Money and Me – Understanding the financial challenges of Millennials

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About the Social Market Foundation

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About this project

This independent research was produced by the Social Market Foundation and commissioned by Tesco Bank.

Millennials – The uniquely squeezed generation?

Foreword from Tesco Bank

Last summer headlines were made with the finding that the average Millennial has earned £8,000 less during their 20s than their predecessors, putting them on course to be the first cohort in modern times to be financially worse off than the previous generation.[i] This sea-change in wealth distribution poses challenges for housing and employment policies, as well as raising more fundamental questions of fairness and equality in the context of Britain's ageing population. It also puts the onus on government and business, including financial services, to rethink how they can best help a generation whose path throughout life does not look to be as straightforward as that of their parents and grandparents.

In light of this, Tesco Bank commissioned research to examine these issues more closely. We sought to understand Millennials' financial capability, their priorities and their long-term aspirations. We also wanted to understand how they view current financial products and how these match up to their financial ambitions. If we are to meet the needs of our younger customers, we need to understand more about the financial goals Millennials have set themselves and what action they are taking to achieve these. With this understanding we can begin to consider what additional help policy makers and the financial service sector could undertake to enable Millennials to achieve their financial goals.

Despite the negative headlines about their finances, our research illustrated that a significant proportion of Millennials have a positive outlook. Many (four in ten) believe that their financial circumstances are actually better than those of their parents when they were their age. Their attitude towards family and financial aspirations also chimes a familiar and fairly traditional tone, with home ownership, financial independence, marriage and children dominating the future aspirations of many Millennials. However, the research suggests many are deferring or delaying the point at which they achieve these major life goals. Understanding the reason behind this trend to establish whether it is by choice or necessity will be important to ensure all young people are able to make choices that suit their needs.

Maintaining the traditional theme, saving responsibly is a priority for many Millennials, with many citing building up rainy day savings as an important aspiration. Our research showed that around a third have taken steps to build up savings in case of an emergency and to provide a safety net for later life. Yet with half of Millennials still relying on family for financial support, especially to help out with unexpected costs, banks should think innovatively about how they can meet the saving aspirations of this cohort of customers.

This research shows that the wider picture of Millennials' opportunities and aspirations is still emerging. Millennials are a diverse segment of society with different and competing aspirations, and this complex picture must be understood.

However, policy-makers should engage with the emerging data to ensure that all policies are future-proofed to meet the needs of this generation. With wider structural factors such as high house prices and an evolving pension's landscape, both the government and the financial services sector need to respond either directly or through the market. Policy initiatives such as higher incentives for saving and the provision of financial advice that works for a new generation operating in a distinct financial context should be considered as priorities if Millennials are to achieve their goals.

Millennials may differ from older generations in many ways, but when it comes to their hopes and dreams they are not an unknown quantity. Rather than choosing a different path, their goals are broadly similar to those of their parents. New economic and social challenges require much investigation and innovation if they are to be met. Nevertheless, the task for government and for industry remains unchanged: to implement policies which help young people achieve their goals.

Drawing on insights from the research, we set out below what some of these steps could be.

Advice routes

Most Millennials do not use professional help when making financial decisions. It is notable that 39% of Millennials turned to their parents for financial advice, 26% consulted the internet and only 6% sought advice from an Independent Financial Adviser. New approaches to advice and education may be required to ensure that Millennials are making appropriate and informed financial decisions. The Government could usefully consider:

- **Financial Guidance for Millennials** - Given that the Government will be launching a new financial guidance body in Autumn 2018, now is the time to think radically about the 'offer' for young people. People approaching retirement are able to access free and impartial guidance from Pension Wise on what they can do with their pension pot. A similar service could be launched for young people to offer them guidance on the best (and most tax efficient) way of meeting their savings goals. In a similar way to Pensions Wise, this service would not recommend products or companies but provide guidance on auto-enrolment, saving, how to avoid any scams and provide information on how to shop around to find the best product to suit your needs.
- **Parent-led Approach** – the survey revealed that parents are a strong influence on Millennials and play a key role in providing them with financial information and advice. We would welcome a targeted campaign to encourage parents to speak to their children about the importance of finance. This could be achieved by creating of 'financial education champions' in both primary and senior schools, who engage with parents and children to discuss money management and habits outside the classroom.

Saving

There are clear benefits in establishing a savings culture at a young age. Not only will it help many Millennials secure their financial future, but will also ensure that they maintain access to financial services and do not become financially excluded later in life.

We believe a fresh and innovative way is required to engage with younger people and influence their attitude towards saving. Incentives could include:

- **Bonus linked Savings Accounts** - tax relief incentives tend to favour those with higher earnings, have greater financial awareness and are already saving. Younger people on slightly lower earnings, however, tend to be incentivised by reward or bonus offers. We would encourage greater promotion and use of Prize-linked accounts like the Premium Bond Programme, which awards prizes as part of the savings product's return.
- **Greater Use of Savings Champions** – Government could create 'Savings Champions', respected Millennials who could promote the importance of saving to achieve financial goals.

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1 Millennials - A financial snapshot

Millennials, also widely known as Generation Y, are usually classed as individuals born between 1980 and 2000. ONS estimates that Millennials of working age (18-34 year olds) numbered around 15.6 million in mid-2015.[1]

Polling of Millennials

This research draws on a specially-commissioned poll by Opinium of 2,003 Millennials aged 18 to 34, carried out between 20 November and 7 December 2016. The sample has been weighted to reflect a nationally representative audience. We report the weighted results.

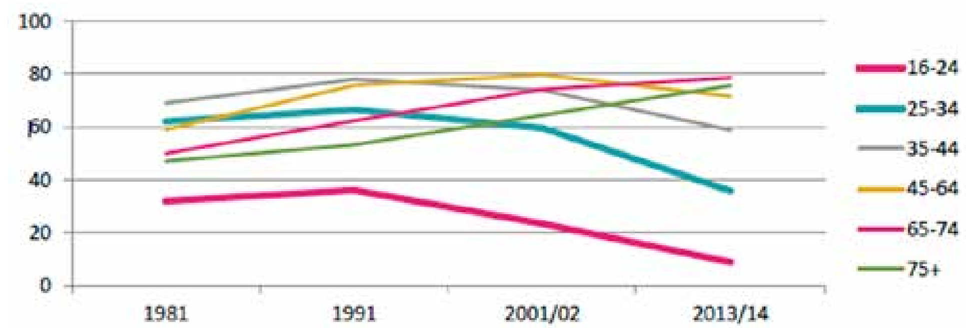
Employment, earnings and savings

The majority of Millennials are currently in employment and recent ONS Labour Market Statistics show that employment levels for 25-34 year olds are now at an all-time high at over 82%.[2] Research by the IFS has shown that income levels among those born in the early 1980s are no higher than that of individuals born in the 1970s.[3] SMF research, meanwhile, has revealed that the overall proportion of 26-35 year olds in debt fell to from 55% in 2005 to 51% in 2013. However, among debt-holders in this age category, the median debt value in 2013 was £5,300, a real terms increase of 45% since 2005.[4] Polling from the Pensions and Lifetime Savings Association has shown that 46% of Millennials report savings some money each month.[5]

Living Arrangements

Our research showed that 23% of Millennials currently own a home, compared with 64% across the whole population. Three in ten (30%) live with their parents and around a third live in the private rented sector whilst one in ten (11%) live in social housing. There has been a long running trend over time towards lower homeownership levels among young people, whilst the rate has grown amongst those aged over 45 as Figure 1 below demonstrates. Meanwhile, the percentage of young adults living with their parents has grown over the last two decades rising from 36% in 1996 to 39% in 2016.[6]

Figure 1: Proportion of people who own a home over time (age of household reference person)



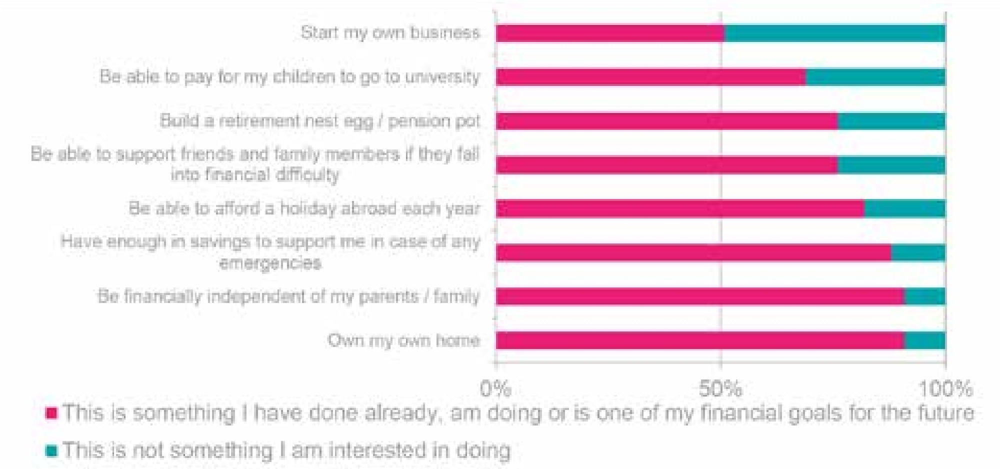
Source: ONS7 [7]

2 The life goals and aspirations of millennials

Life goals and ambitions

Millennials hope to achieve a wide range of financial goals and aspirations, many of which are quite traditional (Fig 2). The goals cited most frequently include owning a home (91%), being financial independent of parents (91%) and having some rainy day savings (89%). The focus on rainy day savings ahead of – for instance putting money aside for holidays – implies that the caricature of Millennials as spendthrift and as the 'You Only Live Once' generation is not a fair reflection of their priorities.

Figure 2: Millennials' financial goals



Source: SMF analysis of Opinium survey. Base: all respondents.

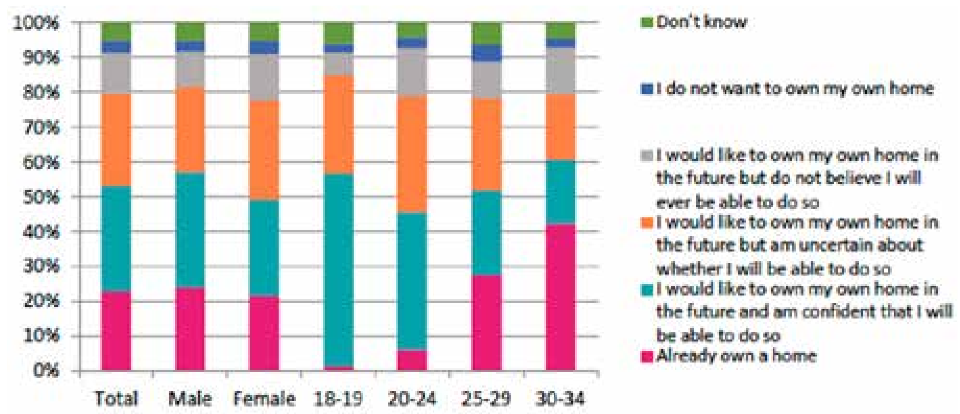
Saving

A quarter of Millennials (25%) report that building up savings for an emergency is something they have already done or are already doing, despite the fact that, as past research has shown, young people often find it difficult to save because of the high costs of living and insecurity of incomes.[8]

Homeownership

Nine in ten Millennials identify homeownership as a financial goal that they've achieved or would like to achieve. A quarter of Millennials (23%) own a home already (either outright or with a mortgage.) Across our whole sample, a majority either own a home or are confident that they will be able to do so in the future. However, of those who don't own a home, a third (34%) would like to own a home but are uncertain as to whether they will be able to do so; a further 15% would like to own a home but 'do not believe' that they will be able to do so; four in ten (39%) would like to own a home and are confident they can achieve this goal.

Figure 3: At some point in the future, do you plan to or would you like to own your own home?



Source: SMF analysis of Opinium Survey. Base: all respondents.

The general picture masks some important differences, including:

- Women are more pessimistic about their prospects than men.
- Those living at home with their parents expect to become homeowners by the age of 30 on average, lower than for private renters (age 33).
- The average expected age of homeownership is highest in London (32.8) and the South East (32.7), with the lowest average age being in the Midlands (30.7).

Perceptions towards various government schemes designed to help first time buyers access the housing market are largely positive with 61 % of 18-34 year olds stating that they thought the new Lifetime ISA would be useful, with just 20% disagreeing and the remainder unsure. Our research also suggests that the Government's proposed plan to link the Help to Buy ISA to the LISA will be beneficial to Millennials, as a quarter (24%) of those who perceive the LISA as helpful already expect to use Help to Buy.

Financial freedom

Our survey shows that half of Millennials receive financial help regularly from their parents or the wider family. However, a large majority of Millennials believe themselves to be predominantly self-reliant and thus well on their way to achieving what for many Millennials is an important financial goal. Nearly eight in ten (78%) report being at least 'somewhat' financially independent from their parents, while only one in five (20%) report being 'not really' or 'not at all' financially independent.[9] Looking at all those who either report a level of reliance on their parents or who report having received financial help, more than three quarters (78%) expect to be financially independent by age 40.

Entrepreneurial ambition

Half of Millennials identify starting their own business as something they've already done, are doing or would like to do in the future, suggesting a high level of entrepreneurial ambition. One in eight (12%) of all Millennials have already set up a business or are in the process of doing so. Past SMF research has shown that entrepreneurship is viewed more positively amongst younger rather than older age groups.[10] However, evidence also shows that self-employment levels tend to grow with age.[11]

Family life

Attitudes to family life are rather more traditional than much social commentary would suggest: 22% of Millennials are already married. Of those who are unmarried, three quarters would like to get married at some point in life, either 'definitely' or 'probably'. Official Statistics suggest however that at any given age, women born in more recent decades are less likely to have been married than those born in earlier decades.[12] Around a third of Millennials already have at least one child. Of those who don't already have children, 70% would either 'definitely' or 'probably' like to have children.

Retirement planning

Millennials expect to retire on average at age 66. This is later than the current average age at which UK citizens exit the labour market (64 for men and 63 for women).[13] However, it is also ahead of the state pension for a Millennial born in 1990, which is 68.

3 Family ties

Our survey shows that half (50%) of Millennials receive financial help regularly from their parents or the wider family and half do not. Of those that receive support, the most common forms of assistance are for unexpected emergencies (17%), paying for accommodation (17%), utility bills (16%) and paying for necessities such as groceries and clothes (16%). Younger Millennials are more likely to receive help with on-going costs such as rent, bills and groceries, whilst older Millennials are more likely to receive help in the form of larger one-off transfers for a house or wedding.

Londoners are much more likely to receive financial help than those living outside the capital. Around one in three (32%) report receiving regular help to pay rent or the mortgage and a similar proportion (28%) help with utility bills.

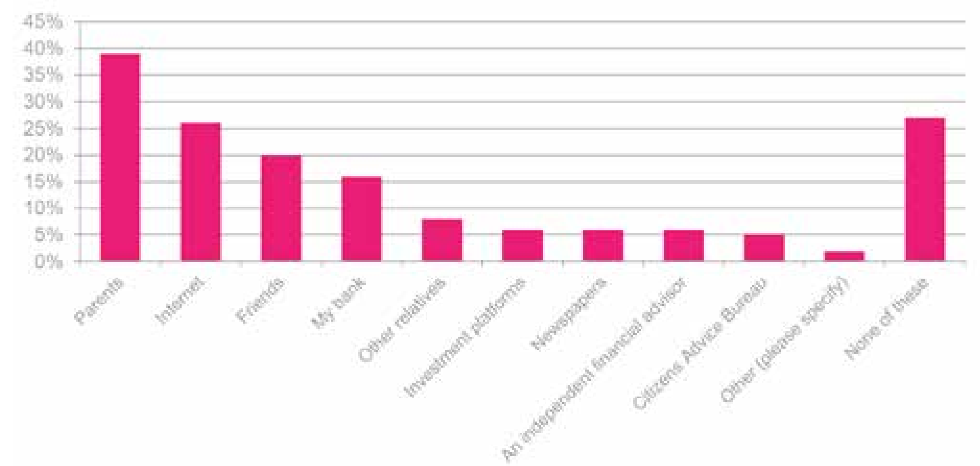
Figure 4: Proportion of Millennials that receive regular support from their parents or wider family by region

Source: SMF analysis of Opinium Survey. Base: all respondents.

4 Advice

Millennials rely more on informal advice than formal channels. Family is often the first port of call. As Figure 5 shows, Millennials (39%) often turn to their parents for advice when making major financial decisions. This is particularly true amongst 18-19 year-olds (56%) and 20-24 year olds (50%). A quarter of Millennials (27%) consulted no-one the last time they 'made a major financial decision', whilst 26% consulted the internet and 20% friends. Across Millennials there is little reliance on professional support. Only one in twenty (6%) consulted an Independent Financial Advisor, although 16% consulted their bank. The reliance on partners, family and friends underscores the importance of thinking about financial capability not just at an individual level but also across the household, family or network.[14]

Figure 5: Thinking of the last time you made a major financial decision, which of the following, if any, did you consult?



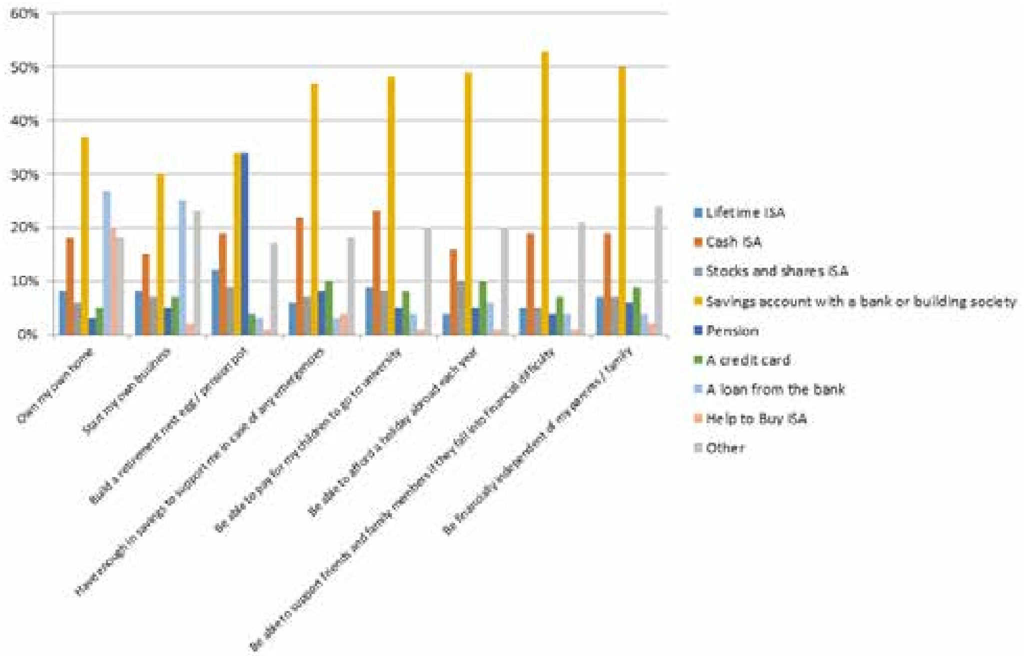
Source: SMF analysis of Opinium survey. Base: all respondents.

5 Use of Financial Products

Given the wide range of financial and life goals to which Millennials aspire, we would expect to see significant diversity of products used. However, Figure 6 illustrates that there is heavy reliance on traditional savings accounts with a bank or building society – for all financial goals, both long-term and short-term. A number of factors may contribute to high levels of usage of savings accounts. First, such accounts are often attached to current accounts, the latter which are held by the vast majority of the population. They therefore represent a good entry point to saving and investing. Second, savings held in such accounts are guaranteed.

Cash ISAs are also popular among Millennials. While cash savings may not be the best vehicle through which to invest for a wide range of financial goals, they are a good way to build a short term accessible buffer and can play an important part in a financial portfolio, even when interest rates are low. In the long-term, however, higher-risk assets such as equities typically outperform savings accounts.[15]

Figure 6: Financial products and Millennials are using or expecting to use to achieve financial goals (respondents able to select more than one answer)



Source: SMF analysis of Opinium Survey. Base: respondents answering that each is one of their financial goals for the future.

It is interesting to note that of those who cite homeownership as an aspiration, one in five are using or expect to use the Help to Buy ISA and a further one in ten (8%) say that they would expect to use the Lifetime ISA.

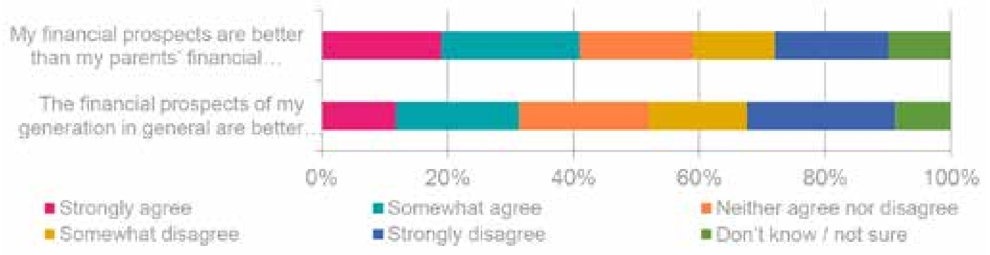
When looking towards retirement, respondents cite a wide range of products they use or would use to build up a retirement pot. The two products most commonly-cited are pension schemes and bank savings accounts, which are each cited by a third of respondents. After this, the cash ISA (19%), the LISA (12%), and stocks and shares ISA (9%) are also cited quite frequently. In one sense it is surprising that a much larger share of respondents do not cite pension schemes. This may in part reflect low levels of awareness of pension schemes more generally – despite the fact that the proportion of young people enrolled in workplace pensions has increased significantly in recent years.[16]

6 Resilience and optimism

There is a growing political and policy discussion about the relative challenges facing Millennials compared to other generations and past cohorts of young adults.[17]

This pessimistic and negative assessment does not appear to have gripped Millennials themselves. Four in ten (41%) agreed with the statement 'My financial prospects are better than my parents' financial prospects when they were my age' and only three in ten (31%) disagreed, whilst a further three in ten neither agreed nor disagreed or were unsure.

Figure 7: Millennials perceptions on whether their financial prospects exceed their parents



Source: SMF analysis of Opinium survey. Base: all respondents.

Our survey findings underscore other recent research by PLSA which has shown that Millennials tend to be optimistic rather than pessimistic about their financial circumstances and about the future in general.[18]

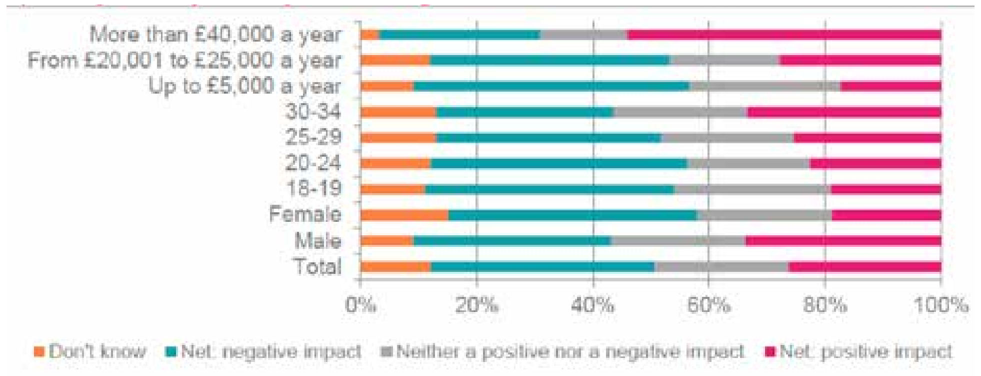
Levels of optimism, however, do vary:

- Men (47%) are more likely to agree than women (34%).
- Londoners are more positive (52% agree) compared to other UK regions, including the south and east (36%).
- Perhaps less surprisingly, those on the highest incomes are more likely to agree than those on lower incomes – seven in ten of those with incomes over £40,000 per year support the statement.

It is noticeable also that respondents were more likely to agree when the question was framed around their own prospects and those of their own parents (41%) as compared with the prospects generally of their generation and their parents' generation (31%). This difference may occur because Millennials have internalised the accepted wisdom received for instance via the media about the outlook for their generation.

This relative sense of optimism and positivity amongst Millennials also persists when asked about the future and the potential effects of Brexit. Our survey shows that four in ten (39%) Millennials believe that leaving the EU will have a negative impact on their ability to meet their financial goals, compared with a quarter (26%) believing that it will have a positive effect.

Figure 8: Do you expect the United Kingdom leaving the European Union to have a positive or negative impact on your ability to meet your financial goals?



Source: SMF analysis of Opinium survey. Base: all respondents.

- Gender: Men were evenly split but women were much more likely to report Brexit having a negative (43%) rather than positive (19%) impact.
- Region: 35% of Londoners perceive a positive impact; 54% of those in Scotland perceive a negative impact.
- Age: only 22% of those aged 24 and under expected leaving the EU to have a positive impact compared to 34% of those aged 30 to 34.
- Incomes: a majority of those with personal incomes of over £40,000 expect leaving the EU to have a positive impact on their ability to meet their financial goals.
- Homeownership: 36% of homeowners are positive compared to 19% of those in the private rented sector.

7 Conclusion

The research findings show that Millennials have many similar aspirations to those of previous generations, in terms of owning a home, building up savings, getting married, establishing a family and securing financial independence from their parents. Achieving many of these financial goals is, however, growing harder and more expensive for many Millennials, and it is likely they will be achieved much later in life than for past generations.

The survey also produced some contradictions. It appears that there are some marked differences and inequalities within this group, with many performing well and meeting many of their financial goals in terms of homeownership, savings and increased earnings whilst other sections are struggling and may require more help. It also showed that whilst Millennials felt they had control over their finances and were optimistic about achieving financial goals, 50% are still receiving financial support.

There is scope for both the government and financial service providers to act to ensure that Millennials' optimistic financial goals can be turned into a reality.

8 References

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