Millennials and Finance: The “Amazon Generation”

by Neal E. Cutler, PhD

ABSTRACT
Understanding millennials may be a key to growing your financial services practice. We take a look at America’s largest generation (yes, there are more millennials than baby boomers) in an effort to see how the financial service industry must adapt to reach out to this unique cohort.

Over the past 25 years, Financial Gerontology has focused substantial attention on the baby boom generation. As we and many others have documented, boomers have disrupted just about every social institution into which they’ve demographically smashed, from a shortage of hospital delivery rooms in the 1950s to Social Security and Medicare. And as financial professionals well know, the process that started with crowded kindergartens is now redefining retirement.

There is, however, a new demographic kid on the block: the millennials, born approximately from 1980 to 2000. While much financial planning appropriately focuses on longevity issues, recall that the discipline of gerontology is not the study of old people but the study of the multiple processes of aging, including middle aging and young adulthood. Middle age is both a socially and financially important maturational life-stage of its own, as well as a time to plan for one’s own older years and (for many families) for the longevity of one’s parents. Financial gerontology also focuses on adults in their twenties and thirties—in the accumulation stage of their wealth span—whose formative attitudes and experiences will shape their middle and later years.

The overall significance of the millennials begins with a simple but critical comparison: The historically unique, demographically humongous baby boom generation is now in second place. In June 2015 the U.S. Census Bureau reported that “Millennials, or
America’s youth born between 1982 and 2000, now number 83.1 million and represent more than one quarter of the nation’s population. Their size exceeds that of the 75.4 million baby boomers.4

The boomer impact has been a product of the social-cultural-historical context of their maturation multiplied by their demographic size. So, too, it will be for the impact of millennials, but within a unique twenty-first century context.5 In addition to the demographic multiplier, we live in an information-centric society populated by digital natives whose available skills, tools, and data resources are distributed “democratically” throughout the population, comparatively unconstrained by variations in socioeconomic status.

“Generations”—A Definitional Dilemma

In considering comparisons among millennials, boomers, and financial issues, we encounter an important definitional dilemma: how to define the millennial generation? The boomer generation is fairly easy to define: The fertility pattern of unusually large numbers of births during 1946 to 1964 produced the boom. It was in hindsight that researchers documented the demographically rapid rise and fall in birth rates such that the institutionalization of the 1946-1964 definition came later. The definition of the millennial generation is not so easy since its identity is formed not by a single set of demographic data but by multiple social and cultural events—including a new millennium (the “drama” of Y2K), the trauma of Tuesday, September 11, 2001,6 and the digital revolution.

This raises the issue of the difference between a cohort and a generation, my research focus for half a century.7 “Cohort” is a statistical concept defining persons born in a specified time period (decade, year, i.e., “calendar mates”). “Generation” refers more to the experiential essence or gestalt of a group of people, born in an identifiable period of time but defined more by their shared experience. The question arises: should a generation be identified (named) by the events surrounding its birth years or by the events (experiences) during which it was raised? Would the “Depression Generation” in the U.S., for example, be those born during 1929-1939, or those born 1919-1929 who were approximately 10 to 20 years old during the depths of the Depression?

While there is no easy answer, typically it is the set of “dramatic” events experienced during a person’s teenage years that best defines the essence of a generation,4 although not all birth cohorts experience events during their teenage years which turn out to be generation-defining.9 The millennial generation appears to be a combination of all these factors. The name millennial is clearly a time stamp marking the move into the twenty-first century. Most academic, financial, and marketing analysts define millennials as those born in the approximately two decades prior to the turn of the millennium, i.e., when they were approximately in their twenties—plus or minus a few years.

Unsurprisingly, there is no consensus on the precise beginning and ending years, largely because there have been multiple generation-defining events. For example, the Census Bureau uses 1982 to 2000 and the Pew Foundation’s comprehensive attitudinal study, “Millennials in Adulthood” (discussed below) uses 1981 to 1996, and emphasizes that the “end point” has yet to be firmly established. With all this in mind, our purpose today is to glance at millennials via financially relevant information—alongside some comparisons with the boomers who for many years have been our microscope, telescope, and horoscope in understanding the impacts of population aging, individual aging, and family aging on financial services.

Some Millennial vs. Boomer Comparisons

Society’s longtime concern with the boomers is driven largely by how their huge numbers affect most aspects of American society, politics, and economy. In 2015 the young millennial generation is larger than the boomers. At the end of their birth boom in 1964 boomers numbered 76 million but through immigration grew to a peak of 79 million, and through
Early Experiences and Attitudes of Millennials

Although a person’s opinions change as a natural part of maturation, many basic values and attitudes remain stable over the life course reflecting the historical context in which they were developed—i.e., the generational perspective. In this context the Pew Research Center focuses substantial resources to identify the basic attitudes of millennials as they enter adulthood plus the formative experiences which help to shape them, all of which help better understand how financial professionals and millennials are beginning to perceive each other.

Wealth Accumulation and Financial Self-Image

Of particular relevance to financial well-being and wealth accumulation the Pew research compared millennials’ early-life economic experience to that of prior generations. They concluded that “Millennials are the first generation in the modern era to have higher levels of student loan debt, poverty and unemployment, and lower levels of wealth and personal income than their two immediate predecessor generations (Gen Xers and Boomers) had at the same stage of their life cycles.”

While millennials are the most educated generation in American history, the cost of education is burdening them with years of lingering debt. Similar to the comparisons in Table 1, Pew notes that “two-thirds of recent bachelor’s degree recipients have outstanding student loans, with average debt of about $27,000. Two decades ago only half of recent graduates had college debt and the average was $15,000.”

The recent economic recovery hasn’t improved millennials’ financial self-images, perhaps reflecting the disconnect between their education and their earnings. The 2014 Pew survey “found that only 42% of Millennials now identify themselves as ‘middle class.’ This was down significantly from 2008 when 53% said they were middle class. Perhaps more striking, fully 46% of Millennials describe them-

<table>
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<tr>
<th>TABLE 1</th>
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Young Adults (age 18 to 34)

<table>
<thead>
<tr>
<th>Year of data</th>
<th>1980</th>
<th>2013</th>
</tr>
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<tbody>
<tr>
<td>N of population</td>
<td>67.1m</td>
<td>72.8m</td>
</tr>
<tr>
<td>% of population</td>
<td>29.6%</td>
<td>23.4%</td>
</tr>
<tr>
<td>Bachelor’s degree or higher</td>
<td>15.7%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Median annual earnings</td>
<td>$35,845</td>
<td>$33,883</td>
</tr>
<tr>
<td>Living in poverty</td>
<td>14.1%</td>
<td>19.7%</td>
</tr>
<tr>
<td>Living with parents</td>
<td>22.9%</td>
<td>30.3%</td>
</tr>
<tr>
<td>Never married</td>
<td>41.5%</td>
<td>65.9%</td>
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Source: U.S. Census Bureau, “Young Adults Then and Now,” December 2014.
selves as lower or lower-middle class in the recent survey, up from 25% in 2008.” As another example, the Bloomberg Millennial Housing Affordability Index of the fifty largest cities in the U.S. ranked by median home value found that “the areas that often most appeal to [educated] young adults are also the ones where home ownership is most out of reach.”

Detached and Distrusting . . . But Optimistic

The “Millennials in Adulthood” survey found that a key characteristic of millennials is that they are “unmoored” from major social institutions of American society in politics, religion, and even marriage and family. For example, in 2014, more millennials (50 percent) than the general public (39 percent) said they were Independents compared to Republicans or Democrats, a difference that was similarly recorded 10 years earlier when Pew began asking millennials about partisanship.

Evidence of detachment is seen also in millennials’ views of religion. Pew asked if “religious identification” is a “perfect” or a “totally wrong” description of themselves. Thirty-six percent of millennials said this was a perfect description, compared to 55 percent of boomers. Similarly, 29 percent of millennials said they are “unaffiliated” with any religion. Millennials also are somewhat disconnected from the institution of marriage. A separate Pew study found that half (49 percent) of people age 25 to 34 have never been married, compared to only 12 percent in 1960. While this does not necessarily mean that these people will never marry it does suggest delayed marriages.

While delayed marriage reflects multiple factors, 34 percent of millennials said they are not married because they are not financially prepared; 29 percent said they had not yet found their spouse. The median age of first marriage in the U.S. is now 27 for women, 29 for men. In 1990 it was 24 for women and 26 for men, a trend that will substantially increase the impact of family aging on many aspects of financial planning.

In addition to these basic attitudes the research identifies two conflicting images of millennials entering adulthood: socially distrusting and financially optimistic. On the one hand, compared to prior generations millennials have a general attitude of social distrust. When asked if “most people can be trusted” or that “you can’t be too careful in dealing with people,” only 19 percent of millennials (compared to 40 percent of boomers) said that most people can be trusted.

On the other hand, millennials seem financially optimistic about their personal future. Pew asked: (a) Do you now have or earn enough money to lead the kind of life you want, or not? (b) [if not] Do you think you will be able to have or earn enough money in the future to lead the kind of life you want, or not? Overall, 85 percent of millennials said they either have enough now or expect to have enough in the future.

Millennials, Trust, and Financial Planners

To what extent might this overlap between social distrust and financial optimism influence millennials’ interaction with financial professionals? A number of recent financial polls and analyses indicate that lack of trust by millennials is a major obstacle for financial professionals, summarized by Casey Bond in the Huffington Post as the “5 Reasons Millennials Don’t Trust Financial Planners.”

1. **The Financial Industry’s Reputation.** Mirroring the Pew findings, “Millennials are a skeptical bunch in general, but no industry has felt their collective distrust as heavily as the financial services sector.” Factors include the Great Recession, the income inequality “1 percent” debate, the high debt and low income, and—mentioned repeatedly—millennials seeing their parents’ retirement hurt despite the involvement of financial planners.

2. **Confusing Jargon.** The ubiquitous title “financial advisor” includes a heterogeneous group including insurance agents, bankers, stockbrokers, and investment managers, each of whom is paid differently.

3. **Financial Planning Fees.** “Young adults also tend not to work with traditional financial planners for the same reason these advisors dismiss
them: money (or lack thereof).” Many fee-only advisors charge a percentage of assets under management which is not attractive to millennials who have small portfolios.

4. **Cultural Differences.** “Diversity is not a word often associated with the financial services industry. While there are financial planners of all nationalities, genders, and backgrounds a good portion are old, white men,” making it more difficult to connect with young adult millennials. As Census Bureau confirmed earlier this year, millennials are the most racially diverse generation in American history.

5. **Free Online Financial Planning Information.** “As the first wave of digital natives, Millennials are an incredibly resourceful generation who would rather seek information for themselves than be told what is true. Therefore [they are] more apt to gain financial knowledge and insight from sources outside of formal planners.”

One consequence is that millennials increasingly use online software, social media, even “robo-advisors” for financial activities. In trying to name this generation, from a financial perspective we suggest “the Amazon Generation” (e.g., call, mail, or “click” for insurance quotes). More directly, “Millennials remain the key age demographic of online commerce, spending more money online in a given year than any other age group.... This, despite having lower income than older adults.”

The strong link between the Internet and finance was documented in “The Democratization of Financial Gerontology” in the March 2014 issue of this journal. Among the several sources of democratization by far the largest are financial Web sites. For example, looking at the top four “personal finance” Web sites (“business” Web sites are separate), the Internet tracking firm Alexa Internet found that in December 2012 Yahoo! Finance had an average of 45 million unique visitors per day, MSN Money: 40 million, CNN Money: 38 million, and Google Finance: 28 million.

Clearly, the Internet as a major financial resource will not likely soon change. Research does suggest, however, that the other reasons millennials don’t use financial planners are susceptible to change. In 2000 the National Council on the Aging designed a comprehensive survey of attitudes toward health and finance that included the following two-part question: “Have you ever discussed your retirement planning needs with a professional advisor or financial planner, or not?” Forty-seven percent of the national sample said Yes, 53% said No. The more intriguing responses are to the second part, “[if not] Why not?”

Table 2 shows the five “why not” responses in three categories. The good news is that Advisor Obstacles (Don’t Want to Pay, Don’t Trust)—which are among the most difficult attitudes to change—are the least mentioned (10 percent). Not Enough Money (31 percent) is likely to change (1) as people accumulate enough money to warrant paying for professional

**TABLE 2**

<table>
<thead>
<tr>
<th>Reasons for Not Using a Financial Professional</th>
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<tr>
<td>“Have you ever discussed your retirement planning needs with a professional advisor or financial planner, or not?”</td>
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<tr>
<td>YES: 47%</td>
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<tr>
<td>asked of the 53%: “Why Not?”</td>
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<tr>
<td><strong>Person</strong></td>
</tr>
<tr>
<td>I’d rather do it myself</td>
</tr>
<tr>
<td>I’m not worried about money</td>
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<tr>
<td><strong>Not Enough Money</strong></td>
</tr>
<tr>
<td>I don’t have enough money to invest</td>
</tr>
<tr>
<td><strong>Advisor Obstacles</strong></td>
</tr>
<tr>
<td>I don’t want to pay for advice</td>
</tr>
<tr>
<td>I don’t trust financial advisors</td>
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</tbody>
</table>

advice, and (2) as maturing investors learn that “stock picking” may be the least important reason for engaging a professional advisor.

Finally, at 59 percent, Personal Confidence offers a special challenge. Money worries change in response to personal and economic circumstances over which financial professionals have limited influence. The biggest Why Not reason—I’d Rather Do it Myself (40 percent)—is a mindset to which the financial profession can be more responsive to the digital native Amazon Generation. As many writers continue to emphasize, well-educated and digitally connected millennials do not want to be told how to do things but prefer to be guided to how they can begin doing it themselves using the ubiquitous array of online and mobile tools.

With this in mind we can again proclaim, as was done in the 1960s, that the largest and best-educated generation in American history is now entering adulthood.

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things having trouble coming to terms with getting old, and the Millennials, twenty-somethings having trouble finding the road map to adulthood…. Young and old in America are poles apart. Demographically, politically, economically, socially, and technologically, the generations are more different from each other than at any time in living memory.”

(6) It is especially appropriate here to express thanks to my Chief Millennial Consultant, Elizabeth Joan Crane Cutler, for contributions to and reflections on this article. Her first day of high school was just two weeks after 9/11. The high school glee club singing “America the Beautiful” during the parent-student orientation assembly that bittersweet evening remains one of the most haunting memories of my life. The millennial experience is different in so many ways.


(9) Millennials, however, have had their share of big events. For example: “With respect to major events, the 9/11 attacks, the wars in Afghanistan and Iraq, the Great Recession, and the election of the first African American president in U.S. history stand among the events most likely to produce lasting shifts in attitudes for millennials.” A. Trevor Thrall and Erik Goeptner, Millennials and U.S. Foreign Policy, Washington: The Cato Institute, 2015.


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