The Landscape of Millennials' Financial Capability

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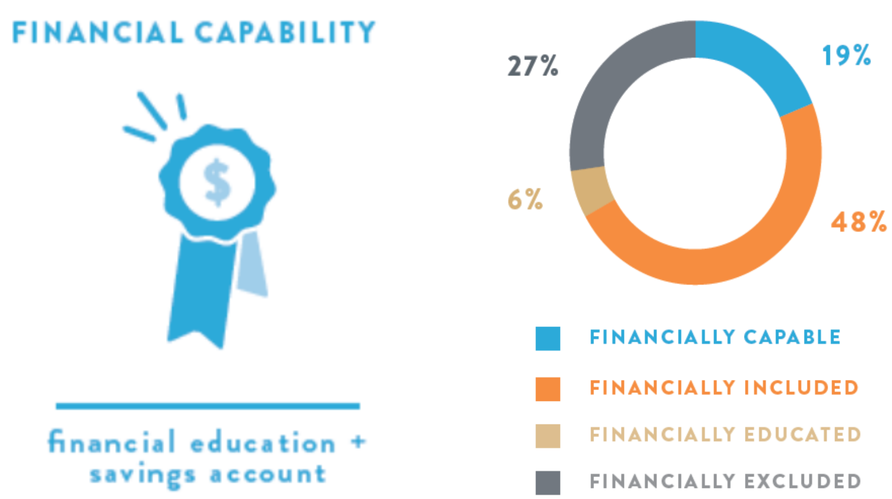
About this Study

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.

The opportunities provided to Millennials via the communities in which they live, the schools that they attend, the places where they work, the financial institutions to which they have access and the policies that govern them all help to shape whether or not Millennials receive financial education and have a savings account. For example, some states mandate that high schools teach financial education, and mandates such as these have been found to shape future saving behaviors.[1] In other words, Millennials in some states may save more than those in other states because they received mandated financial education in high school. Accidents of residence, then, may help to determine Millennials' varied financial capability. Along these lines, this issue brief provides a journey across the landscape of Millennials' financial capability, shaped by the institutional arrangements that characterize the context in which Millennials grow, learn and begin to operate as financial actors.

Key Findings

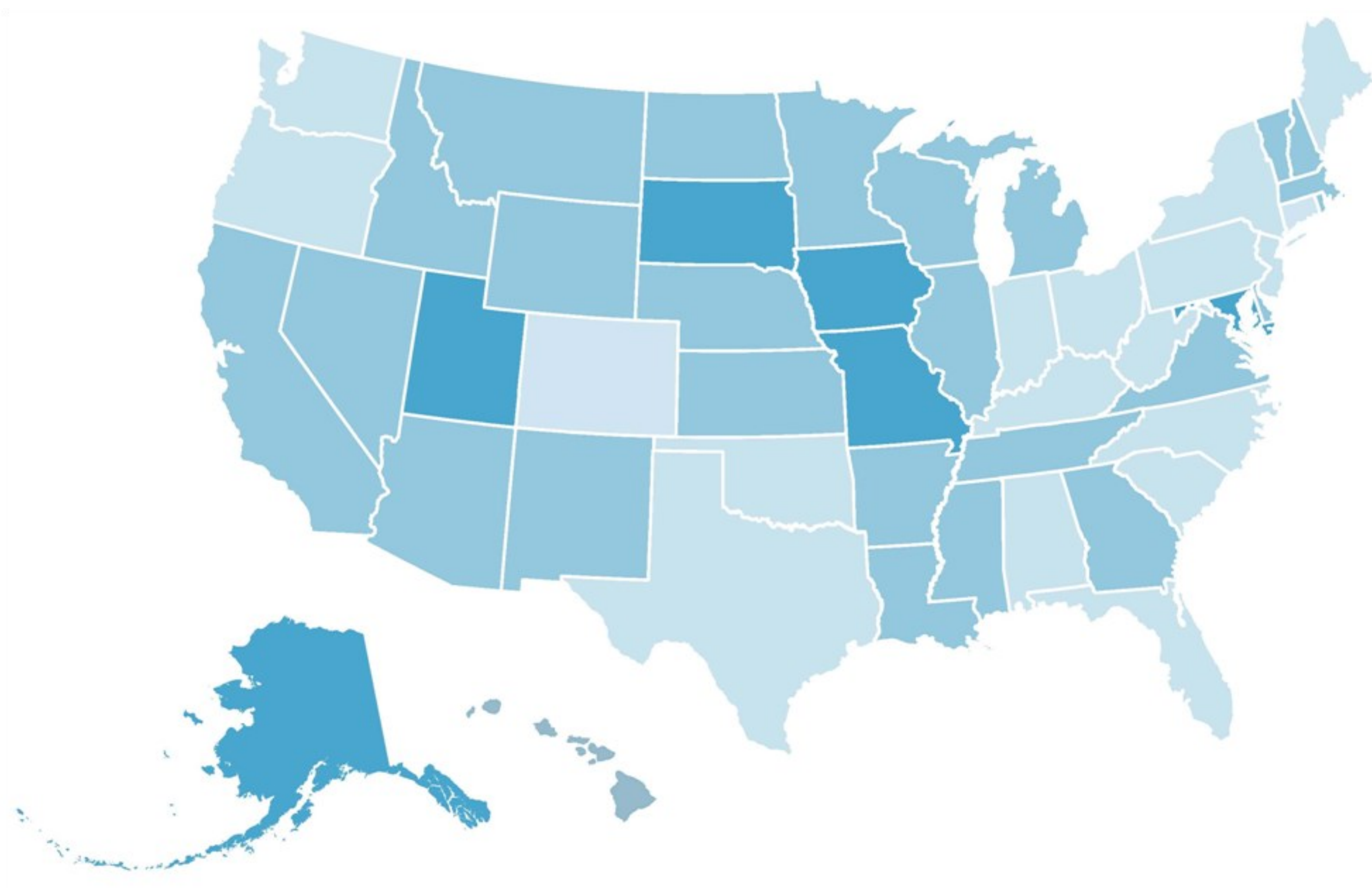
- 19% of Millennials are financially capable. Here, financial capability is defined as owning a savings account and having received some type of formal financial education (for example, from their school or workplace).
- The states with the most financially capable Millennial populations mandate standards for high school financial education, suggesting in part that these mandates may be successful for benefitting Millennials.[2]



Some States Excel at Promoting Millennials' Financial Capability.

The States with the Most Financially Capable Millennials

While the percentage of Millennials who are financially capable is relatively low overall (19%), some states excel at promoting Millennials' financial capability. In many cases, financial capability across the states aligns with state standards for economic and personal financial education,[3] with the most financially capable Millennials residing in states that require standards, high school courses and knowledge assessment .[4] The map below identifies the states with the most financially capable Millennial populations.



Most Financially Capable — > 25% of states' Millennial population is financially capable, having received both a savings account and financial education.

Moderately Financially Capable — 20 ~ 25% of states' Millennial population is financially capable, having received both a savings account and financial education.

Least Financially Capable — < 20% of states' Millennial population is financially capable, having received both a savings account and financial education.

More than 25% of Millennials are Financially Capable in Only Six States and the District of Columbia.

The States with the Most Financially Capable Millennials (continued)

- More than 25% of the Millennial population living in Alaska, the District of Columbia, Iowa, Maryland, Missouri, South Dakota, and Utah reports having received financial education and owning a savings account. These are the states with the most financially capable Millennial populations.
  - As of 2011, all six of these states and the District of Columbia have economic education standards that are required in high schools and five (excluding Alaska and the District of Columbia) have personal financial education standards that are required. These same states have school district standards that require the implementation of both economic and personal financial education standards.
  - Three of these states require high schools to offer courses in economics and personal finance.
  - Three of these states require testing on economic knowledge and none require testing on personal finance knowledge.
- The Millennial population in Arizona, California, Delaware, Georgia, Hawaii, Idaho, Illinois, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Rhode Island, Tennessee, Vermont, Virginia, Wisconsin, and Wyoming is moderately financially capable, with between 20% and 25% reporting having received financial education and owning a savings account.
  - As of 2011, 26 of these 27 states have economic education standards and 24 have personal financial education standards required in high schools. Twenty-one of these states have school district standards that require the implementation of economic education standards and 18 require the implementation of personal financial education standards.
  - Thirteen of these states require high schools to offer a course in economics and seven require high schools to offer a course in personal finance.
  - Ten of these states require testing on economic knowledge and five require testing on personal financial knowledge.
- The Millennial population from the remaining states—Alabama, Colorado, Connecticut, Florida, Indiana, Maine, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Washington, and West Virginia—is the least financially capable, with less than 20% reporting having received financial education and owning a savings account.
  - As of 2011, all of these 17 states have economic and personal financial education standards required in high schools. Thirteen of these states have school district standards that require the implementation economic and personal financial education standards.
  - Nine of these states require high schools to offer a course in economics and four require high schools to offer a course in personal finance.
  - Five of these states require testing on economic knowledge and none require the testing of personal financial knowledge.

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1 Bernheim, B. D., Garrett, D. M., & Maki, D. M. (2001). Education and saving: The long-term effects of high school financial curriculum mandates. *Journal of Public Economics,* 80(3), 435-465.

2 Brown, A., Collins, M.J., Schmeiser, M., & Urban, C. (2014). *State mandated financial education and the credit behavior of the young*. Washington, DC: Federal Reserve Board. Retrieved from http://www.finrafoundation.org/web/groups/foundation/@foundation/documents/foundation/p602381.pdf

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3 Notably, state standards for teaching economic education can be somewhat different than those for teaching personal finance in high school. Economic education teaches concepts like income and wealth distribution, opportunity costs, interest rates, markets, and productivity. Personal finances teaches concepts like balancing a checkbook, creating a budget, and comparing prices. Few states teach or test students' proficiency in personal finance; however, there is some overlap between states' teaching and testing of personal finance and Millennials' financial capability.

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