GENERATION Z INSIGHTS

How the Next Generation of Investors Approaches Retirement, Saving, and More

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This article investigates the financial attitudes and behaviors of Generation Z, defined here as persons born between 1995 and 2010. Older members of Generation Z are either currently entering or recently have entered the workforce, yet very little is known about the financial landscape of the newest generation of professionals. This knowledge gap begets challenges for advisors and other financial professionals in helping young adults and children of current clients as they begin their financial journeys.

A nationally representative sample of U.S. adults between the ages of 18 and 25 (n = 1,111) completed an online survey assessing attitudes and behaviors regarding retirement preparation, debt, homeownership, investing, and financial knowledge. The findings converge on several general conclusions. First, the young people in our sample are fairly optimistic about their financial futures, including retiring successfully and before age 65, buying a home, and finding a job. This is all despite the fact that the survey was (unintentionally) launched during a pandemic. Second, our participants see financial and investment education as important, yet they have little experience with investing, financial classes, or financial advisors. Third, these young people are open to and see the benefit of using financial technology (potentially more so than the three prior generations), but they are adapting slowly.

INTRODUCTION

Despite the economic uncertainty caused by the coronavirus epidemic, young adults in Generation Z are constructing the foundations of their professional and personal lives. Important milestones have not paused. They are getting admitted to and are graduating from college, obtaining their first jobs, and for some, buying their first homes. As baby boomers—the largest generation in U.S. history—increasingly depart from the workforce, Generation Z will have increasingly big shoes to fill as they start careers and set financial habits.

Still, insights into the financial attitudes and behaviors of the large and diverse Generation Z are thin. Many existing investigations were conducted more than five years ago, leaving a portion of this population entering the workforce unexplored. This knowledge gap presents challenges for Generation Z and financial professionals who seek to help them. Financial advisors are largely unfamiliar with young people’s financial practices, and young people are largely unfamiliar with financial advisors. We sought to address this gap by studying the financial attitudes and behaviors of a large sample of young adults who are members of Generation Z.

DEFINING A GENERATION

Different researchers use different criteria to identify who fits in which generation. Here, we define Generation Z as people born between 1995 and 2010. We chose these criteria as a compromise among several different definitions proposed in prior literature (e.g., Beck and Garris 2019; Dimock 2019; Wiedmer 2015). This definition allows us to capture Generation Z in various life stages, potentially from finishing high school at age 18 to achieving financial independence from their parents by age 25.

To note, we do not aim to paint a one-size-fits-all profile of Generation Z; our goal is to understand the diversity of perspectives and situations among this group and to learn detailed individual-level insights and interactions. Thus, any results we present should not be treated as a concrete conclusion about everyone in this age group but rather as a look at the group’s range and central tendencies.

What do we know about Generation Z?
The simple answer: Surprisingly little. Several researchers have attempted to create a general profile of members of Generation Z. Perhaps the most common conceptualization of Generation Z is centered on their relationship with technology, especially the internet. Unlike the generation prior (the millennials), members of Generation Z were born as the internet became available to most of the public. Wiedmer (2015, 56), for example, reported that technology is responsible for the independent and confident nature of Generation Z because they have “access to digital tools that enable them to think they can do anything.” Likewise,
How much does Generation Z know about finance? Although they may be independent and love technology, Generation Z may not be particularly familiar with finance. In their qualitative study, Beck and Garris (2019) interviewed several members of Generation X, millennials, and Generation Z about topics such as retirement, financial knowledge, and financial education. Beck and Garris saw that although Generation Z acknowledges the importance of education and says it believes that educational institutions should offer financial classes to students, they also did not understand finance (and found it difficult to define personal finance) as much as Generation X and millennial samples. The investigation performed by Fong et al. (2019) showed that a minority of the Generation Z sample (12 percent) has begun to save money and prepare for retirement.

**THE CURRENT RESEARCH PARTICIPANTS AND METHODOLOGY**

We sampled a nationally representative population to obtain a set of 1,311 young Americans between the ages of 18 and 25 (median age = 21).1 We collected the data in two waves: between April 8 and April 13, 2020, and between April 20 and April 23, 2020. We weighed our data by age and gender using the U.S. Census2 and raking methodology (Mercer et al. 2018). Specifically, we adjusted for gender within each of the eight chronological ages in our sample, thereby creating 16 unique weights. All statistics we present in this report are weighted.

Participants completed a set of questions that assessed attitudes and behaviors within several financial dimensions: retirement, debt, homeownership, investing, financial knowledge, and financial technology use. All attitudinal items were measured on a scale of zero to six (unless otherwise noted). In reports about attitudes, low magnitudes reflect scores below midpoint, moderate magnitudes reflect scores at or near the midpoint, and high levels reflect scores above midpoint. The margin of error (at a 95-percent confidence interval) in this sample is 3 percent.

**COMPARISONS WITH PAST DATA**

When possible, we compare our findings with the Transamerica Center for Retirement Studies (Collinson et al. 2019, hereafter TCRS 2019) survey on retirement attitudes and behaviors of millennials,3 Generation X, and baby boomers. TCRS conducted a nationally representative survey of nearly 6,000 American adults employed either part-time or full-time at for-profit companies. Such comparisons can provide insight into generational effects on financial attitudes and behaviors.

**GENERAL EMOTIONAL OUTLOOK**

Although the times are bleak for many, our results suggest that young adults largely are keeping their heads up. Specifically, the majority of our sample reported high amounts of both happiness and optimism (see figure 1).

**RETIREMENT PREPARATION**

They are optimistic about retiring early and successfully, perhaps more optimistic than prior generations. On average, our sample respondents said they believed that they have approximately a 59-percent chance of retiring. The majority of those who anticipate retiring said they expect to retire at or before the age of 65 (see figure 2).

Comparisons with findings from TCRS (2019) suggest that Generation Z may be the most optimistic about retiring before age 65. In that study, 31 percent of millennials, 18 percent of Generation X, and 11 percent of baby boomers said they expect to retire before age 65. A follow-up analysis of variance, or ANOVA, in which age (18 vs. 19 vs. 20 vs. 21 vs. 22 vs. 23 vs. 24 vs. 25),4 gender (men vs. women), employment status (unemployed vs. part-time vs. full-time), and U.S. Census region (Northeast vs. Midwest vs. South vs. West) revealed an interesting finding. Although the effect was relatively small (partial $\omega^2 = 0.01$), age was negatively associated with reported expected retirement likelihood. Specifically, 18-year-old participants reported the highest expected chance of retiring (65.72 percent), and this difference was statistically significantly different from 23-year-olds (54.69 percent, Hedges’ $g = 0.39$) and 25-year-olds (53.49 percent, Hedges’ $g = 0.43$). No other between-age differences emerged (both $p$ values < 0.0004). These results suggest that, despite young adults believing that their chances of reaching a successful retirement are greater than 50 percent, they may become more pessimistic about retirement as they get older.
DISTRIBUTION OF HAPPINESS AND OPTIMISM SCORES OF THE SAMPLE

Source: Original data collected by researcher. Data as of May 13, 2020.

ANTICIPATED RETIREMENT AGE

Source: Original data collected by researcher. Data as of May 13, 2020.

PERCEIVED RETIREMENT SUCCESS COMPARED WITH PARENTS AND GRANDPARENTS

Source: Original data collected by researcher. Data as of May 13, 2020.

PREFERRED RETIREMENT WORK STATUS


TOP FIVE WORKPLACE BENEFITS


UNEMPLOYED PARTICIPANTS’ CONFIDENCE OF FINDING A JOB AND EMPLOYED PARTICIPANTS’ CONFIDENCE OF REMAINING AT A JOB

equally per a dependent­-samples t­-test (Hedges’s g = 0.06).

They want an active retirement. Most members of Generation Z (60 percent) want to keep working, including without pay, after they retire (see figure 4). In fact, Generation Z may be the most active generation: Data collected by TCRS (2019) suggest that the desire to work in retirement is lower among millennials (34 percent), Generation X (25 percent), and baby boomers (26 percent).

They may want to plan to save a little more for retirement. Our sample respondents said they believe that most full-time employees save about 6 percent of their paychecks for retirement. Results also revealed that they want to deposit an average of 6–16 percent of their salaries into retirement funds.

Retirement is important to learn about. Sixty percent of our respondents said they believed that retirement is a topic that is important to learn about. In fact, Generation Z appears to be a chatty generation in terms of discussing retirement. Half of our sample (50 percent) reported that they have discussed retirement with their parents. Furthermore, approximately 23 percent of our sample reported discussing the topic of retirement fairly frequently. Comparisons with TCRS (2019) suggest that Generation Z may be discussing this topic more than millennials (21 percent), Generation X (13 percent), and baby boomers (12 percent).

Paying off debt is a priority over saving for retirement. In this sample, 76 percent of respondents said they believed that paying off debt is more important to them than saving for retirement. We wondered whether this finding could reflect Generation Z’s approach to the FIRE—financial independence, retire early—strategy of retirement, whose young, largely millennial, followers have gained media attention recently. Although we did not measure preference for FIRE directly, we saw that preference for paying off debt over saving for retirement was unassociated with anticipated retirement age, \( \chi^2 (2) = 5.22, p = 0.09 \). In other words, our respondents prioritized debt regardless of their anticipated age of retirement. Even those who want to retire early are hesitant to put most of their money in a retirement account.

Retirement benefits at work are important but not as important as insurance and a flexible schedule. Thirty-one percent of the sample ranked retirement benefits among their top three most important workplace benefits. Retirement was the most important benefit for 10 percent of the sample (it was among the top five most important benefits for 51 percent of our sample). The most common first-place benefit was health insurance, followed by life insurance, flexible working hours, retirement, and flexible paid vacation policy (see figure 5).

The popularity of automatic­ enrollment plans appears to be lower in our sample than in other generations.

They may want more control over enrollment in retirement benefits. Automatic enrollment retirement plans have gained popularity over the past decade given their significant success in increasing people’s retirement savings. Our sample, however, was not especially receptive to the idea of an employer enrolling them in a retirement plan automatically. In fact, our sample showed only a small preference for automatic (52 percent) over opt-in enrollment. The popularity of automatic­ enrollment plans appears to be lower in our sample than in other generations. Specifically, TCRS (2019) found that the majority of millennials (80 percent), Generation X (83 percent), and baby boomers (77 percent) have a favorable view of automatic enrollment. It is important to note, however, that our question differed from that of TCRS (2019), because we did not assess favorability per se. We use preferences for automatic enrollment as a proxy for favorable attitudes.

EMPLOYMENT
The COVID­19 epidemic isn’t discouraging their employment outlook. In our sample, 40 percent of participants were unemployed. Of these, 71 percent were actively pursuing either part­time (43 percent) or full­time (28 percent) employment. Participants who reported they were looking for a job had moderate levels of confidence about finding a job in the next month, and our employed subsample was fairly confident that they would remain in their jobs over the next month (see figure 6).

HOMEOWNERSHIP
The American dream of homeownership is alive and well. The majority of our sample (83 percent) said they wanted to be homeowners and wanted to purchase property in the next few years (see figure 7). Our sample’s confidence about purchasing property, however, was not strong; Only 39 percent of respondents said they were optimistic about successfully purchasing property in the future.

INVESTING
They may not think of themselves as investors, but they find the topic interesting. In our sample, 35 percent of respondents identified as investors. The majority of the sample reported being moderately (19 percent) or highly (57 percent) interested in learning more about investing.

They don’t have much experience with financial advisors. Thirty percent of our sample reported having seen a financial advisor at least once, which could have been on their own or with other family members. TCRS (2019) suggests that this number is lower than millennials (38 percent) and baby boomers (43 percent), although similar to
**Desired Time Frame for Purchasing Property**


**Trust in a Human vs. a Robo-Advisor**


**Percent of Participants Who Use Various Financial Apps**


**Mean Scores of Perceived Financial Knowledge and Financial Knowledge Compared to Peers**


**Participants’ Preference for Mandatory Financial Classes**

Generation X (33 percent). Furthermore, it is important to note that some of these differences may be attributable to age and experience: Older generations have had more opportunities to seek advisors. Even fewer in our sample have experience with financial robo-advisors (22 percent).

They are wary of robo-advisors. On average, our sample rated human advisors to be more trustworthy than robo-advisors (see figure 8). This result suggests that, even though they are immersed in a digital world, younger people still prefer face-to-face contact when dealing with their finances.

TECHNOLOGY USE
They use financial apps and find them quite useful. Every participant in our study reported having used at least one financial app, including apps from online-only and brick-and-mortar banks (e.g., Ally, Chase), budgeting (e.g., Mint), and investing (e.g., Wealthfront). Sixty-three percent reported that they found financial apps to be useful. The use of apps from banks with branch locations was the most common (see figure 9). TCRS (2019) suggests that 59 percent of millennials, 49 percent of Generation X, and 30 percent of baby boomers find such apps useful. This pattern may further reflect increased integration of technology in everyday life across generations.

FINANCIAL KNOWLEDGE
They are confident in their financial knowledge. The majority of our sample has never taken a class in finance (64 percent). They reported that they believe they possess a moderate amount of financial knowledge as well as a little more financial knowledge than their peers (see figure 10). These findings echo the well-documented better-than-average effect (Alicke and Govorun 2005), whereby people tend to believe (often erroneously) that they know more than their peers. This effect, however, also may be attributable to the relatively young age of the sample, because the better-than-average effect generally declines with age (Zell and Alicke 2011).

Our sample’s reported beliefs about their financial knowledge may not reflect their actual financial knowledge, given that the sample of Generation Z in the investigation by Beck and Garris (2019) was unable to provide a concrete definition of the term.

Financial education is important to them. As shown in figure 11, the majority of respondents (53 percent) said they believed that finance classes should be mandatory in both high school and in college. This finding reflects prior studies showing that young adults value financial education (Beck and Garris 2019).

DISCUSSION
The newest generation of professionals, consumers, and investors is interested in beginning their financial journeys. Our research suggests that Generation Z appears optimistic about the future, even despite the COVID-19 epidemic. They acknowledge the importance of financial education, are concerned about debt, and are beginning to prepare for retirement. These findings have a number of implications for financial advisors who are beginning to work with Generation Z clients, whether or not they are children of current clients.

HELPING GENERATION Z STAY FINANCIAL HEALTHY
Their spirits are high about their financial futures. This is good news for advisors and financial planning as an industry, because of the positive relationship between optimism and motivation (Nes et al. 2009). Prior research has shown that people are optimistic about financial advisors (Leong and Zaki 2018), so the next generation of clients may be even more apt to take their advice.

A nudge may be useful. Young adults still may need to be encouraged to see a financial advisor—human or robo. Only a small portion of our sample reported having any experience with advisors. Arranging for a brief introduction with children of existing clients can at least start the process of building a multi-generational relationship over time.

Technology is an asset. Advisors should take note of Generation Z’s openness to adopt financial technology into their lives. Because they are already tech-friendly, they are likely to be open to using emerging financial apps, some of which specifically target younger demographics.

A reality check may promote financial health. Our results show that members of Generation Z are fairly confident in their financial skills, although Beck and Garris (2019) suggest otherwise. Advisors may benefit from gauging their young clients’ financial knowledge objectively. This is especially important when working with young clients who want to purchase a home, as many in our sample said they did. Fortunately, our sample also reported finding finance interesting, suggesting that they will be receptive to learning more.

Periodically re-evaluate retirement preparation. Recall that our sample respondents reported that they believe most full-time employees save about 6 percent of their paychecks for retirement upon starting a full-time job, which is impressively high for young adults. Nevertheless, 6 percent may be too low for many young professionals given future needs. Young clients and children of clients may benefit from retirement-preparation strategies that allow them to maximize savings while efficiently minimizing debt. The young adults in our sample are wary of debt so much so that they prioritize paying it off over saving for retirement. Although a strong drive to pay off debt is not necessarily a hinderance, advisors still should take note of this concern. Many respondents say they want to continue working after they retire, so the prospect of bridge employment is an important issue to discuss with young clients. Furthermore, many of our participants said they believed they will retire before or at age 65, which may set unrealistic
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Financial health and are developing healthy financial practices, such as paying off debt and preparing for retirement. Although their financial knowledge is relatively limited, they appear to want to learn more. Perhaps with a little help from their friends (and advisors), the next generation of professionals could be the most successful American generation yet.

**ENDNOTES**

1. This number was after we dropped 20 participants from our analyses who reported their gender to be “other” or who preferred not to disclose this information. We did so because gender was a weight in our analyses.
3. The age range that TRCS (2019) defined as millennials (persons born between 1979 and 2000) had some overlap with our definition of Generation Z.
4. We treated age as categorical rather than as a continuous variable because each age group had enough participants (range of n = 111, 151) for a meaningful between-subjects analysis, thus allowing us to capture any potential nonlinear effects.

**REFERENCES**


**EXPLAIN THE ADVANTAGES OF AUTO-ENROLLMENT PLANS.** The respondents in our sample were hesitant about auto-enrollment. This hesitation may be due to the independent mindset of a generation that prefers to make its own decisions (Fong et al. 2019; Wiedmer 2015). Ultimately, members of Generation Z may prefer to keep decisions about retirement plans in their own hands. But highlighting the benefits of automatic enrollment, and the fact that it still allows for choice, may increase the appeal of automatic enrollment to this generation.

**CONCLUSION**

There is a lot to learn from the next generation of professionals who are entering the workforce and beginning their financial journeys. Young adults appear to be motivated to face this challenge. They acknowledge the importance of financial health and are developing healthy financial practices, such as paying off debt and preparing for retirement. Although their financial knowledge is relatively limited, they appear to want to learn more. Perhaps with a little help from their friends (and advisors), the next generation of professionals could be the most successful American generation yet.

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