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Millennials are US$1 trillion in debt – but they're better at saving than previous generations

New findings from the New York Federal Reserve reveal that millennials have now racked up over US$1 trillion of debt.

This troubling amount of debt, an increase of over 22 percent in just five years, is more than any other generation in history. This situation may leave you wondering how millennials ended up in such a sorry state.

As important as the debt is how millennials' economic choices vary from the expectations. Millennials are much more conservative than the debt balances may indicate. In fact, in comparison to previous generations this group is significantly more fiscally conservative.

A product of the times

U.S. millennials – Americans born between 1981 and 1996 – have experienced the cosmic duality of yin and yang like few other generations.

Millions across all generations have yet to fully recover from the global financial crisis, but displays of extreme wealth are more visible than ever, thanks to social media.

Millennials benefit from dramatic advances in health care, while living through an opioid epidemic that is now a major cause of death in the U.S. They have witnessed and contributed to monumental technological advances. At the same time, they must reconcile the ethical and financial implications of 29 years of global military actions frequently led by the U.S.

Do these experiences affect the behaviors of millennials? It seems that it has led millennials to be more conservative with their money, as is well documented in studies of this group.

Compared to other generations

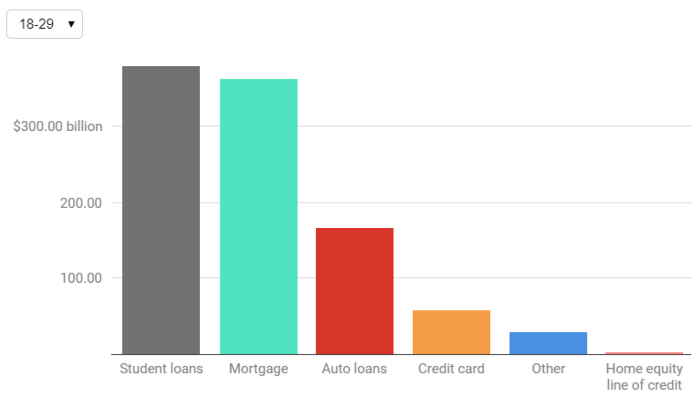
While the debt levels accumulated by millennials eclipse those of the previous generation, Generation X, at a similar point in time, the complexion of the debt is very different.

According to a 2018 report from the St. Louis Federal Reserve Bank, mortgage debt is about 15 percent lower for millennials and credit card debt among millennials was about two-thirds that of Gen X.

However, student loan debt was over 300 percent greater. Student debt affects a much broader age segment than just millennials, at over 43 million borrowers, but the burden weighs most heavily on this generation.

Total debt, by product and age

Americans aged 18 to 29 are carrying more than US$370 billion in student loan debt. But older Americans have even more mortgage debt.



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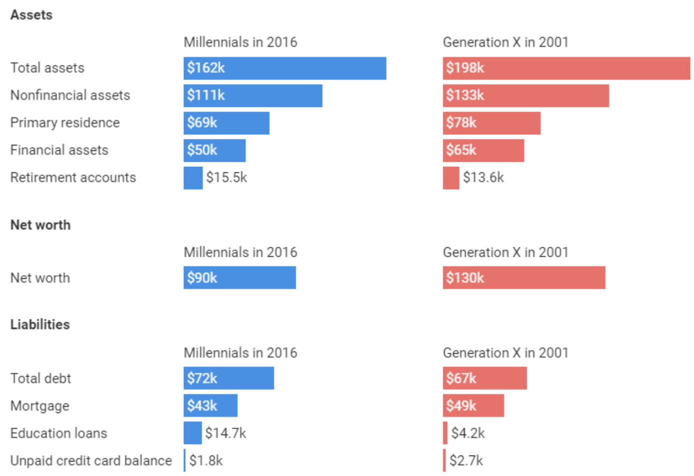
Given the behavior of previous generations, it seems that this lower credit card debt and mortgage debt reflect millennials' more risk-averse approach to their finances.

Another marked behavioral difference between generations is the higher levels of retirement savings among millennials than any previous generation at the same age. While Gen Xers had acquired about $13,600 at around the same point in time, millennials have saved $15,500 in retirement accounts on average.

A typical balance sheet

With an average net worth of US$90,000, millennials have a lower net worth than Generation X did at a similar age. However, the average millennial does have less credit card debt, less mortgage debt and more retirement savings.



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Millennials are also more committed to higher education. Between 2001 and 2016, the number of people aged 25 to 29 with at least a four year degree grew by 25 percent.

Both increased retirement savings and additional education are behaviors that economists might consider conservative investment strategies, more so when paired with lower credit card debt. But these changes in attitudes or perspectives can be difficult to measure.

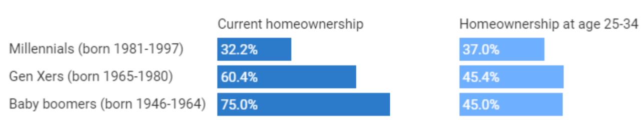
The housing market

Another significant departure in this generation's spending behavior is that millennials are delaying when they enter the housing market as homeowners and take on the associated debt of owning a home.

Statistics from the U.S. Census Bureau and the American Community Survey illustrate this stark difference in homeownership. The number of millennials who own houses lags previous generations by about 8 percentage points.

Homeownership rates

37 percent of American millennials own a home, lagging behind homeownership rates for previous generations.



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Student debt was cited by the Federal Reserve in its January 2019 Consumer and Community Context report as a factor in millennials delaying homeownership. However, given millennials' propensity to contribute more to their retirement savings accounts, it's not certain that student loan debt alone is what is keeping them out of the housing market.

For example, in recent years, the trend toward urbanization has resulted in an increase in urban housing prices. This is particularly evident in counties where more young people live or are moving to. These rising housing prices nearest employment centers may partly explain why millennials have delayed entering the housing market.

Are millennials better off?

Perhaps a different perspective of success is required when assessing the millennial generation, a perspective that emphasizes more than the acquisition of homes and other hard assets, which is based on the relative perspective of an older generation's measures of the American Dream.

After all, previous generations have led millennials down a path of global economic uncertainties and real estate booms and busts. Millennials are now showing their reluctance to commit to such long-term debt, given the times they have lived through and the true economic return on homes. Homes return little more than the rate of inflation, and when taxes, insurance and maintenance are factored in they look even less attractive.

The net result of these behavioral changes, paired with the economics of the environment, is that millennials' average net worth is about $90,000, compared to Gen X of $130,000 at a similar age point.

But I contend that net worth isn't the whole story. Millennials have emphasized post-secondary education, resulting in less time in the work force than their Gen X counterparts. Given this choice of education over employment, the net worth figures are quite logical. Although one might profess that in a few years these millennials will "catch up" and enter this phase of homeowner indebtedness, perhaps their approach on life deemphasizes the acquisition of things.

While long-term student debt has reduced millennials' ability to gather assets at the same rate as previous generations, many of this generation seem to have adopted an alternative view on assets, preferring the acquisition of experiences and savings accounts over things. Studies show that experiences lead to longer-term happiness and may provide another perspective on which to gauge the fiscal state of millennials.

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