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LIFE STAGE SERIES:
EARLY ADULTHOOD

Early Adulthood: The Pursuit of Financial Independence

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Background

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METHODOLOGY

This research is based on a nationally representative survey of more than 2,700 adult respondents in the U.S., with a focus on Americans ages 18–34. The survey was fielded in October 2018, conducted by Merrill Lynch in partnership with Age Wave and executed by Kantar TNS utilizing the Kantar Lightspeed Panel, along with selected panel participants. Additionally, two focus groups were conducted in June 2016, where qualitative information was gathered about early adults' emotions, preferences, experiences and needs.

Introduction

Early adulthood is a period of exploration and self-discovery, an exciting, exhilarating, but challenging time because so much is new. Early adults face questions like, "What are my goals, my values? What will the 'adult me' be like?"

Eight in ten early adults say they have more choice than previous generations did in determining who they want to be in the future. However, with so many options, choices and unfamiliar decisions to be made, the transition into adulthood can be anxiety-laden and at times overwhelming. Eight in ten early adults also say it's harder to become financially independent than it was for previous generations. And 70% of Baby Boomers, parents of most of today's early adults, agree.

The life stage of early adulthood keeps changing, driven by demographic, social, economic and technological forces. It would be a mistake to assume that you understand early adulthood today if you experienced it decades ago.

Early adulthood is the transitional life stage when people seek to establish functional and financial independence. There are 75 million early adults in America, with 4 million more people turning 18 and entering early adulthood each year. They make up one-third of the workforce. Most of today's early adults are in the Millennial generation.

Today's early adults are quite different from their parents and grandparents in important ways:

Education. More people are getting college and advanced degrees as they seek empowerment and the job market demands a more educated workforce.

Technology. Personal technology, starting with the ubiquitous smartphone, is a staple of today's early adult life. Instant and unrelenting information and communication shape how early adults socialize, how they work, what they do for fun and how they manage money.

Diversity. The Baby Boom generation is 74% white and 26% other ethnicities. Among Millennials, it's 56% and 44%. And Generation Z, whose oldest members are currently entering early adulthood, is 50–50.

Money. Early adults today carry unprecedented levels of student and credit card debt. Starting salaries aren't rising, but cost of living continues to. Many struggle to find meaningful work that pays well. Most rely on their parents for continued financial support to make ends meet and maintain their lifestyles.

Some of the most striking trends in early adulthood today are gender based. Women are gaining far more undergraduate and advanced degrees than men. So they are carrying much more student debt. But they are more focused than men on their financial futures, and they rely less on parents for continued financial support.

Early adulthood has also shifted markedly in timing and duration. Perhaps related to increasing longevity overall, all the traditional markers of adulthood—finishing college, moving away from home, finding a suitable full-time job, marrying and having children, buying a house—are, on average, happening later than ever before. With this trend in mind, we include in the life stage adults age 18 through age 34.

This report explores the defining experiences and interconnected challenges of early adulthood today: pressures of new roles and responsibilities, technology-driven "fear of missing out" (FOMO), pursuit of education and the burden of student debt, continued reliance on family support, and the pursuit of often elusive financial independence. Our research uncovered key trends and new insights, including the ripple effects of indebtedness, the power of intergenerational interdependence, and how women are outpacing men in the quest for financial independence.

"With all of the changes in the modern world, I realize that I was never their age!"

– 52-year-old focus group participant

Early Adulthood—a Complex Matrix of New Choices

What is it like to be an early adult today? Let's walk in their shoes for a few minutes. Early adults are much more likely to describe the life stage as a roller coaster (30%), a juggling act (24%) or climbing a mountain (24%) than a day at the beach (8%). Two-thirds say they feel fatigued by their new responsibilities and 72% say they wish they had more guidance and clarity about how to effectively become an adult.

TECHNOLOGY: FRIEND AND SOMETIMES FOE

Early adults are on their devices and online doing a wide gamut of things that are social, financial and educational. They discover fun activities, rally their friends and post their experiences on social media. They have the highest adoption of financial technologies, including for payments, investments and budgeting. And with the world's information at their fingertips, they can look up and learn anything anytime. Three-fourths of early adults say they enjoy their social media activities, and the same proportion say that social media helps them feel more connected with others.

But there's a downside. 24/7 information bombardment and social media access put many early adults in an unrelenting psychological bind. Nearly half (49%) admit to feeling addicted to social media, and 68% say they regularly grapple with fear of missing out on what they see their peers doing. FOMO can shape people's spending habits, and it can engender indecision. Forty-two percent say they hesitate to commit to social plans because something better might come along. The same indecision often extends to jobs, relationships and financial decisions.

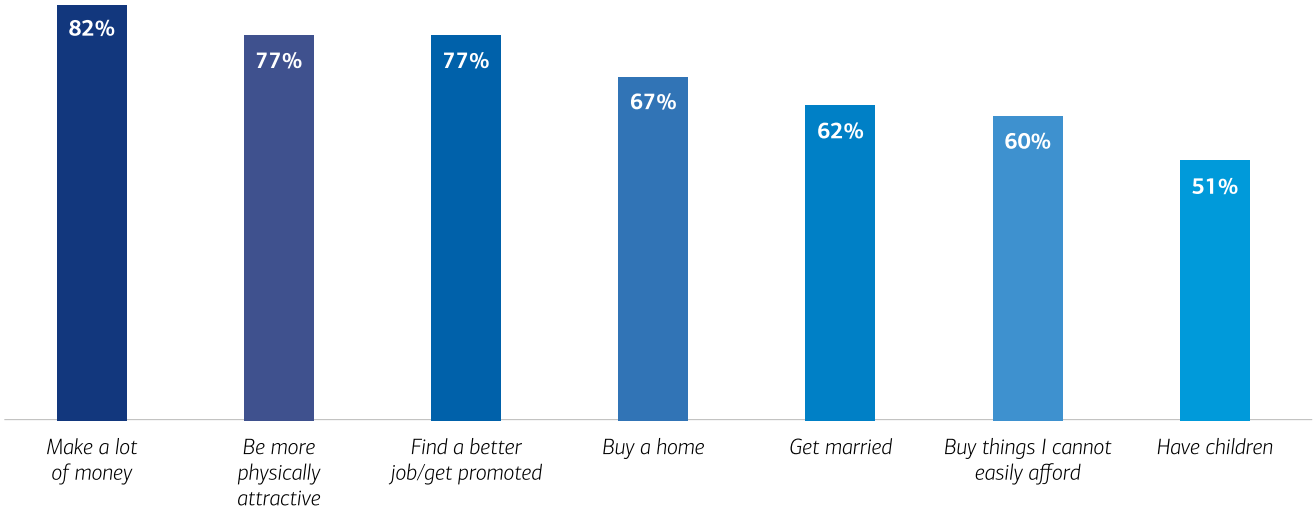
"It is not the big party that everyone assumes your twenties will be. It's the first time you don't have a road map or visual feedback as to where to go and how to get there."

– Kelly Williams Brown, author of *Adulting*

PRESSURE FROM MANY DIRECTIONS

Pressure from social media joins pressures from other sources, including parents, partners, friends and even oneself. Today's early adults constantly feel themselves under pressure to improve and accomplish on a variety of fronts: from getting a better job and making more money to being more attractive to reaching the traditional milestones of adulthood—getting married, having children, buying a house (Fig.1). Social media exerts significant pressure, including to buy things one cannot afford.

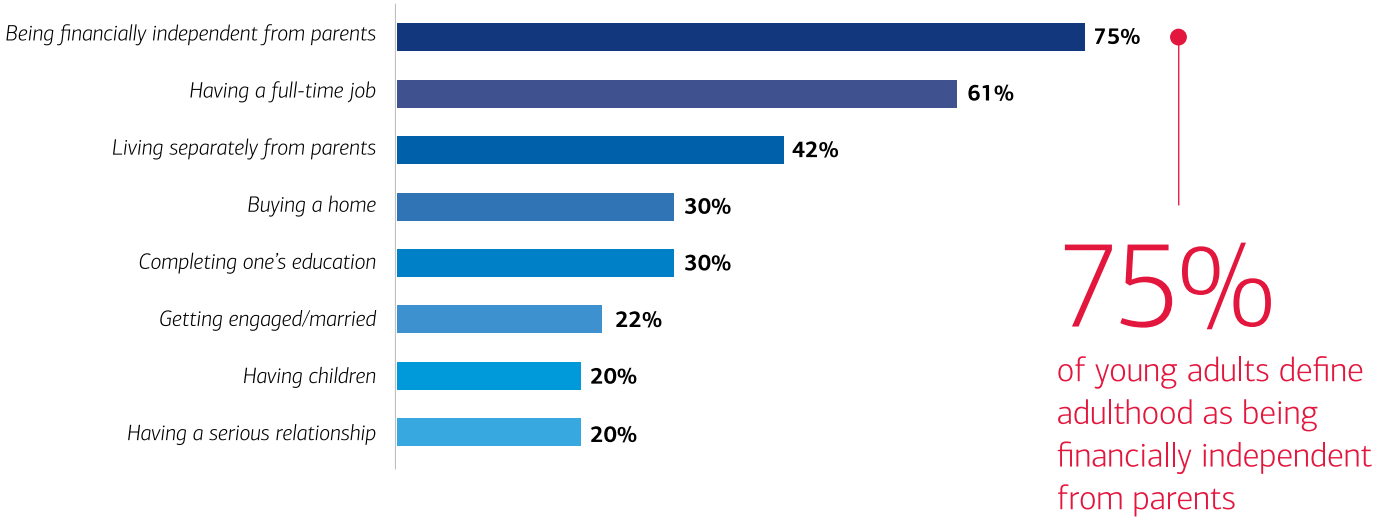
Fig. 1. **Early Adults Feeling Pressure**



Base: Ages 18–34

The greatest pressure felt by most early adults is to make money. Finances are even at the center of what they say it takes to be an adult. Seventy-five percent define adulthood as being financially independent from parents (Fig. 2). In second place is the primary means of gaining that independence, having a full-time job. These factors rank far above the other traditional milestones of education, home ownership, marriage and children. Early adults tell us that finances are their number one source of stress and that lack of money is the number one barrier to achieving their goals in life.

Fig. 2. **What It Takes to Become an Adult**



Base: Ages 18-34

The Struggle to Be Debt Free

How do today's early adults define financial success? Sixty percent say that it's being debt free; only 19% say that it's being rich. Freedom from debt seems a low bar of accomplishment, yet it's an elusive goal for many early adults. Eight in ten early adult households carry some form of debt, most commonly education and credit card (Fig. 3). All told, Americans ages 18 to 34 hold about $2 trillion of debt.[1] Among early adults with credit card debt, the average balance is $3,700,[2] and more than half say they are struggling to pay it off.

1 in 4

early adults with a 401(k) has already made an early withdrawal, and the top reason cited was to cover credit card debt

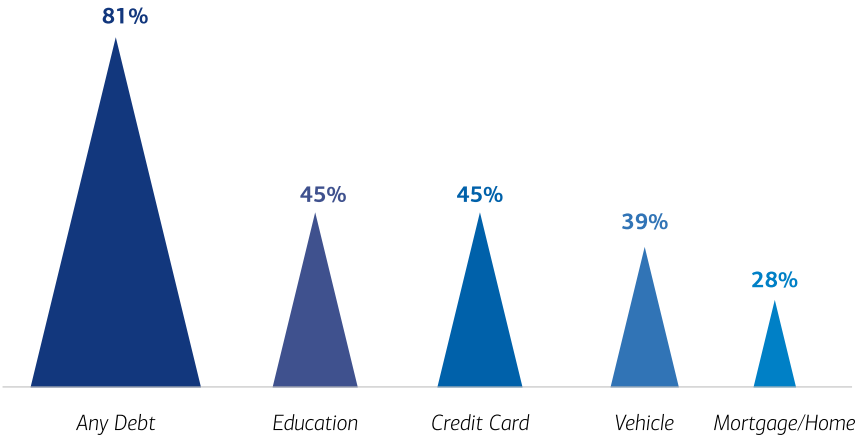
THE RISE OF CRUSHING STUDENT DEBT

A majority of early adults are pursuing higher education in order to better their job prospects and long-term earning power. According to the Georgetown Center on Education and the Workforce, by 2020 65% of all jobs in the American economy will require education beyond high school, up from 28% in 1973.[3] It's projected that by getting a bachelor's degree, the average person will add $1 million to their lifetime earnings.[4]

But education can come at a high price. Since 1975, the average annual cost at a four-year institution (inflation adjusted) has more than tripled, and the percent of 25- to 35-year-olds with student loans has doubled.[5] Total student debt (held by Americans of all ages) has skyrocketed from $8.3 billion to nearly $1.6 trillion.[6] Student debt has grown by nearly 500% in the 15 years since 2003 alone.[7]

Fig. 3. **Early Adult Households with Debt**

Source: Survey of Consumer Finances, 2016, households under age 35



RIPPLE EFFECTS OF STUDENT DEBT

Today's early adults graduating with student loan debt start with an average debt of $36,888 and will be allocating 9% of their before-tax salary to loan repayments, averaging $371/month for ten years.[8] While the majority from our study feel better off because of their education, more than a third (36%) of college graduates currently paying off loans say the debt wasn't worth it. Those who attend college but don't graduate are hit with a double whammy—no degree to earn higher wages and debt that holds them back for years or possibly decades. Nearly four million early adults dropped out in 2015 and 2016, with an average debt of more than $7,000.[9]

Student debt is having major ripple effects on early adults' futures, financially and personally. Four hundred thousand early adults who would have purchased a home a decade ago have not been able to afford one due to student debt, and today's early adults take finances into greater consideration in deciding whether and when to have a child than those in past generations.[10] The ripple even reaches retirement years—indebted graduates are contributing only about half the amount to their 401(k)s compared to those without debt.[11]

36%

of college graduates currently paying off loans say the debt wasn't worth it

WORK ISN'T WORKING FOR MANY

A primary means of eliminating debt and establishing financial independence is a good-paying job. But today's early adults want work that combines opportunity and meaning with adequate pay, work that helps them figure out what they enjoy and what they're good at. These expectations are often unmet—80% of early adults say it is challenging to find meaningful work—and that makes work a source of anxiety and frustration for many.

Employed early adults give their current jobs low marks. Less than half feel they have career potential (44%), fair compensation (41%), or work that aligns with their passions/interests (35%). Finding work that incorporates security, a good salary and passion is extremely rare—only 13% have the trifecta, while 25% say their jobs offer none of the three.

This frustration is leading many early adults to seek new job opportunities. Forty-six percent of employed early adults say they plan to look for a new job in the next 12 months. The top reason—cited by 69% of those looking for a new job—is higher pay.

The Family Bank Is Open—by Mutual Agreement

Early adults start out on very different financial footings. Those who have been helped—perhaps by parents, grandparents or scholarships—complete their education without student debt. That allows them to start work somewhat debt free and enables them to begin saving or investing. But regardless of whether they were helped with tuition costs, as they seek to gain financial footing most early adults still turn to the family bank. Seventy percent have received support from their parents in the last year, and more than half of those in their early thirties continue to receive some support. Two-thirds of early adults say they can rely on their parents to help with their expenses, and 58% say they would not be able to afford their current lifestyles without parental support.

58%

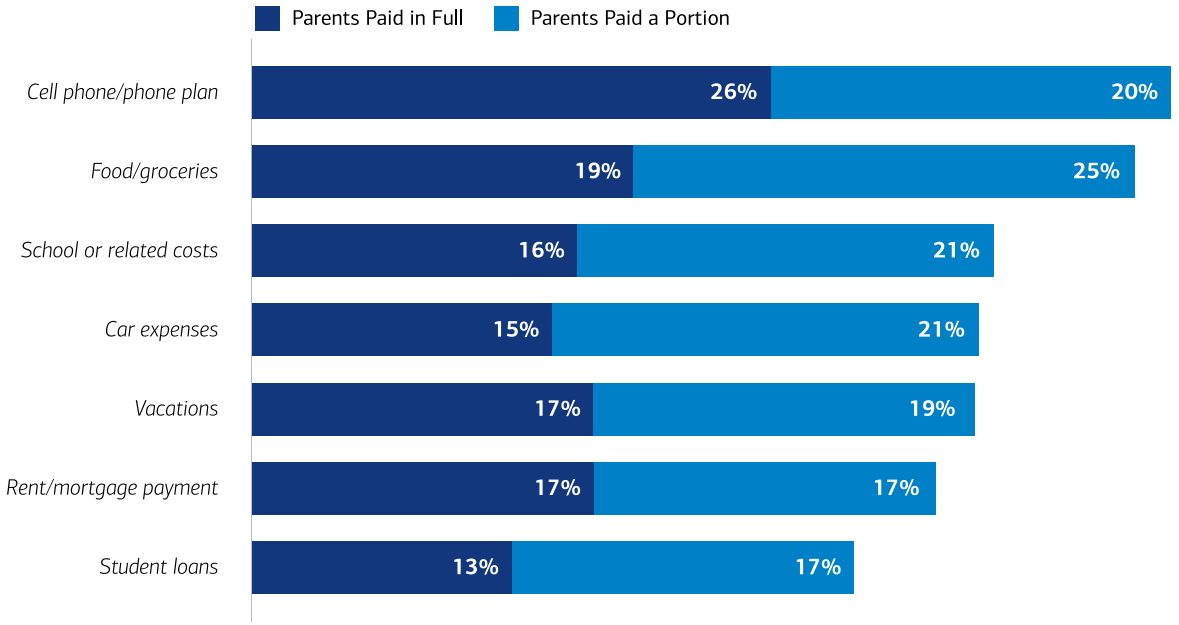
of early adults say they would not be able to afford their current lifestyles without parental support

FINANCIAL SUPPORT IS THE NORM

The aggregate amount spent by parents today on their early adult children is enormous—over $500 billion annually.[12] Education costs account for only one-fourth of the total. Most of the support takes the form of regular or occasional payments to help with everyday expenses (Fig. 4).

Two in five (41%) early adults who own homes received help from parents with the down payment. And the early adults who boomerang home for a time (26% do) are receiving direct benefit, though 54% of them make some contribution to rent or household expenses.

Fig. 4. **Financial Support Received from Parents**



Base: Ages 18-34

INTERGENERATIONAL INTERDEPENDENCE

What motivates this extensive support? The overwhelming majority of parents (83%) who provide support say it's because they want to help their child get ahead. The same percentage of early adults say they feel grateful, not guilty, to receive the support. Our survey also found that parents of boomerangs are genuinely happy to help out.

Moreover, 79% of boomerangs say they enjoy living with their parents, and even more parents (87%) say they enjoy living with their adult child.

The family bank ultimately operates in the larger context of intergenerational connection and interdependence. The overwhelming majority of early adults (85%) feel it's their responsibility to help their parents financially if they are struggling. And 82% say it's their responsibility to let their parents move into their home if the need arises. The overwhelming majority of parents feel reciprocal responsibilities to their children. Eighty-nine percent of early adults say they would be willing to support their parents financially in the future.

As the early adult life stage has extended, parents provide their children far more support over a far longer period. As life spans have increased, children may in turn be providing more support to their parents, both financial and caregiving, over a longer period down the road.

78%

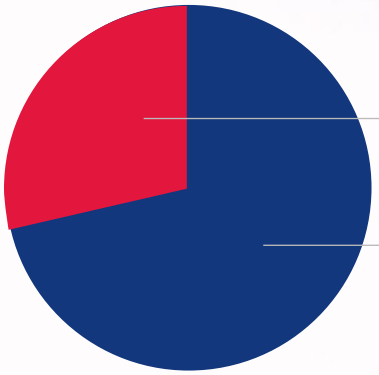
of boomerangs and their parents agree the advantages of living together outweigh the disadvantages

PROS AND CONS OF THE FAMILY BANK: EMPOWERMENT OR ENABLEMENT?

Is extensive reliance on the family bank a good idea? As we explored in the recent study, *The Financial Journey of Modern Parenting*, it may not work out so well for parents in the long run. That $500 billion spent on adult children represents twice what parents put into their retirement accounts, and nearly three-fourths say they have put their children's interests ahead of their own need to save for retirement.

It can be a bad idea for early adults as well. They recognize that financial support when they are getting started (ages 18 to 24) helps them get ahead. But nearly two-thirds see support when they are older (25–34) as making them dependent (Fig. 5). Similar percentages of their parents agree. Continued support can delay progress toward early adults' independence, and it can add to their anxiety that they are falling behind their peers. Yet financial support beyond age 25 has become the norm.

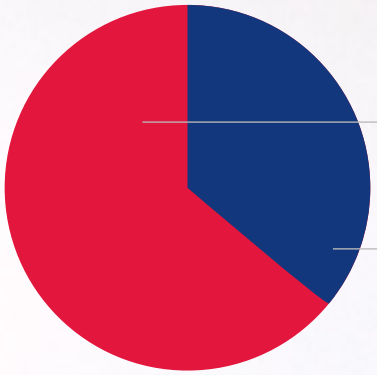
Fig. 5. **Mixed Feelings About the Family Bank**



Financial Support to Adult Children 18–24 is...

29%
A bad thing—it makes the adult children dependent

71%
A good thing—it helps the adult children get ahead



Financial Support to Adult Children 25–34 is...

64%
A bad thing—it makes the adult children dependent

36%
A good thing—it helps the adult children get ahead

Base: Ages 18-34

Today's Young Women Are Launching Far More Successfully Than Men

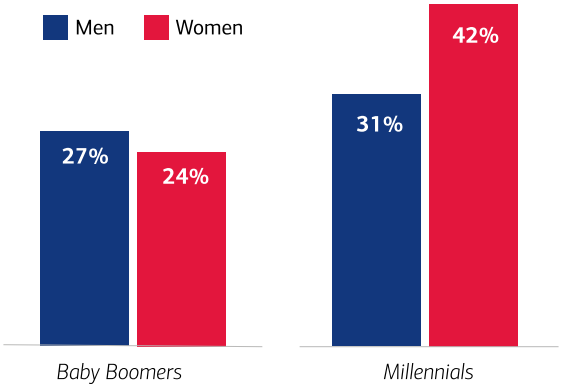
Women today are progressing through early adulthood faster and more successfully than their male counterparts in terms of education, employment and financial independence. And they're doing it despite the headwinds of unequal pay (median weekly earnings of full-time employed 25- to 34-year-olds is $864 for men but $766 for women[13]), greater student debt and more family caregiving involvement.

EDUCATED BUT INDEBTED

More women than men are going to college and earning undergraduate and graduate degrees. Among Millennials, 42% of women hold degrees versus only 31% of men (Fig. 6). For every 100 men graduating today, there are 141 women.[14] As a result, women carry almost two-thirds of the cumulative student debt.[15] That's not only because more women are enrolled but also because they assume more debt on average and take longer to pay it off. They are, in a sense, investing more heavily in their futures.

Education translates into better job opportunities, and the labor force participation rate of early adult women continues to increase, while that of men has declined slightly.[16] Given the lifetime earnings value of higher education, these trends bode well for women in the future as more of them start their careers on higher trajectories.

Fig. 6. **Bachelor's Degree or Higher**



Source: U.S. Census Bureau, *The State of Young Adults in the Labor Force*, 2017

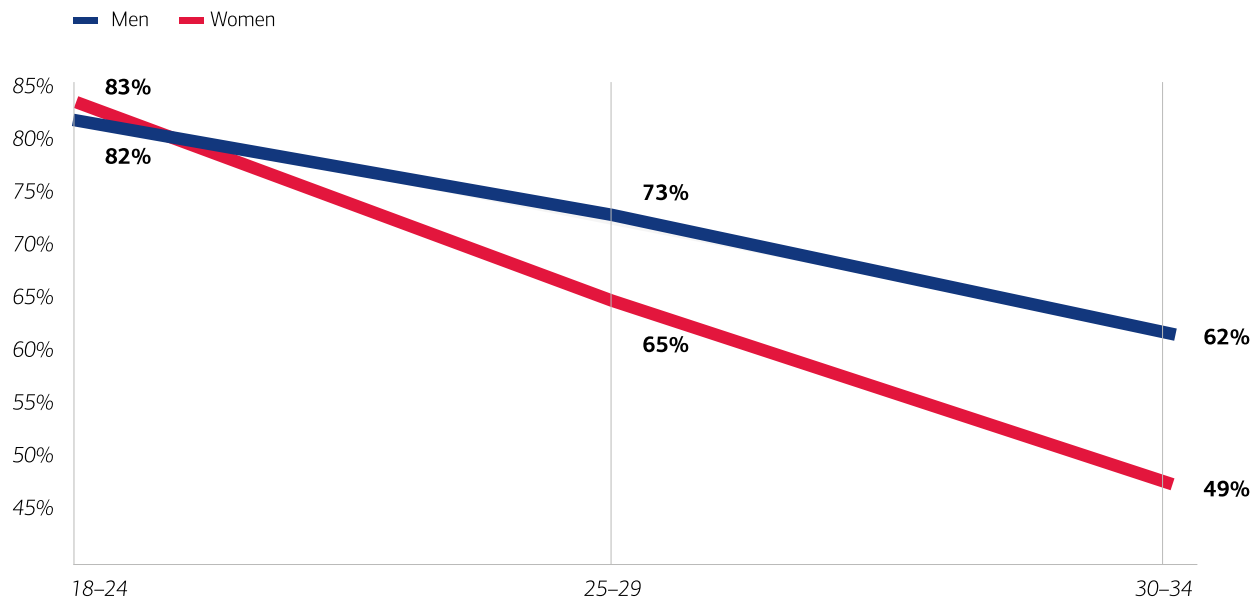
LAUNCHING FASTER

When we gauge reliance on financial support from parents—hence, progress toward financial independence—women are far outpacing men. Women believe more strongly (70%) than men (57%) that parents' continued financial support for older early adults is a bad idea because it makes them dependent. And more of them are taking charge and gaining greater independence earlier.

Among younger early adults, ages 18–24, men and women are equally likely to be receiving support. However, among those ages 30 and over, 62% of men still receive financial help versus only 49% of women (Fig. 7).

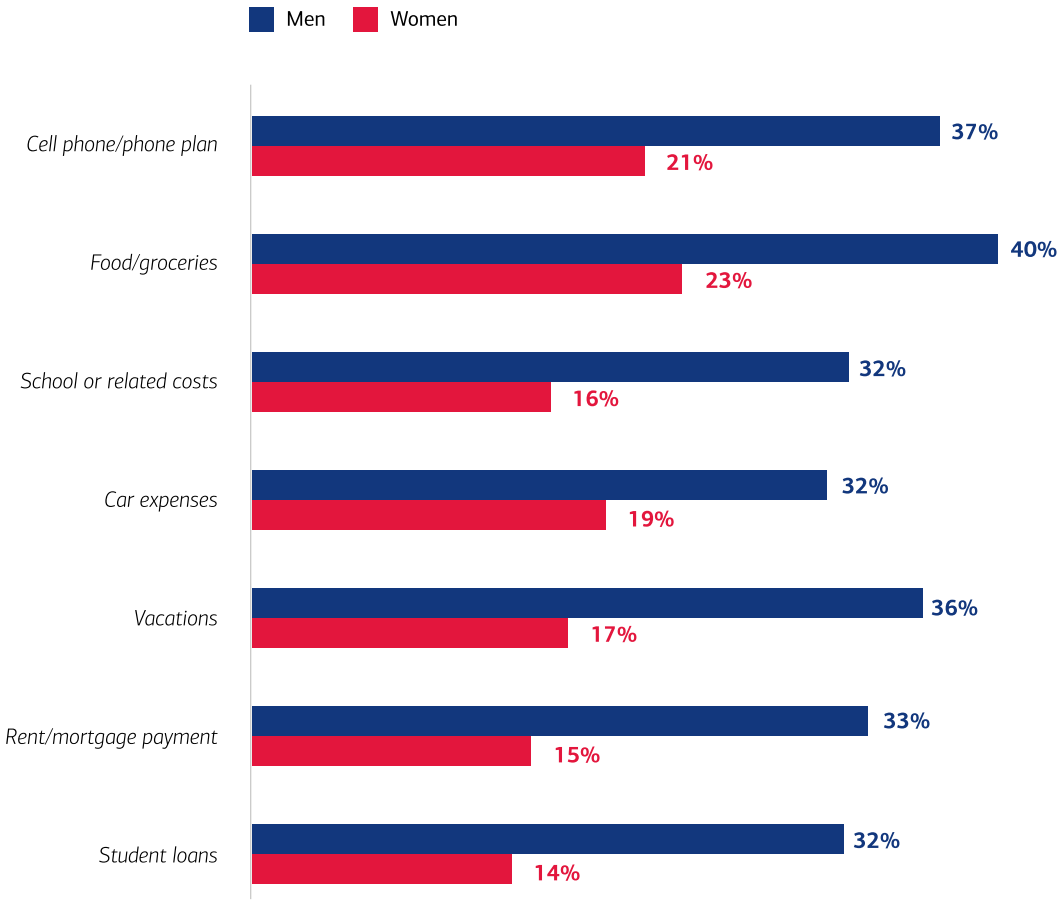
Women believe more strongly than men that parents' continued financial support for older early adults is a bad idea

Fig. 7. **Financial Support by Gender**



Very few differences exist in the support received by men and women ages 18–24. Among those ages 30–34, however, men are twice as likely to be receiving support than women across nearly all of the expense categories (Fig. 8).

Fig. 8. **Financial Support Among 30- to 34-Year-Olds**



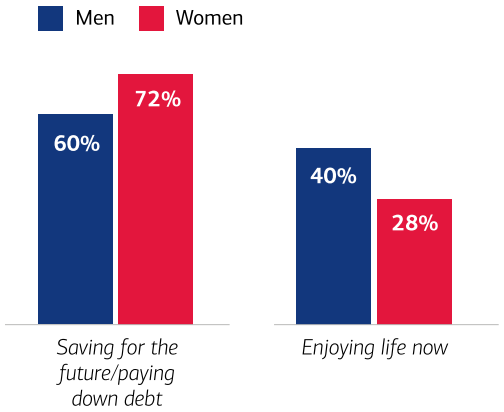
INVESTING LESS

A variety of research finds women to be more successful as investors than men because they maintain a long-term view.[17] The early adult women we surveyed are more likely to say their highest financial priority is either saving for the future or paying down debt (Fig. 9). More men say that their priority is to enjoy life now. Women with retirement accounts are less likely to tap into them.

However, women are less active as investors to begin with—and may not be doing as much as they could to build their financial futures. The early adult women we surveyed are less likely than men to hold investments outside of employer-sponsored retirement plans (27% of women vs. 46% of men), and they are half as likely to be working with a financial advisor (17% of women vs. 33% of men).

Young women report having less confidence than men in managing investments,[18] and 41% (vs. 28% of men) say their biggest fear about investing is not about market volatility or rate of return but, rather, not feeling that they know enough about what they are doing. As they launch their financial lives, many early adult women can benefit from education-based and confidence-building financial guidance.

Fig. 9. **Financial Priorities**



Base: Ages 18-34

FINANCIAL EDUCATION AND GUIDANCE NEEDED

Early adults' education in managing their finances tends to be informal at best. For financial advice, they go first to parents, in-laws and spouses/partners.

Parents often try to instill sound principles—maintain good credit, live within your means, save for a rainy day. But they seldom teach their children specific techniques for budgeting, investing or managing debt. Nor are those techniques taught in schools.

Eighty-six percent of Americans agree that personal finances should be taught in school. Only five states have that requirement (in contrast to 35 that require sex/HIV education).[19] So it comes as no surprise when 72% of early adults (more than those in any other life stage) say they would benefit from more financial guidance.

72%

of early adults say they would benefit from more financial guidance

Financial Action Plan

We've explored the many challenges that early adults encounter in pursuit of financial independence. Early adulthood is a key time to establish smart financial habits. Here is a checklist of actions to consider, keeping in mind that the idea is to work your way down the actions ***within*** each category in that general order and also balance ***across*** categories based on your own individual priorities. You will likely want to pursue multiple goals at the same time.

CREATE AND STICK TO A BUDGET

- ✓ Track and manage your expenses
- ✓ Identify areas where you can cut expenses to free up funds for your goals

PAY DOWN YOUR DEBT

- ✓ Pay down high-interest non-tax-deductible debt first (e.g., credit cards) and then other non-tax-deductible debt (e.g., auto loan)
- ✓ Pay down lower-interest tax-deductible or subsidized debt (e.g., student loan or mortgage)

PLAN FOR CONTINGENCIES

- ✓ Establish an emergency fund
- ✓ Assess and cover your health insurance needs and, if possible, contribute to a Health Savings Account (HSA)
- ✓ Ensure adequate life insurance coverage if you have dependents

START SAVING FOR RETIREMENT

- ✓ Contribute to an employer-sponsored savings plan, such as a 401(k)—at a level that meets any company match
- ✓ If an employer-sponsored plan isn't available or if you've maxed out your 401(k) and can still save more, contribute to an IRA

THINK ABOUT YOUR OTHER SHORT- AND LONG-TERM GOALS

- ✓ Begin saving to meet goals, such as a down payment on a first home
- ✓ If you have children, consider saving for their education (e.g., a 529 College Savings Plan)

Summary

Early adulthood is a time of exploration, discovery and opportunity as people try out jobs and careers, places to live and activities they enjoy. It's also a time of pressure, uncertainty and stress as people learn to make decisions and fend for themselves. Each generation experiences the life stage differently, and today's early adults are taking longer to complete it.

"Just having the balance of your life—knowing that you're juggling everything, but you're keeping all the balls in the air. That's when I will feel like I've moved on."

– Focus group participant

Early adults' ambition is to become financially independent, yet many are burdened with student loan and credit card debt, and 70% receive financial support from their parents. Women are, on average, quicker than men to "launch" and establish financial independence from their parents.

Today's early adults have unprecedented technology at their fingertips for managing finances and getting assistance. Combine that with education, guidance and discipline, and they can accelerate the journey to financial independence and realize, not postpone, their goals.

The life stage of early adulthood will continue to be reshaped by social, demographic, economic and technological forces. In the next wave of change, diversity will continue to increase, women's roles and power will expand, and Gen Z—the first generation of "digital natives," who have spent their entire lives in a world with smartphones and other personal technology—will redefine early adulthood in their own new ways.

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