

## Financial Capability and Emergency Saving among Millennials

Yoon G. Lee, Utah State University<sup>1</sup>  
Emily Smith, Utah State University<sup>2</sup>  
Jae Min Lee, Minnesota State University<sup>3</sup>

### Objective and Significance

Using data from the 2015 National Financial Capability Study (NFCS), the purpose of the study was to examine the association between financial capability and having emergency savings among millennials age 18-34 and how the association differs between men and women. The millennial generation is defined as those who were born between 1980 and 2000 and it includes individuals that are diverse in experience and culture (DeVaney, 2015). Many millennials struggled to begin their careers during the Great Recession and, as a result, they put off starting a career to further their education. The economic downturn put them in more debt, which caused them to delay their savings (Fry, 2013). Many young adults need assistance to enhance their financial capability. Financial capability refers to the ability of people to be in control of and properly manage their finances (Xiao, Chen, & Sun, 2015). Financial capability has become critical in building financial wealth, and therefore, financial education to improve financial capability for the millennial generation may have profound impacts on individual and societal well-being (Babiarz & Robb, 2014). In particular, we need to educate millennials about the importance of an emergency savings account and how to set it up. Emergency savings can serve as a protective barrier against unexpected expenses such as income shock, car expenses, or medical expenses (Gjertson, 2016). By understanding emergency saving of millennials and examining the association between financial capability and emergency saving, the findings of this study can provide insight for financial educators, counselors, and planners.

### Methods

**Data and Sample.** This study employed data from the 2015 National Financial Capability Study, which were collected online. A total of 27,564 adults were recruited for the survey sample. The sample was weighted using data from the American Community Survey to be representative of the national population in terms of age, gender, ethnicity, education, and Census division. For the current study, observations with responses of “don’t know” and “prefer not to say” for the emergency saving question were excluded from the analyses. To identify the millennial generation, individuals between age 18 and 34 were included in the analyses. The final sample size used in this study was 7,399; there were 3,055 men and 4,344 women age 18-34.

**Statistical analyses.** To profile the differences in financial capability, financial knowledge, and emergency saving between men and women (Table 1), t-tests and chi-square tests were conducted. Logistic regression analyses were accomplished for both the male and female samples to examine the effect of financial capability on the likelihood of having emergency funds across gender (Table 2).

**Variables.** In the multivariate analyses, the dependent variable was whether the individuals had set aside emergency or rainy day funds that would cover their expenses for three months in case of sickness, job loss, economic downturn, or other emergencies. The responses to this question were coded as 1= having emergency savings, 0=not having emergency savings. The independent variables consisted of three domains: financial capability, financial knowledge, and socioeconomic characteristics of the individuals.

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<sup>1</sup> Yoon G. Lee (yoon.lee@usu.edu), Professor, Department of Human Development and Family Studies

<sup>2</sup> Emily Smith (emily.smith@aggiemail.usu.edu), Graduate Student, Department of Human Development and Family Studies

<sup>3</sup> Jae Min Lee (jae-min.lee@mnsu.edu), Assistant Professor, Department of Family Consumer Science

## Results

**Descriptive results.** Table 1 shows that there were statistically significant differences in the average levels in financial capability and financial knowledge between male and female young adults. The average of total financial capability score (sum of financial managing ability and math skills) was significantly higher for men ( $M=11.3$ ) than women ( $M=10.9$ ). The mean value of perceived financial knowledge for men ( $M=5.3$ ) was relatively higher than for women ( $M=4.9$ ). The mean number of the objective financial literacy score (sum of the five quiz questions) was not statistically significant between men and women. However, when we look at each of the five quiz questions, more men answered them correctly than women, except the mortgage question. For example, the proportions of correct answers for the interest, inflation, bond, and portfolio questions were significantly higher for men than women, whereas the percentage of correct answers for mortgage question was higher for women than men. There was a relatively higher proportion for men (48.1%) who reported emergency savings than women (38.3%). In other words, there were more women than men who did not have emergency savings.

**Logistic regression results.** Table 2 shows that both subjective and objective financial knowledge were important predictors of having emergency savings for men and women. However, financial capability was statistically significant only for the male sample, while financial education experience was statistically significant only for the female sample. Importantly, the perceived financial well-being was positively associated with the likelihood of having emergency savings for both groups. As significant socioeconomic variables, women age 25-34 were 26% less likely to have emergency savings than women age 18-24; single men were 40% more likely to have emergency savings than married men; self-employed or full-time working men were 82% and 45%, respectively, more likely to have emergency savings than not working men. However, marital status and employment status were not statistically significant among women. For both men and women, income of \$75,000 or more was statistically significant, suggesting that as compared to the income category of less than \$25,000, those men and women with higher income categories were more likely to have emergency savings. Like the findings for the total sample, the effects of perceived financial well-being were statistically significant in predicting the likelihood of having emergency savings for both men and women.

## Conclusion/Relevance

Relatively few studies have examined the link between financial capability and emergency saving among millennials, focusing on gender differences. It is important to note that there was a significant and positive relationship between financial knowledge and emergency saving for both millennial men and women, implying that higher levels of financial knowledge could enhance likelihood of emergency saving for millennials. How confident they felt about finances had an impact on emergency saving for males only, while financial education participation had an impact on emergency saving for females only. The findings could provide some insights for professionals and practitioners working with young adults and potential differences in financial decisions by individual characteristics, such as gender. The millennial generation is so diverse; if higher financial knowledge significantly increased the likelihood of having emergency funds, financial education targeted toward diverse groups among millennials could be crucial.

## Reference

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**Table 1. Financial Capability/Literacy and Emergency Savings of Male and Female Millennials (N=7,399)**

	Millennial males (n=3,055)	Millennial females (n=4,344)	Test statistics
<b>Financial Capability:</b>			
Financial capability total <sup>1</sup>	11.3	10.9	t=5.62***
Good at dealing financial matters (1=strongly disagree; 7=strongly agree)	5.6	5.5	t= 1.12
Good at math skills (1=strongly disagree; 7=strongly agree)	5.7	5.4	t = 8.15***
<b>Financial Literacy:</b>			
Perceived financial knowledge	5.3	4.9	t = 12.27***
Objective financial literacy			
Total quiz score <sup>2</sup>	3.6	3.3	t= 7.84
Interest question corrected			
1=Yes	73.5%	72.6%	$\chi^2 = 0.78$
0=No	26.5%	27.4%	
Inflation question corrected			
1=Yes	50.3%	38.3%	$\chi^2 = 96.07***$
0=No	49.7%	61.2%	
Bond question corrected			
1=Yes	23.8%	18.8%	$\chi^2 = 27.38***$
0=No	76.2%	81.2%	
Mortgage question corrected			
1=Yes	68.3%	71.6%	$\chi^2 = 8.96***$
0=No	31.7%	28.4%	
Portfolio question corrected			
1=Yes	43.2%	32.3%	$\chi^2 = 91.66***$
0=No	56.8%	67.7%	
Financial education participation			
1=Yes	28.9%	23.7%	$\chi^2 = 24.99***$
0=No	51.9%	61.7%	
<b>Emergency Saving<sup>3</sup>:</b>			
1=Yes	48.1%	38.3%	$\chi^2 = 69.79***$
0=No	51.9%	61.7%	

<sup>1</sup>p<.05, <sup>2</sup>p<.01, <sup>3</sup>p<.001

Note: <sup>1</sup>Total represents sum of financial management level and mathematics skill; <sup>2</sup>Total quiz score represents sum of five corrected answers, including interest, inflation, bond, mortgage, and portfolio questions; <sup>3</sup>Risky Emergency savings was measured by the question, "have you set aside emergency or rainy day funds ...?"

**Table 2. Factors Associated with the Likelihood of Having Emergency Funds among Millennials Aged 18-34**

	Millennial males (n=3,055)	Sig <sup>a</sup>	Millennial females (n=4,344)	Sig
	Odds Ratio		Odds Ratio	
	95% Confidence Int.		95% Confidence Int.	

**Financial Capability Characteristics:**

Financial capability	1.053	1.013	1.094	**	1.016	0.985	1.049	
Perceived financial knowledge	1.128	1.037	1.227	**	1.100	1.023	1.182	**
Financial quiz score	1.134	1.065	1.207	***	1.129	1.066	1.195	***
Financial education: Participation (Not participated)	1.079	0.901	1.292		1.191	1.012	1.402	*
<b>Socioeconomic Characteristics:</b>								
Age:								
Age 25-34 (Age 18-24)	0.961	0.785	1.176		0.744	0.626	0.885	***
Ethnicity:								
Non-Whites (Whites)	1.131	0.958	1.336		1.098	0.949	1.269	
Marital status:								
Single (Married)	1.401	1.159	1.695	***	1.133	0.960	1.338	
Education:								
Less than high school	0.631	0.338	1.179		0.546	0.305	0.978	*
High school graduate	0.951	0.696	1.300		0.557	0.415	0.747	***
Some college education	0.932	0.703	1.237		0.649	0.503	0.838	***
College graduate (Advanced degree)	1.184	0.891	1.573		0.912	0.711	1.170	
Employment:								
Self-employed	1.820	1.212	2.734	***	1.181	0.823	1.695	
Full-time working	1.451	1.058	1.988	*	1.021	0.842	1.239	
Part-time working	1.096	0.766	1.569		1.222	0.967	1.544	+
Full-time students (Not working)	1.267	0.888	1.808		1.093	0.843	1.418	
Income category:								
\$25,000 -\$50,000	1.190	0.946	1.496		1.287	1.060	1.563	**
\$50,000 -\$75,000	1.264	0.975	1.640	+	1.493	1.192	1.869	***
Income of \$75,000 more (Less than \$25,000)	1.716	1.314	2.243	***	2.286	1.794	2.914	***
Perceived financial well-being	1.356	1.305	1.409	***	1.398	1.354	1.444	***
Intercept		-4.424		***		-3.389		***
Log Likelihood		3561.04				4775.92		
$\chi^2$		669.45***				1006.30***		

\*p<.05, \*\*p<.01, \*\*\*p<.001

Note. Reference categories are presented in parentheses. Unweighted regression analyses. <sup>a</sup> Unless otherwise noted, variable is not significant at 5% level of significance.