Millennials' money habits differ from previous generations

By Vanessa Santilli
May 8th, 2014

No generation is the same as the one that came before it. Of course, you'd never be caught dead wearing the clothes your parents thought were cool when they were teens, that's a given. But even the finance and credit habits of today's youths are different than those of Generation X.

Several things factor into those habits: millennials (people born between the early 1980s and the early 2000s) live with parents longer, seek "life experiences" over things such as homes and cars, and see debt as "something everyone has," leading them to make radically different money choices.

Youths' priorities different than their parents'
This generation doesn't want a big house and fancy car, says Sandra Daga, an accounting professor at the University of Toronto's Scarborough campus.

"These materialistic wants aren't on their radar," she says. Millennials seem to prefer to have life experiences, such as travelling as much as possible, before they're tied down.

"They are not absorbed in the norm of the boomer generation -- getting married, getting a house, a big mortgage and car payments," Daga says. While those things, too, essentially equal debt, it's not the same as debt from one too many trips abroad. Buying a home will build equity over time, and marriage will ideally contribute to a more stable financial future, as you'll be working with two incomes instead of one.

The previous generation started out on their own earlier, and put more money toward mortgages -- in essence, building their net worth, says money coach Christine White. Since millennials live with parents longer than the generations before them, they have a larger discretionary cash flow for eating out, entertainment and travel. Once a level of spending has been established for such extras, it's hard to peel back, she says.

This results in a struggle to keep up, which often starts the debt cycle.

Millennials see credit card debt as an inevitable constant
According to Project Millennial, a Canadian study conducted by TrendSpotter Consulting and People Talking Marketing Research, Gen Y's most consistent debt is credit card debt.

"Many more millennials are growing up with consumer debt as an accepted fact of life," says White. And increased accessibility to credit, which can be good in theory, enables bad habits.

According to American Express Business Insights Canada, between 2009 and 2011, millennials increased their spending on luxury goods across a variety of categories. Spending on luxury fashion increased by 33 per cent, travel by 74 per cent and fine dining by 102 per cent.

"Now, some people pay off their credit cards with their revolving lines of credit and think they are fine because they pay off their credit card," says White, who adds that too many millennials run out of money before payday and end up borrowing again.

And while many millennials have university degrees, this doesn't always translate into being financially savvy.

"They still aren't necessarily aware of what they need to know for sound money management," says Daga.

That includes the importance of compound interest, setting financial goals and reducing their spending.

"Since keeping more of their hard-earned money is even more important than having a savings plan, they need to keep living frugally. Don't get caught up in wanting material stuff and the consumer mentality," says Daga.

And youths today are attached to rewards points, resulting in increased spending on credit.

"The rewards points change our psyche when we are at the cash register," says White. "Instead of having pain triggers firing in our brain for losing our money, subconsciously, when [they] put things on credit, [they feel like they're] gaining something -- like that free flight."

Gen Y not entirely at fault, and coping in its own way
While many write off millennials as being self-absorbed and entitled, the reality is that they are living in a tough economy with not enough jobs to go around and, therefore, tough job competition, says Daga. As a result, young people have learned to cope by being frugal.

"They pay their bills, use coupons with no hesitation and save some cash in low-risk -- but low-return -- savings accounts," says Daga.

They're also footing higher educational bills than the generations before them. According to the Canadian Federation of Students, students studying in Ontario and the Maritimes have the highest average debt loads, averaging about $28,000.

And while living with their parents as young adults, they have gained financial insight and important life lessons.

"It's made them more aware of the dangers of not managing their money," adds Daga. "They have seen parents lose jobs, live through a recession, cut back on frills."