The Millennial Need for Financial Education

By Alexandra Douwes and Logan McIntosh

Millennials are the most educated generation to date. In 2016, four of every 10 millennial workers age 25–29 had at least a bachelor's degree, compared to 32 percent of gen X workers and an even smaller share of baby boomers at the same age.[1] Yet, almost one-quarter of millennials are unaware that missing a credit card payment will negatively impact their credit scores.[2] The truth is that despite unprecedented levels of education, when it comes to personal finance, millennials are drawing a blank. Studies have shown that one in six U.S. teenagers fails to reach the baseline level of proficiency in financial literacy[3] and this skill gap remains after they graduate high school. In fact, almost 70 percent of millennials have received no formal financial education at all.[4]

Understanding basic principles such as building credit, managing debt, the power of compound interest, and how to budget effectively is essential to thriving in the real world, and without this foundational knowledge, millennials are entering adulthood at a significant disadvantage.

So it's no surprise that although 86 percent of millennials are saving,[5] 60 percent believe they lack the knowledge and experience necessary to invest wisely,[6] and only 37 percent have a financial plan.[7] This is concerning, but it also presents a significant opportunity for those with professional expertise. In this article, we explore the millennial need for financial education and the millennial generation's learning preferences to provide valuable insight into why and how financial literacy is crucial to building relationships with the next generation of investors.

THE OPPORTUNE TIME FOR FINANCIAL EDUCATION

A variety of factors have influenced millennial confidence, or lack thereof, when it comes to personal finance. Millennials entered the workforce in the midst of one of the most pronounced economic downturns since the Great Recession. They saw their parents' and grandparents' retirement savings disappear as a result of the 2008 market crash, leading to an understandable dose of skepticism for this generation of investors.

Add the generational burden of student debt and it's easy to understand why this generation has been delaying certain life milestones. According to a Bankrate.com survey, about 56 percent of 18- to 35-year-olds say they've put off a major life event because of their loan payments.[8] However, with an increasing percentage reaching age 30 by 2020, the millennial generation no longer can afford not to educate themselves about future life inflection points.[9]

Here are some reasons why this conversation is so timely right now:

Millennials are saving. Contrary to popular belief, millennials are saving earlier than older cohorts. According to Chase's Generational Money Talks Study, millennials start saving for retirement at age 23, compared to gen X at age 30 and baby boomers at age 40.[10] In fact, 62 percent of millennials save 5 percent or more of their income,[11] which is nearly double the rate of older generations when they were the same age.

More women are working. It's easy to forget that women in the workplace used to be the exception rather than the norm. Today, 63 percent of millennial women are employed and the likelihood of them staying in the workforce is double that of their grandmothers.[12] Societal expectations have shifted dramatically over the past few decades, enabling greater education and employment opportunities for women. Almost one-half of employed millennial women age 25–29 have at least a bachelor's degree, up substantially from 36 percent of gen X women workers at that age.[13] With women representing an increasingly meaningful share of the workforce, men and women are more likely to share responsibilities when it comes to household income, family finances, and child rearing. As more women contribute to dual-income households or assume the role of sole earners, a foundation in personal finance is essential to ensuring financial stability at home.

Major life milestones are approaching. In 2017, millennials made up 90 percent of new parents.[14] Having a child comes with a slew of physical, emotional, and financial responsibilities, and the latter are the only ones you truly can prepare for in advance. Yet, according to BabyCenter, 70 percent of new mothers say they're more anxious about money since having a child.[15] This is to be expected because the U.S. Department of Agriculture estimates that it will cost the average parent about $245,340 to support a child through his or her 18th birthday (more than $300,000 when adjusted for projected inflation). This does not include college tuition.[16] Aside from parenthood, millennials also have entered their peak home-buying years (age 25–45, according to Goldman Sachs).[17] Millennials now make up the largest share of home buyers at 35 percent[18] and by 2025, 20 million more millennials are estimated to be looking for homes.[19] However, without an understanding of how a mortgage works, the costs of home-ownership, and the types of insurance required, how can millennials be expected to make smart financial decisions about their futures?

Burden of student debt. According to *The Atlantic*, the number of student borrowers grew by 89 percent between 2004 and 2014. The average amount of debt held by student borrowers also grew by 77 percent.[20] Currently, more than one-third of employed millennials carry student debt, and the median balance is $19,978. Of those who have student loans, three-quarters say their debt is "unmanageable."[21] To tackle student debt without putting off major milestones such as buying a home or starting a family, millennials need to have financial plans.

New reality of retirement. Millennials recognize that they cannot rely blindly on Uncle Sam to provide for them in retirement. They also are coming to terms with the fact that their future is longer than past generations' futures. Since 1965, the average American's life expectancy has increased by almost 10 years. In other words, those planning to retire at age 65 may have to rely on their personal savings lasting more than 20 years.[22]

According to a Wells Fargo study, 74 percent of millennials do not believe Social Security will be available for them when they retire.[23] Whatever scenario plays out, the sooner millennials can start planning for retirement, the better equipped they will be to handle any uncertainties ahead.

HOW MILLENNIALS LEARN

To help this generation build a stronger financial foundation, it's important to consider the ways in which millennials consume information so we can provide educational resources and tools in the most impactful way.

TECHNOLOGY HAS ENABLED A DO-IT-YOURSELF MENTALITY

As the first generation of digital natives, millennials have had unprecedented access to information. Millennials are empowered to seek out their own solutions through googling, consulting online expert communities, YouTube, or educational platforms such as Udemy, Skillshare, and Khan Academy. Moreover, mobile technology allows millennials to easily and instantly pay for goods, split the check, transfer money—and make an investment.

Examples: Given the central role technology plays in our lives, the rapid expansion of the financial technology (fintech) industry is not surprising. In 2016 alone, fintech companies received $17.4 billion in investment.[24] Fintech companies are streamlining investment and banking processes as well as creating new tools to help people manage and make sense of their personal finances. Budgeting tools such as Mint connect to your credit and debit cards to track outflows and inflows, then advise you about how to budget more effectively and which financial products to consider. Mobile technology also has made it easy to keep your financial house organized from the palm of your hand. Apps such as Digit and Acorns enable users to set aside small amounts each day to invest or save for the future. Qapital takes it one step further and allows you to add specific savings goals (e.g., vacation, or an emergency fund) and track progress against each goal. Technology makes room for a variety of creative strategies. For example, Qapital users can create rules for their money, such as the "Round Up Rule," which rounds up every purchase to the dollar and puts the extra cents toward a savings goal.

RELEVANCE IS A MUST

To reach millennials, it's important to meet them where they are in life. You need to understand the challenges they are facing and how they are naturally inclined to address them. Attaining relevance is a two-step process. First, you need to be present. You need to show up where they already are operating and collaborate with voices and brands they trust, so you are top of mind when a prospect enters a crossroads. Second, you need to make it personal. In the midst of a financial decision, millennials are looking for trusted partners who can help them get beyond the general information they can find by themselves online. They are looking for personalized advice about how to navigate a decision.

To increase the relevance of financial planning, milestone-based education can be particularly powerful. By focusing on particular chapters of adulthood or key decision points, you can help highlight what to know at any given life stage and illustrate financial concepts within the context of personal decisions, challenges, or opportunities they may currently be facing.

Example: With just $5, Stash Invest allows you to create a personalized investment portfolio based on your risk profile, spending-to-income ratio, and past investment performance. Stash appeals to millennials by eliminating financial jargon and tailoring each exchange-traded fund to a specific persona such as The Activist, The Techie, or The Globetrotter. Built on the belief that everyone should have access to financial opportunity, Stash has created a brand that is highly relevant to younger audiences, inviting them to learn as they go.

OVERSTIMULATION LIMITS ATTENTION SPAN

Content is one of the best ways to catch a millennial's attention, as well as to build trust and credibility. However, millennials consume an enormous amount of content on a day-to-day basis, so it can be hard to break through the noise. According to a Bank of America poll, 42 percent of adults are put off by the sheer amount of information available on financial issues,[25] so helping reduce this oversupply to bite-size, straightforward basics can help make financial education more manageable for this audience. Finance is dry and complex by nature, so visuals, infographics, videos, or listicles can be an effective way to maximize engagement.

Examples: Newsletters that break down complex topics are gaining traction among millennials. *MarketSnacks* is a daily newsletter that features the three or four top financial news stories of the day, using simple (often laugh-out-loud) language to describe why each story made the headlines. Founded back in 2011 by two former financial analysts, *MarketSnacks* now reaches tens of thousands of readers with its regular appearances on NYSE's Cheddar, CBS, and Fox Business. Other finance-focused websites such as NerdWallet are drawing millennial visitors with helpful how-to guides, calculators, and product reviews.

AN EMPHASIS ON COMMUNITY AND SHARED EXPERIENCES

Compared to previous generations, millennials are more willing to open up about personal finance and discuss money; they tend not to view it as a taboo topic. As a result, there's a huge opportunity (and need) for a safe space and community building where people can share in each other's money journeys and exchange best practices. Social media influencers, bloggers, and podcast personalities increasingly are opening up about their own personal relationships with money to inspire more dialogue about how we can learn from one another's mistakes in order to make more informed decisions in the future.

Examples: MassMutual partnered with IDEO to create Society of Grownups, a membership-based platform offering a variety of online courses, community forums, and content with titles such as "Loans and Groans: Basics of Student Loan Debt" and "Spending Plans: A Better Way to Budget." Millennials love to learn through podcasts. Several popular podcasts are tackling the topic of money from a millennial point of view, covering everything from investing basics and strategies to the latest fintech tools. These podcasts, such as *Listen Money Matters*, *So Money*, and National Public Radio's *Planet Money*, are engaging growing communities of listeners by allowing them to post comments, request guests, and submit questions they would like the host to explore in future episodes.

THE OPPORTUNITY FOR ADVISORS

As millennials enter their peak earning years and the coveted "wealth accumulation stage" without adequate confidence in their levels of financial knowledge, advisors have a significant opportunity to position themselves as educators. With 44 percent of millennials feeling that their banks do not understand them, and 53 percent saying they have no one to trust for financial advice,[26] a generation of investors, savers, and spenders is in search of guidance.

Here are a few tangible tips on how to educate your way to new millennial prospects:

- Create or share content around specific life milestones and the financial decisions millennials may face at those inflection points. Whether you write an article, contribute to a blog, or create a 101 guide, make sure to post this content on relevant platforms such as Facebook or LinkedIn. This will also encourage sharing.
- Create a list of "must reads" that includes articles, vetted online resources, and books about personal finance. This is a great value-add resource to share with prospects, especially millennials and next gens. Consider creating themed must-read lists around certain life milestones.
- Host 101 sessions on relevant topics, allowing millennials to share an educational experience with friends or like-minded peers who may be facing a similar challenge or decision.
- Create a useful suite of checklists to help navigate decision points (e.g., the rent vs. buy dilemma), or offer a free webinar.

Despite an abundance of personal finance information online, advisors are needed more than ever to help translate principles into practice and communicate how different strategies may be influenced by an investor's personal situation.

For advisors, it's important to act as a partner rather than a provider to empower millennials with the knowledge they need to make their own decisions. In doing so, advisors can earn their trust faster than when offering to make the decisions for them.

CONCLUSION

The need for financial literacy among younger demographics cannot be overemphasized. Finance is the most common cause of relationship stress[27] and worries about debt have been shown to negatively impact students' health.[28] Mastering the basics of personal finance can thus not only help millennials make smarter decisions for the future but also help them avoid money-related anxieties and have happier, healthier lives.

It is time to embrace a learning mindset when it comes to money management and advisors have an important role to play. By sharing their professional expertise and positioning themselves as a much-needed resource for the millennial generation, advisors are providing a great service and may generate themselves some business in the process.

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ENDNOTES

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