Overconfident and Underprepared: The Disconnect Between Millennials and Their Money
Insights from the 2015 National Financial Capability Study

About this brief:
In June 2015, Annamaria Lusardi, academic director of the Global Financial Literacy Excellence Center (GFLEC) and Denit Trust Chair of Economics and Accountancy at The George Washington University School of Business, and Carlo de Bassa Scheresberg, senior research associate at GFLEC, prepared the report *Financial Capability Among Young Adults* as a part of a grant from the National Endowment for Financial Education® (NEFE®). The report used data from the 2012 National Financial Capability Study (NFCS) to analyze the financial behaviors, capability and literacy of Millennials (respondents age 23-35) in the United States.

This brief uses the newly released 2015 wave of the NFCS to update the key findings and statistics found in the *Financial Capability Among Young Adults* report. All statistics reported in this brief refer to the 2015 NFCS data set.

Millennials and Their Money: Assessing the Balance Sheet

There are two sides to every balance sheet, and a look at Millennials and their money shows a stark divide. Millennials are highly engaged in their financial lives and own a variety of assets. Their optimism is buoyant and their confidence is steady, but Millennials also are heavily indebted and often borrow against their assets. Millennials' reported dissatisfaction with their financial situations reveals a disconnect between their expectations and their realities. And, as this NEFE-funded study shows, alarmingly low levels of financial capability don't match the high levels of financial responsibility taken on by young adults.

As Millennials arrive at key points in their long-term financial decision making, it is becoming increasingly apparent that their financial position is more fragile than expected. A gap exists between the financial responsibilities assigned to young adults and the knowledge and capacity needed to manage those responsibilities effectively. This gap only will continue to widen until financial capability — of which financial literacy is a key determinant — becomes a priority among young adults and those who intervene on their behalf.

Who Are Millennials?

Every generation influences the economy, but Millennials — comprised of 70 million to 80 million individuals born between the late 1970s and mid-1990s — are positioned to exert exceptional impact. They are larger in number, more ethnically diverse and more educated than previous generations. Soon Millennials will make up the largest share of the labor market in the U.S. and abroad. It is projected that by 2025, 3 out of every 4 workers globally will be Millennials. In this way, their role in the U.S. workforce is influential and growing, and they are poised to play a pivotal role in the country's social and economic development.

When compared to previous generations, minorities are more broadly represented among Millennials, making up nearly 40 percent of the sample. Additionally, Millennials are on track to be the most educated generation in American history. Forty-four percent have at least a bachelor's degree.

Figure 1
A Diverse Generation

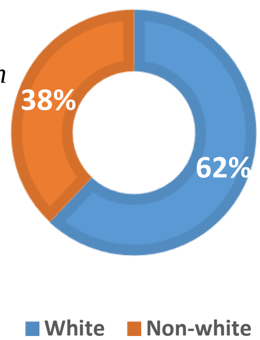
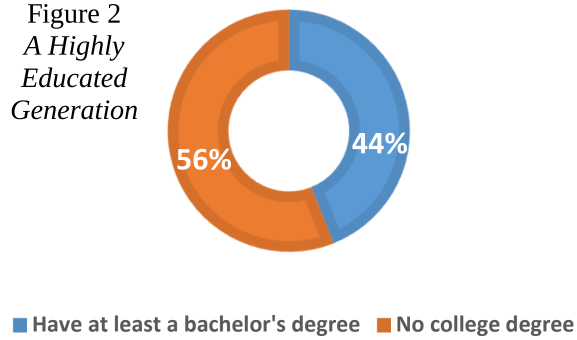


Figure 2
A Highly Educated Generation



Millennials are known for an unrelenting confidence in their own abilities — likely born from growing up in an era that placed unprecedented value on children, personal development and self-esteem. This confidence and sense of achievement spills into their financial lives, even though many have not been trained to make the complex personal finance decisions facing them now and in the future.

What They Own: Millennials and Their Assets

Key Findings:

- Millennials overwhelmingly are banked (93 percent).
- Nearly 60 percent have a retirement account.
- 45 percent own their homes.
- Over one-fourth have investments in stocks, bonds or mutual funds.
- Millennials are heavily invested in higher education, with more than 40 percent having at least a bachelor's degree.

Despite the current early stage of their careers, many Millennials are economically active and are making or have made significant financial decisions, such as buying a house or choosing investment allocations. Data show that most Millennials own and place a high value on a range of financial and educational assets.

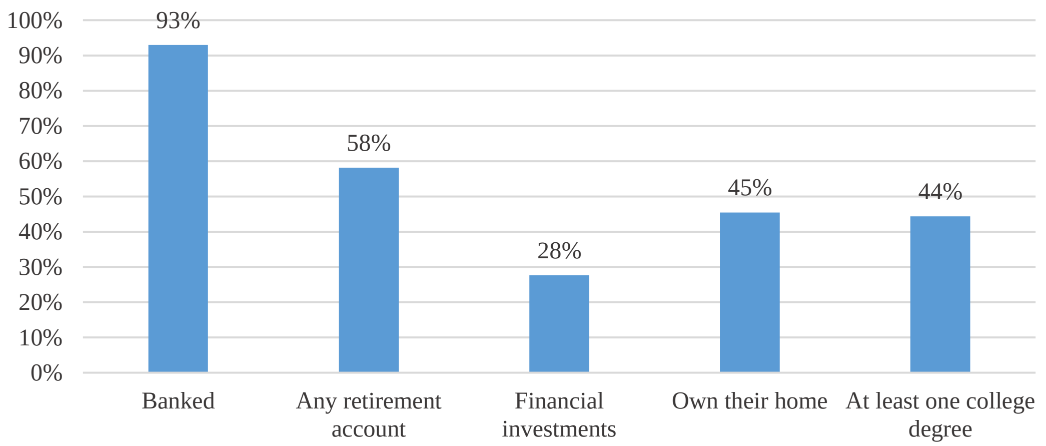
The vast majority of Millennials have either a checking account or a savings account at a bank or credit union. Moreover, 58 percent of Millennials report having a retirement account (employer-based or independent) and over one-fourth have investments in stocks, bonds or mutual funds. Additionally, 45 percent own their homes.

Millennials also are heavily investing in their education, with 80 percent having at least some college education or more. Overall, 44 percent have a bachelor's degree and 11 percent have an associate's degree.

Education is an important distinguisher for this generation. Millennials with a college degree tend to have significantly higher levels of income than those without a college degree. They also are much more likely to hold a full-time job, an indicator of more future assets.

Figure 3

Millennials' Assests and Investments



However, the asset side of the balance sheet is only a partial view of Millennials' personal finances. Millennials' debts must be analyzed in relation to assets for a more accurate picture.

What They Owe: Long-Term Liabilities and Debt

Key Findings:

- More than 70 percent of Millennials have at least one source of long-term debt (student loan, home mortgage, car loan) and 34 percent have more than one source of outstanding long-term debt.

- Millennials may be compromising their futures by making withdrawals from retirement accounts. About 23 percent of those with a self-directed retirement account either took a loan or made a hardship withdrawal in the prior 12 months.
- A quarter of those with checking accounts had overdrawn their account in the prior 12 months.
- A college education is associated with higher levels of debt across all sources of long-term debt.

At first glance, the picture of Millennials' assets is promising. However, when debt is analyzed in relation to assets, it becomes clear that many Millennials are heavily leveraged and borrowing on their assets.

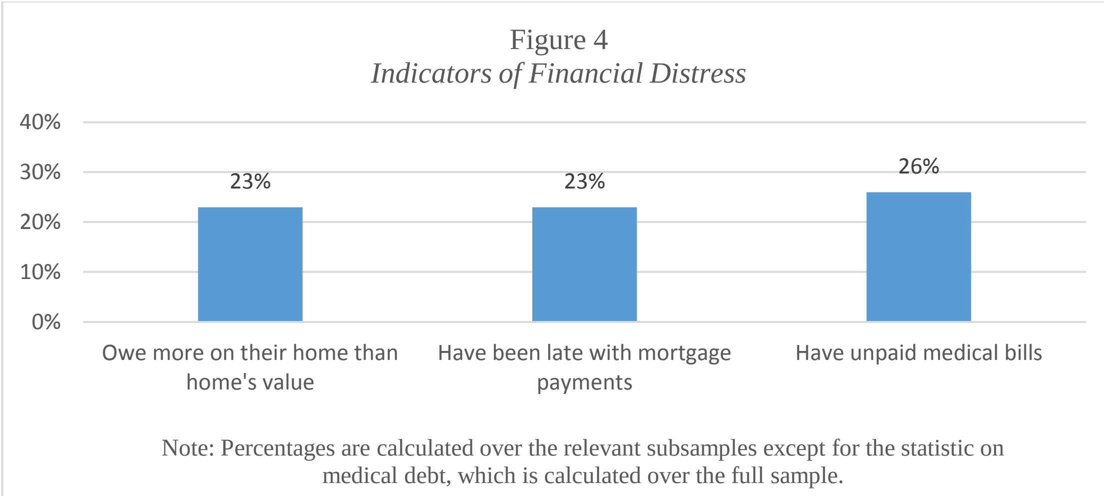
Table 1
Borrowing on assets

Have a checking account	90%
Overdraw from their checking account	25%
Own a home	45%
Have a mortgage on their home	70%
Own a car	N/A
Have an auto loan	36%
Have a self-directed retirement account	44%
Took a loan from their retirement account in the 12 months prior to the survey	19%
Made a hardship withdrawal from their retirement account in the 12 months prior to the survey	16%
Either took a loan or made a hardship withdrawal	23%
Have a college degree	44%
Have an outstanding student loan	59%

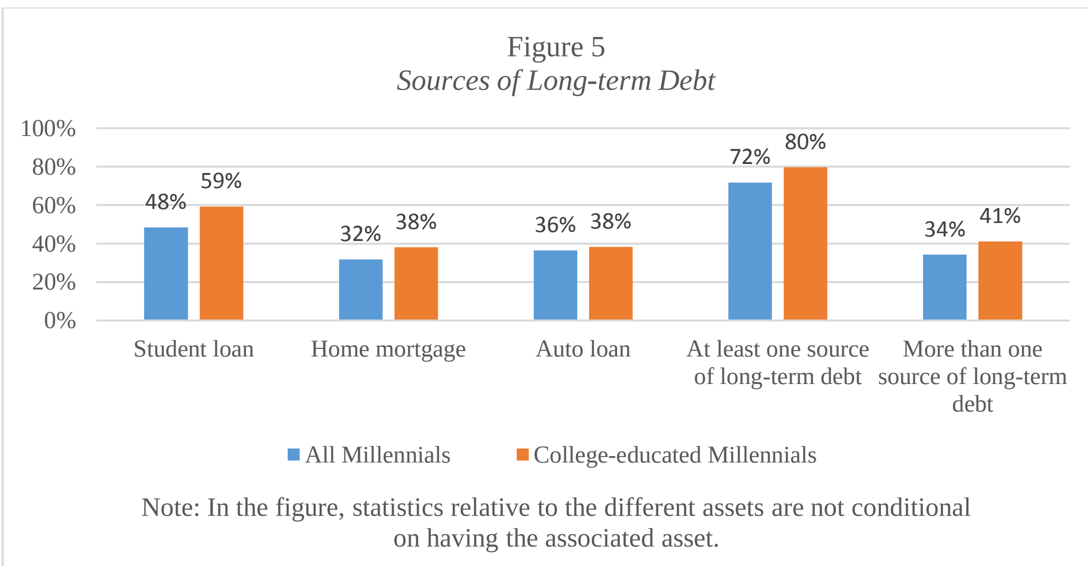
Note: Percentages calculated over the total sample of Millennials. The number of observations is 6,608. Statistics relative to borrowing are conditional on having the asset.

Forty-five percent of Millennials own homes and 70 percent have mortgages to finance those purchases. Thirty-six percent of Millennials carry auto loans.

A number of these Millennials also are showing signs of financial distress managing these debts. Many are underwater on their mortgages or late with mortgage payments. In addition, more than one-fourth have unpaid medical bills.



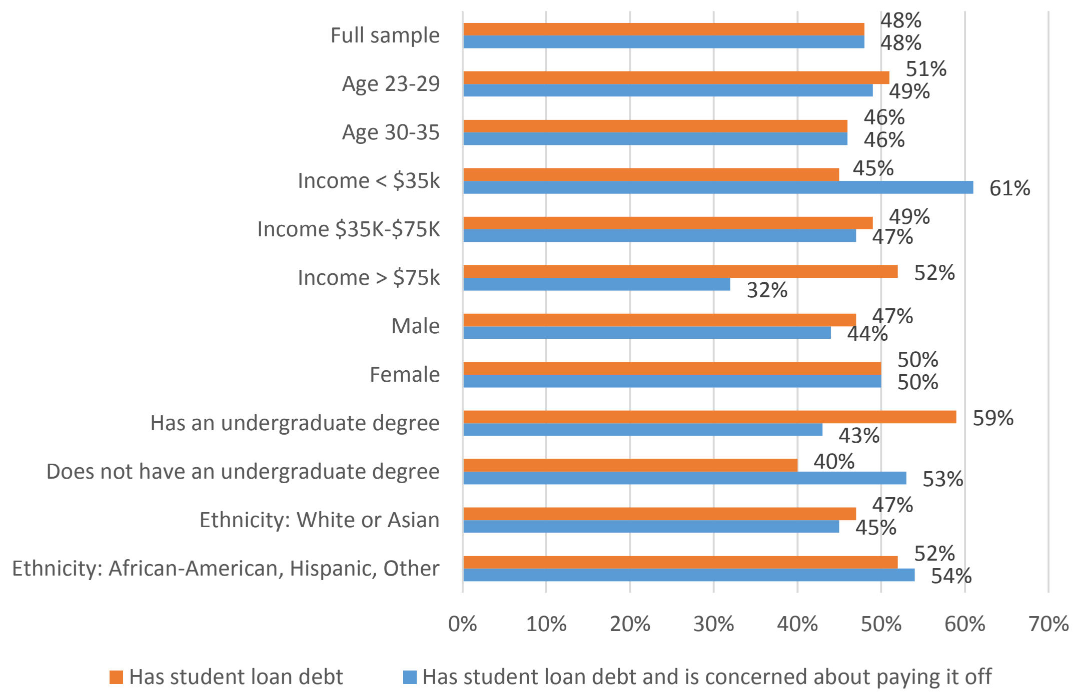
Data also show that the higher level of education among Millennials is linked to their indebtedness. Compared to all Millennials, those with a college-education (undergraduate or graduate degree) more often hold each source of long-term debt, particularly student loan debt.



All Millennials are heavily leveraged with long-term debt, but a college education is associated with even higher levels of debt across all categories.

Student debt is the most common form of long-term debt among Millennials and is widespread across demographics. So is concern about repayment of these loans. Forty-eight percent of all Millennials hold student loans, and nearly half of them are concerned about paying them off. Even among Millennials with annual household income above $75,000, 52 percent have student loans, and 32 percent doubt they will be able to repay their student loans.

Figure 6
Student Loan Debt by Demographics



These student loans and other long-term liabilities have left Millennials deeply in debt. Not only are they struggling to keep up with payments, but many worry about being able to pay off some forms of their debt.

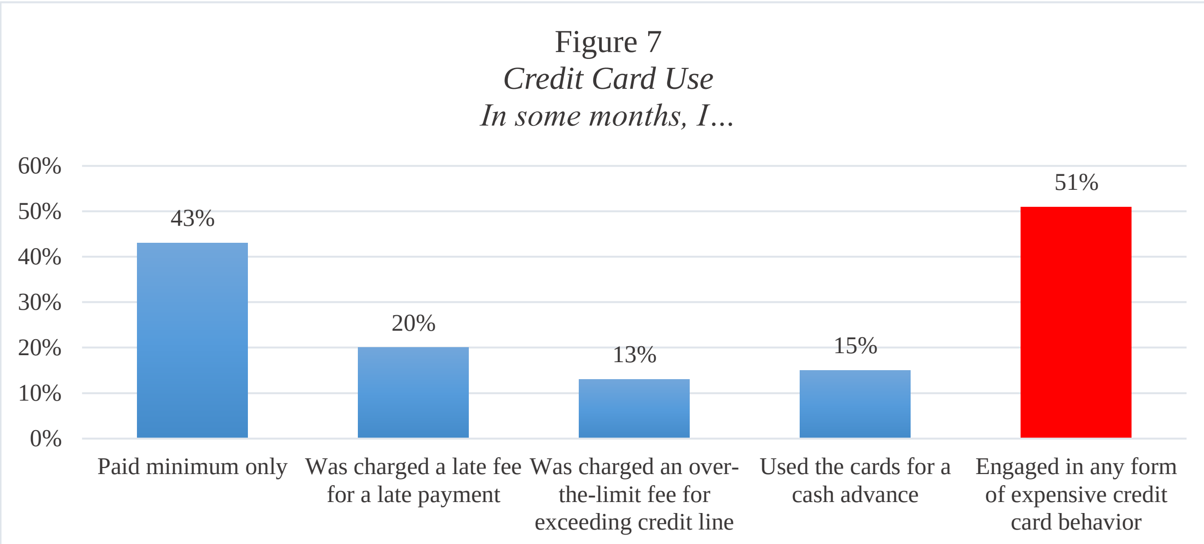
What They Owe: Short-Term Liabilities

Key Findings:

- Millennials use credit cards extensively and nearly 80 percent have at least one card.
- Half of cardholders have engaged in potentially expensive credit card behaviors.
- Half of cardholders carried over a balance and were charged interest.
- Despite their high education levels, over one-third of Millennials use alternative financial services (AFS).
- Even among those with bank accounts, 34 percent have used an AFS product.

Short-term debt also is prevalent for Millennials. For example, expensive credit card use and alternative financial services are widespread.

Nearly 8 in 10 Millennials have at least one credit card, and among these cardholders, half engaged in expensive behaviors such as paying only the minimum amount, using credit cards for cash advances, and incurring fees due to late payments or exceeding their credit lines in the 12 months prior to the survey. Likewise, half of cardholders carried over a balance and were charged interest. Women, African-Americans and Hispanics are more likely to engage in expensive credit card behaviors.



Over half of Millennials who have a credit card engage in some form of expensive credit card behavior that can trigger interest payments and unnecessary fees. Women, African-Americans, and Hispanics were even more likely to choose these behaviors, although the tendency was widespread across all demographic categories.

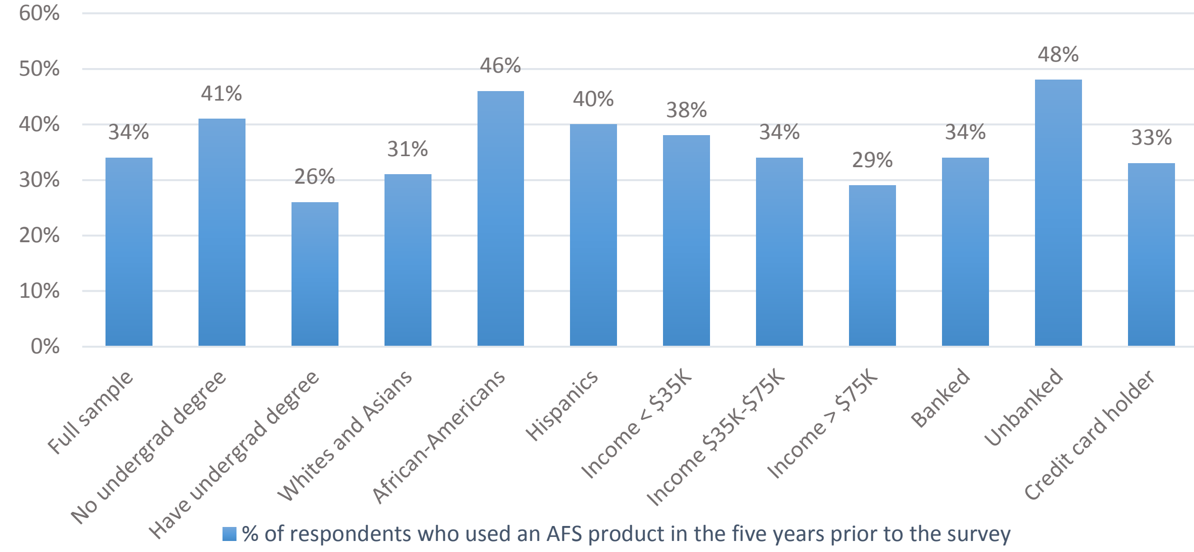
Despite high education levels among Millennials, the use of alternative financial services (AFS) such as payday loans, pawnshops, auto title loans, and rent-to-own products is high. This is troublesome due to the steep fees AFS services carry — in some cases, these products charge interest rates of over 400 percent.

Thirty-four percent of Millennials had used AFS at least once during the previous five years, demonstrating that AFS use is not a fringe behavior limited to a small segment of Millennials. Furthermore, many indicated using non-bank services on a recurrent basis: 18 percent reported using payday loans in the previous five years and, of those, 18 percent (more than 2 in 5) used them three or more times.

AFS use is higher among the less educated, the unbanked, African-Americans, Hispanics and lower-income individuals. However, even those with college degrees, traditional bank accounts and access to credit cards show significant rates of AFS use. Even among those with bank accounts, 34 percent have used an AFS product.

Figure 8

Alternative Financial Services Use (AFS) Among Millennials



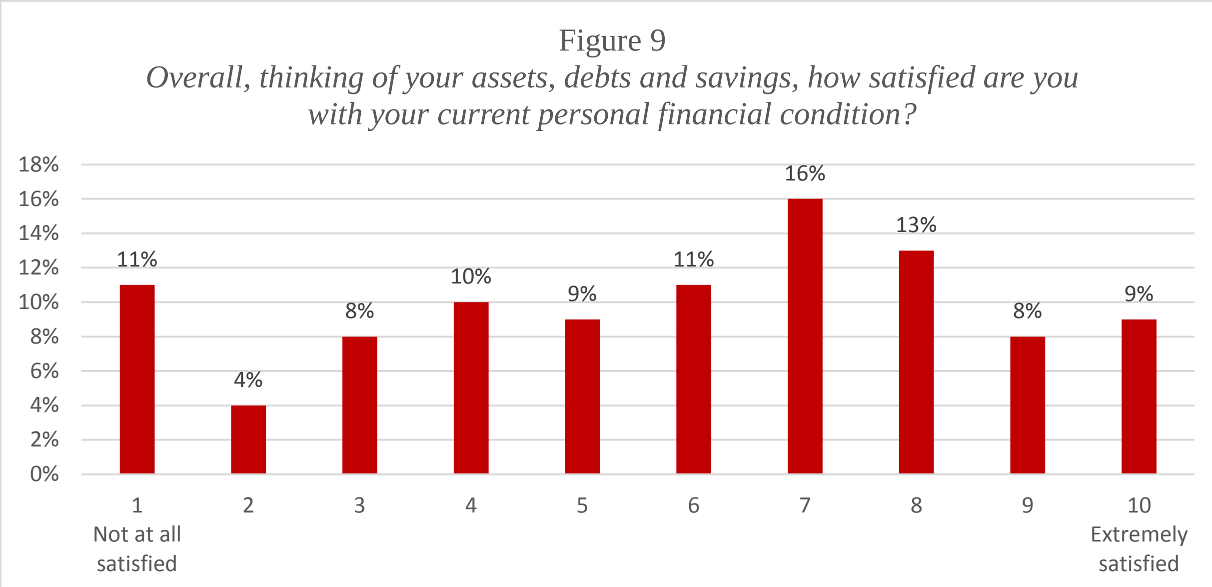
AFS use is common across all socio-economic groups. AFS use is higher among the less educated, the unbanked, African-Americans, Hispanics, and lower-income individuals. However, even those with college degrees, traditional bank accounts and access to credit cards show significant rates AFS use.

Unmet Expectations: Debt Loads and Financial Satisfaction

Key Findings:

- Over half of Millennials feel they have too much debt.
- Many Millennials are unsatisfied with their current financial condition.

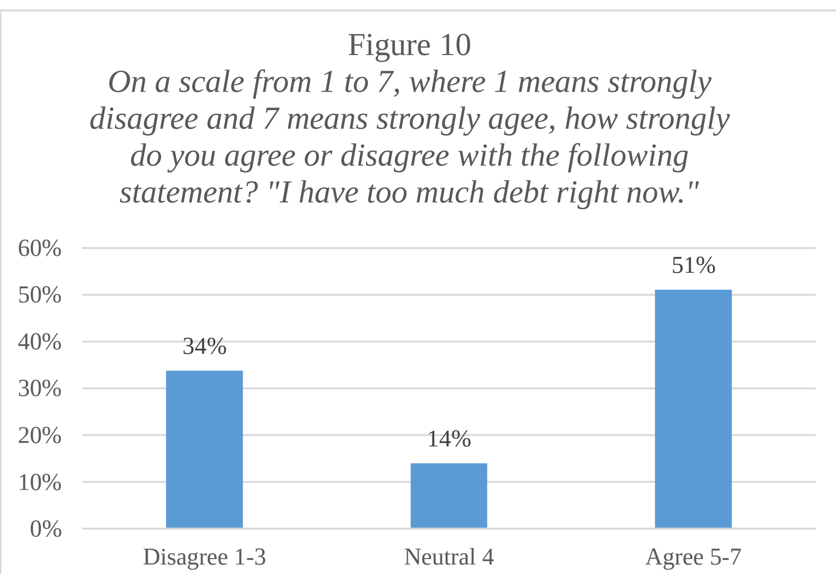
How Millennials feel about their finances is significant. Their responses to attitudinal questions reveal expectations of where they should be financially in comparison to their actual experience. Fifty-one percent of Millennials feel they have too much debt and, when asked if they are satisfied with their financial condition, only 1 in 5 reported satisfaction (marked 8-10 on a 10 point scale).



Note: Percentages calculated over the total sample of 6,608 observations. Percentages do not add up to 100 percent because "don't know" and "prefer not to say" answers are excluded

Interestingly, satisfaction with one's current financial condition tends to be higher among Millennials with long-term debt (perhaps because this debt often is due to education). Satisfaction was much lower among those with short-term debt, those reporting expensive credit card behaviors, and those who reported AFS use. Satisfaction also is inversely related to over-indebtedness. Only one-quarter of those who agreed with the statement "I have too much debt" also said they were financially satisfied.

Perceived Over-Indebtedness



Millennials are overburdened by debt. In addition, few–only 1 in 5–are satisfied with their financial condition. These sentiments are weakest among those with short-term debt.

Note: Chart does not sum to 100 percent because "Don't know" and "Prefer not to answer" responses are not reported.

Financial Fragility: What If Something Goes Wrong?

Key Findings:

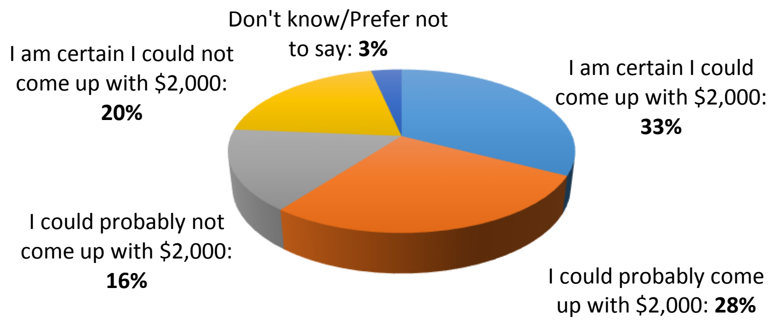
- Millennials are unprepared to handle sudden economic shocks.
- Even among those with retirement accounts, emergency funds are rare.

Millennials are financially fragile. Data show that many Millennials do not have emergency or “rainy day” funds, despite (and perhaps because of) the prevalence of economic shocks during this generation’s lifetime.

Forty-two percent have set aside funds to cover three months of expenses in the event of job loss, serious illness, economic downturn or other unexpected shock. Those who do not save for the short run also do not save for the long run. Among Millennials without retirement plans, only 26 percent report having emergency funds.

Moreover, many Millennials are unprepared to deal with midsize, unexpected income shocks. When asked if they could come up with $2,000 if an unexpected need arose within the next month, 36 percent responded that they probably or certainly could not come up with the funds.

Figure 11
How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?



The ability to cover expenses in the event of an unexpected economic shock varies across subgroups. Having a full-time job is one of the most important indicators of financial stability: While 41 percent of those who have a full-time job report they certainly could come up with $2,000 in one month, only 22 percent of those who do not have a full-time job report they are certain about their ability to come up with such funds. Moreover, Millennials at higher levels of education show much lower levels of financial fragility. Forty-six percent of college-educated Millennials and 55 percent of post-graduates are certain about their ability to come up with $2,000 in one month.

Household income also is an important determinant, with 58 percent of those earning above $75,000 per year, 31 percent of those earning between $35,000 and $75,000 per year, and 16 percent of those earning below $35,000 per year being certain that they could come up with $2,000 if needed.

Financial Literacy: What Millennials Don't Know Can Hurt Them

Key Findings:

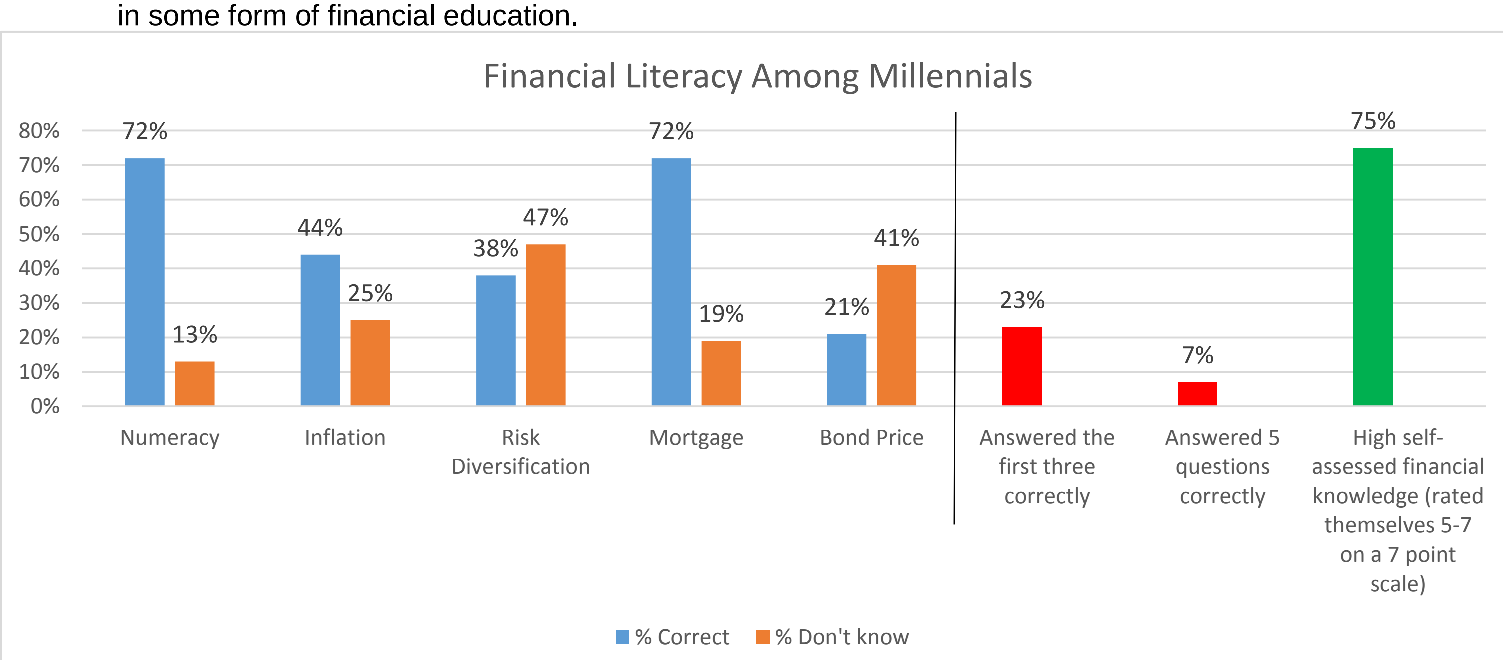
- Millennials are very confident about their financial knowledge and their financial management skills.
- This high confidence does not match with actual financial literacy levels: Less than a quarter of Millennials show basic financial literacy and only 7 percent show a high level of knowledge.
- Few Millennials have participated in some form of financial education.

While Millennials are very confident about their financial knowledge and their financial management skills, their high confidence does not match their actual financial literacy levels.

Financial literacy is a measure of the understanding of fundamental financial and economic concepts that underpin decision making. Being financially literate is particularly important for Millennials, who already are active investors and carry both short- and long-term debt.

To measure financial literacy, Millennials were given a set of five financial literacy questions meant to test their capacity to do calculations related to interest rates as well as test an understanding of inflation, risk diversification, stocks and mutual funds, interest payments on a mortgage, and the relationship between interest rates and bond prices.

Under one-quarter of respondents show basic financial literacy (measured by answering the first three of five questions correctly) and only 7 percent show a high level of knowledge (measured by answering all five questions correctly). Furthermore, many are inclined to answer "Don't know" to questions about financial concepts, which is an indicator of low financial literacy. This is perhaps due to a lack of financial education: Only 23 percent of Millennials reported that they participated in some form of financial education.



Implications and Recommendations

There is a wide gap between the amount of financial responsibility undertaken by young Americans and their demonstrated ability to manage financial decisions and maximize financial opportunities. Greater access to education and financial literacy tools could help alleviate this problem.

Programs aimed at improving financial knowledge potentially could help Millennials better manage debt, improve their financial safety net and increase their financial security into the future. Strategies for debt management may be particularly needed in order to guide heavily indebted young adults toward better management of their financial obligations.

About this Study

This study analyzes data from the 2015 National Financial Capability Study (NFCS), a state-by-state online survey commissioned by the FINRA Investor Education Foundation of more than 27,000 respondents. Various indicators of financial capability are examined including making ends meet, planning ahead, managing financial products, financial knowledge and decision making. This analysis evaluates the financial capability of Millennials, focusing on 23- to 35-year-old individuals for a total of 6,608 observations.

This brief provides an update to the report *Financial Capability Among Young Adults*, which was funded by the National Endowment for Financial Education to analyze financial capability among young adults using data from the 2012 National Financial Capability Study. The full report as well as an executive summary can be found at www.nefe.org.

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