



The generational balance sheet: The kids are alright

Real estate ownership and retirement accounts are powering Millennial asset growth in these early years of the great generational wealth transfer.

As the shock of rising interest rates and falling financial markets in 2022 began to fade in our collective memories by late 2023, the collective balance sheets of the three major generations—Baby Boomers, Gen X and Millennials—began to reflect a post-pandemic reality. In our analysis of different datasets to construct a balance sheet of the unique generational cohorts, we found a greater contribution of real estate and retirement holdings to the asset growth of the large Millennial group compared to that of Gen X and Boomers.

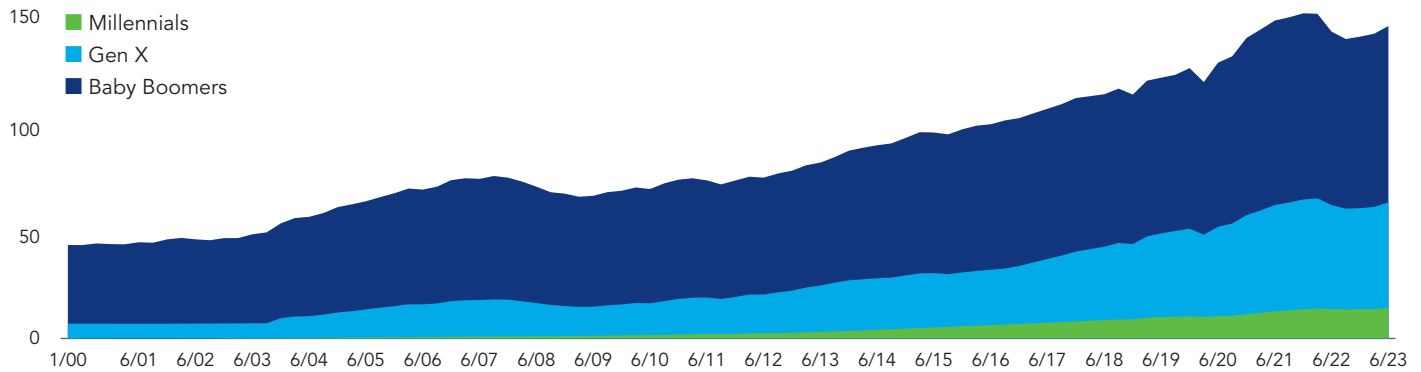
Additionally, in analyzing the Federal Reserve’s triennial Survey of Consumer Finances and other sources, we found some useful insights for advisors seeking to better connect with younger clients. Specifically, assets, debts and income levels of Millennials and the up-and-coming Gen Z, may be in a better saving and investing orientation than is generally assumed by older generations and even financial professionals.

Millennials grow total assets while Boomers and Gen X lag behind

As of June 30, 2023 (most recent data available), assets of the three major generations had yet to recoup the peak levels of about \$152 trillion held in the first quarter of 2022 ahead of stock and bond market declines in the remainder of that year. After continued declines through early 2023,

total assets recovered to more than \$146 trillion at the end of the second quarter 2023. Interestingly, the Millennial generation was the only major cohort to not only recover, but slightly grow assets in that time period by about \$200 billion to \$14.3 trillion.

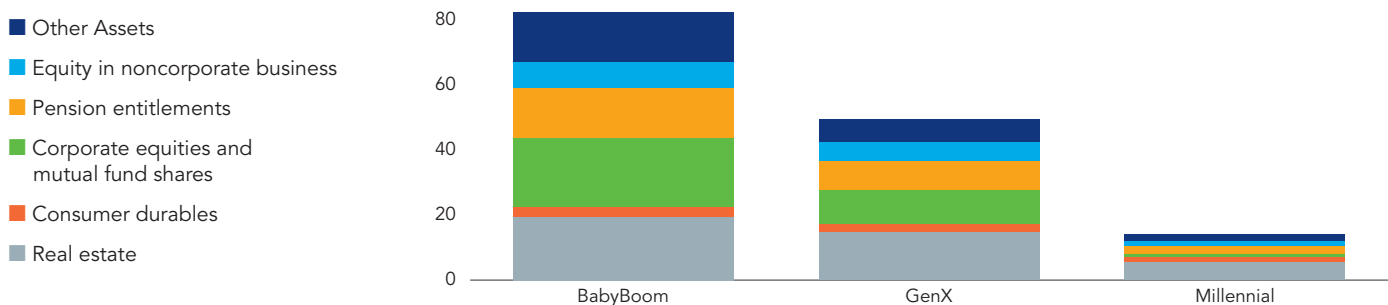
Long-term growth in assets (\$ trillions)



Source: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States

One clue to the divergent experience of the major generations is real estate. With the U.S. homeownership rate holding steady for years at about 66%, real estate values play a key role in asset growth and net worth.¹ Continued residential demand, more limited supply, higher mortgage rates and increases in home values in many parts of the country underscore a market of challenging affordability mixed with rising values for existing homeowners. Millennials are in their prime years for home purchases—the homeownership rate for older Millennials (ages 35 to 44) is 63% and rising, per an analysis by John Burns Research & Consulting—and real estate is the largest portion of that generation’s assets. Millennial real estate assets stand at about \$5.5 trillion today, up from \$4.6 trillion two years ago. As the youngest home-buying generation (Gen Z’s home ownership is nascent) and with fewer years to build equity, Millennial real estate holdings are 37.4% of Gen X’s and 28.3% of Baby Boomers’, respectively. Millennial home mortgage debt of \$3.6 trillion in 2023 exceeded that of the Boomers for the first time.

Assets by generation (\$trillions)



Sources: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States

Millennial retirement assets recovery

Focusing on retirement assets or pension entitlements,² much like their assets as a whole, Millennials have managed to grow assets while the other major generations have not recovered from the market declines of 2022. Millennial retirement assets were \$2.3 trillion in mid-2023, up slightly from two years prior, while Gen X and Boomers’ retirement assets were still below earlier peak levels, although this comparison does not account for base effects in comparing the much larger retirement balances of the older generations to that of that of Millennials nor does it consider their respective underlying investment mixes.

Depending on the dataset analyzed, about half of American workers participate in work-based (employer or union) retirement plans, so it’s instructive to look at generational employment trends.³ Boomers, on the one hand, continued leaving the workforce in droves with that generation accounting for less than half of the 50 million Gen Xers employed. Millennials, on the other hand, continued their pre-Covid employment growth trajectory, with more than 57 million employed at mid-2023. Millennials and Gen Z combined now represent a majority of workers and are estimated to grow to more than 60% of the workforce by 2031.⁴

Family formation is also important for gauging retirement savings and investment patterns. Although younger people are waiting longer to form households and have children, Millennials may be hitting their stride in this regard. Retirement accounts—including employer-based plans and IRAs—are the second-most commonly held financial asset with 54.3% of American families having some type of retirement account, up four percentage points from 2019.⁵

Retirement plan participation increased across all demographic groups since 2019, but participation rates remain uneven when accounting for income distribution.⁶ Additionally, it should be noted that younger generations are the most educated and most racially and ethnically diverse generations, all of which can play a role in retirement plan access and saving patterns.

As we described in last year’s generational balance sheet analysis, it’s increasingly clear younger people have more of a retirement savings orientation than is often assumed. While older generations’ retirement assets dwarf Millennials’ assets, the younger cohort devotes more of their assets to retirement savings in their early 40s than Gen X did at the same point in their asset accumulation journey. Retirement assets of the Millennials were 16.3% of the generation’s total assets in 2022 (most recent data available) when the oldest had already turned 40, compared to Gen X in 2005 with 13% of total assets in retirement plans at the same time.

Income on the rise even after inflation

An analysis of the generational balance sheet wouldn’t be complete without considering the state of people’s income.⁸ Turning again to the Fed’s SCF, median and mean income (inflation adjusted) for most age cohorts increased between the 2019 and 2022 surveys. Although Covid-related fiscal stimulus was not included in the income figures, 28% of families surveyed in 2022 reported their income was “unusual” in 2021, the year pandemic-era stimulus payments to individuals likely peaked.

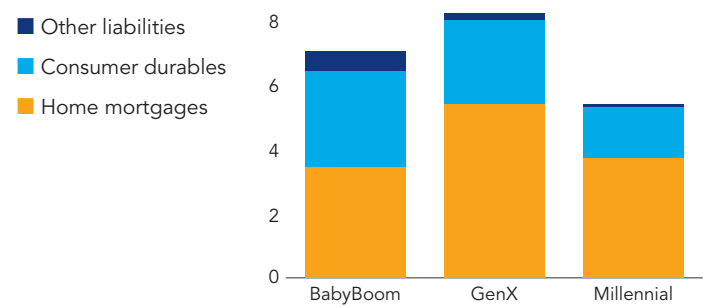
Some metrics regarding income stayed consistent. As noted, levels of higher education attainment (i.e., college degree and above) is proportionally greater among younger generations. The latest SCF showed that average income among college-educated families was nearly three times that of families associated with any other level of educational attainment.⁶

Debt continues to be ruled by mortgages

Mortgage debt continued to be the largest form of liabilities for each generation. As noted, Millennials are acquiring real estate at a solid pace and, while enjoying increases in the value of their homes, they are paying higher prices and enjoyed less time to build up equity in what they own compared to older generations. Aside from real estate, Millennial debt for consumer durables such as auto loans rose to nearly \$1.6 trillion in 2Q 2023, up from \$1.4 trillion at the same time a year prior. The size of Gen X’s debt in this category stayed about the same.

One persistent issue for younger investors, student debt burdens, at least appeared to stabilize in recent years. According to the Fed’s Survey of Consumer Finances (SCF), 22% of American families in 2022 had educational loans—unchanged from 2019—with median balances hovering around \$25,000 and the majority of that debt was held by people in the top two income quintiles.⁶

Liabilities by generation (\$trillions)



Sources: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States

That’s not to say going forward student loan debt won’t have the potential to crowd out savings and investment. In dollar terms, student debt has quadrupled from \$300 billion in 2004 to \$1.6 trillion in 2023 and remains among the three largest sources of families’ non-mortgage debt, according to a report from the New York Fed.⁷ However, some help may be on the way with executive-branch-led relief measures as well as the implementation this year of the student loan provision of the SECURE 2.0 law, which allows employers to match a percentage of a participant’s student loan payment and direct the funds into a retirement plan.

Median and mean income by age group (\$ thousands)

Age Group	Median Income 2022	% Change 2019-2022	Mean Income	% Change 2019-2022
Less than 35	60.5	7	82.7	9
35–44	85.9	0	169.9	32
45–54	91.9	2	171.4	2
55–64	81.9	11	175.9	16
65–74	60.9	5	142.5	14
75 or more	49.1	-2	107.9	24

Sources: Federal Reserve Board, 2022 Survey of Consumer Finances

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Considerations for advisors

In our own studies of registered investment advisors (RIAs) and independent advisors, advisors tell us that one of their major challenges is both acquiring younger clients as well as attracting younger financial professionals to their businesses. Given that the average advisor is over 55, a good first step is being up to speed on the rapidly changing financial dynamics of younger generations.

A recent McKinsey wealth management survey spelled out the stakes of disruption to traditional approaches to client acquisition.⁹ For affluent and high-net-worth clients between the ages of 25 and 44, 25% to 30% of respondents found their primary advisor through some form of advertising (TV, print, social media, online paid search), centralized lead generation or recommendation by a financial institution (15% to 20%) and referrals by friends and family (5% to 10%). Once acquired, younger clients would like to stick with one advisory firm as a “one-stop shop”: 73% of investors between 25 and 44 said they preferred to consolidate their financial affairs with one firm, up from 20% in 2018.

Alexi A. Maravel

Vice President



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Alexi A. Maravel joined Federated Hermes in 2019 as a vice president, senior manager, focused on the research and creation of investment management thought leadership.

Alexi has more than 25 years of experience and is primarily responsible for developing and executing survey research and other types of analytics on a variety of investment-oriented topics including ESG investing, public policy, retirement, institutional investing as well as products and strategies. Prior to joining Federated Hermes, Alexi was director of the institutional research practice at Cerulli Associates. Prior to that, he held a variety of institutional marketing and communications roles at Fidelity Investments, Capital Group Companies, Sun Life (U.S.), and Putnam Investments.

Alexi received a bachelor's degree, cum laude, in journalism from Northeastern University. In 2022, he earned the CFA Institute Certificate in ESG Investing.

A Note on the Data

Other than the third-party data noted in this paper, all the analysis of each generation's balance sheet is compiled by Federated Hermes using the Federal Reserve Board's Financial Accounts of the United States, Distributional Financial Accounts as well as employment data from the Bureau of Labor Statistics' Current Population Survey. Datasets are adjusted for generational cohorts based on the Bridged-Race Population Estimates from the Centers for Disease Control (which replaced discontinued data from the U.S. Census Bureau and the National Center for Health Statistics). All data is presented in 2023 dollars. Generational definitions referred to in the text of this paper are from Pew Research: Baby Boomers born between 1946 and 1964, Gen X born between 1965 and 1980, Millennials born between 1981 and 1996, and Gen Z born between 1997 and 2012.

¹ Aladangady, Aditya, Jesse Bricker, Andrew C. Chang, Sarena Goodman, Jacob Krimmel, Kevin B. Moore, Sarah Reber, Alice Henriques Volz, and Richard A. Windle. *Changes in U.S. Family Finances from 2019 to 2022: Evidence from the Survey of Consumer Finances*. Washington: Board of Governors of the Federal Reserve System, October 2023

² Federal Reserve Board data broadly categorizes “pension entitlements” as the present value of defined benefit pensions, assets in defined contribution retirement plans and annuity contracts.

³ Bedu, Kyle and Craig Copeland. EBRI Issue Brief, *Retirement Plan Participation and the Current Population Survey: The Trends From the Retirement Account Questions*. Employee Benefit Research Institute, posted online November 30, 2023.

⁴ Leary, Patrick and Chris Morbelli. *Harnessing Growth and Seizing Opportunity: The Future of Workforce Benefits*. LIMRA and Ernst & Young (EY), July 2023.

⁵ See Federal Reserve, Survey of Consumer Finances, 2022.

⁶ Ibid

⁷ Federal Reserve Bank of New York. *Quarterly Report on Household Debt and Credit*. November 2023.

⁸ See Federal Reserve, Survey of Consumer Finances, 2022. The SCF includes wages, self-employment and business income, interest income, dividends, realized capital gains, unemployment insurance, food stamps and other government support programs, pensions and retirement plan withdrawals, Social Security, and other support payments such as alimony in their definition of income.

⁹ Euart, John, Jonathan Godsall, Vlad Golyk and Jill Zucker. *US wealth management: Amid market turbulence, and industry converges*. McKinsey & Company, January 2024.

Although the information provided in this document has been obtained from sources which Federated Hermes believes to be reliable, it does not guarantee accuracy of such information and such information may be incomplete or condensed.