Gen Y: Particularly financially vulnerable

Gen Y is the largest, most educated and most ethnically diverse generation in U.S. history. It is predicted it will make up 75 percent of the world's workforce by 2050. This generation's impact on society will be enormous.

However, a new TIAA Institute study, “Operating and Financial Leverage In Gen Y Households,” shows members of Gen Y (also called millennials, born 1980 to 2000) are very financially fragile.

This study demonstrates the critical importance of engaging Gen Y early in their lives to manage their personal finances, helping ensure their financial well-being.

Managing finances early on also helps Gen Y build financial freedom and a flexible lifestyle, not just for retirement, but when they are much younger as well. For example, they can choose a lower-paying job they prefer over one that pays more but is less appealing.

Key insights

- The typical Gen Y new household has a negative net worth, often driven by student loans.
- As little as a 10 percent cut in income can wipe out savings and endanger Gen Y financial security. Unexpected increases in expenses (rent increases, car repairs, etc.) can “shock” the balance sheet, and few Gen Y households have the liquidity to absorb those expenses.
- However, a 10 percent increase can magnify their financial success, helping to build their balance sheet and accrue wealth.

Small changes on either side of the balance sheet—income or expenses—are levers that can have significant effects on lifestyle, long-term financial stability and retirement security.

- Traditional financial advice models, often based on fees for managing portfolios, don’t typically work for Gen Y, which has little or no money to manage and no reason to purchase a commission product. Gen Y households are more likely to need advice on basic budgeting, debt, liquidity and structuring of basic insurance.
Strategies to help Gen Y succeed

- College-educated members of Gen Y would likely benefit from assistance with debt management. Helping Gen Y to understand mechanisms that substitute variable costs for fixed costs is one strategy to reduce leverage and permanent shocks to their standard of living.
- Auto-enroll new hires in 401(k) retirement plans with appropriate defaults, then seek deeper engagement on retirement saving at a later time.
- Engage tech-savvy, digitally connected and socially engaged members of Gen Y who trust peers and family through peer-to-peer social media and digital tools that educate in a style that does not preach and allows them to take action.
- Engage in “social listening” and solicit feedback to identify priorities.
- Provide employer-sponsored tax-qualified savings vehicles, particularly beneficial to Gen Y, maximizing recent tax code “levers.”

About the research

Operating and Financial Leverage in Gen Y Households
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In a study spanning 16 years, 500 diverse, senior-level undergraduate students were asked to create a comprehensive financial plan, build a financial balance sheet and analyze their financial positions. Using a representative sample of this information, Ciccotello observed high levels of household leverage, measured in both operating and financial terms.

Study findings suggest the seeds of income (and lifestyle) disparity are planted early. The state of Gen Y personal finances have significant implications, not only for Gen Y, but also for the U.S. economy overall.

To read the full report, go to www.tiaainstitute.org > Research > Lifetime Income & Retirement Security

For more research on Gen Y from the TIAA Institute, click here or go to www.tiaainstitute.org/public/institute/research/gflec_college_educated_millenials

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