

Understanding Young Adult Financial Security and What Enables It



TAXES
2779.19
1521.47
4109.37
3541.15
1784.90
7536.64
8456.90
80.26

350
475
350
475
350
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7500.00

MISC
425.66
Balance Due: 15000.00

UNDERSTANDING YOUNG ADULT FINANCIAL SECURITY AND WHAT ENABLES IT

FINANCIAL SECURITY MEANS HAVING A FINANCIAL SITUATION THAT PROVIDES SECURITY AND FREEDOM OF CHOICE.

While young adults have life-stage specific needs, our research finds that financial security and well-being² mean the same things to them that they do to all U.S. adults.⁵ Namely, that their financial situation provides them with the ability to **comfortably pay their bills, feel secure in their financial future, and be able to make choices that allow them to enjoy life.**^{6 7}

As with all adults,⁸ the specifics of what young adults want secure finances to enable in their lives are varied and personal, depending on individual preferences, their communities, and contexts. Many want a better future for themselves, their children,⁹ their families, and their communities. Focus group participants shared with us some of their own specific goals, including having jobs and careers with meaning and livable wages, starting their own businesses, having free time when they want it, not having to work 12 hours a day to afford basic needs, buying a home, and providing for their children and siblings.

["Financial security] feels like being comfortable and free—looks like just being able to pay all debts and bills on time and ahead of time, luxury of going out to eat and having a fun time."

— Focus group participant

Themes of **comfort, choice, freedom, agency and control, lack of financial stress and worry, and the ability to pursue one's specific goals** - whatever they may be, came through strongly in both the focus groups and key informant interviews when discussing what financial security means to young adults.

["Financial security means to me that] I have made money and used it to invest in other things that will bring me money in the future and bring my kids money."

— Focus group participant

In summary, financial security is a state of being. It is what a person experiences when their financial situation provides them with security and freedom of choice. As such, it is a "north star," the ultimate intended outcome of many types of financial security and economic mobility programs and policies.

FOUNDATIONS OF FINANCIAL WELL-BEING: FOUR MUTUALLY REINFORCING CONDITIONS SUPPORT YOUNG ADULT FINANCIAL SECURITY

To support youth serving organizations, funders, and policymakers in their work to advance the economic success of young people, Aspen FSP has developed a model of what youth and young adults need to have in their lives to experience financial security and to be on track for economic success at age 25 and beyond. To do this we drew on Aspen FSP's own work on the pillars of household financial security¹⁰ and related literature,¹¹ research on the specific developmental stage needs of youth and young adults,¹² publications describing the preferences, needs, and perspectives of young people,¹³ and thematic analysis of the key informant interviews and focus groups we conducted. This resulted in a new model of youth financial security that dovetails with established models of adult financial well-being, but accounts for the specific needs of young people during a relatively brief, transitional, and high potential period of their lives.¹⁴

² Aspen FSP has adopted as our definition of financial security the U.S. Consumer Financial Protection Bureau (CFPB)'s definition of financial well-being. As such, we use the two terms interchangeably.

What we found is that youth and young adults need four, mutually reinforcing, conditions to experience financial well-being and to be on track for financial security and economic success at age 25 and beyond.

Young adults need four, mutually reinforcing, conditions to experience financial well-being and to be on track for financial security and economic success at age 25 and beyond. **All four conditions are needed, none are sufficient on their own, and they interact with and reinforce each other in critical ways.**

1. **Financial stability.** As it is for all adults, financial stability is a critical foundation for young adult financial well-being. Financial stability means having enough of a financial cushion, broadly defined, to cope with everyday financial shocks, while still progressing towards financial goals.¹⁵ It is characterized by having income (from any source, such as labor income, living stipends or other forms of guaranteed income, or capital income) that exceeds the cost of living for young adults and their families, low or no harmful debt, and access to affordable, quality housing, child care, health care, transportation, and other basic needs. Other kinds of financial cushions that bolster financial stability include liquid savings, access to high quality credit, strong social networks,¹⁶ and quality public and private benefits.¹⁷
2. **Opportunity pathways.** Because youth and young adults are just at the beginning of their years of financial independence and bridging from adolescence to adulthood, on-ramps to adult careers and earning potential are key. These include access to affordable and effective post-secondary educational and training opportunities, as well as labor market on-ramps that will lead to stable and sufficient income throughout adulthood. Furthermore, to be able to engage in meaningful wealth building activities throughout

adulthood, young adults also need access to investible sums of money that they can use to purchase assets or make other investments in economic mobility.¹⁸

A critical aspect of meaningful access to opportunity pathways is for young people to have the financial support and stability—as the children of higher income, higher wealth families typically do—to be able to devote sufficient time to participating in and completing their education, training, or other personal development activities. Youth and young adulthood is a time of life when people need to be able to invest in themselves and their own development. Having to work long hours at a low wage job to financially support oneself and one's family is usually incompatible with having the time to successfully attend full time school or training, especially for people with caregiving responsibilities.

A final element of meaningful opportunity pathways is that for young people's hard work and investment in their own education, training, and development to result in economic success, they need access to labor market opportunities with good pay, benefits, and meaningful opportunities for career advancement. In other words, earning a good wage requires both personal skills *and* the existence of and actually getting hired into quality jobs in which to deploy one's skills.

3. **Financial capability.** Alongside structural access to financial stability and opportunity pathways, young people need the knowledge, skills, confidence, habits, and access to consumer-friendly financial products and services, to manage their day-to-day finances and navigate important, age appropriate, and personally relevant financial decisions, in service of their life goals. Researchers have found that adults with higher levels of financial capability (and financial well-being) have a money management style characterized by planning ahead, having a habit of saving regularly, spending less than their income, and maintaining a manageable debt load.¹⁹

The personal characteristics (i.e. know-how and confidence) that, along with inclusive financial systems,²⁰ comprise financial capability, stem from three interlocking components of youth development: executive functioning, financial habits and norms, and financial knowledge and decision-making skills. With age-appropriate opportunities and guidance, children begin acquiring these building blocks of financial capability as early as preschool and continue to develop them as teens and young adults.²¹ Financial capability experts cite peer learning groups as a particularly useful form of financial capability support for teens, and financial coaching as an effective model for young adults. They also note that financial capability interventions are most effective when young people have meaningful financial resources to manage, which is why they are increasingly delivered alongside employment and guaranteed income programs.²²

4. **Support and guidance.** Because youth and young adults are at a unique developmental moment, they also have a critical need—and desire—for support, guidance, and mentoring from caring adults and peers. This is a learning time of life, and young people need both *personally specific supports*—such as mental health services, support services for young parents, and education, career, financial and benefits system advising and navigation supports, and *developmentally appropriate approaches to learning*, such as scaffolding, coaching, and low-risk experiential learning. Because youth and young adulthood involve intense exploration, experimentation, and self-discovery, young people also highly value leadership and personal development opportunities, including the opportunity to advocate for themselves.²³

These four, interlocking supports of youth and young adult financial well-being are summarized in Figure 1.

Learn more about youth financial capability

Information on youth and young adult financial capability competencies and needs, as well as effective strategies to support teens and young adults, is available from the Consumer Financial Protection Bureau in their report [“Building Blocks to Help Youth Achieve Financial Capability: A new model and recommendations.”](#)

Information on the features of youth-friendly bank accounts is available from MyPath in their [National Youth Banking Standards](#). These standards were designed by MyPath to effectively engage youth employment program participants in banking and saving.

Young people say they need support and guidance to achieve economic success

LEAP Fellows’ views on some of what young people need to achieve economic success:

- “Having support from adults and peers to hear and get support and ideas for how to stay on track financially.”
- Support from other[s] to build an understanding of process - concrete tasks to help understand the stepping stones and demystifying them.”
- “Relationship-based supports, where you are treated like a human and reassured.”

