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# **BUILDING MILLENNIALS' FINANCIAL HEALTH VIA FINANCIAL CAPABILITY**

Terri Friedline and Stacia West

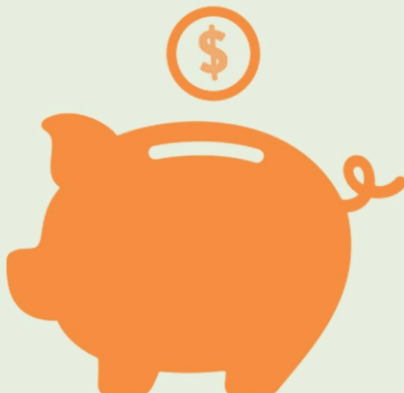
**FINANCIAL EXCLUSION**



**FINANCIAL EDUCATION**



**FINANCIAL INCLUSION**



**FINANCIAL CAPABILITY**



## AUTHORS' FORWARD

The mission of the Center on Assets, Education, and Inclusion (AEDI) at The University of Kansas School of Social Welfare is to create and study innovations related to asset development, education, and financial inclusion that result in opportunities across the life course for low-income children and families, in the U.S. and around the globe, for the purposes of climbing out of poverty and up the economic ladder.

With uneven economic growth and a persistent gap in asset holdings, the landscape in which Millennials must navigate important financial decisions is more treacherous than that experienced by previous generations. These conditions threaten the possibility of a brighter economic future for Millennials and their children, as one financial misstep made early in life may lead to ongoing financial volatility. To support opportunities for upward economic mobility across generations, we believe it is imperative to understand how particular combinations of financial experience and education are related to engagement with mainstream and alternative financial institutions, acquisition of debt, and plans for weathering financial emergencies.

It is our sincere hope that this research not only contributes to the current national discussion of financial capability among Millennials, but also inspires innovative approaches by financial institutions and policymakers that will make a meaningful impact in the financial futures of Millennials.

Warmest regards,



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## ABOUT THE AUTHORS



**Terri Friedline** is an assistant professor at The University of Kansas School of Social Welfare, faculty associate within the Assets and Education Initiative, and research fellow at New America. Friedline conducts research to envision, redefine, and move economic justice with young people—particularly for those growing up in poverty who may be at a competitive disadvantage for navigating this economic world. She holds an MSW and PhD from the University of Pittsburgh School of Social Work. Email: [tfriedline@ku.edu](mailto:tfriedline@ku.edu)



**Stacia West** is currently a PhD student at the School of Social Welfare. She holds an MSSW and a Bachelor's Degree in Women's Studies and Philosophy from the University of Tennessee-Knoxville. West worked as the Assistant Director of KnoxHMIS—a community based research endeavor that helped promote interagency collaboration and track the prevalence of homelessness. Her current research focuses on investigating the relationship between financial fragility and housing instability among single mothers, the outcomes of emergency savings programs for very low income groups, and the financial behaviors of low to moderate income young adults. Email: [staciawest@ku.edu](mailto:staciawest@ku.edu)

## ABOUT THE CENTER ON ASSETS, EDUCATION, AND INCLUSION

The mission of AEDI is to create and study innovations related to asset development, education, and financial inclusion that result in opportunities across the life course for low-income children and families, in the U.S. and around the globe, for the purposes of climbing out of poverty and up the economic ladder.

## ABOUT THE ASSET BUILDING PROGRAM AT NEW AMERICA

The mission of the Asset Building Program is to significantly broaden access to economic resources through increased savings and asset ownership, thereby providing families with enhanced economic security, a direct stake in the commonwealth, and the means to pursue their aspirations.

## ACKNOWLEDGMENTS

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The Center on Assets, Education, and Inclusion (AEDI) at The University of Kansas School of Social Welfare provided support for this research, where Dr. Friedline is the faculty director of the Financial Inclusion Project and Ms. West is a research associate. The Asset Building Program at New America, which is a public policy institute in Washington, DC and where Dr. Friedline serves as a research fellow, also provided support for this research.

# BUILDING MILLENNIALS' FINANCIAL HEALTH VIA FINANCIAL CAPABILITY

## MILLENNIALS: WHO ARE THEY AND THE STATE OF THEIR FINANCIAL HEALTH?

Today's young adults, referred to as Millennials born between the early 1980's and 2000's, are coming of age in an economy unlike any other.<sup>1</sup> The macroeconomic conditions of the Great Recession from approximately 2007 to 2011 systematically undermined Millennials' financial health by limiting employment opportunities, stagnating income growth, reducing net worth, and increasing reliance on debt. Millennials entered a labor market with limited opportunities and saw higher unemployment rates than the rest of the population.<sup>2</sup> Fewer Millennials entered the labor market than young adults from any preceding generation and their unemployment rate was roughly 15 to 17 percent at the height of the recession—5 to 7 percentage points higher than the average unemployment rate for the rest of the population. They also experienced diminishing returns for participating in the labor market, earning 6 percent less per paycheck than in previous years.<sup>3</sup>

Fewer employment opportunities and reduced paychecks translated into less money to save and invest. The average Millennial has about \$1,000 in savings,<sup>4</sup> suggesting that many may struggle to afford necessary expenses in the face of unemployment and to become financially independent.<sup>5</sup> Millennials also delayed investing in homes and those who did invest experienced substantial wealth losses that were driven by declining home equity.<sup>6</sup> These losses are reflected in the

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<sup>1</sup> Taylor, P., Doherty, C., Parker, K., & Krishnamurthy, V. (2014). *Millennials in adulthood: Detached from institutions, networked with friends*. Washington, DC: Pew Research Center.

<sup>2</sup> Rubin, B. (2014). Employment insecurity and the frayed American dream. *Sociology Compass*, 8(9), 1083-1099. doi:10.1111/soc4.12200

Mishel, L., Bivens, J., Gould, E., & Shierholz, H. (2012). *The state of working America* (12th Ed). Ithaca, NY: Cornell University Press.

Taylor, P., Parker, K., Kochhar, R., Fry, R., Funk, C., Patten, E., & Motel, S. (2012). *Young, underemployed, and optimistic: Coming of age, slowly, in a tough economy*. Washington, DC: Pew Research Center.

<sup>3</sup> Taylor, P., Parker, K., Kochhar, R., Fry, R., Funk, C., Patten, E., & Motel, S. (2012). *Young, underemployed, and optimistic: Coming of age, slowly, in a tough economy*. Washington, DC: Pew Research Center.

<sup>4</sup> Friedline, T., Nam, I., & Loke, V. (forthcoming). Households' net worth accumulation patterns and young adults' financial health: Ripple effects of the Great Recession? *Journal of Family and Economic Issues*. doi:10.1007/s10834-013-9379-7

<sup>5</sup> Sironi, M., & Furstenberg, F. (2012). Trends in the economic independence of young adults in the United States: 1973-2007. *Population and Development Review*, 38(4), 609-630.

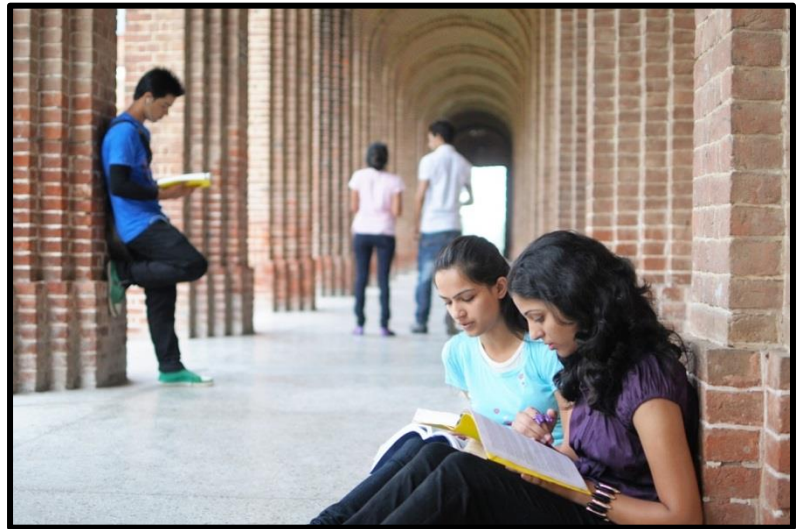
<sup>6</sup> Fry, R. (2013). *Young adults after the recession: Fewer homes, fewer cars, less debt*. Washington, DC: Pew Research Center.

## BUILDING MILLENNIALS' FINANCIAL HEALTH

value of Millennials' accumulated net worth compared to that of previous generations.<sup>7</sup> Millennials' net worth is valued at \$10,000, which is 41 percent less than the values of net worth held by Baby Boomers and Generation X'ers two decades ago.<sup>8</sup>

Debt burdens further constrain Millennials' finances.

About 85 percent of Millennials hold some type of debt and their average debt is \$60,000,<sup>9</sup> with the most common debts stemming from credit cards, auto loans, and installment loans.<sup>10</sup> While holding debt from student loans is less common compared to other types of debt, student loan debt is rapidly increasing in prominence on Millennials' balance sheets and their share of net worth. This is of concern for Millennials who want to secure their place in the labor market, and in part their financial health, via postsecondary education.<sup>11</sup> Millennials also saw mainstream financial institutions take much of the blame for inciting one of the worst economic recessions in recent history as a result of predatory and irresponsible lending practices,<sup>12</sup> potentially fostering Millennials' distrust in mainstream banks and credit unions.<sup>13</sup>



Taken together, Millennials are in a vulnerable financial position. They are passing through a period of their life that is already characterized by vulnerability—perhaps for the first time they are living independently from their families of origin, making their debut in the labor market where they earn the lowest incomes of their careers, and forming relationships and choosing life partners. The Great Recession created a perfect storm for financial vulnerability when it coincided with Millennials' coming of age, weakening their already precarious financial health and exposing them to risks that may further undermine financial health, like using alternative financial services or carrying burdensome debt.

<sup>7</sup> Taylor, P., Fry, R., Cohn, D., Livingston, G., Kochhar, R., Motel, S., & Patten, E. (2011). *The old prosper relative to the young: The rising age gap in economic well-being*. Washington, DC: Pew Research Center.

<sup>8</sup> Bricker, J., Detting, L., Henriques, A., Hsu, J., et al. (2014). *Changes in U.S. family finances from 2010 to 2013: Evidence from the Survey of Consumer Finances*. Federal Reserve Bulletin, 100(4), 1-41.

Cramer, R. (2014). *Millennials rising: Coming of age in the wake of the Great Recession*. Washington, DC: New America.

<sup>9</sup> Hodson, R., & Dwyer, R. (2014). *Financial behavior, debt, and early life transitions: Insights from the National Longitudinal Survey of Youth, 1997 Cohort*. Columbus, OH: The Ohio State University, Department of Sociology.

<sup>10</sup> Chiteji, N. (2007). To have and to hold: An analysis of young adult debt. In S. Danziger & C. Rouse (Eds.), *The price of independence: The economics of early adulthood* (pp. 231-258). New York, NY: Russell Sage Foundation.

<sup>11</sup> Elliott, W., & Lewis, M. (2014). *The student loan problem in America: It is not enough to say, "students will eventually recover."* Lawrence, KS: University of Kansas, Center on Assets, Education, and Inclusion.

<sup>12</sup> Mian, A., & Sufi, A. (2014). *House of debt: How they (and you) caused the Great Recession, and how we can prevent it from happening again*. Chicago, IL: University of Chicago Press.

<sup>13</sup> Afandi, E., & Habibov, N. (2013). *Pre-crisis and post-crisis trust in banks: Lessons from transitional countries*. Munich, Germany: Munich Personal RePEc Archive.

## **BUILDING MILLENNIALS' FINANCIAL HEALTH**

This study, generously funded by the FINRA Investor Education Foundation, leveraged the 2012 National Financial Capability Study (NFCS) to investigate the state of Millennials' financial health and to provide a preliminary test of the effectiveness of financial capability—an intervention that has the potential to improve financial health by combining financial education and financial inclusion. In particular, this study asked whether being financially capable was associated with metrics of Millennials' financial health such as locating \$2,000 for an unexpected expense, saving for emergencies, using alternative financial services, carrying too much debt, and being satisfied with their financial condition. In addition to joining the national dialogue regarding the state of Millennials' financial health within the current macroeconomic context, this study offers financial capability as a potential solution.

It is worth noting that throughout this executive summary report, financial capability is defined as the combination of having received financial education and being financially included via a savings account. As the discussion that follows will explain, this is consistent with the definition of financial capability that is commonly found in the literature.<sup>14</sup> This study tested the relationships between Millennials' financial capability and the aforementioned metrics of their financial health, as compared to being financially included (having only a savings account), financially educated (having only received financial education), and financially excluded (having neither financial education nor financial inclusion). These categories were designed to be mutually exclusive so that Millennials who had both financial education and inclusion were not confused with Millennials who just had one or the other. The results presented throughout this executive summary compare financial capability, financial inclusion, and financial education to financial exclusion. However, the categories were also compared to one another, for example, asking whether significant relationships emerged or were stronger when Millennials were financially capable as compared to financially educated or included. Indeed, as the findings throughout this report will reflect, financially capable Millennials also had significantly better metrics of financial health when compared to their financially included, educated, and excluded counterparts.

## **WHY DOES MILLENNIALS' FINANCIAL HEALTH MATTER?**

The Great Recession jolted the economic landscape and with it the course on which Millennials will chart their financial futures. In fact, some believe that the Great Recession ushered in a new economic era, offering a glimpse of the volatility that can be expected from the economy in the future.<sup>15</sup> If this is indeed the case, then the financial health of Millennials and that of future young adult generations matters greatly. This is because financial health can serve as a metric to gauge the ability of young adults to respond to volatile economic conditions. Moreover, the financial health established in young adulthood provides a foundation upon which the rest of their financial lives is built.

Imagine life as a marathon race, during the course of which runners pass chronologically through the stages of young and middle adulthood before reaching the finish line in old age. Having trained and competed in previous races, elite runners start the marathon before everyone else and excel ahead of those who lack the same rigorous preparation and training.

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<sup>14</sup> Sherraden, M. S. (2013). Building blocks of financial capability. In J. Birkenmaier, M. S. Sherraden, & J. Curley (Eds.), *Financial education and capability: Research, education, policy, and practice* (pp. 3-43). New York: Oxford University Press.

<sup>15</sup> Cynamon, B., & Fazzari, S. (2014). *Inequality, the great recession, and slow recovery*. St. Louis, MO: The Federal Reserve Bank of St. Louis.

Galbraith, J. K. (2012). *Inequality and instability: A study of the world economy just before the great crisis*. New York, NY: Oxford University Press.

## BUILDING MILLENNIALS' FINANCIAL HEALTH

Elite young adults—for instance, those who save for emergencies, avoid alternative financial services, and circumvent burdensome debt—may have good financial health that can be leveraged for their future financial stability and economic mobility. Elite young adults endure through the miles, weathering periods of unemployment, investing in housing, and accumulating wealth. They likely reach the finish line with sufficient wealth to supplement their income during retirement and to bequest any wealth that remains. In contrast, young adults with poor financial health are slowed down by thousands of other runners. The extra effort they expend sidestepping obstacles like unemployment and weaving in and out of crowds of debt slows their progress and ebbs away at their momentum; they struggle through the remainder of the race with little if anything left over at the end.

Millennials should also be able to financially excel and ultimately succeed in this race called life.

It almost goes without saying that Millennials who establish good financial health in young adulthood are better prepared to navigate financial obstacles in middle and old adulthood or to overcome obstacles that are incited by an economic recession. It is not enough for Millennials to just survive and endure through these life stages and obstacles; they should also be able to financially excel and ultimately succeed in this race called life.

A question that follows, then, is how can we improve Millennials' financial health? The answer to this question is of considerable importance for Millennials generally and for lower-income Millennials in particular, who enter young adulthood at a competitive financial disadvantage. In other words, like the years of training and preparation that are required to succeed at running a marathon, Millennials' elite status and their financial health are based in part on the opportunities and advantages provided to them by their parents, often well before they enter young adulthood.<sup>16</sup> Elite Millennials likely had parents that opened savings accounts for them, connected them with mainstream financial institutions, and helped them avoid debt so that they could enter young adulthood with a good financial foundation.<sup>17</sup> Lower-income Millennials might not have benefitted from these same opportunities and advantages, placing their early financial health at risk.

<sup>16</sup> Cobb-Clark, D., & Gørgens, T. (2014). Parents' economic support of young-adult children: Do socioeconomic circumstances matter? *Journal of Population Economics*, 27(2), 447-471. doi:10.1007/s00148-013-0484-6

Friedline, T. (2012). Predicting children's savings: The role of parents' savings for transferring financial advantage and opportunities for financial inclusion. *Children and Youth Services Review*, 34(1), 144-154. doi: 10.1016/j.childyouth.2011.09.010

Kendig, S., Mattingly, M., & Bianchi, S. (2014). Childhood poverty and the transition to adulthood. *Family Relations*, 63(2), 271-286. doi:10.1111/fare.12061

<sup>17</sup> Friedline, T., & Rauktis, M. (2014). Young people are the front lines of financial inclusion: A review of 45 years of research. *Journal of Consumer Affairs*, 48(3), 535-602. doi:10.1111/joca.12050





# BUILDING MILLENNIALS' FINANCIAL HEALTH

Millennials are represented by young adults between the ages of 18-34 who participated in the 2012 National Financial Capability Study.

## FINANCIAL EXCLUSION



neither financial education  
nor a savings account

## FINANCIAL EDUCATION



financial education only

## FINANCIAL INCLUSION



a savings account only

## FINANCIAL CAPABILITY

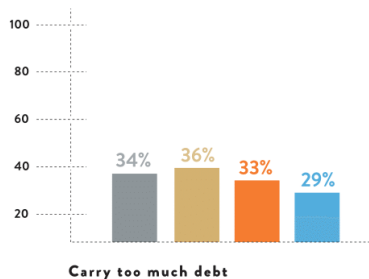
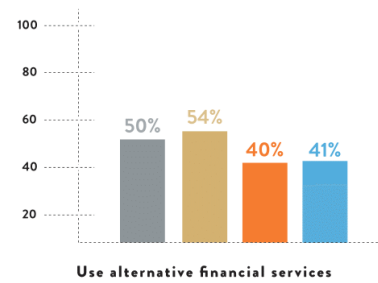
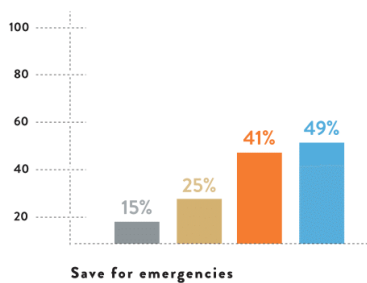
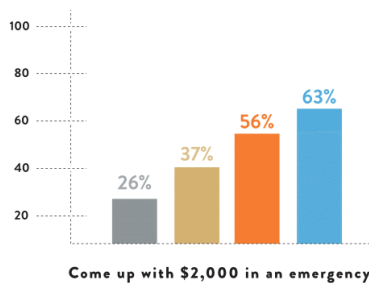


financial education +  
savings account

### WHAT PERCENTAGE OF MILLENNIALS ARE FINANCIALLY CAPABLE?



FINANCIALLY CAPABLE MILLENNIALS ARE HEALTHIER FINANCIALLY THAN MILLENNIALS WHO ARE FINANCIALLY EXCLUDED, FINANCIALLY EDUCATED, OR FINANCIALLY INCLUDED.



### COMPARED TO FINANCIALLY EXCLUDED MILLENNIALS, FINANCIALLY CAPABLE MILLENNIALS ARE:



176%

more likely  
to come up  
with \$2,000



224%

more likely  
to save for  
emergencies



21%

less likely to  
use alternative  
financial services



30%

less likely to  
carry too  
much debt

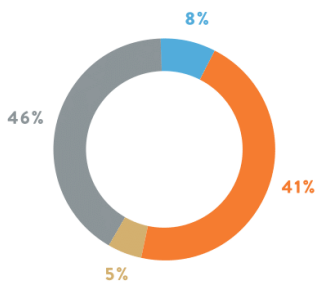




# LOWER-INCOME MILLENNIALS CAN BENEFIT FROM FINANCIAL CAPABILITY

Even though lower-income Millennials (annual household incomes < \$25,000) are less likely to be financially capable than their higher-income peers, they benefit from financial capability in similar ways.

## WHAT PERCENTAGE OF LOWER-INCOME MILLENNIALS ARE FINANCIALLY CAPABLE?



- FINANCIALLY CAPABLE
- FINANCIALLY INCLUDED
- FINANCIALLY EDUCATED
- FINANCIALLY EXCLUDED

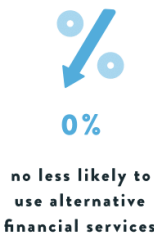
## FINANCIALLY CAPABLE, LOWER-INCOME MILLENNIALS:



- CARRY TOO MUCH DEBT
- SAVE FOR EMERGENCIES
- USE ALTERNATIVE FINANCIAL SERVICES
- CAN COME UP WITH \$2,000 IN AN EMERGENCY

LOWER-INCOME FINANCIALLY CAPABLE MILLENNIALS ARE HEALTHIER FINANCIALLY THAN THEIR PEERS WHO ARE FINANCIALLY EXCLUDED, FINANCIALLY EDUCATED, OR FINANCIALLY INCLUDED.

## COMPARED TO LOWER-INCOME FINANCIALLY EXCLUDED MILLENNIALS, LOWER-INCOME FINANCIALLY CAPABLE MILLENNIALS ARE:



### ACKNOWLEDGMENT:

This research was supported by a grant from the FINRA Investor Education Foundation. All results, interpretations and conclusions expressed are those of the research team alone, and do not necessarily represent the views of the FINRA Investor Education Foundation or any of its affiliated companies. No portion of this work may be reproduced, cited, or circulated without the express written permission of the authors.

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## FINANCIAL CAPABILITY: BUILDING MILLENNIALS' FINANCIAL HEALTH

Financial capability is a strategy that can be leveraged to promote equality of financial opportunities for lower-income Millennials and can build on the financial opportunities afforded to elite Millennials. In order to produce good financial health, researchers recommend pairing financial knowledge with financial inclusion.<sup>18</sup> This pairing means teaching financial education and shaping institutional arrangements by opening savings accounts or similar financial products that provide opportunities for experiential learning. The combination of financial education and financial inclusion is the definition of financial capability.<sup>19</sup> From this perspective, Millennials can establish optimal financial health when they have both the necessary knowledge and opportunities.

Notably, financial capability goes beyond explaining the state of Millennials' financial health as purely the result of individual decision making or financial knowledge. Margaret Sherraden writes, "...financial capability does not reside solely within the individual. Instead, it captures a relationship between individuals and their social reality; financial capability depends on what is possible for people living in a particular society."<sup>20</sup> The institutional arrangements under which Millennials operate help to shape their financial capability and their financial health. Part of shaping Millennials' financial capability and health, then, includes shaping their institutional arrangements.

Take for example Millennials who were raised in families that did not own savings accounts nor discussed finances, simultaneously coming of age during an economic recession that questioned the sovereignty and legitimacy of mainstream financial institutions for achieving their desired financial goals.<sup>21</sup> These micro and macroeconomic institutional arrangements undoubtedly play roles in the financial capability and financial health exhibited by Millennials.<sup>22</sup> Simply educating Millennials about the potential pitfalls of using alternative financial services does little good if they do not have any other financial products to use instead, they do not qualify for opening financial products like savings accounts at mainstream financial institutions, or the macroeconomic context triggers skepticism about the use of financial products at the financial institutions available to them. Despite Millennials' best intentions to avoid using alternative financial services and opting for good financial health, institutional arrangements may not provide them with opportunities to do so. For these Millennials, financial education may do little good in absence of financial inclusion—having affordable and accessible savings accounts to operationalize their knowledge. Thus, while this study explores Millennials' financial health

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<sup>18</sup> Sherraden, M. S. (2013). Building blocks of financial capability. In J. Birkenmaier, M. S. Sherraden, & J. Curley (Eds.), *Financial education and capability: Research, education, policy, and practice* (pp. 3-43). New York: Oxford University Press.

<sup>19</sup> Sherraden, M. S. (2013). Building blocks of financial capability. In J. Birkenmaier, M. S. Sherraden, & J. Curley (Eds.), *Financial education and capability: Research, education, policy, and practice* (pp. 3-43). New York: Oxford University Press, page 4.

<sup>20</sup> Sherraden, M. S. (2013). Building blocks of financial capability. In J. Birkenmaier, M. S. Sherraden, & J. Curley (Eds.), *Financial education and capability: Research, education, policy, and practice* (pp. 3-43). New York: Oxford University Press, page 4.

<sup>21</sup> Mills, G., & Monson, W. (2013). *The rising use of nonbank credit among US households: 2009-2011*. Washington, DC: The Urban Institute.

Owens, L., & Cook, K. (2013). The effects of local economic conditions on confidence in key institutions and interpersonal trust after the Great Recession. *Annals of the American Academy of Political and Social Science*. 650(1), 274-298.

<sup>22</sup> Grinstein-Weiss, M., Spader, J., Yeo, Y. H., Taylor, A., and Freeze, E. B. (2011). Parental transfer of financial knowledge and later credit outcomes among low-and-moderate-income homeowners. *Children and Youth Services Review*, 33(1), 78-85.

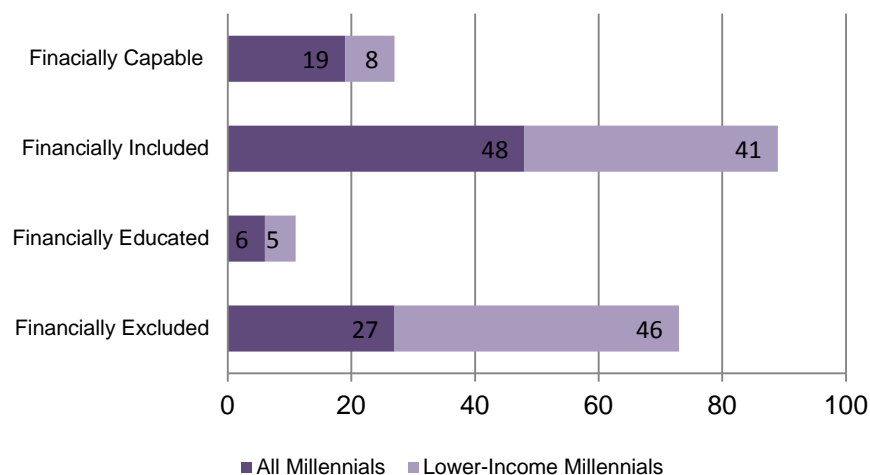
from an individual, microeconomic perspective, financial capability is as much of an institutional, macroeconomic strategy for building financial health.

## FINANCIAL CAPABILITY'S POTENTIAL FOR BUILDING FINANCIAL HEALTH

Millennials' financial health is based in part on the knowledge and opportunities available to them via institutional arrangements.<sup>23</sup> Financial capability recognizes that young adults' financial behavior is not purely based on individual knowledge; young adults also need opportunities to carry out financial behavior. In the context of financial capability, financial knowledge is commonly defined as financial education and the opportunities for operationalizing that knowledge are commonly defined as savings accounts that provide financial inclusion. Thus, providing Millennials with a combination of financial education and financial inclusion via savings accounts may be useful for promoting their financial health.

However, only a fraction of Millennials (19 percent) are financially capable (see Figure 1), meaning that they currently own a savings account and, sometime in the past, received formal financial education from their school or workplace or while they were in the military. Only 8 percent of lower-income Millennials are financially capable and almost half (46 percent) are financially excluded as indicated by their reports of neither owning a savings account nor having received financial education.

**Figure 1: Percentages Of Financially Capable, Included, Educated, And Excluded Millennials**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Financial capability is defined as currently owning a savings account and having received financial education from their school or workplace or while they were in the military. Financially included is defined as currently owning a savings account. Financially educated is defined as having received financial education. Financially excluded is defined as neither currently having a savings account nor having received financial education. Lower-income Millennials are those whose annual incomes are below \$25,000.

To test the effectiveness of financial capability, this study investigated relationships between Millennials' financial capability and their metrics of financial health such as being financially fragile determined by their ability to locate \$2,000

<sup>23</sup> Sherraden, M. S. (2013). Building blocks of financial capability. In J. Birkenmaier, M. S. Sherraden, & J. Curley (Eds.), *Financial education and capability: Research, education, policy, and practice* (pp. 3-43). New York: Oxford University Press.

for an unexpected expense, saving for emergencies, using alternative financial services, carrying too much debt, and being satisfied with their financial condition.

### FINANCIAL FRAGILITY

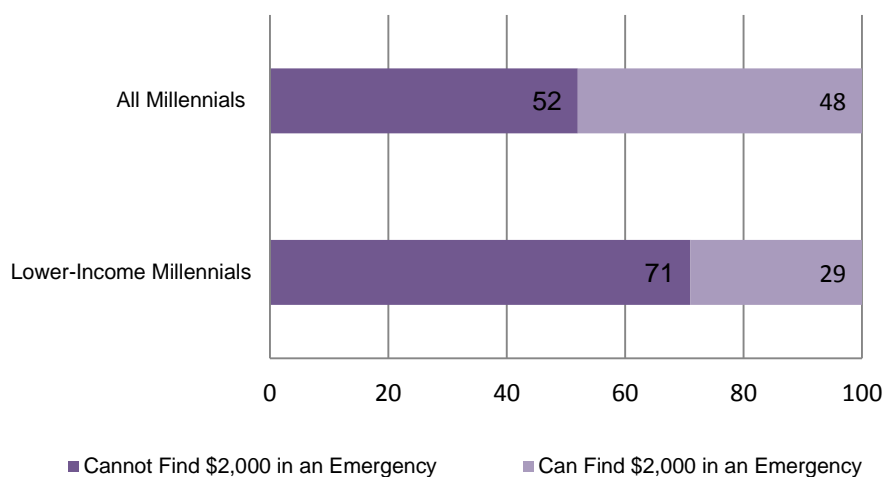
Locating \$2,000 for an unexpected expense is an indicator of the extent of Millennials' financial fragility. Millennials' ability to quickly locate \$2,000 may mean the difference between paying their rent and moving in with friends or family if they unexpectedly become unemployed. Similarly, being able to quickly locate \$2,000 might mean they can avoid using alternative financial services that charge exorbitant fees in exchange for providing money in a pinch. While on the whole Millennials are financially fragile, those who are financially capable are significantly more likely to quickly locate money when needed. This holds true even for lower-income Millennials who have the most to gain from becoming financial capable.

### KEY FINDINGS

Almost half (48 percent) of Millennials are able to quickly locate \$2,000 over a month's time in the face of an unexpected expense; however, lower-income Millennials are even more financially fragile, with less than one third (29 percent) being able to quickly locate \$2,000 in the face of an unexpected expense (see Figure 2).

- Increasing levels of education and the opportunities that come with them may facilitate Millennials' ability to come up with money on short notice. Compared to their counterparts with a high school degree or less, Millennials with at least a four-year college degree are 84 percent more likely to locate this money and lower-income Millennials are 105 percent more likely to do so (see Figure 3).
- Labor market attachment may also help Millennials to locate money in the face of an unexpected expense (see Figure 3). Millennials who are employed are 30 percent more likely to be able to locate \$2,000, compared to those who are unemployed. This relationship is more pronounced for lower-income Millennials who may be especially reliant on employment for a source of income, with those who are employed being 77 percent more likely to locate this money compared to their unemployed peers.
- Home ownership forces Millennials to save by requiring regular payments toward the principal on their mortgages, meaning that Millennials who own homes may be generating equity that they can leverage in the face of an unexpected expense. Compared to their peers who do not own homes, 77 percent of Millennials and 91 percent of lower-income Millennials are more likely to be able to locate \$2,000 (see Figure 3).
- The differences in Millennials' reported financial fragility based on their financial capability status are statistically significant (see Figure 3). Compared to their counterparts who are financially excluded, financially capable Millennials are 176 percent more likely to afford an unexpected expense and financially capable, lower-income Millennials are 171 percent more likely to do so. Financial education has no association with lower-income Millennials' financial fragility.

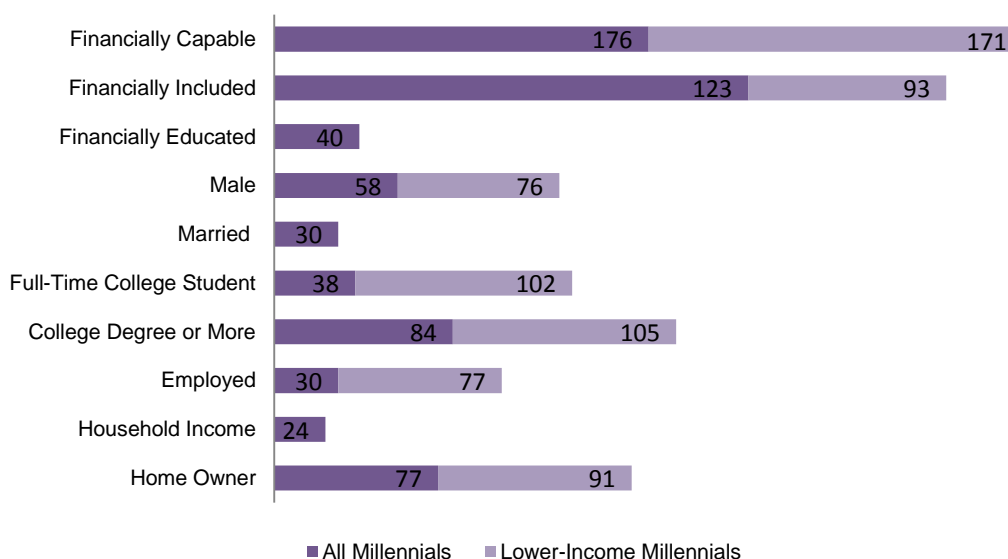
**FIGURE 2: Percentages That Are Financially Fragile**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Financial fragility is measured by asking whether or not Millennials can locate \$2,000 in an emergency. Lower-income Millennials are those whose annual incomes are below \$25,000.

**Figure 3: Percentages From The Relationship Between Millennials' Financial Capability And Financial Fragility**



**Source:** Logistic regression results using data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted using a dosage propensity score. The percentages are odds ratios based on regression coefficients. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Financial fragility is measured by asking whether or not Millennials can locate \$2,000 in an emergency. Lower-income Millennials are those whose annual incomes are below \$25,000. These results are based on regressions that control for race, gender, number of dependents (children), marital status, education level, employment status, household income, government assistance receipt, geographic region, home ownership, and financial capability. There are no significant differences by financial education, marital status, or household income among lower-income Millennials and, as such, there are no blue bars in the graph to represent these effects. Only results with significance levels  $< p = .05$  are presented.

## **EMERGENCY SAVINGS**

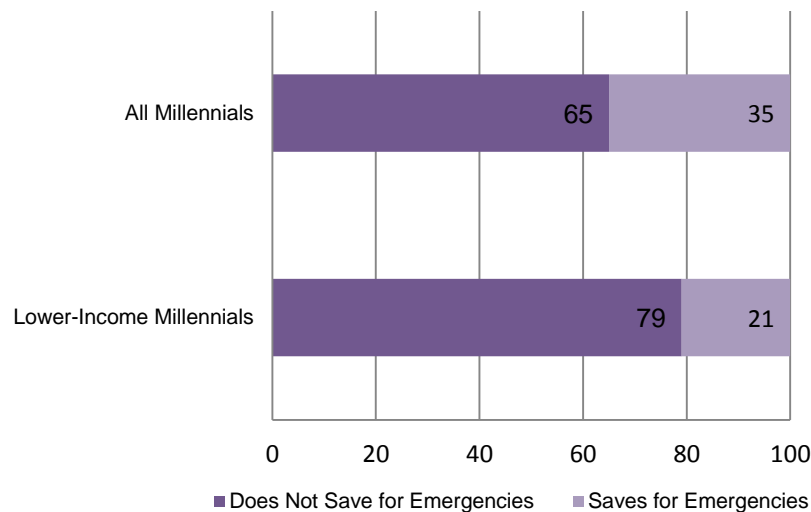
Much like the ability to come up with \$2,000 in the event of an unexpected expense, emergency saving is also an important indicator of financial fragility. Instead of turning to friends and family or alternative financial services, Millennials with savings equal to three months of expenses can use this emergency savings or “rainy day fund” to cover an unexpected expense or weather a short period of unemployment. For lower-income populations, who more frequently experience income and expenditure shocks, the ability to draw upon existing savings to cover an unexpected expense may prevent future financial struggle. While many Millennials have not set aside savings to cover three months of expenses, those who are financially capable are significantly more likely to have emergency savings.

### **KEY FINDINGS**

Thirty-five percent of Millennials report that they are saving specifically for emergencies and less than one quarter (21 percent) of lower-income Millennials are saving for emergencies (see Figure 4).

- The ability to save for emergencies may be driven in part by the resources and opportunities afforded to Millennials through higher education (see Figure 5). Compared to their counterparts with a high school degree or less, Millennials with at least a college degree are 34 percent more likely to report saving for emergencies.
- Millennials who are attached to the labor market either via employment or enrolled in higher education as a full-time student are more likely to save for emergencies compared to those who are unemployed (see Figure 5). Millennials who are employed are 49 percent more likely to save for emergencies and Millennials who are enrolled as a full-time student are 105 percent more likely to do so, compared to those who are unemployed. For lower-income Millennials, these percentages are respectively 59 percent and 97 percent.
- Compared to their peers who do not own homes, 115 percent of all Millennials and 148 percent of lower-income Millennials are more likely to save for emergencies (see Figure 5).
- The differences in Millennials' emergency savings based on their financial capability status are statistically significant (see Figure 5). Financially capable Millennials are 224 percent more likely to save for emergencies compared to financially excluded Millennials. Among lower-income Millennials, those who are financially capable are 182 percent more likely to save for emergencies. Financial education in and of itself is not significantly related to Millennials' reported saving for emergencies.

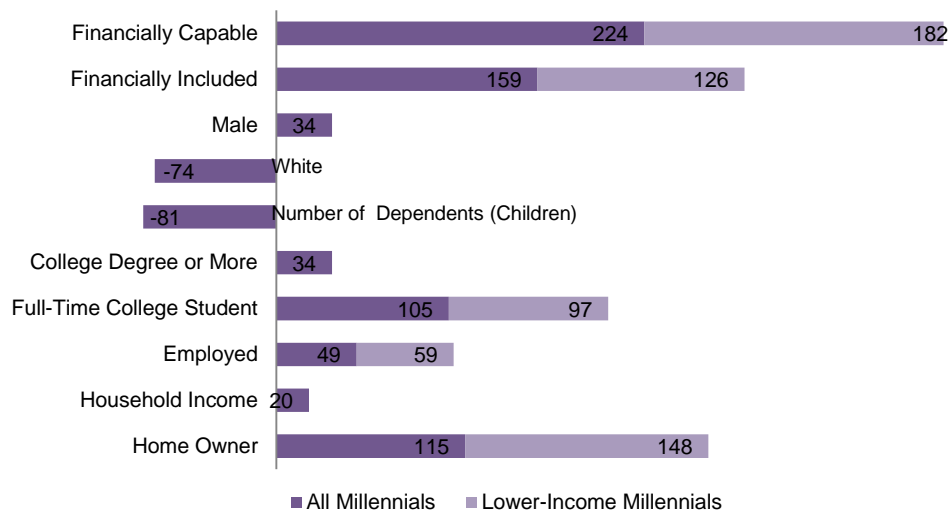
**FIGURE 4: Percentages That Save For Emergencies**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Emergency savings is measured by asking whether or not Millennials specifically save or set aside money for emergencies. Lower-income Millennials are those whose annual incomes are below \$25,000.

**Figure 5: Percentages From The Relationship Between Millennials' Financial Capability And Emergency Savings**



**Source:** Logistic regression results using data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted using a dosage propensity score. The percentages are odds ratios based on regression coefficients. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Emergency savings is measured by asking whether or not Millennials specifically save or set aside money for emergencies. Lower-income Millennials are those whose annual incomes are below \$25,000. These results are based on regressions that control for race, gender, number of dependents (children), marital status, education level, employment status, household income, government assistance receipt, geographic region, home ownership, and financial capability. There are no significant differences by gender, race, number of dependents, education level, or household income among lower-income Millennials and, as such, there are no blue bars in the graph to represent these effects. There are no significant relationships between financial education and emergency savings for neither all Millennials nor their lower-income counterparts and, as such, there is no blue bar to represent financial education. Only results with significance levels  $< p = .05$  are presented.



## ALTERNATIVE FINANCIAL SERVICES USE

In the face of unexpected expenses and limited savings, Millennials may turn to using alternative financial services like payday lenders and title loans in the past five years. While alternative financial services may serve a purpose for meeting short-term and immediate expenses,<sup>24</sup> many users of these services often report that high interest rates and predatory practices result in spiraling debt that is difficult to repay.<sup>25</sup> However, financially capable Millennials have both the financial education and the financial inclusion that are needed to avoid using alternative financial services. Here, the role of financial inclusion may be critical because Millennials' financial capability isn't just about passing along the information that using alternative financial services can jeopardize their financial health; Millennials also need financial inclusion opportunities that are less risky and more affordable.

## KEY FINDINGS

Almost half of Millennials (44 percent) have used alternative financial services like payday lenders and title loans. Similar percentages of lower-income Millennials (47 percent) have used alternative financial services. This suggests using alternative financial services is common among Millennials and these behaviors are no more likely to be reported in a lower-income sample than in the rest of the population (see Figure 6).

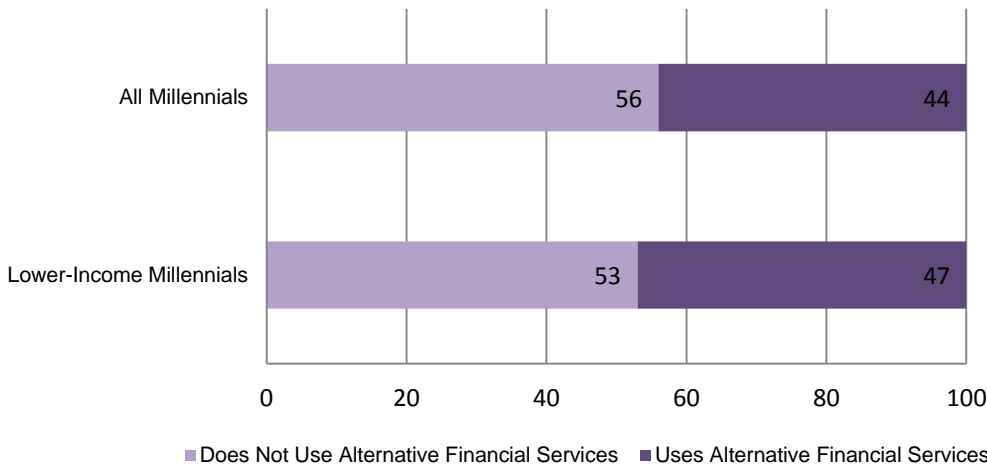
- Higher education appears to be a protective factor for Millennials' alternative financial services use. Compared to those with high school degrees or less, Millennials with college degrees or more are 49 percent less likely to use alternative financial services and lower-income Millennials are 52 percent less likely to do so (see Figure 7).
- For all Millennials, being employed is related to a 24 percent increase in the likelihood of using alternative financial services compared to those who are unemployed. However, compared to being unemployed, being enrolled in college full-time is related to decreased likelihoods of 26 percent and 33 percent for Millennials and their lower-income counterparts (see Figure 7).
- The differences in Millennials' use of alternative financial services based on their financial capability status are statistically significant. Financially capable Millennials are 21 percent less likely to use alternative financial services; however, there is no significant difference in lower-income Millennials' alternative financial services use by financial capability, suggesting that financially vulnerable young adults may still rely on these predatory and high-cost services to make ends meet.

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<sup>24</sup> Lawrence, E., & Elliehausen, G. (2008). A comparative analysis of payday loan customers. *Contemporary Economic Policy*, 26(2), 299-316. doi:10.1111/j.1465-7287.2007.00068.x

<sup>25</sup> Elliehausen, G. (2009). *An analysis of consumers' use of payday loans* (Financial Services Research Program Monograph No. 41). Washington, DC: The Board of Governors of the Federal Reserve System and the George Washington University School of Business.

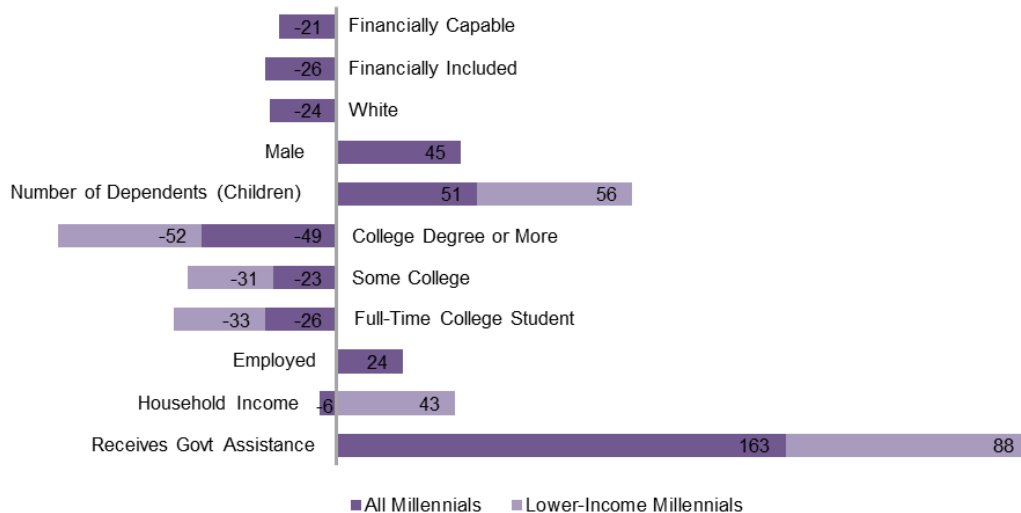
**Figure 6: Percentages That Use Alternative Financial Services**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Alternative financial services is measured by asking whether or not Millennials ever used title loans, payday lenders, tax refund advances, pawn shops, or rent-to-own stores in the past five years. Millennials are considered to have used alternative financial services if they report using any one of these services. Lower-income Millennials are those whose annual incomes are below \$25,000.

**Figure 7: Percentages From The Relationship Between Millennials' Financial Capability And Alternative Financial Services Use**



**Source:** Logistic regression results using data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted using a dosage propensity score. The percentages are odds ratios based on regression coefficients. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Alternative financial services is measured by asking whether or not Millennials ever used title loans, payday lenders, tax refund advances, pawn shops, or rent-to-own stores in the past five years. Millennials are considered to have used alternative financial services if they report using any one of these services. Lower-income Millennials are those whose annual incomes are below \$25,000. These results are based on regressions that control for race, gender, number of dependents (children), marital status, education level, employment status, household income, government assistance receipt, geographic region, home ownership, and financial capability. There are no significant differences by gender, race, or employment among lower-income Millennials and, as such, there are no blue bars in the graph to represent these effects. There are no significant relationships between financial capability and financial inclusion for lower-income Millennials and, as such, there is no blue bar to represent financial capability or inclusion. Only results with significance levels  $< p = .05$  are presented.

## DEBT BURDEN

Millennials are increasingly credit constrained. About 85 percent hold some type of debt and their average debt is \$60,000,<sup>26</sup> with the most common debts stemming from credit cards, auto loans, and installment loans.<sup>27</sup> Student loan debt's increasing share of net worth is of concern for Millennials who want to secure their place in the labor market, and in part their financial health, via postsecondary education.<sup>28</sup>

### KEY FINDINGS

35 percent of Millennials believe they are carrying too much debt. Similarly, 33 percent of lower-income Millennials believe they are carrying too much debt (see Figure 8).

- Compared to their counterparts with a high school degree or less, Millennials are more likely to report carrying too much debt when they have some college education or a college degree—a factor that may influence how much debt and the types of debt they accumulate (see Figure 9). Millennials with a college degree or more are 85 percent more likely and those with some college are 50 percent more likely to report carrying burdensome debt. Among lower-income Millennials, these percentages are respectively 71 percent and 49 percent.
- Labor market participation is related to Millennials' reported debt burden (see Figure 9). Employed Millennials are 24 percent more likely to report carrying burdensome debt compared to their counterparts who are unemployed. Labor market participation is unrelated to the reported debt burdens of lower-income Millennials.
- The differences in Millennials' reported perceived debt burdens based on their financial capability status are statistically significant (see Figure 9). Financially capable Millennials are 30 percent less likely to report carrying too much debt and financially capable, lower-income Millennials are 35 percent less likely to report carrying too much debt. When Millennials are just financially included, they are 14 percent less likely to report carrying too much debt; however, the relationship of financial inclusion to debt burden is not significant among lower-income Millennials.

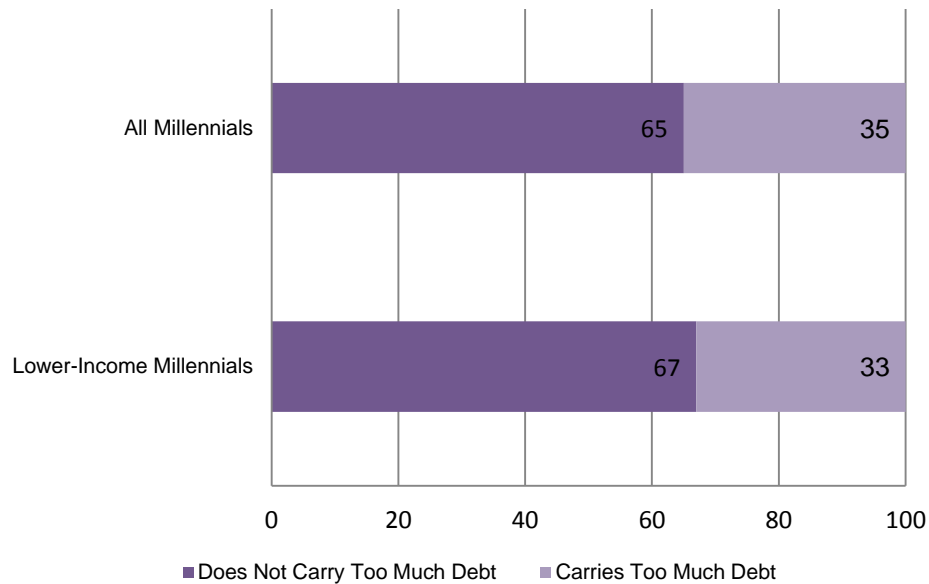
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<sup>26</sup> Hodson, R., & Dwyer, R. (2014). *Financial behavior, debt, and early life transitions: Insights from the National Longitudinal Survey of Youth, 1997 Cohort*. Columbus, OH: The Ohio State University, Department of Sociology.

<sup>27</sup> Chiteji, N. (2007). To have and to hold: An analysis of young adult debt. In S. Danziger & C. Rouse (Eds.), *The price of independence: The economics of early adulthood* (pp. 231-258). New York, NY: Russell Sage Foundation.

<sup>28</sup> Elliott, W., & Lewis, M. (2014). *The student loan problem in America: It is not enough to say, "students will eventually recover."* Lawrence, KS: University of Kansas, Center on Assets, Education, and Inclusion.

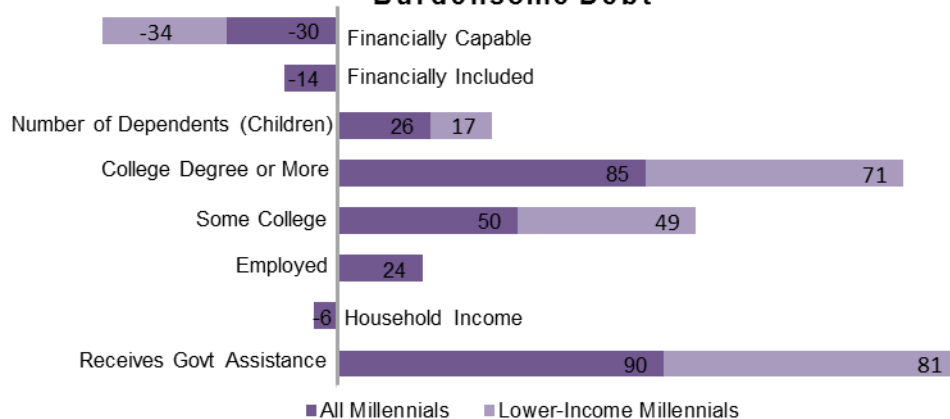
**Figure 8: Percentages That Carry Burdensome Debt**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Burdensome debt is measured by asking the extent to which Millennials agree they are carrying too much debt on a scale of one (strongly disagree) to seven (strongly agree). Millennials are considered to be carrying too much debt if they agree by reporting a five or higher on the scale. Lower-income Millennials are those whose annual incomes are below \$25,000.

**Figure 9: Percentages From The Relationship Between Millennials' Financial Capability And Burdensome Debt**



**Source:** Logistic results using data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted using a dosage propensity score. The percentages are odds ratios based on regression coefficients. All Millennials ( $N = 6,865$ ); Lower-Income Millennials ( $N = 2,578$ ).

**Note:** Burdensome debt is measured by asking the extent to which Millennials agree they are carrying too much debt on a scale of one (strongly disagree) to seven (strongly agree). Millennials are considered to be carrying too much debt if they agree by reporting a five or higher on the scale. Lower-income Millennials are those whose annual incomes are below \$25,000. These results are based on regressions that control for race, gender, number of dependents (children), marital status, education level, employment status, household income, government assistance receipt, geographic region, home ownership, and financial capability. There are no significant differences by employment or income among lower-income Millennials and, as such, there are no blue bars in the graph to represent these effects. There was no significant relationship by financial inclusion for lower-income Millennials and, as such, there is no blue bar to represent financial inclusion. Only results with significance levels  $< p = .05$  are presented.

## **FINANCIAL SATISFACTION**

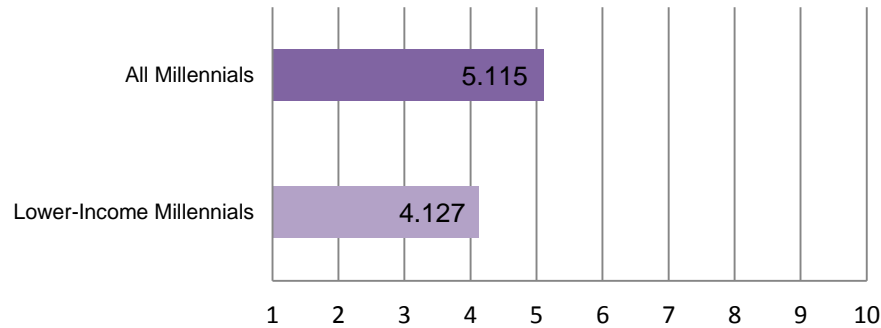
Compared to the other metrics of financial health, self-reported financial satisfaction is a subjective measure of how Millennials think they are doing financially. In other words, financial satisfaction can measure the extent to which Millennials are leading the financial lives that they would like to lead and can account for the variability of what those lives look like. Financially capable Millennials report higher financial satisfaction than their counterparts, suggesting that the combination of financial education and financial inclusion helps them believe they are leading their preferred financial lives.

### **KEY FINDINGS**

Millennials are moderately satisfied with their financial condition, on average reporting a financial satisfaction score of "5" on a scale of 1 to 10 with 10 being extremely satisfied; however, lower-income Millennials report a financial satisfaction score of "4" on the same scale (see Figure 10).

- Compared to those with a high school degree or less, Millennials who attended some college are significantly less satisfied (see Figure 11). This is especially true among lower-income Millennials, where the significant and negative relationship is stronger.
- Millennials who are employed or are enrolled full-time as a college student are also more likely to be financially satisfied compared to their unemployed counterparts (see Figure 11). Lower-income Millennials' financial satisfaction may especially benefit from being attached to either the labor market or higher education, as their employment or full-time college enrollment status strongly relates to their financial satisfaction.
- Compared to those who do not own their homes, Millennials who are home owners are also significantly more satisfied with their financial condition (see Figure 11). Homeownership's relationship to financial satisfaction is also significant among lower-income Millennials.
- Millennials who are financially capable are significantly more satisfied with their financial condition compared to Millennials who are financially excluded (see Figure 11). Financially included Millennials are also significantly more likely to report higher overall financial satisfaction. These relationships hold true among lower-income Millennials, as well.

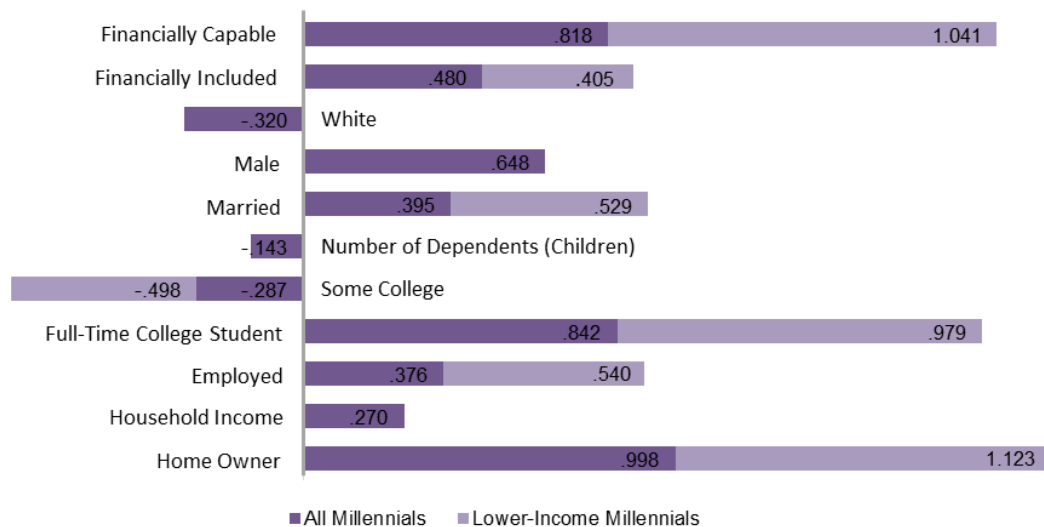
**Figure 10: Average Financial Satisfaction Scores**



**Source:** Data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted for national representation.

**Note:** Financial satisfaction is measured by asking the extent to which Millennials agree they are satisfied with their financial condition on a scale of one (not at all satisfied) to 10 (extremely satisfied). Lower-income Millennials are those whose annual incomes are below \$25,000.

**Figure 11: Coefficients Of The Relationship Between Millennials' Financial Capability And Financial Satisfaction**



**Source:** Multiple regression results using data from Millennials ages 18 to 34 who participated in the 2012 National Financial Capability Study, with missing data estimated using the Markov Chain Monte Carlo (MCMC) method and then weighted using a dosage propensity score.

**Note:** Financial satisfaction is measured by asking the extent to which Millennials agree they are satisfied with their financial condition on a scale of one (not at all satisfied) to 10 (extremely satisfied). Lower-income Millennials are those whose annual incomes are below \$25,000. These results are based on regressions that control for race, gender, number of dependents (children), marital status, education level, employment status, household income, government assistance receipt, geographic region, home ownership, and financial capability. There are no significant differences by race, gender, marital status, or household income among lower-income Millennials and, as such, there are no blue bars in the graph to represent these effects. Only results with significance levels  $p < .05$  are presented.

## POLICIES FOR MILLENNIALS' FINANCIAL CAPABILITY AND ECONOMIC MOBILITY

Financially capable Millennials appear to demonstrate more optimal financial behaviors and report higher rates of financial satisfaction than those who are financially excluded, have only financial education, or have only some financial experience. Considered in tandem with volatile macroeconomic conditions, these results suggest a need for policy makers and financial institutions to respond with empirically supported approaches that could help improve financial capability and ultimately foster upward economic mobility for Millennials and their families. These approaches may include financial institutions pairing financial education with opportunities to gain experience with inclusive financial products, providing Child Savings Accounts coupled with financial education offered in public schools, and alleviating student loan debt that may preclude Millennials from homeownership and other asset investments.

### FINANCIAL EDUCATION IS NOT ENOUGH

Financial education is often a 'go-to' intervention for improving financial health, and concerns about the financial literacy of the populous have prompted efforts to mandate financial education in high schools. For instance, only 9 percent of 15-year-olds in the United States demonstrate the type of competency on advanced financial knowledge questions that would be necessary for making informed decisions for taking out student loans, interpreting mortgage agreements, or comparing investment portfolios.<sup>29</sup> This lack of financial knowledge does not bode well for the financial health of these 15-year-olds when they grow into young adults. Today, more states require high schools to offer a course in financial education than in the past: 19 states had financial education requirements in 2014.<sup>30</sup> Indeed, young people have benefitted from these state financial education mandates.<sup>31</sup>

However, findings from the current study suggest that such efforts may be more effective for influencing financial health when also providing financial inclusion that offers a real financial product for hands-on experience. This may be especially true for lower-income Millennials whose financial health did not benefit from receiving only financial education. In fact, based on statistical relationships, lower-income Millennials appeared to have better results when they were financially included or financially capable, locating \$2,000 for an unexpected expense and saving for emergencies significantly more often (see Figures 3 and 5). With regard to emergency savings, only 16 percent of financially educated, lower-income Millennials saved for emergencies compared to 26 percent and 33 percent of lower-income, financially included and financially capable Millennials, respectively.

<sup>29</sup> OECD. (2014). PISA 2012 results: Students and money financial literacy skills for the 21st century. Paris, France: OECD.

<sup>30</sup> Council for Economic Education. (2014). *Survey of the states: 2014*. Washington, DC: Council for Economic Education.

<sup>31</sup> 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.

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.

Urban, C., Schmeiser, M., Collins, M.J., & Brown, A. (2015). *State financial education mandates: It's all in the implementation*. Washington, DC: FINRA Investor Education Foundation.



## **ENACT POLICIES THAT BUILD FINANCIAL CAPABILITY**

Given that financially capable Millennials also exhibit the best metrics of financial health, interventions may be most effective when financial education is combined with financial inclusion. This finding affirms existing policy and program efforts that support financial capability. A number of policies and programs are geared toward financial inclusion by opening savings accounts for young people that would be paired with financial education. Child Savings Accounts (CSAs; also known as Child Development Accounts [CDAs]) have been proposed as a vehicle for providing savings accounts and financial education directly to young people with emphasis on access for those from lower-income households. The America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act was first introduced into Congress in 2004 and most recently in 2013. The ASPIRE Act proposes to roll out CSAs universally at birth with a \$500 initial deposit and additional subsidies for those whose households' incomes fall below certain thresholds. Accounts would ideally be paired with financial education and the accumulated savings could be used toward expenses like education, home ownership, or retirement.<sup>32</sup> The USAccounts: Investing in America's Future Act was introduced into Congress in 2014 to establish USAccounts, which are similar in design to the CSAs proposed in the ASIPRE Act.



## **COORDINATE INSTITUTIONAL EFFORTS TO DELIVER FINANCIAL EDUCATION, INCLUSION**

Multiple institutions may need to join forces to make financial capability both scalable and effective—a recommendation that is based on the potential limitations of financial education taught in absence of financial inclusion and policy and program efforts that support financial capability. For example, national, universal policies such as the ASPIRE Act or USAccounts might be more effective at supporting financial capability if teaching financial education was mandatory in school systems across the United States. In this example, educational institutions serve as the delivery system for financial education while, separately, political and financial institutions serve as the delivery system for financial inclusion; however, these separate efforts can be developed intentionally so that they parallel and complement one another to increase each other's effectiveness. Moreover, institutions that teach financial education or expand financial inclusion without each other's cooperation—efforts undertaken in isolation of one another—would be more costly, less scale-able, and potentially ineffective. In fact, the promotion of financial capability via CSAs may require the coordination of multiple delivery systems that work in tandem to achieve effectiveness.

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<sup>32</sup> Cramer, R. (2010). The big lift: Federal policy efforts to Create Child Development Accounts. *Children and Youth Services Review*, 32(11), 1538-1543.

## PLAN FOR VARIABILITY BECAUSE A ONE-SIZE POLICY DOES NOT FIT ALL

Interventions capable of being delivered on a national scale—as is the case with interventions to promote financial capability—are often designed with a “one-size-fits-all” approach. However, the varying ways in which Millennials experience financial capability and interface with policy interventions can lead to inefficiencies if these variations are not taken into consideration in advance. Take, for example, the Earned Income Tax Credit (EITC) that has been touted as one of the most important interventions delivered via the tax code for keeping lower-income, working families out of poverty. Despite its seemingly widespread success, many eligible families—including those who could benefit the most—do not know that the EITC exists or apply for the tax credit.<sup>33</sup> This “one-size-fits-all” national intervention that is easily scalable from an administrative perspective also fails to reach all who are eligible in part because the intervention was not designed to consider things like families’ varying knowledge about or experience with filing taxes. Instead, labor-intensive and volunteer-driven tax preparation sites offered by the Volunteer Income Tax Assistance (VITA) program intervene and assist EITC-eligible families with filing their taxes.<sup>34</sup> This creates inefficiencies in the EITC’s approach to poverty reduction. The lessons learned from EITC are relevant for creating policy interventions that are designed to improve Millennials’ financial capability and financial health.

If a financial capability intervention is to be successfully designed and implemented at any level, then that intervention must—in advance—take into consideration and plan for the ways that various groups of Millennials experience financial capability and financial health, including those from lower-income backgrounds who stand to benefit the most from such an intervention. For example, based on statistical relationships, being financially capable had no apparent benefit for reducing lower-income Millennials’ reliance on alternative financial services whereas being financially capable was related to a 21 percent decrease in the reliance on alternative financial services among the average Millennial population. From this perspective, if a goal of a financial capability policy intervention is to improve financial health through a reduction in alternative financial services use, lower-income Millennials may not experience this anticipated benefit; though, they would likely experience benefits on other financial health metrics. Moreover, lower-income Millennials may experience financial capability in ways beyond having financial inclusion via a savings account. Statistically speaking, lower-income Millennials also report being more financially satisfied when they have a checking account combined with financial education and they actually have a lower debt burden when they have a credit card combined with financial education—findings that do not hold true among the average Millennial population. Unless the variability in Millennials’ financial capability and financial health are taken into consideration, policy interventions could be deemed inefficient, or worse, ineffective.

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<sup>33</sup> Blank, R. (2002). Evaluating welfare reform in the United States. *Journal of Economic Literature*, 40(4), 1105-1166.

Smeeding, T., Phillips, K.R., & O’Connor, M. (2000). The EITC: Expectation, knowledge, use, and economic and social mobility. *National Tax Journal*, 53(4: Part 2), 1187-1209.

<sup>34</sup> O’Connor, M. (2001). Tax preparation services for lower income filers: A glass half full or half empty? *Tax Practice & Procedure*, 2000-2001(6), 13-35.

## FINANCIAL INSTITUTIONS NEED TO BE RESPONSIBLE FOR INCLUSION

If mainstream financial institutions such as banks and credit unions are to be part of a financial inclusion delivery system, these institutions may need to develop responsibility for becoming more inclusive. That is, the onus cannot solely be on Millennials to seek out financial inclusion from these institutions; rather, financial institutions themselves need a wider reach. According to the Federal Deposit Insurance Corporation's (FDIC) survey of financial institutions' efforts to serve those on the financial margins, only about 40 percent of institutions report developing products and services for lower-income populations, such as lower-income Millennials.<sup>35</sup> Only 20 percent of financial institutions offer “second chance” accounts to consumers whose banking or credit histories might otherwise exclude them from the financial mainstream. While not all Millennials find themselves on the financial margins and in need of “second chance” products, these examples suggest that financial institutions may not be in the business of inclusion. However, in part as a way to recover the trust that was lost during the Great Recession and to evolve their service provision to Millennials and future generations, financial institutions may need to be in the business of inclusion.<sup>36</sup>

Efforts to expand financial inclusion have also renewed conversations around postal saving or banking, in which the US Postal Service offers financial products like checking or savings accounts or small-dollar loans.<sup>37</sup> Part of the rationale behind postal banking is that post office branches could better service lower-income communities and offer more affordable products so that those on the financial margins would not have to rely on predatory alternative financial services. While conversations around postal banking are well-intended and postal banking could offer better products than alternative financial services, postal banking does not entirely solve the problem of relegating people on the financial margins to second-class financial services.

Over one third of Millennials  
report carrying too much debt.

## ESTABLISH WEALTH TRANSFERS THAT INVEST IN MILLENNIALS' DEBT

Over one third of Millennials report carrying too much debt, a percentage that is consistent with the mounting debt held by this generation.<sup>38</sup> Millennials' debt is of concern as their financial health is eroded by an unstable economy and uncollateralized student loan debt takes up an increasing share of their balance sheets relative to other types of debt.<sup>39</sup> Historically, mortgage debt from home ownership dominated young Americans' balance sheets, which had the added benefits of providing collateral that could be leveraged to acquire other types of debt, generating equity over time, allowing for considerable tax breaks, and contributing to wealth accumulation. In fact, home ownership has long been the primary

<sup>35</sup> Federal Deposit Insurance Corporation. (2012). *2011 FDIC survey of banks' efforts to serve the unbanked and the underbanked*. Washington, DC: FDIC.

<sup>36</sup> Afandi, E., & Habibov, N. (2013). *Pre-crisis and post-crisis trust in banks: Lessons from transitional countries*. Munich, Germany: Munich Personal RePEc Archive.

<sup>37</sup> Baradaran, M. (2014, August). *A short history of postal banking*. Slate.

<sup>38</sup> Houle, J. (2014). A generation indebted: Young adult debt across three cohorts. *Social Problems*, 61(3), 448-465.

<sup>39</sup> Ross, A. (2013). Mortgaging the future: Student debt in the age of austerity. *New Labor Forum*, 22(1), 23-28.

## BUILDING MILLENNIALS' FINANCIAL HEALTH

mechanism for wealth accumulation in the United States. However, many Millennials are delaying or foregoing the purchase of a home in part due to rising debt generally and student loan debt in particular.<sup>40</sup>

The declining home ownership trend among young Americans was evident even before the Great Recession and the preceding lax lending practices that made credit readily available,<sup>41</sup> suggesting perhaps shifting preferences away from home ownership at least as traditionally realized.<sup>42</sup> Of course, Millennials' student loan and mortgage debts are confounded and the decisions leading Millennials to acquire or not acquire each are difficult to parcel out. However, it is reasonable to consider that Millennials may be substituting student loans for home ownership, which have drastically different effects on their current and future financial health. Student loan debt may help Millennials achieve higher levels of education and earn higher lifetime incomes while dampening wealth accumulation, whereas mortgage debt may help Millennials benefit from regressive tax policies and accumulate wealth across the life course. As such, minimizing burdensome student loan debt is an obvious policy intervention with benefits for the financial health of Millennials and that of future young adult generations. In essence, policy interventions should “invest in Millennials' debt” by reducing burdensome student loan debt, particularly for lower-income Millennials whose financial health is vulnerable.<sup>43</sup> Like the historic wealth transfers made available by the Homestead Act of 1862 or regressively through the tax code, perhaps the equivalent policy intervention for the 21st century is one that invests in Millennials' debt to stabilize their financial health and catalyze them toward economic mobility.<sup>44</sup>

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<sup>40</sup> Elliott, W., Grinstein-Weiss, M., & Nam, I. (2013). *Is student debt compromising homeownership as a wealth-building tool?* St. Louis, MO: Washington University, Center for Social Development.

<sup>41</sup> Fisher, J., & Gervais, M. (2011). Why has home ownership fallen among the young? *International Economic Review*, 52(3), 883-912. doi:10.1111/j.1468-2354.2011.00653.x

<sup>42</sup> Belsky, E. (2013). *The dream lives on: The future of homeownership in America*. Cambridge, MA: Harvard University, Joint Center for Housing Studies.

The Demand Institute (2014). *Millennials and their homes: Still seeking the American dream*. New York, NY: The Demand Institute.

<sup>43</sup> While income-based repayment plans have been advertised as a policy solution to burdensome student debt, critics suggest that that these policies are “too little, too late” for addressing the core of the debt burden. Stronger policy interventions may be needed that match the scope of young adults’ debt burdens. See for example, W. Elliott (2015, March). *How student debt stunts financial growth*. The Atlantic.

<sup>44</sup> Levin, E. (2014). *Upside down: Tax incentives to save & build wealth*. Washington, DC: CFED.

Williams Shanks, T. (2005). The Homestead Act: A major asset-building policy in American history. In M. Sherraden (Ed.), *Inclusion in the American dream: Assets, poverty, and public policy* (pp. 20-41). New York, NY: Oxford University Press.

## ABOUT THIS RESEARCH STUDY

This study, generously funded by the FINRA Investor Education Foundation, examines the financial health and capability of Millennial young adults between the ages of 18 and 34 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 primary investigators, Terri Friedline, Ph.D., and Stacia West, MSW, have long studied young adults' financial health and behaviors using data from the Panel Study of Income Dynamics (PSID), the Survey of Income and Program Participation (SIPP), and other datasets. Their present study uses data from the 2012 NFCS, which is one of the few data sets to contain extensive questions about financial behaviors. Descriptive results are based on percentages and frequencies. The results identifying significant differences in the data are based on multiply imputed<sup>45</sup> and propensity score weighted (average treatment-effect-for-the-treated; ATT)<sup>46</sup> regression analyses of all young adults in the sample between the ages of 18 and 34 ( $N = 6,865$ ) and a subsample of lower-income young adults ( $N = 2,578$ ).

Propensity score analysis replicates a randomized controlled design with 2012 NFCS observational data to improve the rigor of the findings beyond multivariate regression analyses. A randomized controlled trial—the gold standard in research—would typically distribute young adult sample members across financial capability treatment and control groups through the process of randomization so that, for example, all groups would have equal percentages of college-educated young adults. The randomly assigned group would be the only significantly varying factor to explain young adults' outcomes. This is commonly referred to as “balancing” the data and helps to ensure that significant relationships with financial behavior outcomes are driven by young adults' financial capability, and not the fact that more college-educated young adults are also financially capable. However, data from the 2012 NFCS is not random, making it hard to rule out other demographic characteristics like education level that could otherwise drive findings. Ultimately, propensity score weights provide a better understanding of any bias that exists within the nonrandomized, observational data.

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<sup>45</sup> Schunk, D. (2008). A Markov Chain Monte Carlo algorithm for multiple imputation in large surveys. *Advances in Statistical Analysis*, 92(1), 101-114.

<sup>46</sup> Guo, S., & Fraser, M. W. (2010). *Propensity score analysis*. Thousand Oaks, CA: Sage Publications, Inc.

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