Generation K

Money attitudes of a new generation

Noreena Hertz May 17th 2016

thinkforward

ING

Foreword

By Mark Cliffe

Consumer economists at ING have for several years been developing analysis designed to help retail customers. In so doing, we seek to support ING's customer centric purpose of "empowering people to stay a step ahead in life and business". There is a growing need for such support. People face challenges and opportunities in making decisions.

With the launch of the Think Forward Initiative[1], ING is stepping up its research into consumer economics. Its ultimate goal is to address the question: how can we help people make better financial decisions?

One of the key elements of the Think Forward Initiative is crowdsourcing of expertise. We are glad that Professor Noreena Hertz is one of the experts working with us.

This report focuses on Generation K: 14-to-21 year-olds. This new generation grew up in the midst of the challenges of the financial crisis. But they are also smartphone natives. How is this shaping their outlook and financial behaviour? What does this mean for their concerns about debt? For their propensity to save? And for their spending behaviour? How self-reliant is this generation and where do they turn to for financial advice?

We hope that you find the insights on these questions intriguing and welcome your feedback.

Mark Cliffe is ING Group's Chief Economist

[1] For more details, please visit thinkforwardinitiative.com

Note on methodology

- This report was prepared for ING by Professor Noreena Hertz.
- It is based on her proprietary research on 14-21 year olds including a 2000 person survey conducted in the US and the UK in 2015; a series of one-on-one interviews; and two focus groups with 16-18 year olds in London conducted with the support of ING in February 2016.
- All quantitative data provided during the report comes from Hertz's survey unless otherwise specified.
- All drawings come from the two focus groups.
- All direct quotes come from the focus groups unless otherwise specified.
- Names of focus group participants have been changed for purposes of confidentiality.


Professor Noreena Hertz

Generation K

Generation K – 14-21 year olds. Born between 1995 and 2002.

They have an annual spending power of over $200 bn in the United States alone.
(Source: Marketingvox, Rand Youth Poll, Seventeen, Packaged Facts 2013)

“K” stands for Katniss Everdeen, the determined heroine of the global franchise The Hunger Games.

Unlike for the first-era millennials (21-30 year olds), the "Yes we can" generation, who grew up believing the world was their oyster, for this generation the world is less oyster more Hobbesian nightmare.

Unequal – Dystopian – Harsh

“Life for us is hard. A struggle. I think we’ve got it much tougher than our parents’ generation. But we can’t give up.”
- Jake, 16


Murray Close/Lionsgate

The forces that have shaped them

Generation K has been shaped by 3 distinct forces:

1. Technology

Permanently on, super-social, multi screening and multitasking. They are terrified of life without likes and followers. This is the smartphone generation, not just a digital generation. Surgically attached to these devices, they panic when connection is lost.

69% of 12-15 year olds in the UK own a smartphone.
(Source: Children and Parents: Media Use and Attitudes Report 2015)

In the UK 15-16 year olds spend on average 4-8 hours online each day.
(Source: Childwise Monitor Report 2016)

2. Increasing existential threat (perceived if not actual)

This is the generation forged by 9/11, the rise of Al Qaeda and now ISIS. Although most will not have experienced terrorist attacks, gun crimes, or extreme brutality first-hand, they all have done so virtually. Beheadings, bombings, violent murders are being piped into their smartphones and amplified 24/7.

70% of Generation K worry about terrorism.

3. The economic downturn

Unlike the first-era millennials - today's 21-30 year olds whose childhoods took place during an economic boom and are relatively optimistic about their economic futures– Generation K has come of age in the shadow of economic decline, job insecurity, increasing inequality and a lack of financial optimism.

Every single focus group participant agreed with the statement "Your economic future will be significantly worse than those of your parents."

72% of 18-24 year olds in Europe agree that young people have a more uncertain financial future than older generations did when they were young.
(Source: ING International Survey on Financial Decision Making 2015)

Economic anxiety

Having grown up during the most significant economic downturn the world has faced in decades.

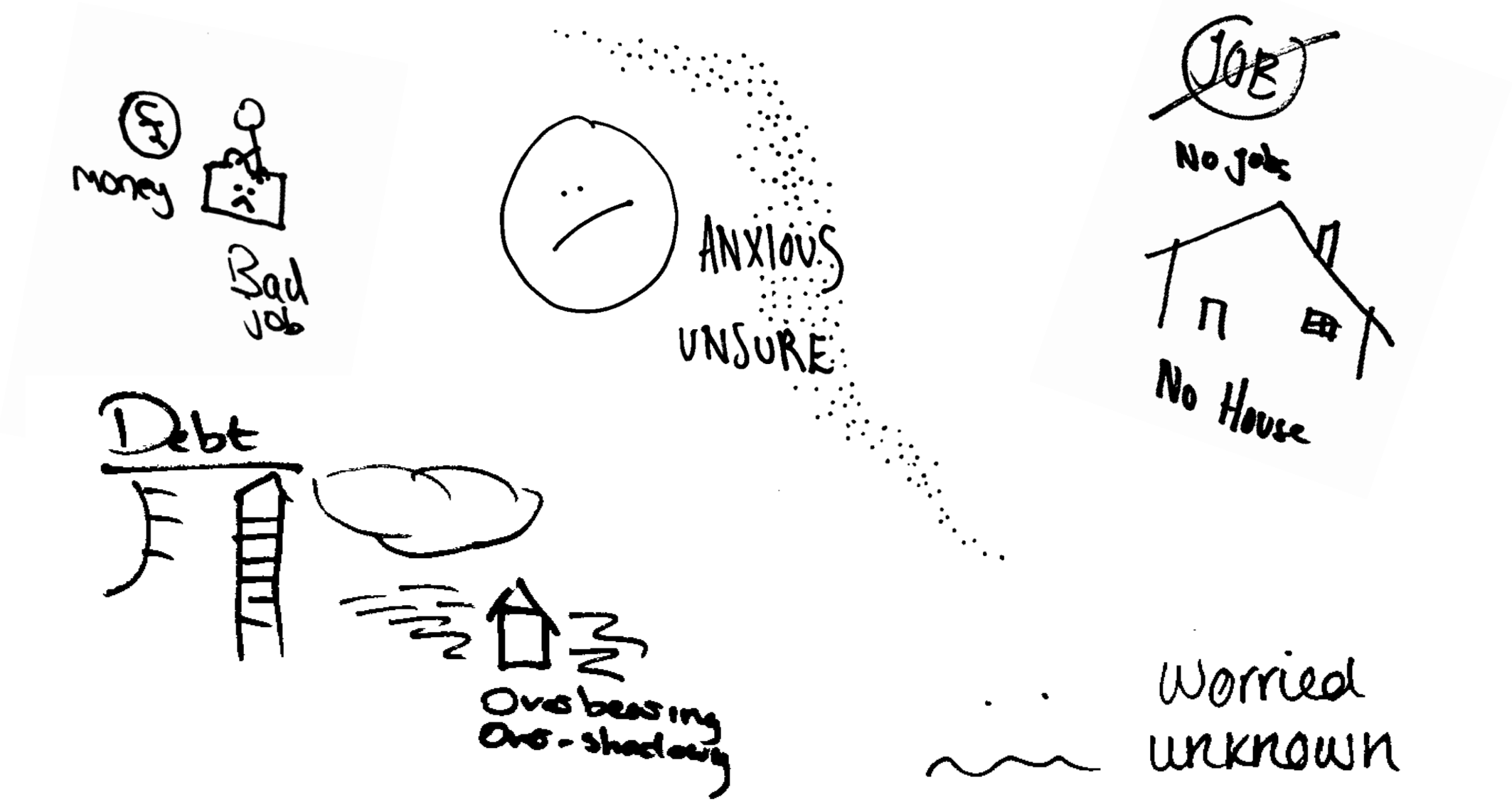
> In Europe over a third of people indicate a deterioration in their financial situation over the past five years.
> (Source: European Quality of Life Survey 2012)

Firmly believing (all the focus group participants concurred) that if they don't look after themselves financially when they are adults no one else will.

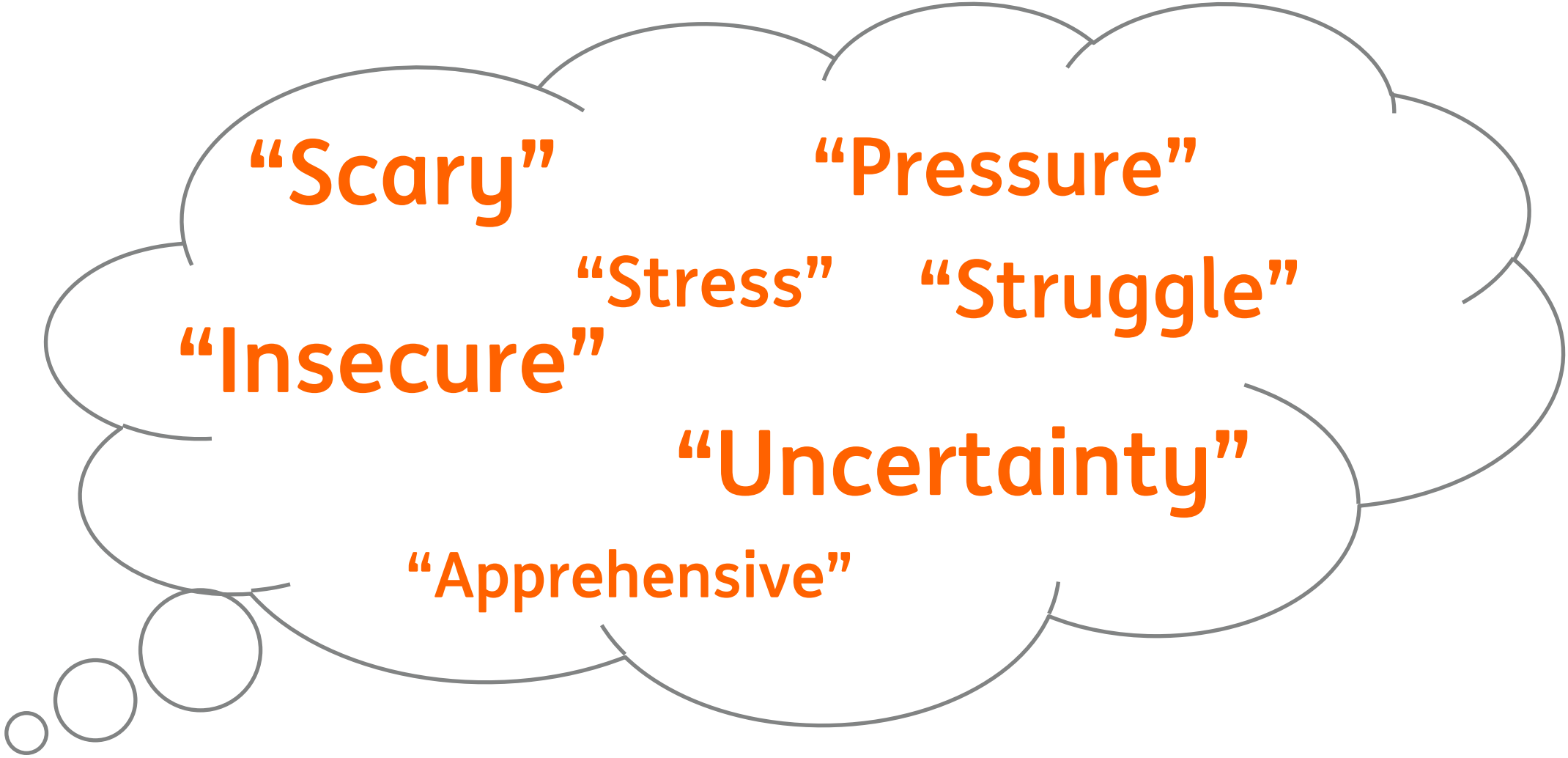
And that the government will not care for them if they become vulnerable or are in need. (Again all the focus group participants concurred).

We are seeing unprecedented levels of anxiety amongst this cohort about their economic futures.

What they feel their economic futures will look like



Words focus group participants used to describe their future



The economic anxieties they have

In the UK 30% of 11-16 year olds are worried about whether their family will have enough money to live on. 25% are concerned that one or both parents could lose their jobs.
(Source: Ipsos Mori: Who is Generation Next? 2014)

11% of teenagers aged 12-18 years old are worried about having money troubles.
(Source: National Citizen Service 2015)

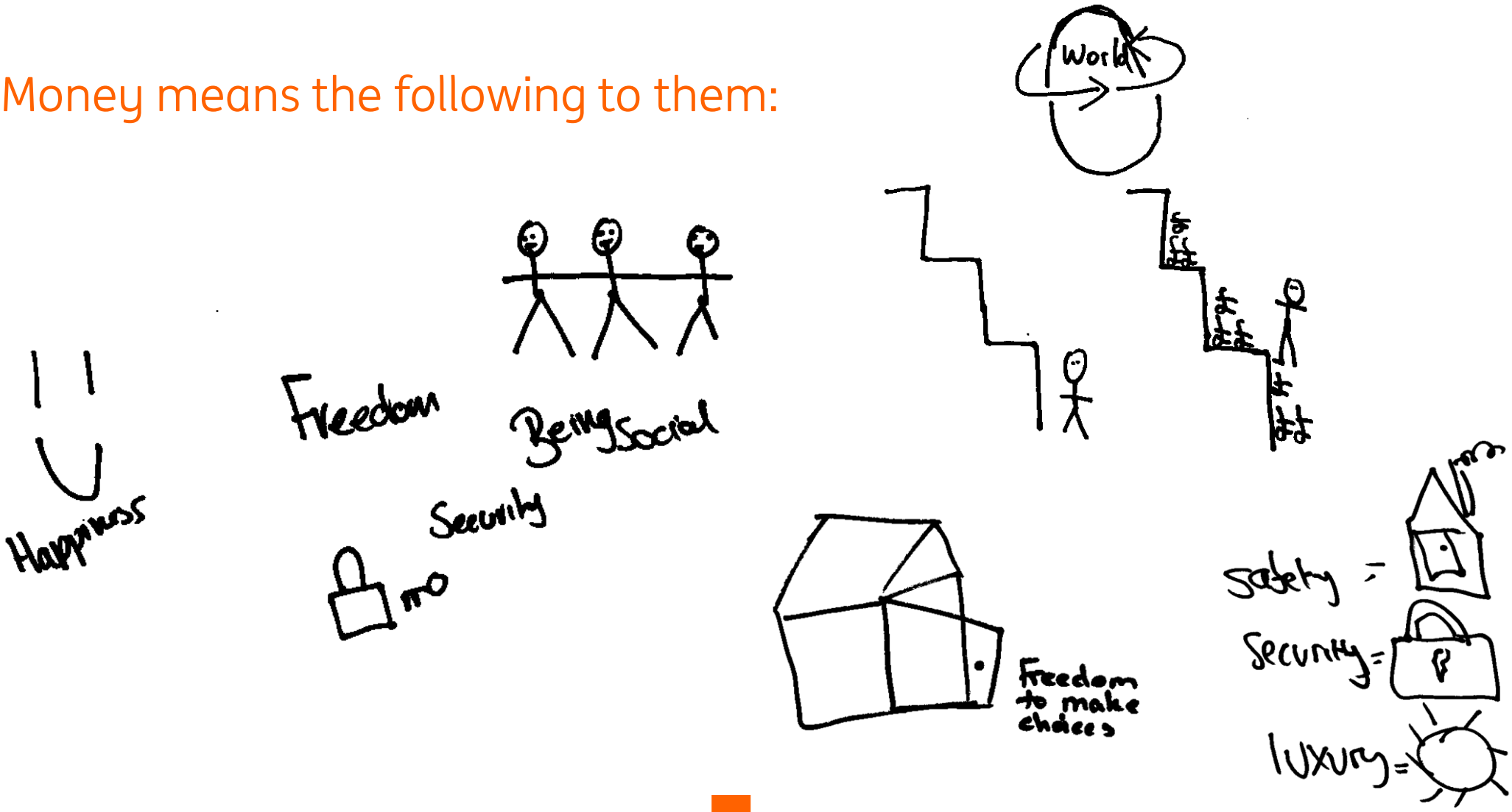
These anxieties are affecting this generation's mental health. Indeed there is a significant body of past research on the relationship between economic downturns and anxiety.

From the Great Depression of the 1930's onwards recessions have led to increases in anxiety and stress levels amongst this age cohort.

We are the generation that have to work the hardest to succed.

Moses

Money means the following to them:



No wonder the thought of not having enough money worries them so much!

Job anxiety

Despite their youth, as many as 79% of Generation K in the US and UK worry about getting a job.

They also worry that even if they get a job, will it pay well enough?

"Will I have enough money to live the lifestyle I want?"
- Amanda, 17

This concern reflects the reality that the young are worse off than older generations.

- In the US more 18-34 years olds live in poverty and fewer are employed, compared with Baby Boomers in 1980.
  (Source: United States Consensus Bureau: Young People Today and Now 2014)

...And also that the generational income gap is growing.

- Over the last few decades pensioner disposable income in the UK has grown three times as fast as the income of young people.
  (Source: Guardian/Luxembourg Income Study Database: Cross-National Data Center 2015)
- In the US there was a 4.5% average increase in the incomes of those aged 65 and above between 2007 and 2013 while those of the youngest increased only by 1%.
  (Source: ING Economic and Financial Analysis 2016)

Generation debt

Despite their youth, 72% of Generation K (US and UK) worry about being in debt.

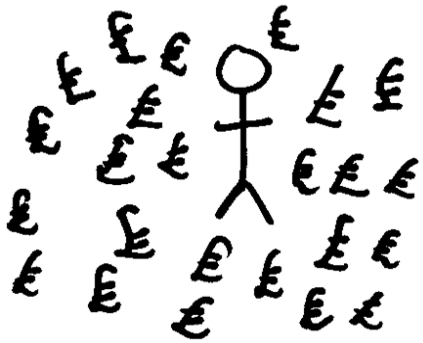
And it's not just student loans on their minds, but also cars, houses, "stuff that we will want." - Amanda, 17

Indeed all the focus group respondents were worried about mortgages even though they are still teenagers!

- Despite the fact that more than a quarter of 20-34 year olds currently live at home with their parents (Source: ONS: Young Adults Living with their Parents 2015), all the focus group respondents expected and wanted to own their own home in the future.

And debt for this generation is something they really fear.

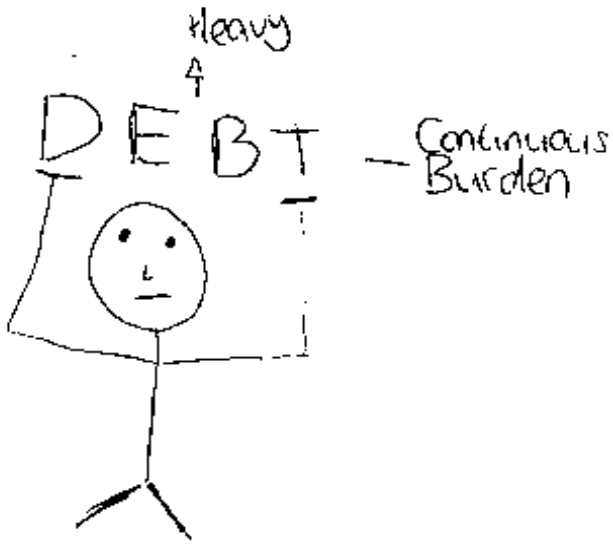
- "Your life is bound to when you can pay it back. If you don't pay it back it will always be in the back of your mind." - Tim, 16
- "It is the worry that it is a cycle, that you have to keep getting more loans and pay more and more interest." - Frederick, 16
- "It feels like a ticking clock. You constantly have to borrow to get the stuff you want, but you'll always want more so it'll progressively increase." - Nadia, 18



What the thought of being in debt means

"It makes me feel of being trapped and in a cage. But everyone is trapped as well."
- Amanda, 17

"If you got into debt you could lose everything you worked so hard for. People would take away your possessions to pay back what you owed."
- Lillian, 18



"If you get into debt you become one of society's undesirables. You are shunned."
- Tim, 16

Generation saver

Given the context - fearful about the economic future, fearful about debt - it makes sense that every single one of the focus group respondents actively saved money!

- "I think you can only support yourself if you have personally saved."
  - Jessica, 16

Whilst their propensity to save is in keeping with their general relative risk averseness...

- Generation K drinks less, takes less drugs, has less sex than previous generations.

More specifically, saving for Generation K seems to be explicitly about taking control of their destinies in a world in which they cannot rely on others or the government to look after them in times of need.

- "It's about being independent. About being self reliant in the future."
  - Adam, 18

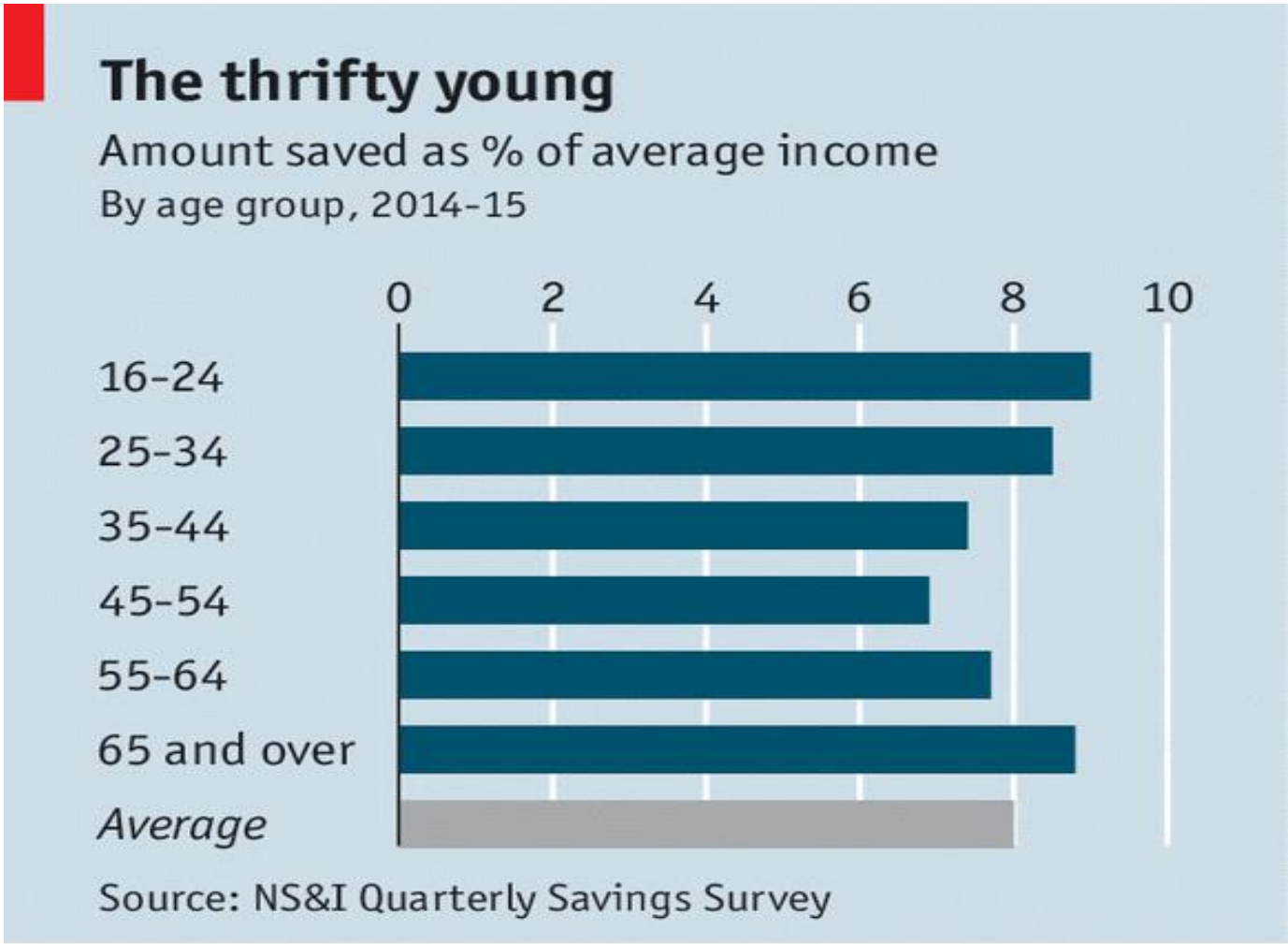
So what we are seeing is them saving today not only for short term purchases but also for significantly later on in life, for "when we are fully fledged adults." - Tim, 16

- "I save for further down the line. Not for now, but when we go into work."
  - Mehdi, 17

They seem willing to accept the short term pain, for what they recognise as longer term gain. But they acknowledge that this can be painful.

- "It is painful if you have to say "Sorry boy's can't come out tonight". But I want to make sure I do have money for stuff that I'm going to need in the future."
  - Jake, 16

Generation thrifty



Economist.com

Compared to older millennials and Generation X, Generation K is significantly more thrifty.

Mindful spenders

In keeping with their savings behaviour, Generation K is very mindful of their spending habits. All the focus group participants said that they consciously try to rein in their spending.

- "I want to have money for other stuff. If I impulse it, I would be broke."
  - Natalie, 18

Online banking plays an important role in their financial management. It enables them to be self aware .

- "Online [mobile] banking is the best thing ever. You can go out shopping and be able to check your bank account right there."
  - Mehdi, 17
- Such a sentiment is in keeping with those of adults - 85% of Europeans polled using mobile banking list at least one way it has improved their money management.
  (Source: ING International Survey: The rise of mobile banking and the changing face of payments in the digital age 2015)

But many of the focus group participants choose to make purchases with cash rather than with credit or debit cards so as to be able to control their spending.

- "A debit card makes it easier to spend money. You forget the money is being taken out. So when I earn money, say from baby sitting, I get it in cash and don't put it into my bank account."
  - Lillian, 18
- "I have savings in cash that I would never put into my bank account. I literally have a wallet thing in my room that I won't touch."
  - Jake, 16

In fact, they are so aware of the potential dangers of buying with plastic that.....

Jake a 17- year old Londoner suggested he would want a prompt to come up each time he proffered his debit card, with the words:

ARE YOU SURE?

Social spenders

When they do have a high ticket purchase to make, friends are their most trusted advisors...

...Although internet searches are the first port of call. Focus group participants said that their first step would be to search the following:

- Amazon Reviews
- Company own websites
- Forums
- Comparison sites

Typically
"Once I've done my research,
I then go to friends for advice."
- Nadia, 18

For Generation K

→ Your Experience is their Evidence.

Social savers

When it comes to sharing tips on saving strategies, half of the focus group participants said that they do this with friends.

- "I have given my friends tips on how not to spend so much money. Things like, "Put it away. Don't touch it."
  - Joseph, 16
- "My friend tells me
  "Save, and on this date we'll go out.""
  - Tim, 16
- "We talk about how much we save
  and how much we spend."
  - Nadia, 18

Almost all participants said that they discussed saving strategies with their parents.

- This is in keeping with what we see with older millennials. In the US, 58 % of US 18-34 year olds indicate that their parents had the greatest impact on their own handling of finances.
  (Source: Better Money Habits 2015)

When it comes to loans

Again it's parents who seem to play the most significant role.

If they had to take out a loan, every single focus group participant said that their parents would be their first port of call when it came to getting advice on taking out a loan.

Second port of call would be the bank.

Unlike when it comes to making a high ticket spending decision, when it comes to taking out a loan the internet would interestingly only be their third port of call.

➡ Financial decisions about loans seem to be made very differently to financial decisions about high ticket purchases, with internet searches playing a significantly different role.

Banks are trusted

It was interesting, given how negatively older millennials felt towards banks

- Only 8% of 21-34 year olds in the US trust financial institutions, 44% state that their banks don't understand them.
  (Source: Facebook Industry Research 2016)

That all the focus group participants said that they felt that banks were trustworthy.

- "They give you statistics that you can compare to someone else."
  - Lillian, 18
- "Going to a bank on the high street is much more trustworthy than going to the internet for advice on financial matters because of scams and stuff."
  - Amanda, 17
- "You can see on your online banking that no money has been taken out."
  - Mehdi, 17

Only one expressed concern that a bank could crash.

All felt generally happy with their banks.

➡ Are these focus group findings representative of how Generation K as a whole feels about banks? If so, why doesn't Generation K hold the same negative sentiment towards banks that first-era millennials espouse? Do they mean the same thing by 'trust'? And how can banks retain these high trust levels from Generation K moving forward?

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