We conduct this analysis on the entire sample of Millennials and on subgroups to determine which groups display lower levels of financial well-being.

The NFCS, which is supported by the FINRA Investor Education Foundation, was first conducted in 2009 to establish a baseline measure of financial capability among American adults. It is a nationally representative survey of approximately 27,000 adults that is conducted every three years. This paper uses the most recent wave (2018) of the NFCS, which includes for the first time the CFPB's abbreviated financial well-being scale, which measures financial well-being based on responses to a set of five questions.[3] Additionally, the NFCS has a set of indicators on financial capability, behavior, and demographic characteristics that are rich enough to enable a more robust analysis on Millennials than has been possible in previous studies. We define Millennials as those who are between the ages of 23 to 37 and are not retired. We compare Millennials with a sample of individuals who are currently working (not retired) and are between the ages of 38 and 61. This older working-age sample has 9,869 observations and the Millennial sample has 7,123 observations, so the overall sample is large. Survey findings are weighted to ensure the entire sample is representative of the U.S. population in terms of age, gender, ethnicity, education, and census division.

This research is a descriptive analysis and we use simple means as well as multivariate regressions to investigate financial well-being among Millennials. We analyze how financial well-being scores vary among Millennials by demographic characteristics and compare these scores with the older working-age population. Additionally, we investigate the link between financial literacy and financial well-being. Individuals are considered financially

1 de Bassa Scheresberg, Carlo, Annamaria Lusardi, 2014. "Financial Capability among Young Adults," GFLEC working paper, November.

2 Consumer Financial Protection Bureau (CFPB), 2017. "Financial Well-Being Scale: Scale development technical report," May.

3 The wording of the well-being statements is as follows: (1) Because of my money situation, I feel like I will never have the things I want in life; (2) I am just getting by financially; (3) I am concerned that the money I have or will save won't last; (4) I have money left over at the end of the month; (5) My finances control my life.

literate if they can correctly answer three questions that measure knowledge of interest rates, inflation, and risk diversification. We examine the factors associated with Millennials' financial well-being using several measures of assets, debt, money management behavior, and shocks to income. We test for significant differences in financial well-being across groups. To further examine the factors associated with financial well-being, we perform regression analyses and include a rich set of demographic controls to further examine the factors related to financial well-being. Demographic controls include age, gender, education, income, ethnicity, marital status, work status, and the number of financially dependent children. Additionally, we include shocks to income and health, levels of financial literacy, and proxies for wealth. We conduct this analysis on the total sample of Millennials and split the sample by age, gender, educational attainment, and race to examine how financial well-being varies among the population.

3. Findings

We find that many Millennials are in precarious financial situations, and this appears to have a substantial impact on their financial well-being. We also find that financial well-being can vary widely among Millennials, so to better understand this variation, it is important to consider the financial well-being of population subgroups as well as of the total population of Millennials.

3.1. Financial well-being is lower among Millennials than the older working-age population but can vary widely

Table 1 shows a lower average financial well-being score (47) for Millennials compared to an older working-age population (50). Overall, the distribution of financial well-being scores indicates very low, low, or medium low financial well-being for a large percentage of the older working-age population and the Millennial population. However, the percentage of those who fall within these low well-being ranges is considerably higher for Millennials: 58% compared to 48% for the older working-age population. The difference in the average financial well-being score between the two populations is significant, and we find statistically significant differences at the low, medium low, high, and very high categories. We do note that these differences may be attributable to differences in life stages, as Millennials have had less time to save and accumulate wealth than the older working-age population.

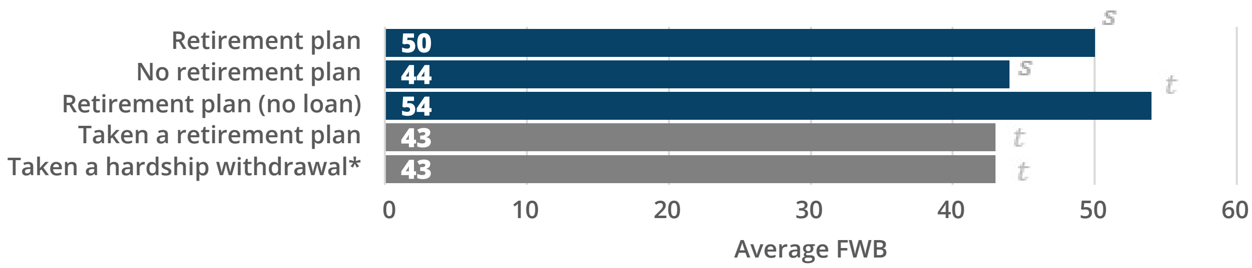
Table 1: Distribution of Financial Well-Being Scores

	Older working-age population (ages 38-61)	Millennial population (ages 23-37)
Total sample (weighted average)	**50**	**47**
Very low (0-29)	11%	11%
Low (30-37)	**10%**	**12%**
Medium low (38-49)	**27%**	**35%**
Medium high (50-57)	21%	21%
High (58-67)	**17%**	**14%**
Very high (68-100)	**12%**	**7%**
Observations	9,869	7,123

Note: All data are from the 2018 NFCS. All estimates are weighted. Percentages in bold indicate statistically significant differences between Millennials and the older population for each category (at the p<.05 level).

There are a variety of factors that may contribute to low financial well-being. We find that the financial situation and experiences of Millennials play an important role. Millennials who have assets have higher financial well-being scores, but if they carry debt related to those assets, they score much lower. For example, those with a retirement plan (either employer-sponsored or individual) have an average score of 50. Those without a retirement plan have a score of 44, which is significantly lower.

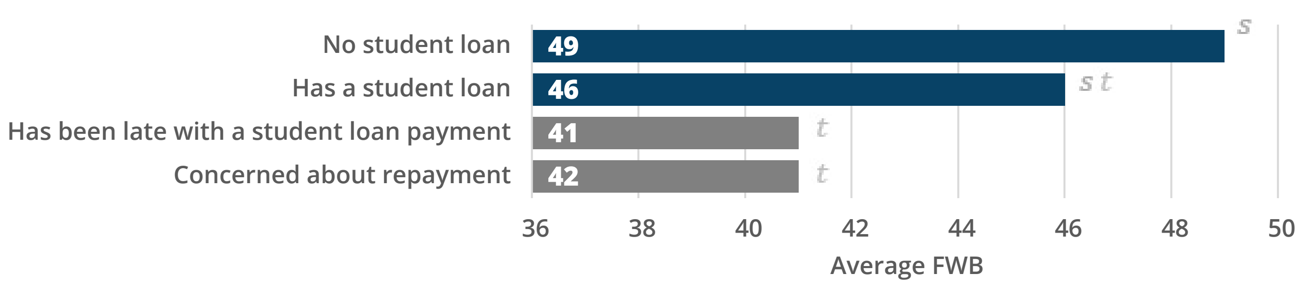
Figure 1: Financial Well-Being (FWB) of Millennials by Retirement Plan Ownership and Debt



Note: All data are from the 2018 NFCS data set. Statistics include total Millennial population who are not retired and may or may not be working. *Indicates statistics are conditional on having the related asset; ***s*** indicates whether the asset statistic is statistically significant; ***t*** indicates whether the debt statistic is statistically significant (at the p<.05 level).

However, those who have taken a loan against their retirement account have an average score of 43 and those who have taken a hardship withdrawal have a score of 42, significantly lower than those who have a retirement plan and no loan. This suggests that both assets and debt influence financial well-being. Moreover, financial well-being differs across a range of financial experiences. Millennials who have a student loan score an average of 46, compared to 49 for those who do not have a student loan. However, it is not only having a loan that may influence financial well-being but also having the ability to manage and repay the loan. Those who have been late with their student loan payment at least once in the last year or who are concerned about their ability to repay their loan have an average financial well-being score of 41.

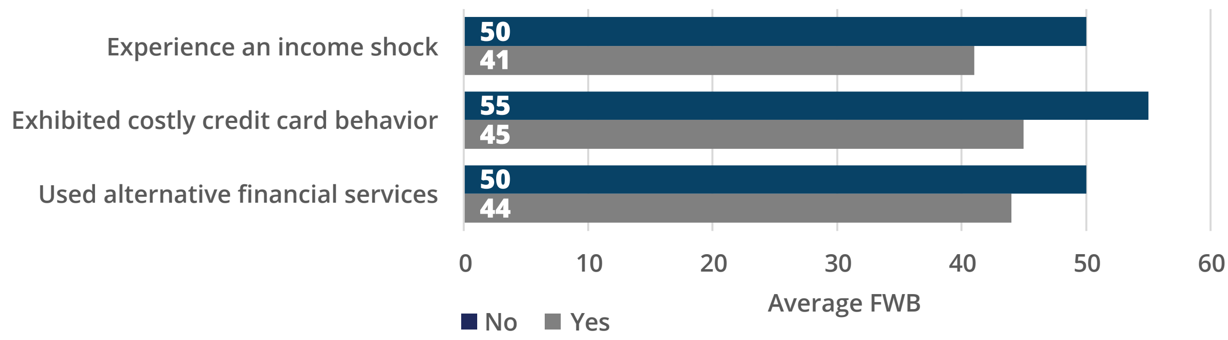
Figure 2: Financial Well-Being (FWB) of Millennials by Student Loan Debt and Debt Management



Note: All data are from the 2018 NFCS data set. ***s*** indicates whether the statistic about assets is statistically significant; ***t*** indicates whether the statistic regarding debt management is statistically significant (at the p<.05 level).

Another important financial behavior that is not only prevalent but also has a significant influence on financial well-being is costly borrowing. We find that almost half of Millennials (43%) have used high-cost borrowing methods, such as payday loans, pawn shops, auto title loans, or rent-to-own shops, in the last five years. Those who have used one of these borrowing methods have an average financial well-being score that is significantly lower, by 6 points, than the average score of those who have not. Moreover, we find that 61% of Millennials have used their credit cards expensively, such as paying the minimum balance only or incurring a late fee. Those who have used their credit cards expensively have a score of 45, 10 points lower than the scores of those who have not. Additionally, we find that circumstantial financial experiences influence financial well-being. A sizable percentage of Millennials have suffered economic shocks; as many as 31% experienced a large and unexpected drop in income in the past twelve months. There is a significant difference in financial well-being between those who have (41) and those who have not experienced such a shock (50).

Figure 3: Financial Well-Being (FWB) of Millennials by Financial Experience



Note: All data are from the 2018 NFCS data set. All statistics reported in the figure are statically significantly different (at the p<.05 level).

Many Millennials are concerned about (and have had trouble with) debt repayment, exhibit costly borrowing behavior, and have experienced income shocks, all of which are all negatively related to financial well-being.

3.2. Within the Millennial population, women, those without a college degree, those who are single, and those who are unemployed display particularly low levels of financial well-being

We compare the average financial well-being scores of Millennials by demographic characteristics and find some important relationships. Income and education are both positively correlated with financial well-being. Millennials with a high school degree or less have an average score of 46 compared to 50 for those with a bachelor's degree. We observe, however, that average scores among Millennials appear to hide differences across subgroups. Average financial well-being scores of certain subgroups are significantly lower than those of the total Millennial population. So, to better understand this, we further examine financial well-being by splitting the sample according to age, gender, educational attainment, and race.

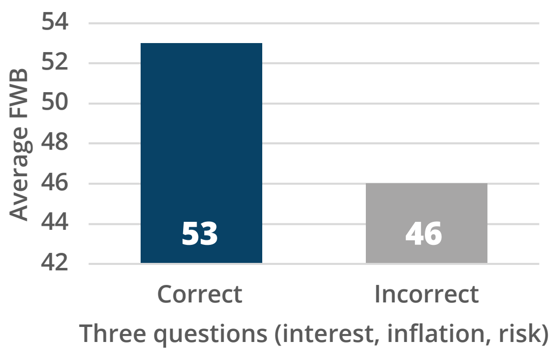
Women display lower levels of financial well-being, even after controlling for a wide range of demographic characteristics. This finding holds when we examine financial well-being by demographic groups of younger (ages 23-29) and older millennials (ages 30-37) and by race. However, when we examine Millennials' financial well-being by educational attainment, we note no significant gender difference for those with, at minimum, a bachelor's degree. This suggests that higher education may be a factor in helping close the financial well-being gap between men and women. Additionally, we find that financial well-being for females is more likely to be influenced by family characteristics than it is for males. Individuals who are married (both men and women) are more likely to have higher financial well-being than those who are single. However, marriage appears to have a significantly greater influence on financial well-being for females than for males. Additionally, having financially dependent children appears to lower financial well-being for females but not for males.

Some noteworthy findings arise when we consider those without a college degree. When we control for demographic characteristics, including income, we find that those with some college have lower financial well-being than those with a high school degree or less. This finding is consistent across multiple subgroups, including females, males, and older Millennials. While education is normally positively related to financial well-being, the negative relationship of financial well-being with some college may be the result of student loan obligations. Millennials with some college are likely to have taken out loans to pay for their education but, having not gotten a degree, may not have the earning potential of those who have a bachelor's or post-graduate degree. Finally, we find that those who are unemployed and those who are single are more likely to experience lower financial well-being than those who are employed and married. This holds true across multiple subgroups, even after controlling for various demographic characteristics.

3.3. Financial literacy is correlated with financial well-being

Millennials who are financially literate are more likely to have higher financial well-being. Those who could correctly answer three financial literacy questions have an average score of 53 compared to a score of 46, which is significantly lower, for those who could not.

Figure 4: Financial Well-Being (FWB) of Millennials and Financial Literacy



When examining the total population of Millennials and controlling for demographics, including income and education, we find that those who are financially literate are more likely to have higher financial well-being. The importance of financial literacy holds true for almost all of our subgroups. These findings suggest that well implemented financial education programs that improve financial knowledge and skills hold promise in increasing the financial well-being for Millennials.

Note: All data are from 2018 NFCS data set. Statistics between correct and incorrect performance are statistically significant (at the p<.05 level).

4. Conclusion

This paper provides an in-depth analysis of financial well-being among Millennials. Our descriptive analysis suggests that financial well-being is lower among Millennials than the older working-age population. We note that this difference may be due to life stage differences. However, what is of particular interest for financial education programs is the high prevalence of costly experiences and behavior that may be contributing to the low financial well-being of Millennials. This includes holding debt, using expensive methods of borrowing, and experiencing income volatility. Moreover, we find that large subgroups within the Millennial generation may experience even greater challenges in achieving financial well-being. One important implication of these findings is that future research and education programs in financial well-being should not consider Millennials as a homogenous group but should explore differences within the generation. On average, we find specific financial experiences and behavior that are negatively related to financial well-being. However, given the differences we see across subgroups, these experiences may not influence financial well-being to the same extent for all Millennials. We do find that financial literacy is positively associated with financial well-being which suggests that financial education programs may help to improve financial well-being. Therefore, this analysis suggests that programs that aim to improve the financial well-being of Millennials would be most effective if they first assessed the financial situation of participants, in order to understand their needs, and then developed comprehensive content to help address those needs to improve financial knowledge and skills.

These initial findings help advance our understanding of financial well-being among Millennials. They also provide a basis for subsequent research in financial well-being, in particular around the influence of student loans.