MONEY AND MILESTONES

The Impact of Debt on Young Adults' Financial Life Transitions

National Endowment for Financial Education

Partnering for Financial Well-Being

About this Executive Summary

This summary presents key findings from *Financial Behavior, Debt, and Early Life Transitions: Insights from the National Longitudinal Survey of Youth, 1997 Cohort* by Randy Hodson, Ph.D. and Rachel E. Dwyer, Ph.D., Department of Sociology, The Ohio State University.

The full report, available at NEFE.org, was prepared in June 2014 to document new research funded by the National Endowment for Financial Education® (NEFE®) to explore how debt impacts early life transitions among young adults.

Contents

MONEY AND **MILESTONES**

Why Understanding the Financial Experiences of Millennials Matters

Young adults—specifically the oldest Millennials born around 1982—face distinctive challenges and financial concerns as they come of age, enter employment, and form families. With typically modest incomes and minimal wealth, young adults often must take on debt to finance investments in the future. This debt has a dual nature: It can be both an accelerator and a deterrent to major life transitions and milestones.

This NEFE-funded study examines the National Longitudinal Survey of Youth 1997 Cohort (NLSY97) and the Survey of Consumer Finances (SCF) to investigate how Millennials' life decisions are shaped by debt as they pursue multiple paths to adulthood. Ultimately, it finds that young adults' relationship with debt is complicated and reflects the fact that debt is a double-edged sword: Debt facilitates achievement but can lead to emotional or financial strains and delay family formation.

By looking at the financial circumstances and specific decisions that today's young adults face, it becomes clear that young people today have a different set of opportunities and constraints than youth did in past decades. This makes the experiences of past generational cohorts less applicable and highlights the importance of taking contextual factors into account.

Examining Millennials' experiences over years of economic instability offers insight into how youth understand and manage their finances in the face of high levels of credit access and debt, slow income growth, and mounting economic inequalities. Many consider the factors challenging Millennials to be the economic realities of 21st-century America, making financial capability—more than ever before—a critical driver for quality of life.

Meet the **Millennial**

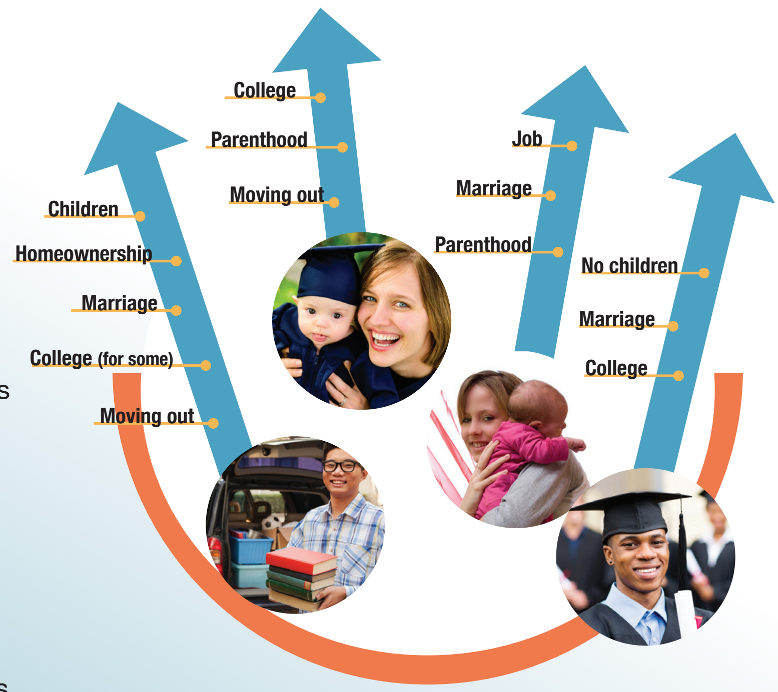
Today's Young Adults Face Distinct Challenges

Millennials are loosely defined as young adults reaching adulthood around the year 2000, including individuals born in the years 1982–2004. This study specifically looks at Millennials born around 1982, who reached age 15 around 1997.

This cohort faces particularly distinctive economic conditions and financial challenges different from earlier cohorts—especially increasing indebtedness. But this debt was difficult to avoid: Millennials had unprecedented access to credit that simply did not exist for previous generations, and at the same time had unprecedented financial pressures to take on debt. For example, decades of slow income growth and rising costs for many families caused youth to supplement family support by taking on debt to achieve goals such as a college degree.

The 2000s were economically volatile, with slow employment and income growth over virtually the entire period starting in 2001. The bubble economy of 2004–2007 brought many opportunities to take on debt—with increasingly complicated instruments in the housing market—but little in the way of increased incomes to pay down the debt once the bubble popped in 2008. The Great Recession that followed only worsened economic prospects for youth.

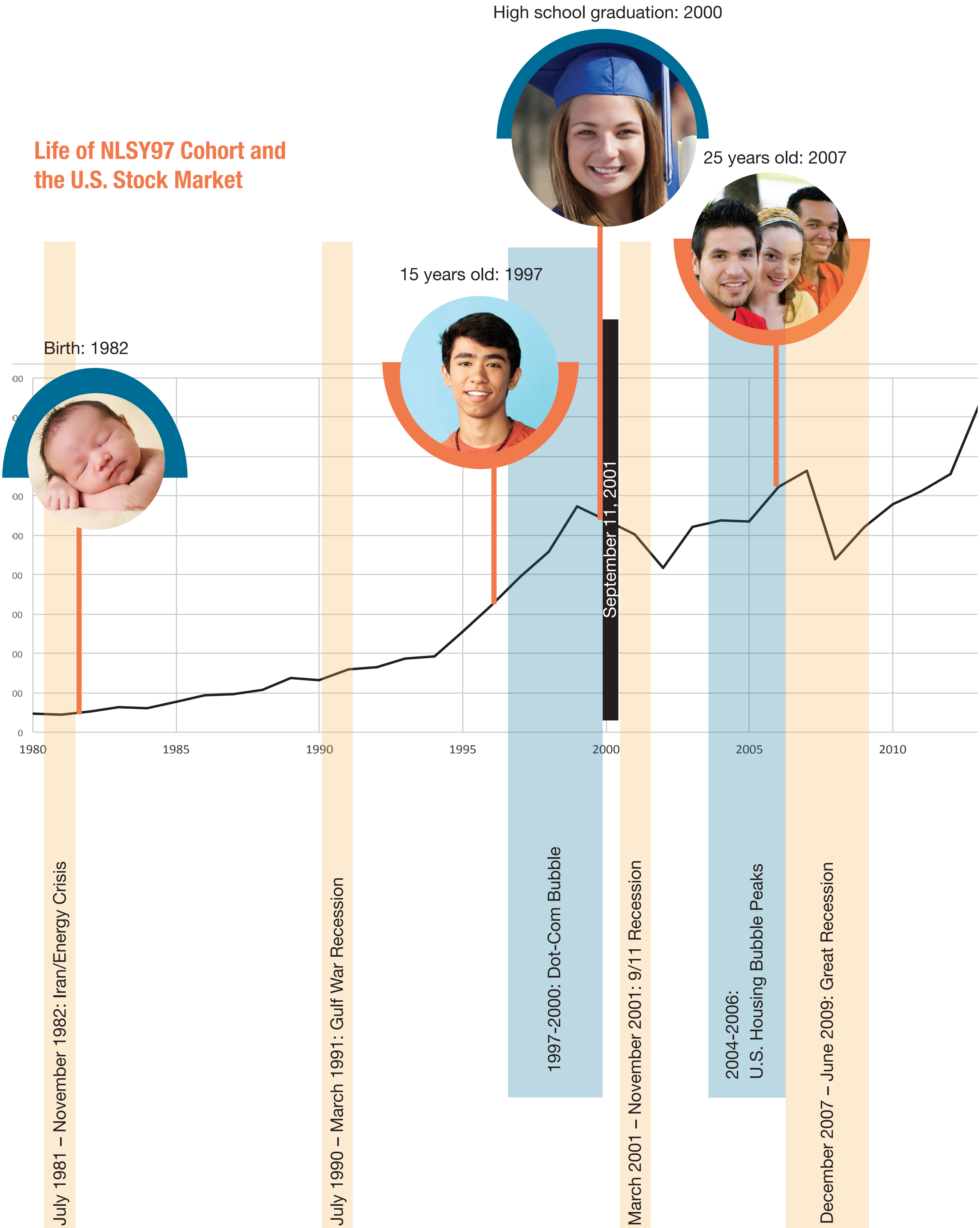
While Americans now are emerging from the worst of the recession's effects, Millennials will face the consequences of coming of age during these unpredictable economic times for many years to come.



Debt now differentiates multiple paths to adulthood.

Different trajectories accompany the traditional sequence of moving out, going to college (for some), getting married, owning a home, and having children.

Life of NLSY97 Cohort and the U.S. Stock Market



Stock Market Data Source: S&P Dow Jones Indices, LLC
Economic Recession Data Source: National Bureau of Econimc Research
Recession Label Source: Investopedia

Taking on **Debt**

Patterns of Debt Holding Among Young Adults

Key Findings

- Young adults expressed declining acceptance of credit cards after 2004.
- The number of young adults with credit cards dropped to below 60 percent between 1992 and 2010.
- After the Great Recession (2007–2009), fewer young adults held credit card debt, but those who did had more and held it longer compared to earlier generations.
- Compared to Gen X, Millennials took on greater amounts of debt at an earlier age.
- Millennials with greater incomes took on exponentially more debt as they aged compared to their lower-income peers.

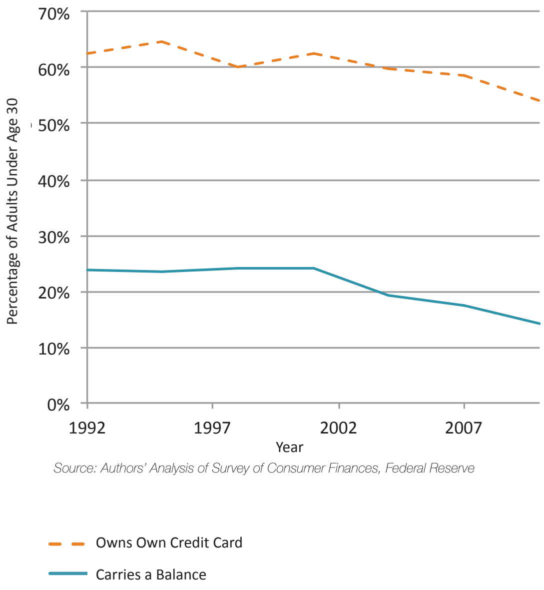
Many Millennials had reached their late 20s when the U.S. entered the Great Recession in 2007. In the years leading up to the crisis, Millennials had unprecedented access to consumer credit, yet both their acceptance and adoption of credit cards were on the decline even before the recession.

Nonetheless, Millennials who did take on consumer credit used it with more intensity than earlier generations, holding more debt, carrying debt longer, and acquiring debt earlier.

Although Millennials accumulated debt at about the same rate as their Gen X predecessors—with total debt growing at about $2,000 a year—Millennials were deeper in debt at a younger age. While Gen X youth had an average debt of about $60,000 by their late 20s, Millennials already had reached that point in their mid-20s.

Millennials with higher incomes also took on much more debt as they aged compared to their lower-income peers, largely due to their higher rate of home purchasing. By the time they reached their late 20s, those in the top 25 percent by income had an average debt of close to $120,000—slightly more than the average debt for the lower three quartiles ($70,000, $35,000, and $10,000) combined.

Credit Attitudes and Behaviors

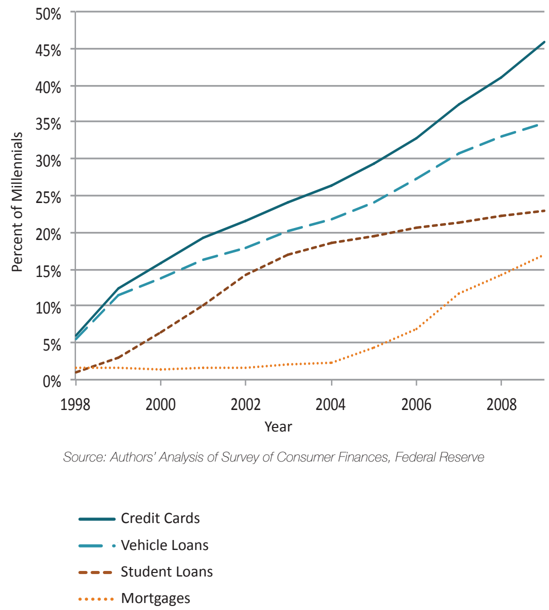


Source: Authors' Analysis of Survey of Consumer Finances, Federal Reserve

Less Acceptance of Credit Cards

The number of adults under 30 with credit cards dropped during the 2000s. The number of people who regularly rolled over credit card debt also declined.

Incidence of Debt by Type

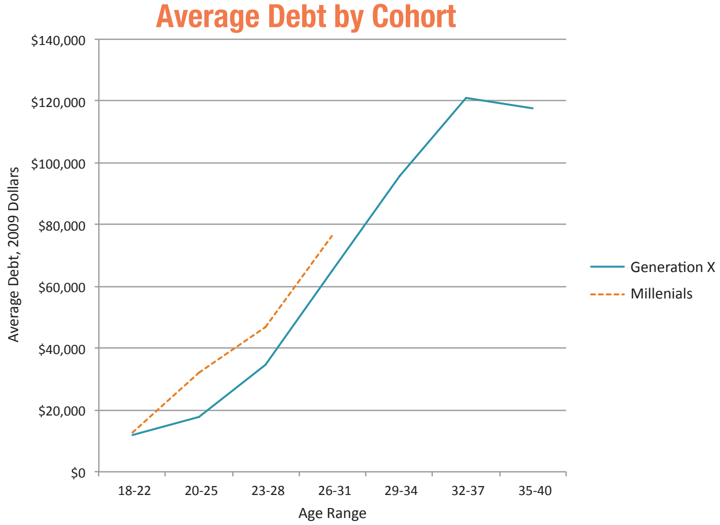


Source: Authors' Analysis of Survey of Consumer Finances, Federal Reserve

Rapid Debt Accumulation

Millennials' debt increased sharply once they reached the age of 18. By their mid-20s, more than 20 percent carried education debt and more than 30 percent had vehicle and credit card debt respectively.

Average Debt by Cohort



Source: Authors' Analysis of Survey of Consumer Finances, Federal Reserve

Deeper Debt at Younger Ages

Compared to young adults of Gen X, Millennials accumulated debt at roughly the same rate, but Millennials had greater debt at younger ages.

Starting Out Underwater

Debt Accrual Linked to Adult Milestones

Despite increasing variability in pathways to adulthood, common life events such as higher education, first homes, marriage, and family rearing remained hallmarks of the lives of Americans ages 18 to 30. For Millennials, another hallmark was a dramatic rise in personal debt.

Millennials not only had more debt than peers in earlier generations, they also carried some types of debt in higher concentrations compared to the U.S. population overall (see graph below).

Those distinctions matter because different types of debt had specific effects. For example, although credit card debt and student loans both delayed parenthood for Millennials, student loans exerted this effect much more strongly.

While some debt affected traditional milestones, some life transitions affected types and amounts of debt. As Millennials transitioned from being single to living with a partner to getting married, their debt increased significantly. The rise largely was due to mortgages and vehicle loans, but their credit card debt also rose with these milestones.

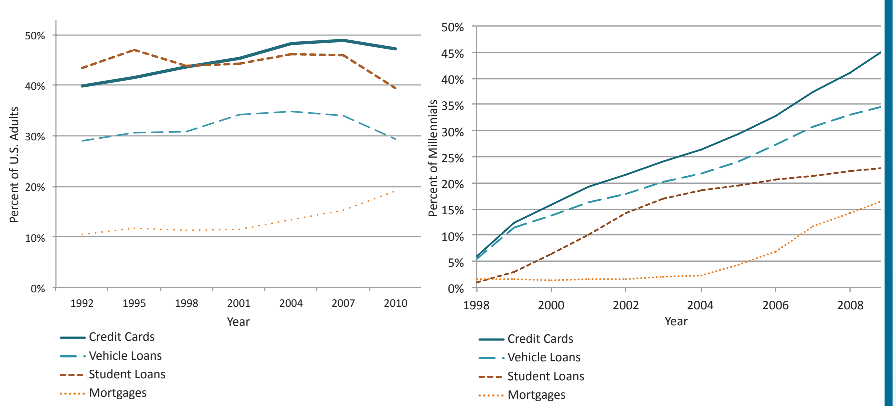
Key Findings
Relationships and Parenting

- Young adults with student loans were much less likely to become parents; consumer debt had the same effect to a lesser degree.
- Millennials at four-year colleges who also had student loans were more likely to delay marriage; the same was true for Millennial men at two-year colleges.
- Living with someone or getting married dramatically increased Millennials' personal debt compared to remaining single.

Key Findings
Homeownership

- Millennials had historically high rates of homeownership in their early 20s compared to past generations.
- By 2009, 50 percent of Millennial homeowners were underwater on their mortgages. In preceding years, this number was less than 10 percent.
- By their late 20s, Millennials had fallen behind in homeownership compared to the late-20s youth of Gen X and the Late Boomers.

Incidence of Debt: U.S. Adults and Millennials

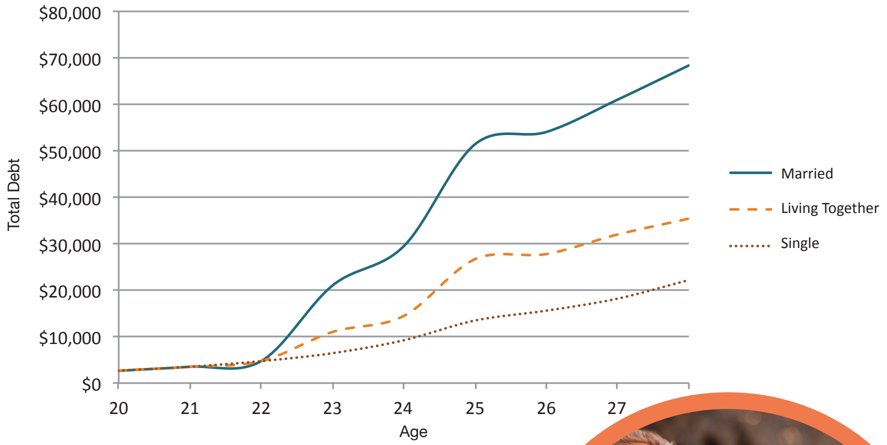


Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Relationships Deepened Debt

The average 22-year-old Millennial who stayed single saw his or her debt roughly quadruple over six years. Millennials who moved in with a partner or got married (which often led to a mortgage) saw individual debt spike even higher. The accumulation of home mortgages primarily accounts for this difference. Mortgages typically are far larger than other loan types, and more likely taken on when partnered.

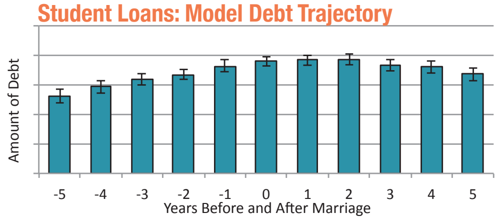
Estimated Total Debt by Union Trajectory for Single 22-Year-Olds



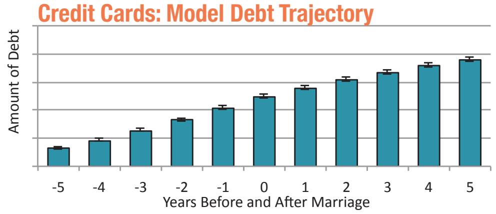
Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Debt Before and After Marriage

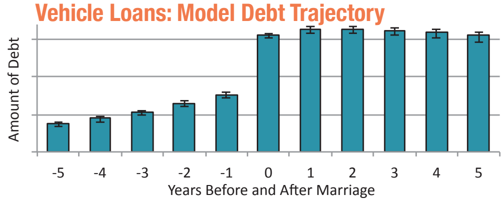
Student Loans: Model Debt Trajectory



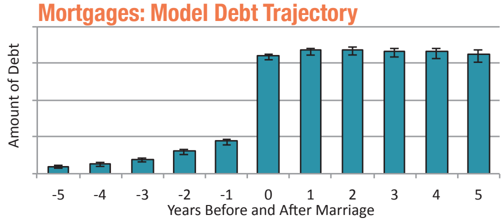
Credit Cards: Model Debt Trajectory



Vehicle Loans: Model Debt Trajectory



Mortgages: Model Debt Trajectory

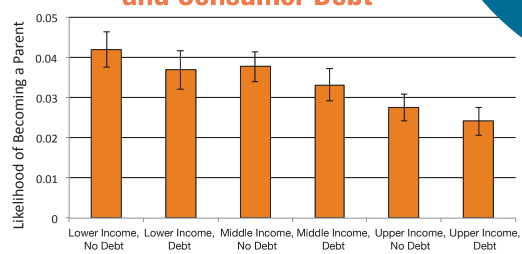


Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

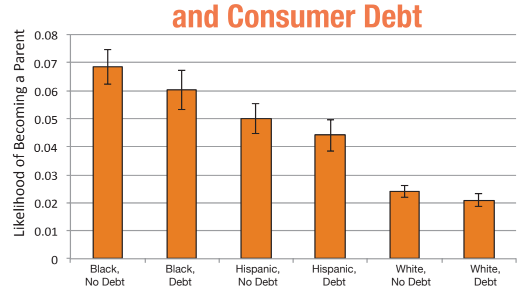
Marriages Multiplied Debt

Marriage is associated with a leap in mortgage debt and vehicle loans and a steady increase in credit card debt, but no jump or rise in student loan debt.

Estimated Annual Likelihood of Becoming a Parent, by Income and Consumer Debt



Estimated Annual Likelihood of Becoming a Parent, by Race and Consumer Debt



Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics. Numbers are estimates from event history models.

Debt Decreased Parenthood

While relationship choices affected young adults' debt, some debt influenced Millennials' life transitions. Having debt decreased (for all racial groups) the likelihood that an individual would become a parent.

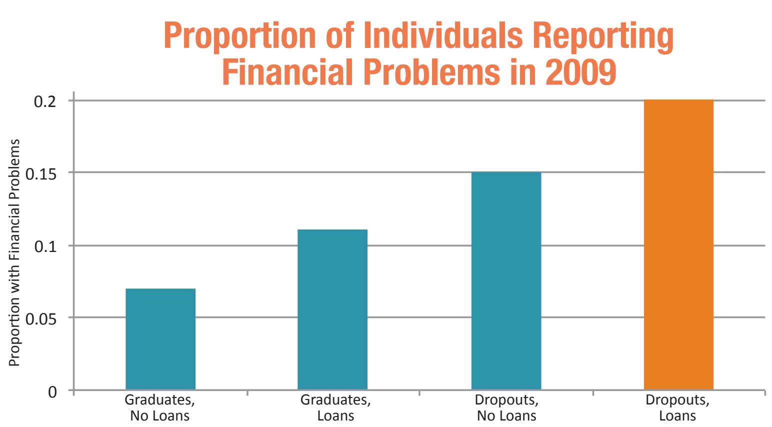
Student **Loans**

The Most Distinctive Form of Millennial Debt

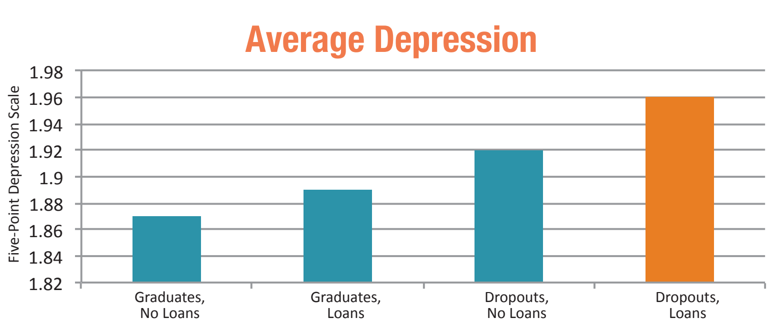
Like other types of debt, student loans can bring both opportunity and risk. The outcomes vary by debt levels, family resources, completion, and institution type.

While this study looked at student loans as a predictor of family formation and other milestones, it also found that student loans—depending on whether or not a student graduated—were predictors of financial problems and depression as well.

Unsurprisingly, students who have dropped out of college report higher incidences of financial problems and depression.



Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

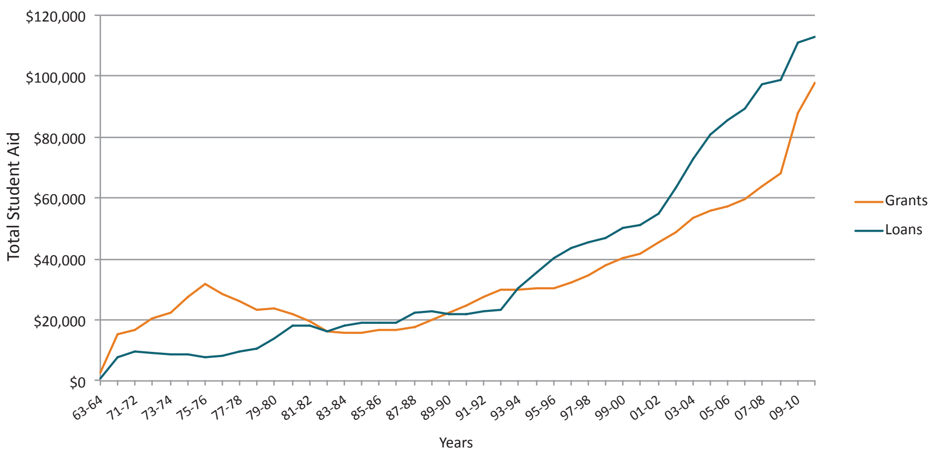


Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Student Loans Have Increased

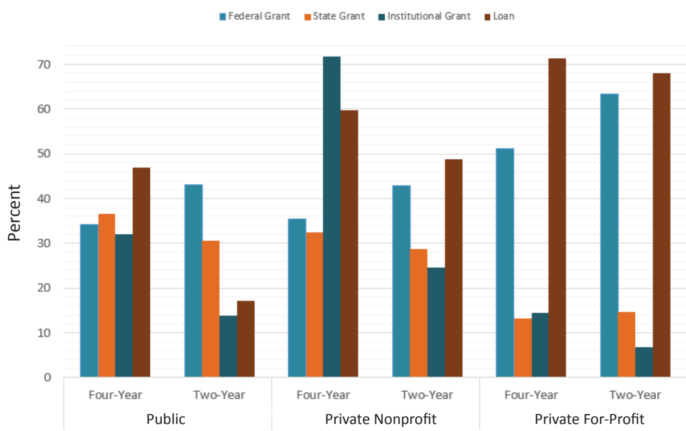
Other forms of aid (governmental, institutional, and private grants) also have increased, although not as fast as loans. In the 1960s, the most common form of aid was grants (mostly federal grants). In the 2000s, loans were the most common form of aid, followed by federal and institutional grants.

Total Student Aid



Source: Authors' Analysis of data from The College Board, "Trends in Student Aid, 2011."

Percent of Students Receiving Types of Financial Aid by College Sector, 1999-2010



Source: Authors' Analysis of IPEDS data.

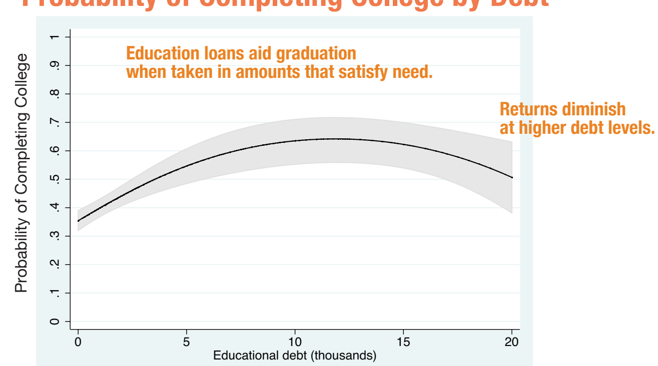
Financial Aid Sources

Financial aid composition differs significantly among college sectors. A smaller percentage of students take on loans at public universities compared to private, with students at for-profits by far the most likely to take on loans. Students at for-profit universities also are most likely to hold federal grants, predominantly Pell Grants for low-income students.

Probability of Completing College

Student loans can be helpful when students take on the right amount of debt. The likelihood of graduating is higher when debt is taken to satisfy need, while too few loans (or too many) hinder college completion.

Probability of Completing College by Debt



Source: Dwyer, Rachel E., Laura McCloud, and Randy Hodson. 2012. "Debt and Graduation from American Universities." Social Forces 90:1133-1155.

Financial Well-Being **Among Young Adults**

KEY FINDINGS
Debt and Mental Health

- Before the Great Recession, mortgage debt (i.e., homeownership) was a balm to mental health for Millennials—especially among men and higher-income households—but that effect disappeared following the crisis.
- Credit card debt among Millennials increased anxiety and depression and most affected lower-income households.

KEY FINDINGS
Debt and Financial Problems

- In the wake of the Great Recession, Millennials across all income levels reported financial strain and trouble making ends meet.
- Millennials who got financial advice from their parents reported less financial strain than peers who received advice from nonprofessionals or who received no advice.

Debt, Mental Health, and Financial Problems

Debt sometimes can buy a greater likelihood of financial security in the future: Credit and the debt accrued through its use can give lower-income households access to goods and services that may improve quality of life, such as higher education or reliable transportation, which may in turn enable an individual to find better work and earn a higher income. Other times, debt can cause mental and financial strain. When looking at financial well-being in young adulthood, debt can be both cause and consequence.

Before the Great Recession, mortgage debt was associated with benefits to mental health, but those benefits disappeared after the crisis. Credit card debt, on the other hand, appears to be uniformly negative for mental health, with higher levels of credit card debt having a stronger negative effect on mental health for middle-income families. After controlling for amount owed, having any debt has the strongest negative mental health effects on low-income individuals.

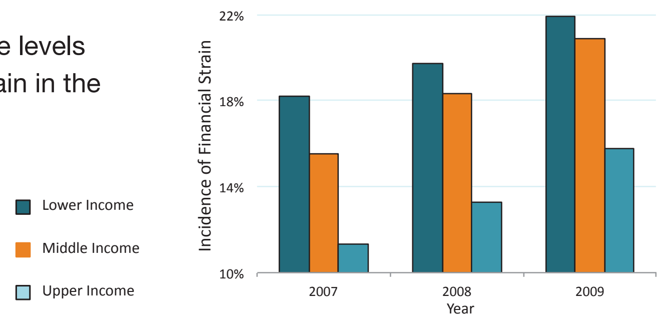
When looking solely at financial problems, young adults of all family income levels reported a higher incidence of having trouble making ends meet. This also was the case across racial groups, although blacks reported a higher likelihood of financial struggles. Additionally, financial insecurity among young adults increased with income risk: Households with unusually low incomes had 73 percent greater odds of being late on their payments than other households.

Among young adults, those who relied on their parents for financial advice had the lowest levels of financial strain. Those who received advice from nonprofessionals other than their parents had higher levels of financial strain than young adults receiving no financial advice.

Financial Strain Hit Everyone

Millennials from all family income levels reported increasing financial strain in the wake of the Great Recession.

Family Income and Incidence of Financial Strain

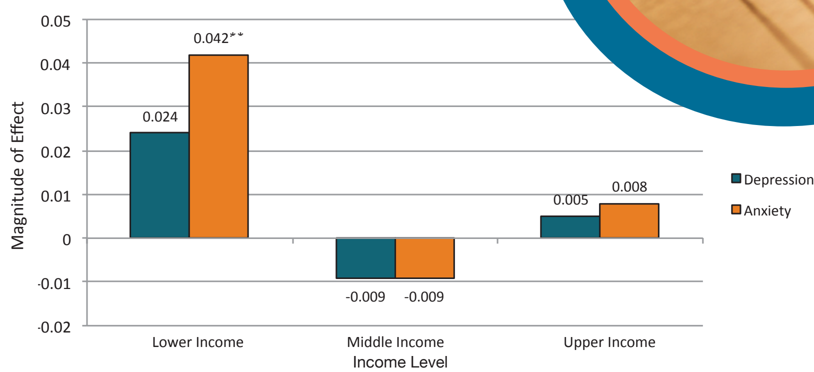


Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Credit Cards

Because of how much they owed, middle-income Millennials felt the biggest detriment to mental health from credit card debt. However, controlling for amount of debt, data showed that having credit card debt at all—regardless of how much—is most harmful to lower-income households.

Credit Card Debt and Mental Health

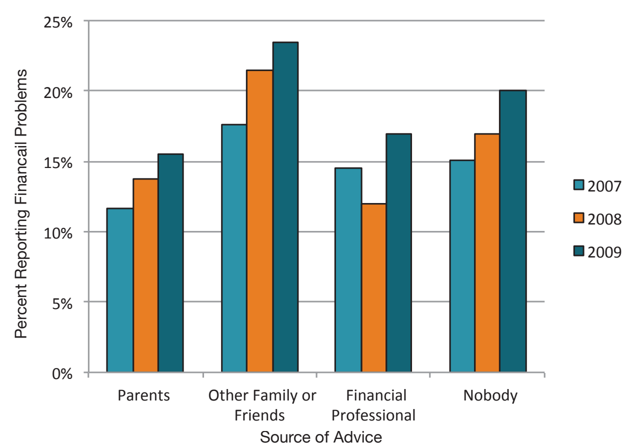


Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Advice from Parents Helped the Most

Millennials advised by their parents reported the least strain following the financial crisis, with professional advisors being the next most helpful source of advice.

Financial Problems and Sources of Advice



Source: Authors' Analysis of National Longitudinal Survey of Youth 1997 Cohort, Bureau of Labor Statistics

Next **Steps**

This examination of the financial lives of Millennials in the early 2000s is offered as both a snapshot in time and as a starting point. While it helps the financial capability field understand more about how young adults engage credit in challenging times and how debt affects their lives, it also prompts many more questions:

- How do the opportunities and constraints facing young adults today differ from those that early Millennials faced?
- What can this cohort's experience reveal about how economic context should inform guidelines related to financial capability?
- What can Millennials reveal about how guidelines should address risks, needs and opportunities that vary across socio-economic groups and at different stages of transition in young adulthood?
- Beyond romantic relationships and parenting, where else might there be an interplay between credit, debt, and decisions around key life transitions?
- How can what is learned from Millennials make today's financial education programming more effective and today's research more productive?

About this Study

This study, funded by the National Endowment for Financial Education® (NEFE®), follows the 1997 Cohort from the National Longitudinal Survey of Youth to explore financial behavior, debt, and early life transitions among young adults coming of age in the 2000s.

Current findings are based on analyses of two robust data sets:

- The U.S. Bureau of Labor Statistics' National Longitudinal Survey of Youth 1997 (NLSY97)—a national representative sample of approximately 9,000 young adults, which documents information about their education, work, and finances; participants were born between 1980–1984 and are interviewed annually.
- The Federal Reserve Board's Survey of Consumer Finances—a random sampling that every three years documents financial and demographic information, most recently among 6,500 U.S. households.

The primary investigators, Randy Hodson, Ph.D. and Rachel E. Dwyer, Ph.D. at The Ohio State University Department of Sociology, long have studied youth debt, including research underwritten by the National Science Foundation. Michael Nau, Ph.D. candidate, also contributed to this work.

This inquiry is supported by the Institute for Population Research, a joint project of The Ohio State University and the National Institutes of Health, by the Center for Human Resource Research at The Ohio State University, which manages the NLSY survey, and by the National Endowment for Financial Education.

The National Endowment for Financial Education

The National Endowment for Financial Education® (NEFE®) is an independent, nonprofit foundation committed to educating Americans on a broad range of financial topics and inspiring empowered financial decision making for individuals and families through every stage of life. For more than 30 years, NEFE has been providing funding, logistical support, and personal finance expertise to develop a variety of materials and programs. Additionally, NEFE funds research and awards research-based development grants that advance innovative thinking and contribute to our understanding of financial behavior. Learn more at www.nefe.org.

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Partnering for Financial Well-Being