



## OLD NORTH STATE TRUST, LLC

### **Millennials Facing Heavy Debt Burden, Need Realistic View of Future**

In the satirical 1963 musical “Bye Bye Birdie,” the comic actor Paul Lynde lamented everything he thought was wrong with the young people of his era. “Why can’t they be like we were, perfect in every way?” he sang. “What’s the matter with kids today?”

Well, of course, the “kids” he was complaining about were the Baby Boomers, now either retired or preparing for retirement. Since then, several new generations of “kids” have come of age. The newest generation of young adults, the so-called Millennials, face a far different economic landscape than their Boomer grandparents did, one with considerably more employment uncertainty, often crushing levels of student debt, and a far more complex investing universe.

It can be tempting to think like Paul Lynde’s character and look critically at the economic judgment of today’s “kids.” But in fairness, the Millennial generation has the same range of savvy and naiveté, the same mix of good judgment and foolishness, as any other generation. So instead of a “get off my lawn” rant about “kids today,” let’s talk about the genuine challenges facing today’s twenty-somethings.

Uncertain career prospects and soaring student debt are two of the biggest. Even so, the youngest age group has, on average, less debt than most older Americans. That makes sense, considering that many Millennials haven’t yet started families and incurred mortgages, or are just starting to get into the housing market.

Federal Reserve data shows that, as of about a year ago, those under 35 carried an average debt of \$67,400. The highest debt loads, averaging about \$134,000, belonged to those between 35 and 55, who are in their peak earning years. Those Boomers who have reached retirement age, between 65 and 75, owed \$66,000. Lowest of all, not surprisingly, were the 75-and-up bracket, owing just \$34,500 on average.

Getting back to those under-35 debtors, only half of the average \$67,400 were mortgages. And maybe surprisingly, credit-card debt was a fairly narrow sliver of that total load. More important were car loans and debt incurred getting a college education. Average student loans for that youngest age group was \$14,800, 22 percent of their total debt.

While those numbers may not look terribly alarming, it’s interesting that some people don’t borrow at all. If those who owe nothing are taken out of the picture, average debt loads are drastically higher, topping \$300,000 for the under-35 crowd. That includes mortgages averaging around \$130,000 and, interestingly, debt for second homes in the \$100,000 range. Considering that less than 10 percent of all age groups own second homes, the actual amounts those people owe are much, much higher.

Looking at other age groups, still limiting the view just to those who have debts, we see that student-loan, credit-card and car-loan debt levels don’t change much. The big differences

between the youngest borrowers and their parents' generation is in the size of those mortgages, on both primary and second residences. And, increasingly as ages go up, an "other" category of debt starts to balloon. This includes borrowing against life insurance policies, pensions and other retirement accounts, a sign that income worries don't necessarily diminish with age.

For those who have outstanding student loans, average balances range from just under \$33,000 to \$37,000, even up to age 65-plus. What changes between age groups is how many are still paying off those loans. It's around 45% of people under 35, but steadily drops by about 10 percentage points for each 10-year age group. Those two trends imply that those with the biggest student-loan debt load have the hardest time paying it off, and that accrued interest can make that burden linger on even into retirement!

So, what does all this mean for Millennials? There's no single answer, because individual circumstances vary so widely. One important point is that it doesn't make good sense to take on large student-loan debt for a degree that isn't likely to generate significant income. It's true that big loans for medical school or law school are likely to be offset by significantly improved earning prospects. Graduate degrees in the humanities, by contrast, while often valuable for non-economic reasons, are far less likely to repay big debts.

Many young people are clear-eyed about this, understanding that they can't expect a single career to support a comfortable lifestyle like their parents or grandparents enjoyed. Today, it's common for people to change jobs every few years. Also, it's necessary to continue learning new skills to keep up with rapid changes in technology, markets, and workplace styles.

On the other hand, some Millennials seem willfully blind to those realities. *An example would be a person in their late 20s who might become a poster child for the economically heedless. They could have the fortune (or maybe misfortune) to receive a sizeable inheritance from their late father, who let's say was an attorney. The problem could be this young person expects to live like their father did when he was alive, but without earning the money their father did from the hard work of practicing law.*

*This young person's ailment is one that has afflicted self-absorbed young people in previous generations, of course. They're so dazzled by a big chunk of cash that they've lost sight of how it was earned, and the fact that it won't last forever. They will run through the inheritance by the time they're 30. This would be a hard reality for one to realize that the free lunch is over, and that just like their late father, they will have to work for a living.*

At any age, it's essential to have some understanding of economic realities, to look ahead and learn from the mistakes and successes of those who came before us, and to be mentally prepared for change and uncertainty.

Fortunately, it's not necessary to fly solo when it comes to navigating those economic realities or making informed predictions of the future. The financial-planning experts at Old North State Trust are ready to help people of all ages make the decisions now that will help ensure to safe, comfortable future.

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