Financial Education is Not Enough: Millennials May Need Financial Capability

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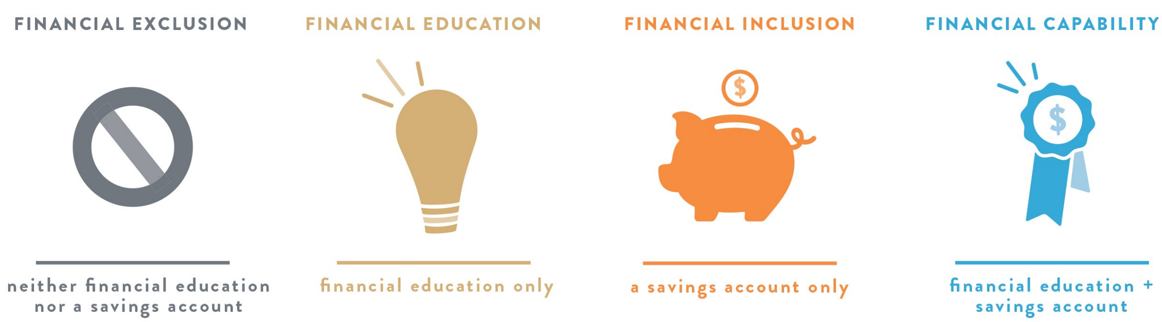
About this Study

This study, generously funded by the FINRA Investor Education Foundation, examined the financial health and capability of Millennial young adults between the ages of 18 and 34 (N = 6,865) from the 2012 National Financial Capability Study (NFCS). In particular, this study explored how varying combinations of financial education and financial inclusion related to Millennials' financial behaviors, like saving for emergencies, using alternative financial service providers, and carrying debt. The 2012 NFCS is one of the few data sets with extensive questions about financial behaviors. The results identifying significant differences in the data were based on multiply imputed and propensity score weighted (average treatment-effect-for-the-treated; ATT) regression analyses of young adults in the sample.

Financial education is often touted as the "go-to" intervention for promoting financial health. However, without opportunities to operationalize knowledge, education alone may not improve young adults' financial health. Combining financial education with financial inclusion—specifically, access to a savings account—to equip young adults with a foundation of *financial capability* may prove more determinant of financial outcomes.



Key Findings

- 19% of all Millennials are financially capable. Only 8% of lower-income Millennials (annual incomes < $25,000) are financially capable.
- 27% of all Millennials are financially excluded and 46% of lower-income Millennials are financially excluded.
- Compared to their financially excluded peers, Millennials who are financially capable are 176% more likely to afford unexpected expenses, 224% more likely to save for emergencies, 21% less likely to use alternative financial services, and 30% less likely to carry burdensome debt.

Compared to their financially excluded peers, financially capable Millennials are almost three times more likely to be able to come up with $2,000 for an unexpected expense and more than three times more likely to save for emergencies, suggesting that financial capability serves as a protective factor against financial fragility. Financially capable Millennials are less likely to use alternative financial services and report carrying too much debt. Given these metrics of financial health, it is not surprising that financially capable Millennials also report being satisfied with their financial condition significantly more often than those who are financially excluded.

Financial Education's Effects on Behavior may be Weaker without Experiential Learning Opportunities.

Millennials Begin Adulthood with Financial Vulnerabilities

- Navigating the complex decisions of early adulthood requires a level of financial knowledge and access to financial products that today's young adults—known as Millennials—may lack.[1]
- Over one-third of Millennials report relying on alternative financial service providers and almost one-third lack emergency savings,[2] reflecting significant financial fragility.[3]
- About 85% of Millennials are in debt, with average debt load of $60,000.[4] This compromised position may have implications for their financial stability and future wealth accumulation.

Toward Financial Capability: Limits of Financial Education Alone

- Emerging evidence suggests limited—and sometimes fleeting—effects of financial education on behavior, absent standardized implementation or opportunities for experiential learning.[5] As a result, despite growing state and national efforts to incorporate financial education into public school curriculum, young adults' financial knowledge has remained relatively stable.[6]
- In contrast, research consistently finds significant relationships between savings accounts and financial health.[7] Young adults may be more likely to maintain relationships with mainstream banking institutions, accumulate savings, and diversify their asset portfolios when they have savings accounts in mainstream financial institutions earlier in life.[8]

Study Findings: Financial Capability Matters

- In this sample of 6,865 Millennials ages 18 to 34, 19% reported being *financially capable* (owning a savings account and having received financial education). Almost half reported being *financially included* by owning a savings account but without having received financial education, and 6% reported being *financially educated* by having received financial education but not owning a savings account. Just over one quarter reported being *financially excluded*—neither owning a savings account nor having received financial education.
- Many Millennials are financially fragile. Roughly half of all Millennials and about one third of lower-income Millennials doubted they could come up with $2,000 if faced with an unexpected expense. Lower-income Millennials, those with less formal education, and those with dependent children were among the least confident.
- Compared to being financially excluded, being financially capable was associated with a 176% increase in the likelihood of affording $2,000 for unexpected expenses.[9] Being financially included was associated with a 123% increase and being financially educated was associated with a 40% increase in the likelihood of affording $2,000 for unexpected expenses.
- Only about 35% of Millennials reported saving for emergencies. Those with a high school diploma or less reported saving for emergencies less often, as did those who were unemployed and/or lower-income. Millennials were more likely to save for emergencies when they were male, had at least a college degree, were either full-time students or employed, had higher household incomes, and owned their homes.

Financial Capability is Significantly Associated with Millennials' Financial Health.

- Compared to being financially excluded, being financially capable was associated with a 224% increase in the likelihood of saving for emergencies, being financially included was associated with a 159% increase, and being financially educated was associated with a 44% increase in the likelihood of saving for emergencies. Combining financial education with other products, including a checking account or credit card, also demonstrated a positive relationship with emergency savings.

- Almost half (44%) of Millennials reported using alternative financial services such as title loans, payday loans, and tax refund advances. Millennials' financial capability and financial inclusion were both associated with decreases in the likelihood of using alternative financial services. Compared to being financially excluded, Millennials who were financially capable were 21% less likely to use alternative financial services and those who were financially included were 26% less likely to do so.
- One third of Millennials (33%) reported that they carried too much debt. Millennials' financial capability was associated with a 30% decrease in the likelihood of carrying too much debt compared to their financial exclusion—more than twice the effect seen from financial inclusion alone.
- Millennials' degree of satisfaction with their financial condition represented the extent to which they could live their preferred financial lives. Millennials were not particularly financially satisfied, perhaps reflecting the challenges of initiating financial adulthood. However, financial capability and financial inclusion were associated with significantly higher financial satisfaction scores.
- Consistently, financial capability was significantly associated with Millennials' financial health, and the strength of these relationships was stronger than either the independent relationships of financial inclusion or financial education.
    - While Millennials who were financially educated were more likely to come up with $2,000 for an unexpected expense and more likely to save for emergencies compared to their financially excluded peers, they were no better off in terms of using alternative financial services, carrying too much debt, or being financially satisfied.
    - Having a checking account or credit card also seemed to provide Millennials with opportunities for experiential learning and access to financial products. However, these other financial products seemed to be poor substitutes for a savings account when it came to avoiding burdensome debt.

Financial Education may be More Effective when Combined with Financial Inclusion via Savings Accounts.

Unequally Exposed: Socioeconomic Factors and Differences in Risk

- There is evidence that some Millennials may have more stable financial health than others, over and above the effects of financial capability. For instance, having earned a college degree or more was associated with being more likely to report an ability to find $2,000 for an unexpected expense and to save for emergencies and less likely to use alternative financial services compared to having a high school degree or less; although, findings on debt burden suggest that the cost of a college degree may have placed undue strain on their finances.[10]
- Being employed or a full-time student was associated with being less financially fragile, saving for emergencies, and being financially satisfied compared to being unemployed. However, employment was also associated with an increased likelihood of using alternative financial services and carrying too much debt, suggesting that Millennials in the labor market may resort to these strategies to meet basic needs.
- Millennials with higher incomes could come up with $2,000 for unexpected expenses and save for emergencies more often compared to their lower income counterparts. They could also avoid using alternative financial services and carrying too much debt. Along these lines, having higher incomes was associated with higher financial satisfaction.

Implications

- The relationships between education level, employment, income, and home ownership to Millennials' financial health suggests that opportunity helps to shape financial outcomes. Thus, while financial capability holds promise, interventions are also needed in the broader institutional arrangements that perpetuate opportunity and advantage for some Millennials, and disadvantage for others.
- While efforts to require financial education are proliferating around the United States today,[11] these efforts may be less effective without also providing a real financial product for hands-on experience. Specifically, interventions may be most effective when financial education is combined with financial inclusion, as in policies such as Children’s Savings Accounts (CSAs) that open savings accounts for young people.
- Multiple institutions may need to join forces to make financial capability both scale-able and effective, particularly as different delivery systems are positioned to provide financial education and financial inclusion interventions, respectively. For their part, mainstream banks and credit unions may need to become more inclusive. The onus cannot solely be on Millennials to seek out financial inclusion; rather, financial institutions themselves need a wider reach.
- Financial capability interventions need to undergo rigorous evaluation to provide empirical support of their effects on Millennials' financial health; at the same time, educational systems may need to rethink how financial education courses are offered.

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