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A Financial Snapshot of Young Adulthood in America and Mapping What's Next

In September 2014, the National Endowment for Financial Education (NEFE) hosted the Young Adult and Financial Capability Forum in Washington, D.C. Findings from three recent NEFE-funded research studies were presented to a group of approximately 20 practitioners, researchers and policymakers who then discussed the implications of this work. In this paper, we offer highlights from the research and present implications, recommendations and next steps for the financial capability field with the perspective that through such reflection we better can serve the young Americans who are poised to play a pivotal role in our country's social and economic development.

Millennials are the largest, most diverse and most educated generation in American history. On track to become the biggest share of the labor market and with the leading edge now entering their prime earning years, this cohort came of age during an economically volatile time marked by slow employment and income growth. Most experienced a weak job market and many launched careers during the economic downturn. The resulting financial instability has created tension and stress at a time when financial products are increasingly complex, access to credit is high, debt burdens are growing, and economic inequalities are widening. Considering the influence that Millennials have on our country and economy, the precarious context in which Millennials are starting their financial lives often is met with alarm. But there is a lot we don't know about this powerful, yet ultimately underserved and vulnerable population. Young adults are striving toward financial independence in a vastly different environment than previous generations and as such, we need to move beyond the superficial views of a generation that, although defined by debt and marked by the recession, is moving forward with varying levels of success.

Uniquely positioned to lead the research agenda in the field of personal finance, the National Endowment for Financial Education recognized the importance of this generation and the number of questions surrounding its financial realities and behaviors. To intentionally respond to inquiries about young adults, NEFE took a first step in funding original research to examine different aspects of Millennials' financial lives. NEFE then followed the research with a convening of thought leaders to discuss research findings.

Findings show that Millennials and their finances should not be oversimplified: Their balance sheets tell a more complete story in the context of a rapidly changing financial landscape and shifting social values. While financial outlooks might look bleak at first glance, the research finds clear pathways to financial success as well as foundational behaviors that can help. It also identifies specific areas that need improvement.

First, the research reinforced what we already know and expect. For example, formal financial education is critical for success (and lacking formal financial education has a more significant effect than what is gained); family plays an important role in positive financial outcomes; and Millennials' goals and expectations are being redefined in the midst of shifting values and contexts. Up until now, however, other takeaways have been less talked about in our field. For example, all three studies revealed a link between finances and well-being, leading us to believe that personal financial literacy should be part of a holistic approach to health and wellness. Additionally, a lack of engagement with financial education and professional advice was highlighted. This prompted a discussion about rethinking the “cool factor” when offering financial education interventions to young adults and focusing on values-aligned interventions instead. Finally, an accepted definition of financial wellness — linked to health — can help the field in numerous ways. We suggest exploring stress reduction as a motivator for behavior change as well as making health correlations to financial situations and behaviors to increase engagement with financial education interventions.

Studies provide us with a moment-in-time look at how this generation is faring financially, but the field must use these observations to inform its way forward. NEFE offers this research as a first step and encourages the financial education community — researchers, practitioners, educators, and policymakers alike — to collaborate and exchange gained knowledge as we serve the needs of young adults who now, more than ever, need to be financially literate and financially capable.

RESEARCH

Life After College: Drivers for Youth Adult Success
Wave 3 of the APLUS Project, University of Arizona
Soyeon Shim, Ph.D., and Joyce Serido, Ph.D.
Final Report Released June 2014

The APLUS Project (Arizona Pathways to Life Success) is a landmark longitudinal study that started at a time when the research community was grappling with the poor financial behaviors of college students. In 2007, 80 percent of students had credit cards, average balances were $4,000 and average student loan debt totaled $20,000. No one at the time could explain why students were mismanaging credit. The APLUS team proposed a different approach to the issue: To examine the developmental process through which financial behaviors form during emerging adulthood. The primary APLUS research goal was to understand how young adults form financial behaviors and, through longitudinal tracking, to find out how these financial behaviors affect later life outcomes.

With a vision to develop a model for improving lifelong personal financial management, the APLUS study has followed a cohort of college freshman at the University of Arizona through the first year of college (Wave 1, 2008), the economic crisis (Wave 1.5, 2009), the fourth year of college (Wave 2, 2010) and the transition from college to independence and adulthood (Wave 3, 2013). When the study began, there was no way to know the dramatic changes young adults would face on their path to adulthood. In light of the study’s timing, APLUS data has become an extremely valuable resource in understanding how various factors drive consumer financial capability, success and well-being. In Wave 2, a model for financial capability development was formed and by Wave 3, researchers were able to identify distinct pathways to success in the transition to adulthood.

Key findings from previous waves:

- During the transition to college (ages 18-21)
    - Early financial socialization strengthens college student's financial behaviors.
    - Parents' expectations (more so than actions) and students' attitudes minimize college students' use of risky financial behaviors.
    - Parental involvement matters more than parental resources.
- Impacts of the recession (ages 19-22)
    - Financial stress, experienced by many during the recession, triggers hasty financial decisions.
    - Proactive financial behaviors have a protective effect.
- As students prepare to leave college (ages 21-24)
    - Positive financial socialization contributes to positive change in young adults' thinking and behavior regarding finances.
    - Early financial knowledge plays a small but lasting role in reducing risky financial behaviors.

All waves illustrate and support the following findings:

- Parents play an important and continuing role in the financial behaviors of their college-aged children.
- Data support the cumulative impact of early and repeated financial education.
- Financial capability is developed from socialization and cognition, which initiate self-awareness.
- Self-awareness improves behaviors, and positive financial behaviors promote well-being.

In examining the college-to-career transition in Wave 3, researchers explored how young adults manage financial demands; the relationship between finances and well-being; and whether or not college financial behaviors relate to successful young adult outcomes, including career status, financial self-sufficiency and perceived adult status. By Wave 3, there were 1,010 participants, 55 percent of the original sample.

Key Findings from Wave 3 of APLUS

Financial instability constrains self-sufficiency.

Adult status is difficult to define. For previous generations, becoming an adult meant an observable series of life events in dependable order: college graduation, career, marriage, buying a home, having children. Implicit in that transition from adolescent dependence to adulthood was the understanding that financial self-sufficiency followed college graduation and preceded everything else. For today's young adults, however, those life events no longer are predictable. Without those visible, public markers of adult status, what remains is the invisible and private quality that always has been an unspoken part of the adulthood equation: financial self-sufficiency.

Wave 3 reveals that less than half of the sample (49 percent) is employed full time. Twenty percent are employed part time or are self-employed, 18 percent are in graduate school, 7 percent are not looking for employment and 6 percent are unemployed and looking for employment. For those who are employed full time, average annual income is between $40,000 and $60,000. Surprisingly, more than half the participants report relying on family members for support, including nearly half of those employed full time. Only 32 percent of the sample is self-sufficient. The resulting instability makes it difficult to achieve financial goals and meet financial demands. Participants have the most difficult time saving, followed by paying for unexpected bills, student loans, monthly expenses and credit cards.

Financial challenges erode well-being.
As an ongoing source of stress, financial instability erodes health and affects people at all financial levels. Debt specifically is more than a financial burden: Regardless of employment status, participants with debt report lower well-being in every domain — including physical well-being, psychological well-being, life satisfaction and financial well-being. For participants with debt, financial well-being is 17 percent lower compared to their debt-free counterparts for those employed full time, 19 percent lower for those employed part time, and 31 percent lower for those unemployed. Debt is associated with 4 percent, 8 percent and 10 percent lower life satisfaction for those same respective groups.

Responsible financial behaviors light pathways to life success.
Findings from the APLUS study show that patterns of financial behaviors practiced during the college years are drivers to three distinct pathways to young adulthood:

- “High-Functioning” participants (12 percent) maintained consistently high levels of responsible financial behavior across all three waves.
- “Rebounding” participants (61 percent) started college with moderately responsible financial behaviors that declined by year four, but rebounded by Wave 3 two years later.
- “Struggling” participants (26 percent) started college with poor financial behaviors, which had further declined by year four. Although their behaviors had improved two years later, Struggling participants still were worse off than during their first year of college and reported significantly lower outcomes than all other participants.

Examining data over time shows that while socio-demographic characteristics in no way differentiate transitions to adulthood, other factors observed at Wave 1 (first year of college) clearly helped determine why some participants went on to become either Struggling or High-Functioning in 2013 — groups significantly different from the normative Rebounding participants. Better financial attitudes, higher parental expectations and financial education promoted a *more* successful transition to young adulthood. Conversely, a lack of financial education, lower perceived financial knowledge, less perceived financial control and lower parent role-modeling made for a *less* successful transition.

Together, these findings not only suggest the benefits of responsible financial behaviors in late adolescence as a pathway to adult self-sufficiency, they also provide insight for identifying at-risk youth and designing effective interventions to promote higher functioning later in life.

Predictors of a High-Functioning pathway, in order of importance, are:

- Better attitudes about acting responsibly in their financial behaviors
- Higher perceived parental expectations about responsible financial behaviors
- Higher perceived control over their finances
- More financial education through personal finance or economics classes

Predictors of a Struggling pathway, in order of importance, are:

- Lower subjective knowledge about financial topics
- Lower perceived control over their finances
- Less financial education in the form of personal finance or economics classes
- Lower perceived parental role-modeling related to personal finances

Other Highlights

<u>Young adults are redefining goals and expectations.</u> Many participants report that marriage and having children are not important life goals; others feel homeownership is unimportant, and still others rate living on their own as unimportant. In terms of career, employed participants rate working within their area of interest as the most important contributor to career satisfaction, with employer 401(k) matching ranked least important. Full-time employed participants rate annual salary as more important than do part-time employed participants. In contrast, participants working part time place more value on working in one's area of interest, helping others and flexible work hours. Finally, financial independence is an important goal for only 91 percent of participants, dropping from 95 percent in Wave 2.

<u>Financial capability is improving with age.</u> On average, both objective and subjective financial knowledge have improved from previous waves, suggesting that as young adults gain experience making financial decisions, they progressively learn about personal finance, how it works and why it is relevant to their lives.

<u>Romantic partners became key influencers.</u> At Wave 3, romantic partners are the strongest influence on participants' financial behaviors. Entering a committed relationship is associated with a 5 percent improvement in financial behavior.

Implications of the APLUS Research

Formal financial education may be a catalyst for early financial awareness and later financial capability. There is a consistent positive, albeit small, effect of financial education present in the transition to college, during college and after college. A lack of financial education has a long-term larger effect. Financial education is most cost-effective in a formal education setting, and the financial awareness gained in the classroom has the most impact when the content is both relevant and timely as young adults assume greater responsibilities.

Furthermore, financial education seems to play a key role in differentiating young adults who thrive after college from those who struggle, laying a foundation for financial self-awareness and personal agency associated with distinct behavior patterns. The financial behaviors practiced during emerging adulthood may be drivers to self-sufficiency.

Financial Behavior, Debt and Early Life Transitions: Insights from the National Longitudinal Survey of Youth, 1997 Cohort
The Ohio State University
Randy Hodson, Ph.D., and Rachel Dwyer, Ph.D.
Final Report Released September 2014

Young adults — specifically the oldest Millennials born around 1982 — face distinctive challenges and financial concerns as they come of age, enter employment and form families. With typically modest incomes and minimal wealth, young adults often must take on debt to finance investments in the future. This debt has a dual nature, acting as both an accelerator and a deterrent to major life transitions and milestones.

The researchers' analyses of the National Longitudinal Survey of Youth 1997 Cohort and the Survey of Consumer Finances reveal how Millennials' life decisions are shaped by debt as they pursue multiple paths to adulthood. Ultimately, the research finds that young adults' relationship with debt is complicated and debt is a double-edged sword: Debt facilitates opportunity, but can lead to emotional or financial strains as well as a potential delay of family formation. Findings are based on analyses of two robust data sets:

- The U.S. Bureau of Labor Statistics' National Longitudinal Survey of Youth 1997 (NLSY97) — a nationally representative sample of approximately 9,000 young adults, which documents information about their education, work and finances. Participants were born between 1980-1984 and are interviewed annually.
- The Federal Reserve Board's Survey of Consumer Finances — a random sampling that every three years documents financial and demographic information, most recently among 6,500 U.S. households.

<u>Key Findings from the OSU Research</u>

Millennials have distinct patterns of holding debt.
As young adults with low incomes coming of age during a time of unprecedented access to credit, Millennials are especially susceptible to taking on debt. Compared to Gen X, Millennials have taken on more debt earlier in the life course. Notably, young adults have more noncollateralized debt than older adults. Young adults expressed declining acceptance of credit cards as early as 2004, and the number of young adults with credit cards dropped to below 60 percent between 1992 and 2010. Nonetheless, those who did take on consumer credit used it with more intensity than earlier generations, holding more debt, carrying debt longer and

acquiring debt earlier. Millennials with greater incomes have taken on exponentially more debt as they have aged compared to their lower-income peers.

Millennials had historically high rates of homeownership in their early 20s compared to past generations, likely due to easy access to credit and a booming housing market. However, that growth stalled in the late 2000s and by 2010, rates of Millennial homeownership had fallen behind previous generations at the same point in the life course. By 2009, 50 percent of Millennial homeowners were underwater on their mortgages. In preceding years, this number was less than 10 percent.

Overall, young adults have become more skeptical about debt in recent years, reflected in a long-term decline in credit card ownership as well as declining percentages of young adults who do not immediately pay back credit card debt.

Debt has implications for well-being and mental health.
Debt can be both cause and consequence for financial well-being in young adulthood. Before the Great Recession, mortgage debt was a balm to mental health — especially among men and higher-income households — but that effect disappeared following the crisis. Credit card debt, on the other hand, is uniformly negative for mental health, increasing both depression and anxiety. Middle-income Millennials feel the biggest detriment to mental health from credit card debt because of how much they owe. However, when controlling for amount of debt, data show that having credit card debt at all — regardless of how much — is most harmful to lower-income households.

Financial problems increased after the Great Recession.
In the wake of the Great Recession, all income levels reported financial strain and trouble making ends meet. African-Americans reported a higher likelihood of financial struggles. Unsurprisingly, income risk increased financial insecurity: Households with unusually low income have 73 percent greater odds of late payments than other households.

The sources of financial advice sought out by Millennials also seemed to impact financial problems: Millennials who received financial advice from their parents reported less financial strain than peers who received advice from nonprofessionals or who received no advice. Individuals receiving financial advice from nonfamily nonprofessionals were most likely to report financial strain, whereas individuals receiving advice from financial professionals were least likely to report financial strain.

The transition to adulthood is a transition to holding debt.
Debt accrual is linked to adult milestones: Marriage is associated with increased mortgage debt, vehicle loans and credit card debt, but not with a rise in student loan debt. Similarly, living with someone or getting married dramatically increases Millennials' personal debt compared to remaining single.

Student loan debt, however, appears to delay union formation. All Millennials at four-year colleges and Millennial men at two-year colleges who have student loans are more likely to delay marriage. Young adults with student loans are much less likely to become parents; consumer debt has the same effect to a lesser degree.

Student loans bring both opportunity and risk.
Student loans have increased at a much higher rate than other forms of aid, with outcomes of holding student loans varying by debt levels, family resources, completion and institution type. For example, student loans can be especially helpful when students take on the right amount of debt. The likelihood of graduating is higher when debt is taken to satisfy need, while too few loans (or too many) hinder college completion. However, students who take on loans and drop out of college report higher incidences of financial problems and depression. Also, student debt may be more likely to affect adult transitions and milestones than other kinds of debt because individuals must pay *before* they reap the benefits of their education over the longer term.

Implications of the OSU Research
Generational cohorts face different structural conditions in making financial decisions than those experienced by prior generations, meaning that young people today have a different set of opportunities and constraints than youth did in past decades. This makes the experiences of past cohorts less instructive for current emerging adults, but also highlights the importance of sound guidelines for behavior that take into account contextual factors. Even within their cohort, today's young adults need to understand financial decision making in the context of individualized risk and transitions to adulthood. Increasingly youth depend on their own resources to launch into their adult position, and the decisions they make in early years have many consequences for them in the future. Clear links exist between different features of financial life, as decisions about college enrollment and financing later return to affect decisions about union formation and other adult milestones.

Financial Capability among Young Adults
George Washington University
Annamaria Lusardi, Ph.D.
Final Report Completed June 2015

To provide an encompassing overview of Millennials' personal finances, financial capability among young adults is analyzed using data from the 2012 National Financial Capability Study (NFCS), a state-by-state online survey of more than 25,000 respondents. Various indicators of financial capability are examined including making ends meet, planning ahead, managing financial products, financial knowledge and decision making.

The 2012 NFCS expands on the 2009 NFCS, adding new indicators to better characterize young adults' financial behavior, and additional questions about student loans and perceived debt burden. It also includes a set of five financial literacy questions. The questions, which are worded using the language of everyday transactions, test respondents' capacity to do calculations related to interest rates as well as testing an understanding of inflation, risk diversification, stocks and mutual funds, interest payments on a mortgage, and the relationship between interest rates and bond prices. This analysis evaluates the financial capability of this generation, focusing on 23- to 35-year-old individuals, for a total of 5,525 observations.

Key Findings from the GWU Research

The balance sheet — assets *and* debts — tells the story.
The asset side of the balance sheet provides only a partial representation of Millennial's personal finances. For a comprehensive, accurate picture of Millennials' financial position, debts must be analyzed in relation to assets.

Many Millennials make or have made significant financial decisions, such as buying a house or choosing investment allocations.

- Millennials overwhelmingly are banked (88 percent); more than half have a retirement account; 40 percent own their homes; and over one-fourth have investment in stocks, bonds or mutual funds. Men are more likely than women to have investments in financial assets.
- Millennials with full-time employment have higher rates of asset ownership, as do married versus single respondents.
- Sixty-two (62) percent of respondents have attended college: 38 percent have an undergraduate degree or more, 29 percent have some college education but no degree, and 22 percent have a high school diploma. Those with college degrees are more likely to have full-time employment.

Many Millennials are borrowing against their assets.

- Eighty-five (85) percent have a checking account; of these, 29 percent had overdrawn their account in the prior 12 months.
- Forty-one (41) percent own a home; of these, 72 percent have a mortgage on their home, and among those with mortgages, 24 percent have been late on mortgage payments.
- Thirty-six (36) percent have a self-directed retirement account. Of these, 22 percent either took a loan or made a hardship withdrawal in the prior 12 months.
- Thirty-eight (38) percent have a college degree; of these, 39 percent have an outstanding student loan. Among those who have a student loan, 54 percent are worried about paying it off.

Millennials are highly leveraged.
Debt is widespread among Millennials. Most of them carry short-term or long-term debt or both.
Many Millennials have long-term liabilities that can threaten future stability.

- Two-thirds have at least one source of long-term debt (student loan, home mortgage, car loan) and 30 percent have more than one source of outstanding long-term debt.

Among college-educated respondents, 81 percent have at least one long-term debt and 44 percent have more than one long-term debt.

- Forty (40) percent own homes and more than 70 percent have taken on mortgages to finance those purchases. Thirty-six percent carry auto loans. Nearly 40 percent have student loan debt. More than one-third have unpaid medical bills.
- A college education is associated with higher levels of debt across all categories.

<u>Expensive credit card use and alternative financial services (AFS) are widespread.</u>

- Nearly 70 percent have at least one credit card, and more than half of cardholders have engaged in potentially expensive credit card behaviors such as paying only the minimum amount, using credit cards for cash advances or incurring fees due to late payments or exceeding their credit line. Likewise, more than half of cardholders carried over a balance and were charged interest. Women, African-Americans and Hispanics are more likely to engage in expensive credit card behaviors.
- Despite high education levels, 42 percent use alternative financial services (AFS) such as payday loans, pawnshops, auto title loans, tax refund advances and rent-to-own products. Even among those with bank accounts, 39 percent have used an AFS product. AFS use is higher among the less educated, the unbanked, African-Americans, Hispanics and lower-income respondents. However, even respondents with college degrees, traditional bank accounts and access to credit cards show significant rates of AFS use.

Student loans are a major source of debt.
Student debt is common across demographic characteristics. Fifty-five percent of college-educated respondents carry student loans and 54 percent of those are concerned about the ability to pay off student loans, especially women, low-income respondents and African-Americans. Even high-income Millennials worry about student loans: 34 percent of Millennials with annual household income above $75,000 doubt they will be able to repay their student loans.

Millennials feel heavily over-indebted and dissatisfied with their finances.
Answers to attitudinal questions help understand where Millennials think they should be in comparison to where they are. Fifty-three percent feel they have too much debt. When asked if they are satisfied with their financial condition, only 1 in 5 says yes. Satisfaction with one's current financial condition tends to be higher among respondents with long-term debt and much lower among those with short-term debt, those with expensive credit card behaviors and those who borrow through AFS products. Satisfaction also is inversely related to over-indebtedness. Only 16 percent of those who agree with the statement "I have too much debt" also say they are financially satisfied.

Millennials are financially fragile and unprepared for sudden economic shocks.
Even among Millennials with retirement accounts, emergency funds are rare. Fewer than one-third (32 percent) have set aside funds to cover three months of expenses in the event of unexpected shock. Among respondents without retirement plans, only 19 percent report having emergency funds. Moreover, many are unprepared to deal with midsize unexpected

income shocks. When asked if they could come up with $2,000 to cover an unexpected need within the next month, nearly half say that they probably or certainly could not.

Millennials have low financial literacy levels and are unaware of it.
Financial literacy is a measure of the understanding of fundamental financial and economic concepts that underpin decision making. Financial literacy is particularly important for Millennials who already are active investors and carry both short- and long-term debt. While Millennials are very confident about their financial knowledge and their financial management skills, their high confidence does not match with actual financial literacy levels. Only a quarter of respondents show basic financial literacy (measured by answering the first three of five questions correctly) and only 8 percent show a high level of knowledge (measured by answering all five questions correctly). Furthermore, many are inclined to answer "Don't Know" to questions about financial concepts, which is an indicator of low financial literacy.

Even though their financial literacy is low, Millennials do not seek advice from financial professionals. In the five years before the survey, only 27 percent of Millennials had sought professional financial advice on savings and investments, and only 12 percent had sought professional advice on debt management. In a troubling trend, respondents with higher financial literacy are more likely than those with lower financial literacy to have received professional financial advice, so those who need it most do not obtain it. Many Millennials lack trust in financial professionals and think that professional financial advice is too expensive.

Financial education is a determinant of financial capability.
The GWU study indicates that determinants of financial capability include financial literacy, education (some college or a degree) and the ability to deal with income shocks. However, only 22 percent of Millennials have received some form of financial education.

Implications of the GWU research
There is a wide gap between the amount of financial responsibility undertaken by young Americans and their demonstrated ability to manage financial decisions and maximize financial opportunities. Greater access to education and financial literacy tools could help alleviate this problem. Programs aimed at improving financial knowledge potentially could help Millennials better manage debt, improve their financial safety net and increase their financial security into the future. Strategies for debt management may be particularly needed in order to guide heavily indebted young adults toward better management of their financial obligations.

IMPLICATIONS AND RECOMMENDATIONS

Taken together, these studies reveal patterns that require our attention:

- Financial education is critical. It's important for successful outcomes but even more important to avoid poor outcomes.
- The role of family and parents in financial capability is invaluable.
- Financial health impacts well-being.

- Debt is the defining feature of this generation. Millennials are burdened by multiple sources of debt and are financially fragile.
- There no longer is a standard route to adulthood. There are varying trajectories.
- Heavy debt burdens and a reduced ability to save may have long-term negative effects on the financial security of this generation in the future.
- Millennials' lack of, or delayed launch into, self-sufficiency may jeopardize the financial security of their parents and families as well.

So, where do we go from here? Based on these research findings as well as discussion at the Young Adults and Financial Capability Forum, and to better serve this generation, NEFE recommends the following:

Prioritize formal financial education: It matters for successful outcomes.
<u>Disseminate information on what we know works:</u> Research shows that financial education matters for a smooth transition to adulthood. Even if the impact is small when it comes to successful outcomes in adulthood, the potential consequences of not having financial education are much larger and can increase risky pathways.

<u>Deliver financial education early and often:</u> The APLUS study shows that financial education has a cumulative effect and that high school financial education is a gateway to ongoing financial learning. The more financial education one has, the better, and in most cases one-time interventions are not going to produce the best results. Every financial interaction provides an opportunity to learn about the system and how it works. This, too, is supported by findings from a NEFE-funded meta-analysis of existing research on the effectiveness of financial education: The amount and timing of financial education have corresponding effects on behavior, with varying impact based on the amount of instruction people receive in relation to relevant decisions or behaviors. Financial education is shown to be more impactful when linked to decisions that learners are prepared and able to make. The meta-analysis indicated that a lifetime of education may have more impact than single-dose interventions, much like 20 years of advertising has more effect than exposure to a single billboard.

<u>Make financial education relevant:</u> Financial education isn't always about content knowledge. It's just as often about the relevance of concepts and how a person applies them to his or her own life. If a student thinks a topic is relevant, he or she will pay attention. Look at a student's goals to determine appropriate approaches: Does a high school student want to go to college? In that case, saving for retirement might be looking too far ahead. Likewise, when exploring a basic concept such as risk mitigation, a 15-year-old will find car insurance more relevant than home or life insurance. This process helps young adults develop mentally and starts to change the conversation around finances. For example, if attendees of a money management workshop consist mostly of young adults with jobs that do not offer a 401(k), participants will be better served by a presentation that focuses on the need for emergency plans and the fundamentals of savings accounts, CDs, Roth IRAs, and MyRA (www.myra.gov) rather than a focus on mutual funds. This timely and relevant instruction will foster better engagement with the content and have a greater likelihood of changing behavior.

Make financial education scalable: The most efficient and cost-effective way to make formal, curriculum-based financial education scalable is to offer it in schools and then to enable students to find resources and information for later inquiries beyond the classroom. Even better is to require financial education. If financial education is optional, there's an implicit message that it is not important. This is true not just with students, but with school administrators as well. In the case of college-based financial education, many efforts are focused on student success and college completion. Financial literacy efforts will be most successful when what students find valuable aligns with what college administrators find valuable.

Mandate formal financial education in schools: A research study funded by the FINRA Investor Education Foundation, *State Mandated Financial Education and the Credit Behavior of the Young*, shows that young people who are in school after the implementation of state mandates show evidence of modestly greater credit scores and lower delinquency rates on credit. The study, which focused on three specific states that implemented personal finance course requirements in 2007, also notes that that previous inquiries into the effectiveness of state-mandated financial education may be understated because the timing and quality of implementation often is unobserved. When the passage of a mandate is used as the start date for exposure to financial education, a curriculum often is not in place, instructors are not yet trained to teach the material and students do not receive the full effects of the curriculum. In addition to variances in the timing of program implementation, financial education program evaluations often differ in scale and scope. Comparisons are difficult to make when the type of mandate is not specified and when there is no standard against which to measures a program's effectiveness.

Georgia, Idaho and Texas all changed mandates after 2000, integrating the personal finance requirement into an economics requirement for high school students. Each has a form of standardized curriculum across the state, with Georgia and Texas requiring a one-year course and Idaho requiring a semester-long course. The FINRA study finds that, among people who turned 18 after these mandates and relative to cohorts in other control states, financial education appears to correlate to greater credit scores and decreased delinquencies. These effects take some time to become established, perhaps due to ongoing implementation and adaptation. The authors also note that students may not only learn the information from classes, but also pick it up from peers. Students also might view the state's mandate as a signal that financial literacy is valuable and worth their attention. In sum, state mandates can be a cost-effective way to reduce credit management problems that can cause financial distress early in adulthood.

Examine impact through improved evaluation: Just as we should disseminate information on what we know works, the financial capability field should not shy away from identifying and calling out what *doesn't* work. By exposing ineffective interventions and describing how to improve them, we can build an atmosphere of accountability that ultimately will propel us to a shared vision and definition of effective financial education. We need to identify the metrics that should be tracked in our financial education programs as well as examine ways to improve program evaluations in and of themselves. Defining a minimum quality research and evaluation standard is a step in the right direction. With better measurement and improved interventions — embraced by both researchers and practitioners — the small positive effect of financial education should increase.

Take a comprehensive approach to effective financial education: NEFE has identified five key factors for effective financial education: a well-trained educator and/or tested e-learning protocol; vetted and evaluated program materials; timely instruction; relevant subject matter; and evidence of impact. To increase effectiveness:

- Educators need to be confident, competent and knowledgeable about personal finance, demonstrating high levels of understanding financial capability—both content and pedagogy.
- Content and program materials should be created with the consultation of field experts and tested for appropriateness for the intended audience.
- Program goals, instructional tools and instruction topics should link to decisions that learners are readily able to make. If topics cover concepts that are many years away from the capability of those participating in the instruction, relatable alternatives should be substituted. In addition, learners should have access to program materials beyond the classroom to allow for utilization of relevant content and exercises at opportune times.
- Relevant subject matter should be used, not only for engagement with the content, but also toward the end goal of impacting behavior.
- Program outcomes should be continuously tracked and evaluated. Without evaluation, instructors rely on anecdotes to inform their work. Robust assessments can show where immediate improvements can be made and which areas of success can be optimized.

Link personal financial literacy to overall health and wellness

Work toward an accepted definition of wellness: In order to convince the funding community to include financial well-being as part of wellness, there needs to be a range of markers to describe well-being and link it to health. Convincing funders of these relationships can be a challenge. Although wellness is partly financial, it's not always seen that way by funders of other health and wellness issues. Having a definition and range of measures of well-being would be helpful in that argument, and it is much easier to fund something that everyone agrees is an issue. To make the case, we as a field have to be able to describe what healthy financial wellness behavior is and have the right models to assess and measure it. It can't be self-defined: Well-being needs external definition and assessment. While personal finance is personal, well-being will be hard to model without numbers and a widely agreed-upon scientific method of evaluation.

Beyond the need for funding, it would be helpful for the field to have a widely recognized definition of well-being with the goal of remaining flexible as we learn more. What does a financially capable or financially well person look like? What should they be able to do? A fleshed-out definition with milestones and other metadata would result in a goal that people could work towards. As many Forum participants were quick to point out, most young adults don't want to be rich. They just don't want to worry.

The Consumer Financial Protection Bureau (CFPB) has worked on defining and identifying financial well-being, and NEFE finds value in its definition as a first step. According to the CFPB, financial well-being is a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life.

Four Elements of Financial Well-Being (CFPB)

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of Choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

The four elements of financial well-being contained in the CFPB definition are present in the research, suggesting that Millennials' financial well-being is compromised.

- Control over finances: Higher perceived control over finances leads to a High-Functioning pathway, whereas lower perceived control leads to a Struggling pathway (APLUS)
- Financial shock: Only 19 percent of Millennials have an emergency fund, and nearly half of Millennials say they couldn't come up with $2,000 to cover an unexpected expense (GWU)
- Financial freedom: Debt constraints lead to delayed transitions and milestones (OSU)
- On track to meet goals: Only 32 percent of the APLUS sample is self-sufficient, making it difficult to achieve financial goals and meet financial demands (APLUS)

<u>Explore stress reduction as a motivator for behavior change:</u> Stress is tied to the concept of financial well-being. Some health insurance plans have a wellness component and reward system in which a policyholder gets a benefit if they jump through a hoop, sometimes as simple as receiving daily text messages. Offering a similar program might be a good behavior change motivator for a financial education program. Or, financial education might be provided as part of overall wellness — all with the end goal of participants feeling less stress as a result.

<u>Make a health correlation to increase engagement:</u> Many people don't attend financial education classes and workshops because they don't want to be perceived as illiterate. If there is a health correlation, however, financial education becomes about more than just money. It becomes about life. Communicating to someone that they may get sick as a result of their current behavior is a powerful message.

Rethink how to market to and engage with young adults.

Exchange the "cool factor" for an alignment of values: The George Washington University research indicates that those who most need financial education often are overconfident, unlikely to see a financial planner and may not even be aware that they need financial education to boost their own financial capability. How do we as a field get these vulnerable young adults to opt in to financial education? The temptation often is to make financial education "cool" and fun, but those efforts often fall flat. Packaging doesn't matter nearly as much as getting someone to care enough to even participate in the intervention. As several Forum participants noted, young adults don't play games because they're cool, they play them because they enjoy them and like to solve problems. They do it because it aligns with their interest or because it reduces stress and reduces boredom. "Cool" is a dangerous path to commit to because what's cool changes. If young adults engage because of interest, it's much more stable. Marketing is key to communicate the value proposition to the end user and how it aligns with their identity and goals.

Integrate financial education into what people already are doing: It takes a lot of marketing to push someone into a space they don't already occupy. Should we even call financial education by its name? Perhaps it's more helpful to integrate financial education into existing routines. After all, financial capability shows up in many facets of everyday life. Why shouldn't financial education be planted where people are and with things they're already doing?

Reframe financial education as part of a holistic concept.

Financial education is important for development: Financial education is at the heart of Living 101. This can be integrated in high school, post-secondary and employee education. We need to make financial education so relevant to people at the present time that there is no question that interventions offered to young adults today will benefit them right now.

Rethink financial education as family decision making: We see from both APLUS and the Ohio State University research that parents play a big role in the habits and attitudes of their children. As a field, we could do more to focus on and promote family decision making, which impacts family financial well-being and results in healthier families able to build social capital.

Work within a new context.

Don't compare Millennials to previous generations without taking context into account. Context matters. There is a danger in comparing this generation to their parents as today's young people are having a generationally different experience — one without pensions and simple mortgages.

Speak to relevant goals and shifting values: Why do today's young adults increasingly find marriage and homeownership less important? We need to talk to them about the reasons. Owning a home isn't always an asset — it can be liability. If young adults have to go where the jobs are, will they want to buy and sell houses? Millennials want and need to travel light. They have to be adaptable and lessen obligations and commitments. It may be wrong to assume this is the result of declining expectations and aspirations. It may be a cultural shift. Or, just as they may not be interested in owning a house, young adults might not find homeownership to be feasible or affordable for them, especially in places where the majority of jobs are available.

Communities of color need to have their voices heard. When examining the why and how of this new context, it's critical to have diverse voices at the table. In many studies, sample sizes of certain ethnic and racial groups are so small that there is not enough data to draw statistically significant conclusions. This makes having their voice at the table even more important. In five or 10 years, communities of color will be a greater majority. We need to listen now.

Determine when knowledge or awareness is appropriate.
In discussions about marketing and engagement, a Forum participant offhandedly remarked, "I don't care how cool it is, I will never want to learn how to change my oil." This is great illustration not only for the issues being discussed, but it also clearly illustrates a case when only awareness is needed. Most of the time, it's easier to pay to have a car's oil changed than to do it yourself. One only needs to be aware of the oil change indicator light and have the oil changed every three months. In a financial education context, what is reasonable for young adults to hand off, and what needs to be investigated further? What should young adults be responsible for at age 16? Sixteen-year-olds can't deal with thinking about retirement, but perhaps it's reasonable that they're responsible for their own well-being through health, exercise and work.

Make connections.
The financial capability field can't lose sight of bigger issues such as income inequality. Equality measures are income-based, but a lack of relevant financial resources is not always apparent when looking only at income. Income is an imperfect measure. We need to make linkages across the board: For example, the people who struggle with student debt are the ones who aren't completing college.

There also is a risk of focusing on financial education rather than holistic wellness. We as a field tend to place an emphasis on the individual without considering how much we can affect household stability. Yes, financial education is empowering people. But obtaining financial education is like a obtaining a driver's license: It doesn't mean you won't have accidents. The role of financial resources should not be overlooked.

Fill in gaps.
More research needs to be done to effectively address the needs of Millennials.

- Vulnerable households are missing from the conversation. Many Millennials have not gone to college. How do workplace programs complement or supplement what college students get in their financial education experience?

- Explore the personality of a generation. If the personality of a generation is understood, communication and interventions can improve. How does personality interact with financial education?

- Don’t overlook income inequality. There’s an increasing gap between the rich and poor. What will the effects be on the economy? What is the impact of decreasing homeownership and other related issues?

- How do we engage vulnerable groups in financial education? Those who acquire financial literacy and seek professional financial advice are not the most vulnerable groups. How can we as a field meet them where they are with relevant and effective interventions?

Collaboration between practitioners and researchers is key.
There needs to be more effort to create venues for practitioners and researchers in the field to share ideas and learn from each other. When practitioners only talk to themselves and researchers only discuss what their findings mean within their own jargon-laden research literature, it creates barriers to entry for other points of view. Bridging practice and inquiry will bring an easier dialogue within our field as we begin to address the needs of young adults establishing their financial lives in varying circumstances and states of distress.

CONCLUSION

Through the snapshot-in-time research studies presented here, we have a good pulse on the financial lives of young adults, but can we say the same for the interventions and programs that aim to serve them? Research clearly demonstrates the need for and impact of financial education in the lives of this generation. We suspect that with an increased awareness of the unique issues facing this cohort, as well as a better understanding of their financial development, we can begin to thoughtfully consider the best ways to serve and engage young adults according to their current realities and visions of the future.

With an increased attention to evaluation and measurement, as well as more accountability to provide the most effective financial education interventions possible, we believe that the impact of financial education can dramatically increase at a time when it’s needed more than ever.