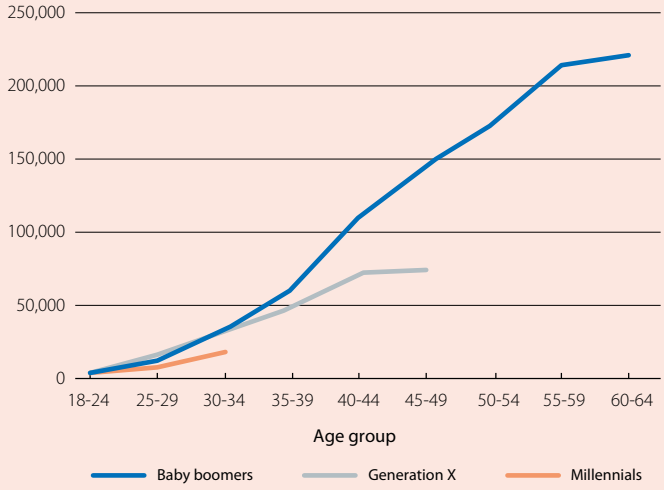
# The financial situation of Millennial households in the US and Spain: will they catch up with previous generations?

This Dossier's previous articles have characterised Millennials as a generation that has reached adulthood during a time of unfavourable and uncertain economic conditions, with a depressed labour market and shrinking real estate sector. Such economic conditions suggest that, generally speaking, the financial situation of these young people may not be very promising. In addition to the aforementioned adverse economic situation, certain aspects that characterise this generation, like postponing life decisions such as setting up a home, or the new challenges they face such as higher university tuition fees in the US, have also influenced their financial decisions, which are analysed in this article.

### *US: median net worth*

*(2013 dollars)*




***Source:*** *Dettling, L. and Hsu, J. W., «Playing Catch-up», IMF.*

Regarding the first factor, buying a home is the most important financial decision taken by a household as it is usually the highest value asset owned. It also constitutes the main way that households accumulate wealth since it acts as a forced saving mechanism. So what do the figures tell us? In the US, 34% of Millennials own their own home, a slightly lower percentage than the preceding generation (39%). A wider gap can be seen in the successive generations of young Spaniards: 44% of Millennial households own their home compared with 65% among Generation X.

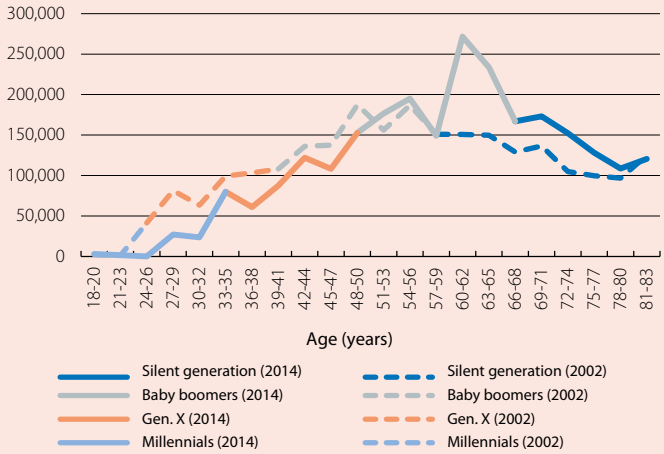
Taking this factor into account (the «composition effect») and focusing solely on those households that own their own home, we can see that the gap in median net worth disappears in the US while the difference decreases significantly in Spain but is still considerable (47%). Simply put: Millennial households that manage to buy their home have just over half the net worth

To analyse the financial situation of households headed by Millennials, we compare the evolution of the median net worth for each generation throughout their lives.[1,2] The charts show very significant differences between generations. In the US, the median net worth for Millennials aged 25 to 34 is 60% that of young people from Generation X within the same age range. The gap is even wider in Spain. The trend in net worth for each generation is less than that of the preceding generation. In the specific case of Millennials, their median net worth is EUR 3,000 compared with the EUR 63,400 accumulated by young people from the previous generation at the same age.

What is the reason behind this notable gap in net worth across generations? As we will see, there are two main causes. The most important aspect which explains most of this gap is whether they own their own home or not. The second is related to high non-mortgage debt.

### *Spain: median net worth*

*(2014 euros)*




***Note:*** *Net worth is financial and real state assets minus liabilities (debts).*
***Source:*** *CaixaBank Research, based on data from the Encuesta Financiera de las Familias (2002 and 2014).*

1. These are young people who have set up a home independently of their parents. Specifically, the US data come from the Survey of Consumer Finances, while the Spanish data come from the Encuesta Financiera de las Familias (EFF). In Spain, Millennials are defined as young people aged 22 to 33 in the EFF from 2014 (born between 1981 and 1992) and Generation X are people in the same age range (22-33) in the EFF from 2002 (born between 1969 and 1980). For details on the US data, see Dettling, L. and Hsu, J. (2014), «The State of Young Adults' Balance Sheets: Evidence from the Survey of Consumer Finances». Federal Reserve Bank of St. Louis Review, Fourth Quarter 2014, 96(4).
2. Net worth is the variable that most accurately reflects the financial situation of households. It is calculated as the difference between a household's assets (financial and real state) and liabilities or debt. The median is the most representative value as half the households are in a better (or worse) situation with respect to this value. The age ranges allow us to compare different generations, adjusted for the life cycle.

achieved by their predecessors, around EUR 54,500 compared with EUR 103,000 for Generation X (see the enclosed table). The decision to buy a home and the trend in its price therefore have important consequences for wealth accumulation throughout one's life.

As we have already noted, the second factor behind Millennials' lower net worth is their high non-mortgage debt; i.e. borrowing not related to buying a home. In the US this debt is mainly incurred to fund university studies. Between 1997 and 2017, the number of students with this kind of debt has multiplied, going from half to two-thirds of all students. The average size of loans has also doubled, currently amounts to USD 27,000. The non-mortgage debt of Spanish Millennials is also higher than that of the preceding generation. 33% of those who do not own their own home have some kind of debt, mostly consumer credit. The financial burden of this debt (repayments) represents 21% of the household income, much higher than the 13% for comparable Generation X households, while 33% of Millennial households suffer from financial stress.[3]

### *Spain: financial situation of Millennials compared with Generation X*

*(% of households, unless otherwise indicated)*

| | | Total | Do not own home | Own home |
|---|---|---|---|---|
| Median net worth * (2014 euros) | Gen. X (2002) | 63,408 | 1,321 | 103,164 |
| | Millennials (2014) | 3,000 | 380 | 54,500 |
| **Assets** | | | | |
| Home ownership | Gen. X (2002) | 65.5 | 0.0 | 100.0 |
| | Millennials (2014) | 43.9 | 0.0 | 100.0 |
| Stocks | Gen. X (2002) | 8.8 | 6.7 | 9.9 |
| | Millennials (2014) | 4.0 | 1.6 | 7.2 |
| Mutual funds | Gen. X (2002) | 5.3 | 2.0 | 7.1 |
| | Millennials (2014) | 2.7 | 1.9 | 3.6 |
| Pension funds | Gen. X (2002) | 16.9 | 11.2 | 19.8 |
| | Millennials (2014) | 10.6 | 4.7 | 18.1 |
| **Liabilities** | | | | |
| Some kind of debt | Gen. X (2002) | 63.2 | 23.0 | 84.4 |
| | Millennials (2014) | 55.9 | 33.3 | 84.8 |
| Mortgage debt | Gen. X (2002) | 44.9 | 0.0 | 68.5 |
| | Millennials (2014) | 34.5 | 0.0 | 78.6 |
| **Financial stress** | | | | |
| Median financial burden** of households with debt (% of income) | Gen. X (2002) | 17.6 | 12.9 | 18.2 |
| | Millennials (2014) | 21.5 | 21.1 | 23.9 |
| Financial stress (financial burden >40%) of households with debt | Gen. X (2002) | 9.9 | 15.5 | 9.0 |
| | Millennials (2014) | 23.2 | 32.7 | 18.4 |
| Negative net worth | Gen. X (2002) | 4.7 | 12.5 | 0.6 |
| | Millennials (2014) | 23.5 | 25.6 | 20.7 |

***Notes:*** *Los **millennials** are young people aged 22 to 33 in the EFF for 2014 and Generation X are people in the same age range (22-33) in the EFF for 2002. * Net worth is financial assets and property minus liabilities (debts). ** Financial burden is repayments for pending debts out of the income of households with some kind of pending debt.*
***Source:*** *CaixaBank Research, based on data from the Encuesta Financiera de las Familias (2002 and 2014).*

This unfavourable financial situation of Millennials places them in a worse starting position to take on future challenges, the most relevant being managing their retirement income. There has been a radical change in the US in how employers manage their employees' pension plans. There used to be a defined benefit system which guaranteed a certain amount on retirement. Now, however, there is a contribution-based system in which both the employer and the employee make contributions into a private pension plan. Consequently, the responsibility of deciding how much to save for retirement and managing the pension plan now falls on the individual. In European countries, including Spain, the ageing population has led to reforms of public pension systems, which are now less generous. Millennials must therefore start to save for their retirement sooner rather than later, even though their level of income does not make this easy. In fact, the data show that there is still a lot to be done. Although young people appear to be participating more in pension plans, contributions have fallen due to the Great Recession. In Spain, only 10.6% of Millennials have a pension plan although the vast majority (70%) believe that the public pension will not be enough to live off.[4]

To sum up, the financial situation of Millennials is not very promising and it is vital they take the right financial decisions in the future. Unfortunately, although this is a generation with a lot of human capital, their financial education is not entirely satisfactory. According to findings by the S&P Global FinLit Survey[5] which assesses young people's financial knowledge, 57% of Americans pass the survey while only 52% of Europeans manage to do so. This figure falls to 49% in Spain. On a positive note, an increase has been observed (in comparison with the previous generation) in the number of young people resorting to experts or more experienced relatives, or using digital tools for advise. So Millennials have numerous resources at their disposal to help them take the best financial decisions. Only the future will tell if they are able catch up financially with their previous generations.

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3. Financial stress refers to households whose debt burden is more than 40% of the household's income.
4. See Barómetro de VidaCaixa (2016), «Desmitificando a la nueva generación de jóvenes de España».
5. See Klapper, L., Lusardi, A. and Van Oudheusden, P. (2015), «Financial Literacy Around the World», Standard & Poor's Ratings Services Global Financial Literacy Survey.