What can millennials teach us about personal finance?

The millennial generation is coming of age

Born between 1981 and 2000, this cohort of people are now between 19 and 38-years old and represent the largest sector of the global adult population.

Until now, millennials have suffered from something of an eye-rolling ‘youth of today’ reputation. But as they reach their peak earnings potential, they are fast becoming highly influential when it comes to financial products and services. Indeed, the rest of us could (and probably will) learn a thing or two about their approach to money.

What drives millennials?

To understand what affects the buying behaviour of millennials is to understand what drives and influences the decisions they make. As a generation, they are more likely to be:

- Very conscious of global issues, and feel obliged to play their part in instigating change
- Less focused on earning as much as possible, preferring employers that are socially responsible and offer flexibility
- Financially cautious as a direct result of growing up in the shadow of the credit crunch and the recession that followed
- Demanding when it comes to the use of technology in everyday transactions
- Self-employed as more and more people tap into their entrepreneurial spirit
- Happy to accept their lack of financial knowledge, and therefore more likely to listen to the experts
- Accepting of the fact they need to invest their money for the future as they have only ever known a low-interest and low inflation environment
- Renting, rather than owning a property

A confident approach to financial planning

Our recent **‘What’s your number?’ research < https://www.sanlam.co.uk/whats-your-number>** found these drivers are manifesting themselves in interesting ways. Millennials are more likely than older generations to have faced up to the realities of working longer, financing a costly retirement, and having to seek advice in setting financial targets. This has meant that:

- 21% of millennials think they will have to work beyond the state retirement age
- Millennials are three times more likely than average to consider covering residential care costs (the most underestimated retirement expense, according to advisers) as a key priority for retirement
- 77% say financial target setting is important (compared with 61% UK average), while 86% have already set targets
- 57% have spoken to a financial adviser, with 10% doing so in the past six months
- They are significantly more confident than other generations in their ability to build up a pension pot that will allow them to retire when they want (see chart below)

Source: *what's your number? (Sanlam UK, 2019)*

What does this mean for the future of financial planning?

In contrast to reports that suggest the millennial generation will sound the death knell for face-to-face financial advice, we think the future looks rosy for advisers and companies that can keep pace with the needs of this increasingly influential demographic. Here are just some of the opportunities emerging:

1. **A rise in socially responsible investing**

In 2008, the amount of global assets invested 'ethically' was around £4 billion. Ten years later, that figure has quadrupled to over £16 billion[1], and this trend looks set to continue. Indeed, 80% of millennials consider socially responsible investing important – the highest of any cohort in the research. This means that more and more investors will look for funds that don't just actively discount companies based on their practices, but also actively select companies based on their positive contribution to society. They will want to use their position as a shareholder to positively influence best practice, and investment companies and advisers will need to facilitate that.

2. **Technology will enable personal advice, but it won't replace it**

For some sectors within financial services, the appetite for technology solutions has been a game changer. Open banking has enabled customers to link and manage their spending habits in one place, meaning day-to-day money matters are front of mind like never before. There has also been a rise in online wealth managers providing non-advised online investing solutions, such as Nutmeg and Moneyfarm.

But experience has shown that while millennials are happy to bank online, investing for the future is quite another matter. If anything, evidence suggests that millennials are more eager than their parents to develop an ongoing relationship with a financial expert that can evolve as their circumstances change. It just needs financial advisers and investment companies to buy in to the longer-term value in these relationships.

For companies like Sanlam, integrating technology and phone-based advice has enabled us to provide ongoing expert help and advice to younger people, without forcing them to pay for a full wealth planning service. Our face-to-face wealth planners have even found that younger clients are keen to develop close working relationships – even friendships – to give them access to ongoing financial help and guidance. While that business may not be particularly fruitful in the short-term, it won't be long before those relationships pay dividends.

3. **Supporting the self-employed**

Gone are the days when everyone has a job for life with the pension to go with it. With increasing numbers of millennials becoming self-employed or setting up their own limited companies, the opportunity to provide boutique financial and tax advice grows. Entrepreneurial millennials will need to look after their own pension, protection and tax needs. For forward-looking advisers, this could be the start of a long and prosperous partnership between adviser and client.

A generation that can't afford to bury their heads in the sand

Millennials have arguably been the hardest hit by the 2008 financial crash. Growing up in a recession with limited education and job opportunities. They face the challenge of getting a foot on the housing ladder after more than a decade of rising prices. The state pension age has already increased once in their lifetime and is likely to do so again before they'll be eligible to receive it.

They don't have it easy, but what comes across in our research is that millennials get the message when it comes to financial planning. Let's hope this attitude to saving and planning for retirement from an early age continues. The rest of us should take note.

Sources

[1]Financial Times: https://www.ft.com/content/a1e55502-c25b-11e8-8d55-54197280d3f7