Federated Hermes

Weathering the storm: Surprising facts about the financial profile of the younger generations

How people are navigating short- and long-term changes in retirement saving and wealth.

The economy and financial markets in 2022 took their toll on the assets of the major generations despite substantial wealth accumulation over the decades. Similar to a corporate balance sheet analysis, we analyzed different datasets to construct the balance sheet of each generation and found that their financial profiles are quite different. Millennial real estate holdings helped this large, younger cohort weather the Covid-era turbulence relatively well compared to Baby Boomers and Gen X.

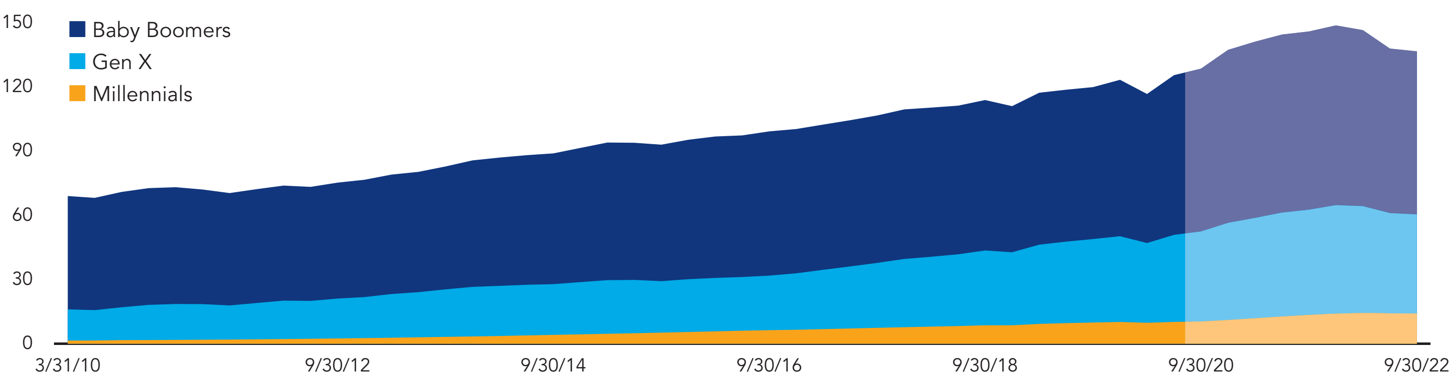
Additionally, from a retirement saving perspective, we found that younger people are making up for lost time and may be more serious about retirement than once assumed—as the oldest Millennials enter their early 40s, they've accumulated more retirement assets and they devote more of their total wealth to retirement than when Gen X turned 40 in the mid-2000s. Finally, we present several implications for financial advisors as the advisory community pivots with the demographics to serving younger households and families.

The Generational Balance Sheet: Assets plateau in late 2021, decline through 2022

The state of the major generations' wealth is strong, but at least two generations bear the brunt of the economic and capital market volatility since the March 2020 Covid lockdowns. According to Federated Hermes' analysis, total assets of Baby Boomers, Gen X and Millennials peaked at about $150 trillion in 2021, but since declined to about $137 trillion as of September 30, 2022 (most recent data available). Still, putting that in perspective, the total assets of people in the U.S.—including real estate, securities holdings, bank deposits, retirement assets, and other types of assets—is roughly five times U.S. GDP.

Focusing on the past two years, investments in the form of pension entitlements, stocks and mutual fund shares held outside of retirement plans hurt the wealth of Boomers and Gen X compared to Millennials.[1] Double-digit percentage declines in equities and fixed income in 2022 affected them more due to their large holdings of individual securities and mutual funds, per our analysis. Both generations' retirement assets were lower than in the fourth quarter of 2019 and Boomers' withdrawal of assets from the retirement system continued apace. In contrast, Millennial retirement assets were up slightly by the end of this time period.

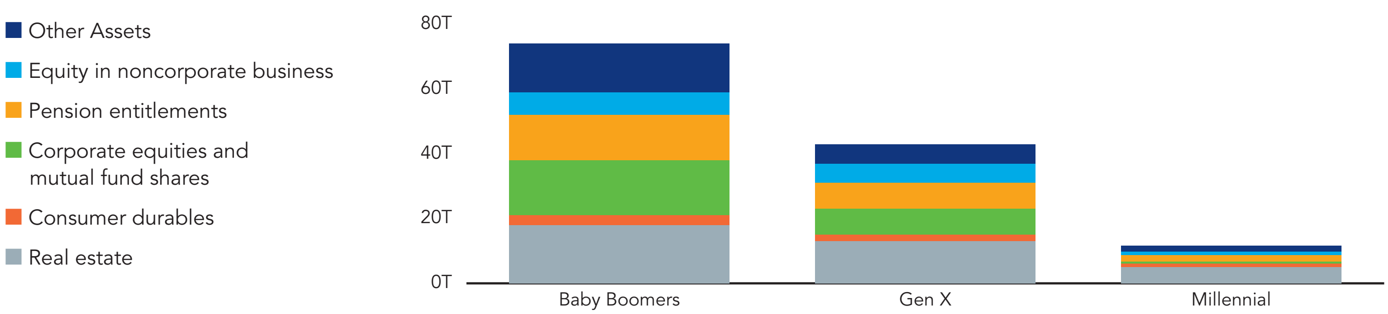
Long-term growth in assets ($ trillions)



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

Millennials enjoyed a well-timed accumulation of real estate assets over the past few years. Residential real estate values nationally only recently softened following the start of the Federal Reserve's rate tightening cycle begun in March 2022. The rate of a 30-year fixed-rate mortgage more than doubled to more than 7% in November 2022, before easing to the 6% in early 2023. Many Millennials took advantage of low rates prior to this spike to purchase starter homes, climb the ladder to larger homes or acquire vacation properties. Just entering their 40s, Millennial real estate assets are already 40% of those of Gen X. Additionally, Millennials are more invested in private businesses, start-ups and different types of passive income or "equity in non-corporate businesses" in the data.

Assets by generation ($ trillions)



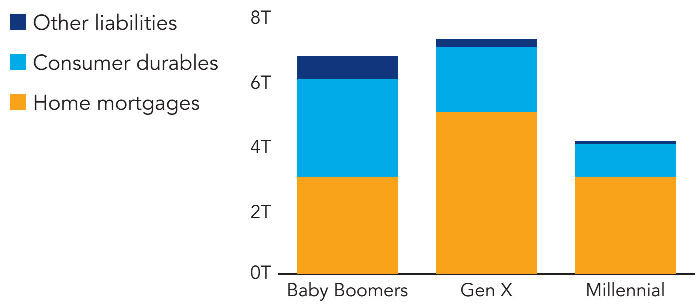
Source: Federated Hermes analysis; Board of Governors, Federal Reserve, Financial Accounts of the United States

Debt largely a function of mortgage borrowing

On the debt side, Millennials were buying into an increasingly expensive real estate market, hence the data shows that the younger generation has acquired about as much mortgage debt as the Baby Boomers. Younger generations are usually associated with student loans, which the Covid-era pause in federal loan payment relief now in litigation has spotlighted. While the data does not break out borrowing for educational purposes, a separate Fed study showed that Millennials and the emerging Gen Z have taken on more debt for their college education compared to older generations: 60% of people ages 30-44 and 58% of those ages 18-29 acquired debt to complete a bachelor's degree.[2]

That said, Millennial mortgages dwarf their student loans. In the third quarter of 2022, people ages 30 to 39 had the most ($193.6 billion) in mortgage originations compared to all other age groups as well as more than $2.5 trillion in total mortgage loans and half a trillion in student loans, per a New York Fed ongoing study.[3]

Liabilities by generation ($trillions)



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

Retirement: Younger people more prepared than one might think

Despite some challenges at the start of their adult lives, younger people have more of a retirement savings orientation than is often assumed. While the availability of and participation in 401(k) and other types of defined contribution plans over time—as well as the fact traditional private defined benefit plans are fading into obsolescence—makes generational comparison difficult, it's clear Millennials are doing relatively well compared to Gen X at the same point in their savings and investment journey.

Millennial retirement assets stand at $2.1 trillion today, while Gen X amassed nearly the same amount (inflation adjusted) by the time they reached their early 40s in 2006. Millennials also devote more of their assets to retirement savings than Gen X: Millennial retirement assets were 16.8% of the generation's total assets last year when the oldest turned 40, compared to Gen X in 2005 with 13.1% of total assets in retirement plans at the time.

With the exception of IRAs, Americans tend to save for retirement in work-based plans. Reviewing the latest annual national survey data of U.S. private sector workers from the Transamerica Center for Retirement Studies, it's clear there's plenty of growth potential in retirement assets as more younger people participate in retirement plans:

- 76% of Millennials and 67% of Gen Z (those just entering the workforce) are saving in an employer-sponsored retirement plan and/or outside of work;
- They've started earlier than previous generations at a median 25 years old for Millennials and a surprising 19 years old for Gen Z;
- 56% of Millennials and 61% of Gen Z are saving more than 10% of their salaries in an employer-sponsored retirement plan.[4]

Retirement saving characteristics by generation

	Baby Boomer	Gen X	Millennial	Gen Z	All Workers
Saving in 401(k) and/or outside workplace	83%	81%	76%	67%	78%
Age began saving (median)	35	30	25	19	27
Homeownership	81%	71%	64%	35%	67%
Works with an advisor	41%	35%	40%	29%	37%
Access to employee-funded plan (401(k) or similar)	68%	77%	74%	67%	73%
Participation rate (401(k) or similar)	81%	82%	77%	59%	78%
Saving > 10% of salary	47%	45%	56%	61%	51%

Source: Transamerica Center for Retirement Studies, 22nd Annual Transamerica Retirement Survey of Workers (October 2022)

Additionally, the demographics of work-based retirement saving is rapidly changing. Our data showed that the number of employed Millennials surpassed employed Baby Boomers in 2014 and continued to grow and overtake the much smaller Gen X in the workplace in 2016. As Baby Boomers leave the workforce, that cohort continues their years-long practice of withdrawing assets from retirement plans.

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Implications for advisors

The financial status of younger generations, particularly as it relates to retirement, is important for financial advisors to understand. Our 2022 Federated Hermes' RIAs and Independent Advisors study showed that more than half (53%) of advisors are overseeing qualified retirement plans, as well as taxable individual clients. Additionally, per the aforementioned Transamerica survey, younger people saving for retirement are apt to use advisors: 40% of Millennials consulted with an advisor on savings and investments compared to 41% of Baby Boomers and 35% of Gen X.[5]

Millennials likely will pivot to other forms of saving and investing as the residential real estate market cools and assuming the job market stays solid. Higher rates tend to influence first-time homebuyers more than others, which portends a continued slowdown in housing demand and a return to the level of activity that fueled real estate demand in the recent past.

For the debt side of the balance sheet, advisors should understand that younger people tend to view their debt burdens as an impediment to more retirement saving and that studies show debt repayment is a greater priority than retirement saving. As rates rise and borrowing costs more, this is another distinct generational difference to pay attention to.

Finally, most advisors understand younger clients and prospective clients consume information differently than older people—mainly digital versus analog. The way people seek out and consume information shouldn't be confused with a lack of interest in quality investment advice and wealth management. Younger people are demonstrating an openness to advice and a thirst for sound information, and, when considering all their options, will likely devote more of their wealth to saving and investing.

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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 was awarded 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 2022 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.

Special thanks to Federated Hermes' Data Scientist **Hanne Richardson.**

1 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

2 Source: Board of Governors, Federal Reserve, "Economic Well-Being of U.S. Households in 2021" (May 2022)

3 Source: New York Fed Consumer Credit Panel/Equifax (3Q 2022)

4 Source: Transamerica Center for Retirement Studies, 22nd Annual Transamerica Retirement Survey of Workers (October 2022)

5 Ibid

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