

Coming of Age on a Shoestring Budget: Financial Capability for Lower-Income Millennials

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About this Study

This study, generously funded by the FINRA Investor Education Foundation, examined the financial health and capability of lower-income Millennial young adults between the ages of 18 and 34 (annual incomes < \$25,000; N = 2,578) 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.

Lower-income Millennials must make a number of important financial decisions that will ultimately impact their future financial health. With limited resources, this population is at risk for acquiring too much debt or being unprepared for a financial emergency that can constrain their future economic mobility. While financial education is often the “go-to” intervention for promoting financial health, this approach may be insufficient for improving lower-income young adults' financial health. Instead, a *financial capability* approach that combines financial education with a financial product like a savings account may be more effective at improving financial health.

FINANCIAL EXCLUSION



neither financial education
nor a savings account

FINANCIAL EDUCATION



financial education only

FINANCIAL INCLUSION



a savings account only

FINANCIAL CAPABILITY



financial education +
savings account

Key Findings

- ◆ Only 8% of lower-income Millennials (annual incomes < \$25,000) are financially capable and 46% of lower-income Millennials are financially excluded.
- ◆ Compared to their lower-income financially excluded peers, lower-income Millennials who are financially capable are 171% more likely to afford an unexpected expense, 182% more likely to save for emergencies, and 34% less likely to carry too much debt, relating to their greater overall financial satisfaction.

Lower-Income Millennials Have Precarious Financial Foundations that Leave Little Room for Financial Errors.

Coming of Age in the Millennial Economy

- Millennials—the current young adult generation born between approximately 1982 and 2004, must negotiate complex financial decisions in a macroeconomic environment markedly different from previous generations. Born into financially liberalized markets with variable interest rates and easily accessible lines of credit,¹ this generation has struggled with high rates of housing debt,² student loan debt,³ and a shifting, unstable labor market.⁴ These forces shape the context in which Millennials navigate the high-stakes financial transitions that mark young adulthood.
- Millennials' financial health may be more precarious than generations before them. They are less prepared for financial emergencies, use alternative financial services more frequently, carry higher debt burdens, and have lower overall financial satisfaction.⁵ One-third of Millennials lack any emergency savings,⁶ and those who have savings have only accumulated an average of about \$1,000,⁷ making it difficult to handle unexpected expenses.
- Family resources may help Millennials with adequate means weather risky financial moves,⁸ but lower-income Millennials have less room for error, and the scarcity of resources within their environments may shape their decision-making.⁹

What is Financial Capability? Are Lower-Income Millennials Financially Capable?

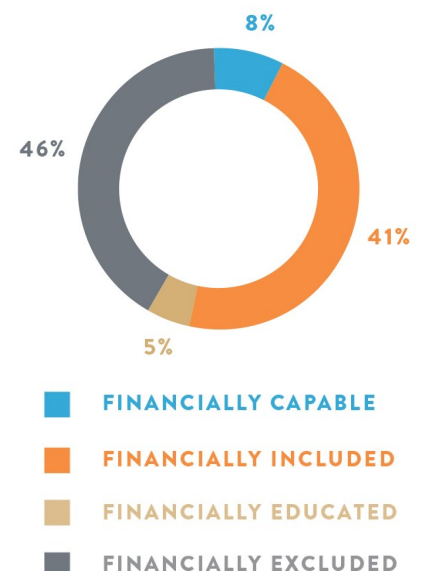
- Financial capability is built on financial knowledge (education and advice/guidance) and financial inclusion (accessible, appropriate, affordable financial products and services).¹⁰ Many Millennials, particularly those who are lower-income, lack this foundation.

- Lower-income Millennials, like most Americans, do not have a working knowledge of basic financial concepts.¹¹ Millennials have relatively low exposure to financial education and few opportunities to build financial competency.
- Many Millennials are financially excluded and lack basic financial products. 30% of the underbanked and 37% of the unbanked are under 35 years old.¹²

- This study examined the finances of 2,578 Millennials ages 18 to 34 whose annual incomes were below \$25,000. Thirty-eight percent of majority of these lower-income Millennials were employed and 42% unemployed. The remaining 20% were students. Nearly 60% had a high school education or less. Most did not own a home (83%) or receive government assistance (75%).

- Only 8% reported being *financially capable* by having a savings account and having received financial education. Forty-one percent were *financially included* as indicated by owning a savings account without financial education, and 5% were *financially educated* based on having received financial education but not owning a savings account. Nearly half the sample (46%) was *financially excluded*, meaning that they neither owned a savings account nor received financial education.

What Percentage of Lower-Income Millennials are Financially Capable?



Financial Capability May Help Lower-Income Millennials to Establish a Solid Financial Foundation.

Financial Capability: Promising Effects on Lower-Income Millennials' Financial Health

- Compared to financially excluded lower-income Millennials, those who are financially capable were 171% more likely to be able to come up with \$2,000 in 30 days, 182% more likely to have savings to equal three months of expenses and 34% less likely to report carrying too much debt. Thus, the building blocks of financial capability—financial education and financial inclusion via savings accounts—may help lower-income Millennials experience sound financial health as they negotiate a number of complexities at this stage of the life course.
- COMPARED TO LOWER-INCOME FINANCIALLY EXCLUDED MILLENNIALS, LOWER-INCOME FINANCIALLY CAPABLE MILLENNIALS ARE:**

 171% more likely to come up with \$2,000	 182% more likely to save for emergencies	 0% no less likely to use alternative financial services	 34% less likely to carry too much debt
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- A combination of inclusion in the financial mainstream and financial knowledge was associated with lower-income Millennials' preparedness to weather expenditure shocks and negotiate debt. Nearly one-half of these Millennials, however, had no savings account; nor had they received financial education.
 - Only 29% of lower-income Millennials reported that they could come up with \$2,000 in 30 days. Being financially capable and financially included were significantly associated with greater likelihood of being able to cover an unanticipated expense, 171% and 93% higher, respectively, when compared to being financially excluded.
 - Twenty-two percent of lower-income Millennials reported that they had three months of emergency savings. Millennials who were full-time students, employed and/or homeowners were significantly more likely to have emergency savings than Millennials who were unemployed. Compared to those who were financially excluded, being financially capable was associated with a 182% increased likelihood of having emergency savings, and financial inclusion was associated with a 126% increased likelihood.
 - Forty-eight percent of lower-income Millennials reported using alternative financial services. While having children and having some college were respectively associated with greater or lesser likelihood of using alternative financial services, no measures of financial capability, inclusion, education or exclusion emerged as significant predictors.
 - Thirty-three percent of lower-income Millennials indicated that they were carrying too much debt. Those who had completed at least some college and those who received government assistance were more likely to report high debt burden. Compared to being financially excluded, financial capability was associated with a 34% decreased likelihood of carrying too much debt.
 - Lower-income Millennials displayed relatively low levels of financial satisfaction. Homeownership had the largest effect on financial satisfaction, but, as homeownership among Millennials is declining,¹³ relatively few in this generation will have this asset base. Compared to the financially excluded, those who were financially capable reported significantly higher financial satisfaction.



Lower-Income Millennials' Financial Health is Based in Part on the Financial Opportunities That are Available to Them.

Implications

- While financial knowledge alone, measured as either a literacy or education, was not associated with any metric of financial health and was only significantly associated with decreased financial satisfaction, when combined with experience with financial products, several significant associations emerge. Lower-income Millennials demonstrated preparedness for financial emergencies when they were financially included by having either a savings account, checking account and/or credit card coupled with financial education. The strongest associations were observed among those who had a credit card or savings account, indicating that some lower-income Millennials may have adequate savings to handle an expense, whereas others use a credit card when they are in a pinch.
- Although the overall associations between being financially capable and financially healthy are promising, some groups of lower-income Millennials fare differently. Having completed at least some college is significantly associated with the avoidance of alternative financial services, taking on too much debt and lower mean scores of financial satisfaction. Completion of a college degree or higher is associated with decreased financial fragility and avoidance of alternative financial services, but may relate to taking on too much debt. These findings are parallel to research that suggests that lower-income young adults who attend college may take on too much credit and student loan debt.¹⁴ Millennials who receive government assistance, have dependent children and earn very low incomes may use alternative financial services to make ends meet on consistently strained resources.¹⁵ Lower-income Millennials may also use credit cards to cover their expenses, as those who receive government assistance are nearly 60% more likely to report carrying too much debt.
- Lower-income Millennials' financial health is not only based on individual choices, but also on the range of financial choices and opportunities that are available to them via institutional arrangements. This suggests a need for changes in these institutions, as well as at the individual level.
 - To equip lower-income Millennials with a foundation of financial capability, efforts to improve financial knowledge could be delivered in concert with opportunities to engage with mainstream financial institutions, including through initiatives such as Child Savings Accounts (CSAs) or Individual Development Accounts (IDAs).
 - Policy could address the rising accumulation of debt among young adults. This could include making CSAs widely available in which families could save in advance of college to minimize their debt burden, increasing the availability of need-based financial aid like Pell Grants, and continuing to provide income-based repayment and forgiveness plans for college loans.
 - Finally, policies could aim to improve income sufficiency in order to provide Millennials with more financial opportunities and bolster their financial health, perhaps by increasing the minimum wage, expanding the Earned Income Tax Credit (EITC), passing living wage ordinances and/or pursuing a guaranteed minimum income approach.



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