White Paper

Financial Institutions

How to Talk Finance: How and Why Every Generation Spends Their Money

Allied Solutions

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The oldest generation alive, the Silent Generation, and the youngest generation, Generation Alpha, have vastly different financial needs as expectations. Lending institutions face the challenge of working with consumers from ages 13 to 75+ who all universally spend, but have different reasons for why and how they are spending their money.

For example, a couple in their 50's facing retirement may seek a personal loan for a home improvement project, while a single 20-something may be seeking funds for the purchase of a new couch. Both individuals face very different financial and lifestyle incentives.

Particularly in the consumer finance market—personal loan, insurance, and credit products have a staying power, but there is a need to remind consumers how these products can benefit them. Consumer trends change, but despite generational differences building and maintaining healthy finances is universally a goal everyone strives for, no matter age or circumstance.

In order to reach and connect with your audience, it is important to remain relevant and anticipate what their needs are and will be. By understanding what those needs are, banking institutions can continue to offer the right loan, insurance, and credit solutions to their customers.

Financial needs and concerns of consumers include[1]:

- Day to Day Costs of Living
- Supporting Family Members
- Supporting Family After Death
- Health Care
- Consumerism/Buying
- Education
- Job Security
- Credit and Accruing Debt
- Life Events (i.e., wedding, funeral, illness, death)
- Savings

The Residual Impact of the 2008 Recession

The 2008 economic recession had a profound impact on the United States in a way that had not been seen since the 1930's Great Depression. The recession can be traced back to a failing housing market as home prices collapsed, and banks struggled with the debt accrued by mortgage-backed securities. Total collapse can be traced to Summer 2008 when the US government intervened with bailout packages for banks determined 'too big to fail' and a stock market crash that September.[2] The economy remained bumpy through nearly all of 2009 as unemployment climbed to 10%, and households struggled to recover.[3]

2008 FINANCIAL CRISIS COST[4]		
	United States	**Individual US Households**
Lost Income	$648 Billion	$5,800
Lost Home Value	$3.4 Trillion	$30,300
Lost Stock Value	$7.4 Trillion	$66,200

The recession set the stage for different needs and challenges facing each generation due to lost wealth, home values, spending behaviors, and aversion to risk that continues in certain capacities today. It is important to remember the 2008 financial crisis when discussing consumer finance trends because it had long term effects across generations.

Individuals and families lost enormous wealth and assets, which affected retirement, education, spending, and employment. Generation X and Older Millennials were the most affected due to the timing of entering the workforce after high school and college graduation when unemployment was at its highest. However, it is also important to note the savings hit taken by retiring and soon to be retiring Americans at the time (Baby Boomers and Silent Generation). Generation Z was also affected as they grew up observing parents, siblings, or other family members struggle financially and encounter rising debt costs. Generation Alpha was not yet born during the 2008 Recession to experience direct impact yet will most likely experience indirect impact as their Millennial parents rebound from the financial hits.

Residual impacts are still being felt today as Millennials transition into careers, home-buying, and paying off debt (specifically student debt), while Boomers and Generation X tackle saving for retirement, and Generation Z begins to enter the workforce. Consumer confidence and spending habits remained conservative and uncertain for years following the 2008 recession due to concerns over economic conditions. Only since about 2015 did consumer confidence see a positive shift with increased spending and promising job growth. And then March 2020 happened.

How the Pandemic Set the Stage for Today's Trends

In March 2020, the COVID-19 virus began to spread. States issued stay-at-home orders in attempts to contain the virus so as not to overrun hospitals. This resulted in more remote workers than ever before, businesses shut down, and work, education, and entertainment either canceled or transitioned to a virtual environment. The health crisis turned into a financial one with employment being impacted on various levels.

The global COVID-19 pandemic has greatly impacted and continues to impact the economy and society. The impact was felt intensely in 2020 and will continue to be felt for years to come. While the realized impact of the pandemic is still unfolding, there are notable ways in which each generation felt unique impacts of the pandemic on their financial life.

Those in the Silent Generation and Baby Boomers struggled to adapt to digital banking. Many Boomers and older Generation X opted for early retirement. Millennials were hit especially hard as many were still recovering from the 2008-2009 Recession. Those in Generation Z that were entering the workforce experienced remote work as the norm. Generation Alpha adapted to e-learning for education.

THE FINANCIAL IMPACT OF THE PANDEMIC

	2019	2020	2021
Unemployment[5]	3.7%	8.1%	5.3%
Annual Average Expenditures*[5]	$63,036	$61,334	Unknown
Median Household Income[6]	$69,560	$67,521	Unknown

**Includes housing, food and beverage, education, apparel, transportation, healthcare, entertainment, personal care products and services, insurance and cash contributions*

In 2022, inflation remains at 7%, supply chain issues abound, and in-person work, education, and activities largely vary from state to state. The most notable cost increases have been in gas, shelter, and food costs.[7] With the status of inflation, many experts predict that a recession is coming.[8] All generations are impacted by these economic patterns, and knowing the current financial needs of consumers can help you address their concerns.

Consumer Financial Needs and Concerns

Even as the United States has rebounded from the 2008 recession and is navigating pandemic recovery, consumers remain concerned about their day-to-day living expenses. In a recent Securian Financial study, 72% of survey respondents cited that they are “concerned” or “very concerned” about their cost of living day to day.[1] These concerns cross generations, ages, lifestyles, and are largely due to rising costs, accumulating debt, or lack of savings.

Day to Day Costs of Living

These are recurring, day-to-day to expenses that consumers see every year. The U.S. Bureau of Labor Statistics lists the following as consumer expenditures: food, housing, apparel and services, transportation, entertainment, healthcare, personal care services, education, and insurance.[9]

Average annual consumer expenditures decreased by $1,702 from 2019 to 2020.

Supporting Others in my Family

Family support can have wide reaching financial impact for individuals as it can include raising a child (or children), supporting adult children, or being a caregiver to an older parent or relative, among other family needs and commitments.

According to the USDA, the average cost of a middle class family raising a child from birth to age 17 is $233,610.[10]

Supporting Family After Death

Only a small percentage of consumers are actively saving for their future or setting aside money for an unexpected event (such as death). It can be an uncomfortable conversation to consider and discuss, but important for future planning. According to a report from LIMRA, 35% of households would struggle financially within one month if the primary wage earner died.[11] Life insurance is an often overlooked product that can help provide assistance for burial and final expenses, provide income support, and transfer wealth to the family left behind.

Health Care

Health care costs in the United States continue to rise year after year. According to the Kaiser Family Foundation, family plan premiums for employer- sponsored healthcare rose 4% to an annual average of $21,342 with workers contributing $5,588.[12] Deductibles are also rapidly rising.

Consumerism/Buying

Consumers are always spending, yet as inflation surges consumer spending is primarily on essentials like food, gas, and housing. Low interest rates can account for an increase in loan originations (specifically mortgage, auto, and refinance.) Understanding how and where consumers are spending their money will continue to be an important economic indicator for the United States' upcoming economic health.

Education

Student debt has steadily risen as an additional cost facing college graduates entering the workforce or family members who assisted in paying for college tuition. Generation Z, Millennials and Generation X are especially hard hit with loan payments. Behind a mortgage, student debt is typically the next biggest debt source in households. According to CNBC, nearly 70% of college students take a loan out to attend school, leading to 44 million (or 1 in 4 American adults) paying off student loan debt.[13]

The Federal Reserve reported at the end of 2021 the student loan debt amount exceeded $1.7 trillion[14] with the average loan balance over $37,000.[13]

Job Security

Job security has varied greatly across industry since the pandemic. While some jobs easily pivoted to remote environments, others did not. April 2020 saw the highest unemployment since 1948: 14.8%.[15] While unemployment rates have come down significantly since the start of the pandemic, labor force participation is still down, despite increasing wages.

Life events

Life events such as moving, changing jobs, weddings, starting a family, buying a house, divorce, funeral and death expenses, illness, and retirement have a financial impact on consumers, and those costs are rising. For retirement, people are living longer (by almost another 10 years), and they cannot rely as much on social security and pension plans.[16]

Credit and Accruing Debt

While consumers continue to leverage credit, reliance on credit has decreased since the pandemic. The average balance on credit cards in 2021 was $5,525, down from $6,494 in 2019.[17] Sources of debt change depending on where people are in the life, with younger generations dealing with credit cards and student loans, while older generations add a mortgage and seek to consolidate their debt ahead of retirement.[18]

The average balance on credit cards in 2021 was $5,525.[17]

Savings

Savings can include emergency expenses, special purchases, vacations, or retirement. However, many Americans are still relatively unprepared for the unexpected and unplanned. Less than 50% of consumers are saving regularly and would be unable to cover an unexpected $400 expense. It is typically advised to have at least three months of living expenses in savings to help plan against emergency expenses. According to the Federal Reserve, the personal savings rate (or amount of money people set aside) in 2022 is 6.4% of total annual income.[19]

Why It Matters: Understanding Generational Audiences

Ongoing goals for lenders include: attracting new customers, retaining current customers, or scaling business for ongoing growth. Any and all of these goals point to the need to better understand the diverse consumer audience—who they are, what their needs are, and how businesses can connect with them.

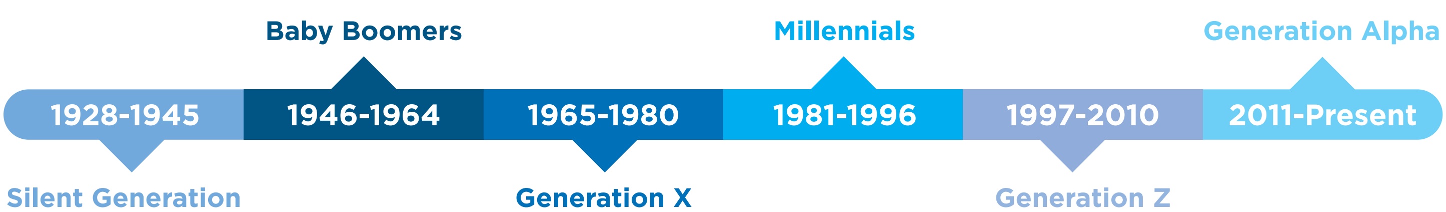
Generational impact is one important way of understanding what consumers value. As we age, preferences, needs, and demands change. While financial needs and concerns impact nearly all consumers in some way or another, the *when* and *how* they impact can vary due to available finances, life stage, current needs, and wants.

Meet Today's Generations: Who Are They?

Financial concerns change, grow, or adapt as people age. While worry about credit and debt is a universal concern among individuals, loan and debt needs do change over time. As a lender, understanding those changing needs is valuable towards understanding who your different consumers are and will be.

It is important to remember that ultimately, everyone's goal is essentially the same: individuals want to earn, save, and pay down their debt to live the lifestyle they choose. The journey may be different, but the destination is the same. For lenders, being able to discuss affordability and function (what is it you're selling) are two important factors driving consumer decisions, so it is important to understand who they are and what they need.

TIMELINE: 1928-PRESENT



Generation Alpha (2011-Present)

Meet the technology generation. While the rest of this generation won't be born until 2024, they are considered "mini Millennials", or children of Millennials. Gen Alpha is predicted to be the largest population of all.[20] It is yet to be known how this generation will be impacted by the pandemic-induced economic turbulence.

Generation Z (1997-2010)

Meet the youngest working generation. The oldest members of Generation Z are just starting to enter the workforce and demonstrating their buying power. They are the first generation that grew up immersed in a fully digital world with access to the internet, cell phones, and social media. Gen Zers are aspiring activists and value supporting brands and banking institutions that focus on eco-friendly sustainability and racial and ethnic diversity. They also value personalized digital experiences.

Millennials (1981-1996)

Meet the largest living generation. There are over 70 million millennials, and they have changed the workforce and economy as their buying power and professional influence grows. They are more educated, tech-minded, and comfortable with social media than older generations. However, millennials came of age in the midst of the 2008 recession, so are saddled with more debt than their parents' and grandparents' generations (especially regarding student loans). Credit scores remain low and they, overall, have lower levels of wealth and personal income compared to older generations. More than other generations, millennials have shown a desire for flexibility in their work environment which has changed how employers build their work culture and benefits. They grew up as the world transitioned into a digital age and are more comfortable than the older generation with non-traditional, flexible purchasing options (ie. the share economy, online shopping).

Generation X (1965-1980)

Meet the in-between generation. Generation X is the smaller generation situated between the two largest generations in our history (Baby Boomers and Millennials). They grew up known as the 'latch-key' generation due to a trend of absentee parenting and the shifting cultural revolutions seen in the 1970s and 1980s (ie. feminism, drugs, rock and roll). Because of this, there is a general perception of cynicism and a bleak outlook on society. Generation X grew up when divorce rates were at their highest in the 1980s, and profoundly remember the impact of 9/11. However, this generation carries an entrepreneurial spirit and currently leads in founding start-ups and are moving into corporate leadership positions. They are also familiar with technology and were the first generation to be introduced to computers in a home or classroom setting.

Baby Boomers (1946-1964)

Meet the wealthiest generation. Baby Boomers currently make up the large majority of financial institutions' consumers and include many prime and super-prime borrowers with enormous buying power and influence in the current spending economy. This generation has been financially successful and remains influential in the workforce as corporate leaders, but is shifting toward retirement and a new stage of life. Additionally, they are placing a high demand on the healthcare system as they continue to age. Longer life expectancies have led Baby Boomers to retire later due to the rising costs of living, healthcare, and education.

Silent Generation (1928-1945)

Meet the oldest generation. The Silent Generation is primarily retired, but grew up during a time of instability (ie. Great Depression, World War II, Cold War) and tend to be more frugal in their spending compared to later generations. This generation can be hesitant to try new technologies and can be hard to reach and teach new processes. This generation will influence younger generations with substantial endowments as they continue to age.

Spending Habits by Generation

This dataset shares recent information and it's important to recognize the decreased consumer reliance on credit since the COVID-19 pandemic.

US ECONOMIC & DEBT TRENDS BY GENERATION (2021)					
	Silent Generation	**Baby Boomers**	**Generation X**	**Millennials**	**Generation Z**
Average Credit Score[17]	741	755	699	678	674
Average Number of Credit Cards[17]	2.1	2.5	2.5	2.1	1.6
Average Credit Card Balance[17]	$1,329	$1,887	$2,214	$1,819	$1,125
Average Mortgage Debt[17]	$163,254	$198,203	$259,100	$255,527	$192,276
Average Non-Mortgage Debt[17]	$11,725	$24,136	$32,898	$28,317	$12,524
Home Buyer Market[21]	5%	32%	24%	37%	2%
Home Seller Market[21]	8%	43%	25%	22%	2%

Note: *Generation Alpha represents the youngest population so this demographic is not yet old enough to provide financial data.*

So, What Do Consumers Need?

To meet consumer loan needs, lenders need to consider finance needs by generation and age in order to determine their best role to help. Consumers (younger consumers, especially) want to understand the functionality of a product, or the answer to the question, "how does this help me?" and are looking for an affordable option that helps keep peace of mind against financial uncertainties. Lenders need to make sure they are educating audiences on how certain products can help.

Younger generations: Information on personal loans for life events (ie. weddings or moving), insurance options to help keep their family financially secure, or helpful products that can assist in paying down student debt.

Older generations: Medical expenses become a rising concern and liability, and interest in financial options for home improvement or travel may grow as they shift toward a retirement mindset, while remaining mindful of their finance security post-retirement.

How Can Lenders Meet Those Financial Needs?

FINANCE PRODUCTS FOR CONSUMERS

		Silent Generation	Baby Boomers	Gen X	Millennials	Gen Z	Gen Alpha
Auto Baby Boomers currently spend the most on auto, but the Millennials are a rapidly growing segment. Digital options and product functionality will become increasingly important.	Auto maintenance	X	X	X	X		
	Auto purchase		X	X	X	X	
Credit All generations utilize revolving credit debt. Older generations use more cards and typically have higher credit card debt than Millennials.	Extra cash and spending	X	X	X	X	X	
	Touchless payment options				X	X	X
Health Health is often listed as a financial concern for families and the desire to make sure safety nets are in place is important.	Medical coverage	X	X	X	X	X	
	Medical emergency		X	X	X		
Insurance Insurance becomes necessary only when it is needed. Bring awareness to the consumer by educating on how the product helps them.	Hospitalization		X	X			
	Critical Illness		X	X			
	Disability		X	X			
	Life			X	X		
	Unemployment			X	X	X	
Home Baby Boomers currently hold a large part of the housing and mortgage market, but Millennials are growing in the space as they purchase property.	Home maintenance	X	X	X	X		
	Home improvement		X	X			
	Home purchase			X	X		
Personal Understanding generations is helpful when explaining how consumers can benefit from personal loan products.	Travel		X	X	X		
	Life events		X	X	X	X	
	Family needs		X	X	X		
	Education				X	X	X
Consumer Service With shifts to digital banking, financial institutions need to understand how each generation is comfortable interacting with your service center.	Face to face	X	X				
	Call center	X	X	X			
	Website		X	X	X		
	Chat bots			X	X	X	X
	Social platforms			X	X	X	X

3 Takeaways for Lenders

Consumer trends are changing with the move to new technologies, mobile technologies, and borrowing trends. By understanding your consumers' concerns and needs, lending institutions can more effectively position their products and services. Here are three takeaways to consider:

1. Understand Your Audience

There is a lot of data available out there that is being collected and stored. Lenders gather a lot of information, but do not always know the best ways to use it to better support the business. By being able to recognize different audience needs lenders can change their messaging to share how specific products can best meet those needs. Lenders are then able to meet consumers where they are and can uniquely position how their business can help.

Understanding your audience helps:

- Meet your customers' financial needs
- Differentiate your business from competitors
- Improve the consumer experience and journey
- Provide additional value through education opportunities

2. Connect Across Generations

It is estimated over 50% of the current economic customer base will be under the age of 45 by 2029. There is a changing of the guard coming as financial wealth shifts from the retiring Baby Boomer population and moves to Generation X, Z, and Millennials. Age, especially, shares a lot about current and upcoming financial needs. Auto, home, and insurance are universally purchased across age groups, but the reasons behind the purchase may vary, so it is important for lending institutions to make the right connection and create different messages that reach those different age groups.

Additionally, there are generational differences in how information is shared and how products are purchased. Younger generations are living in a world much different than when Boomers were the same age, and their purchasing and spending habits have adapted. Technology advances, ways of modern life, and social and economic pressures have shifted. Lenders need to take it a step further and not just understand consumer age range, but the generational behavioral trends.

It is estimated over 50% of the current economic customer base will be under the age of 45 by 2029.

3. Educate Your Consumers

There is a general uncertainty around financial products. Making an effort to educate consumers on the functionality of the product, and how it can impact their life can go a long way in establishing trust and a relationship with your lending institutions.

By messaging in a way that shows how these products can help, rather than what they are, can go a long way in making your consumers more confident with their purchase. For example, life insurance is a widely recognized term, but there is a general misunderstanding surrounding the options that are available (which can make selection or awareness more difficult). Also, credit life is an industry product, but if explained in a way that benefits the customer the product becomes more valuable and functional.

Checklist: 4 Next Steps to Consider

So what is next? Here are four practical steps your lending institution should be making in order to best meet current and new consumer needs. As younger generations grow up, enter the workforce, and continue to gain economic power, it is critical your institution has a messaging strategy and growth plan in place.

- ☐ ***Relook at your data to see where your customer base is.***

  It is time to use that data. Get a sense of who your current customers are, and if you are seeing success in capturing younger consumers. By knowing who you are currently working with you can begin to assess what marketing and communication efforts are working.

- ☐ ***Re-evaluate the customer experience.***

  Is your institution adapting and modernizing the customer experience? Shifting to mobile and online platforms present opportunities to serve, but also increase your reach for new business. Younger generations are more likely to use their phones for payments in comparison to older users who may prefer a desktop or mail options.

- ☐ ***Redefine the products and services offered.***

  Is your current messaging about the product or the consumer? By focusing on product functionality, lenders can help consumers have confidence in what they are purchasing. Make sure to take the opportunity to create more targeted messaging that takes generational trends and behaviors into account.

- ☐ ***Re-tool educational programs for consumers.***

  How are you building relationships with your customers? Consumers want to feel informed and educated about their purchasing decisions (ie. new home buyers vs. home improvement financing, debt management vs. retirement planning). By educating online or offering classes, lending institutions can build trust in their brand and product. Educational opportunities introduce people to your brand and address solutions to pain points they may be facing.

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