Report shows millennials have high debt and little savings

January 14 2016, by Brittney Dunkins

High debt, low savings and a lack of financial literacy are the unfortunate hallmarks of millennial financial health, according to a new report developed by the George Washington University Global Financial

Literacy Excellence Center (GLFEC) and PricewaterhouseCoopers.

The report, "Millennials and Financial Literacy: The Struggle with Personal Finance," paints a grim picture, according to GFLEC Academic Director and Denit Trust Chair of Economics and Accountancy Annamaria Lusardi.

"Millennials are a generation at risk," Dr. Lusardi said. "High levels of debt and low savings expose them to unexpected shocks."

Nearly 42 percent of millennials are turning to payday loans, pawnshops, auto title loans and other risky alternative financial services. And despite concerns over long-term debt, only 12 percent of millennials sought professional help with debt management.

Poor debt management could be linked to a lack of education, the findings show. Despite claiming the title of "most educated generation," only 24 percent of young adults born between the early 1980s and mid-1990s exhibited basic financial literacy.

George Washington Today writer Brittney Dunkins spoke with Dr. Lusardi about the report.

Q: How would you characterize millennial financial literacy and health after analyzing the results of the survey?

A: The levels of financial literacy are alarmingly low among millennials—too low to expect them to be equipped to make good financial decisions. This is reflected in some of the statistics about their personal finances. About half of millennials don't believe they could come up with $2,000 in 30 days if an unexpected need arose and many of those who have retirement accounts are tapping into them or overdrawing their checking accounts.

Q: Many millennials lack savings or a clear financial plan. Why do you think that is?

A: Millennials are young, and they do not have a lot of experience in financial decision-making. Also, they are heavily indebted. Thus, they lack savings because they are trying to pay off debt, which also restricts their planning horizon.

Q: Considering high rates of long-term debt, low savings and a rise in the use of alternative financial services, what poses the highest consequences for millennials?

A: The use of alternative financial services speaks of the difficulties they are facing and the high costs they are paying as well to service the debt. However, in my view, what poses the biggest challenge is how millennials are managing debt. There are severe consequences connected to poor debt management. For example, being late or defaulting on debt payments will affect the credit score, which will make borrowing even more expensive, potentially creating a spiral of debt increases.

Q: How might society suffer because of poor financial literacy among millennials?

A: Millennials are a very important and large generation. They will soon become the largest share of the labor market. Poor financial decision-making can easily become costs for taxpayers and society at large. There can also be consequences for the stability of financial markets.

Q: Is poor financial literacy only a problem among millennials, or are they assuming the habits of older generations?

A: According to our research, older generations are also not financially savvy, though levels of financial literacy are particularly low among the young. While we see there is some transmission of knowledge across generations, the decisions that millennials have to make are different than the experience of previous generations. See, for example, student loans. These new decisions mean that learning from parents or older people is not always viable.

Q: What are the first steps that millennials can take to improve their financial literacy?

A: My recommended step is to take a course on personal finance or participate in a financial education program. There are several of these programs now offered in the workplace or the university. At GW, we have a course on personal finance, and I encourage all of the students—undergraduates and graduates—to take it.

Provided by George Washington University

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