

# Wealth Generation: The Financial Challenges for Generations X & Y

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The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

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**Similar to the baby boom generation, members of generations X & Y have financial priorities that include **home ownership**, **funding post-secondary education** and **saving and investing for retirement**. Achieving these goals requires a different approach to developing and implementing a financial plan that resonates with generations X & Y.**

## Born into a Complex and Fast-Changing World

The pace of change in the world today compared to a generation or two ago can be illustrated by the speed of adoption of new technologies. In 2003, Apple launched iTunes<sup>1</sup> and after only five months, 10 million songs had been downloaded. Just over a year later the total was 200 million songs. By February 2010, a period of less than seven years, more than 10 billion songs had been downloaded through iTunes alone. Compare this with the relatively stable 400 to 500 million albums (including vinyl, 8-track, cassette and CD formats) sold each year throughout the 1970s and 1980s through all retail channels<sup>2</sup>.

## As some consumer prices fall, overall cost-of-living on the rise

Despite a huge increase in sales volume, overall revenue from U.S. music sales fell by almost 57% between 1999 and 2009<sup>3</sup>. Prices for technology hardware and software have also dropped considerably in recent decades. But as the price of hardware and software has fallen, the cost of many basic needs of generations X and Y have increased, often at a pace well above inflation.

For example, the cost of purchasing a home in Canada has risen from around three times the disposable income of the average household throughout much of the 1990s to nearly four-and-a-half times household income by 2011. Average home prices have doubled — and in some urban areas, tripled — during this period<sup>4</sup>. The increase in the cost of living, compared to what baby boomers experienced, will be one of the key factors that dramatically challenge the ability of generations X and Y to achieve their goals, unless they make the changes necessary to deal with this new reality.

## How Generations X & Y See The World

Stereotypes perpetrated by baby boomers — and by generations X and Y themselves — don't acknowledge just how similar these generations are. Generation Y (also known as the millennials) is largely perceived by other generations to be independent, confident, obsessed by social media, cynical and impatient, while Gen Xers are thought to be self-confident and demanding to have their opinions heard. This is in sharp contrast with the way that baby boomers are perceived. Baby boomers are considered to be loyal and manageable team players who

**The rate of **economic** and **cultural change** is exponential compared to a few decades ago.**

**Generations X & Y must deal with a new reality.**

## Generations X & Y By the Numbers

	Generation X	Generation Y
Born	1965 to 1979 <sup>6</sup>	1980 to 2000 <sup>8</sup>
Age Range	34 to 48	13 to 33
Population/ Labour Force %	22.9/32.7 <sup>7</sup>	29.0/23.7
Significant World Events	The introduction of the personal computer, dissolution of the Soviet Bloc, the establishment of the European Union, high unemployment in the 1990s	The internet, 9/11, economic and cultural globalization

are less adaptable to change, with less technological savvy than generations X and Y. Despite these widely differing perceptions, the generations have much in common<sup>5</sup>.

Both of these generations have felt the impact of the rise in divorce rates to over 40%<sup>9</sup>, two-working-parent families and the latch-key kid phenomenon, and economic boom-and-bust cycles that have had major implications for their employment opportunities. All of these events have affected how these generations feel about the world around them and their ability to move forward.

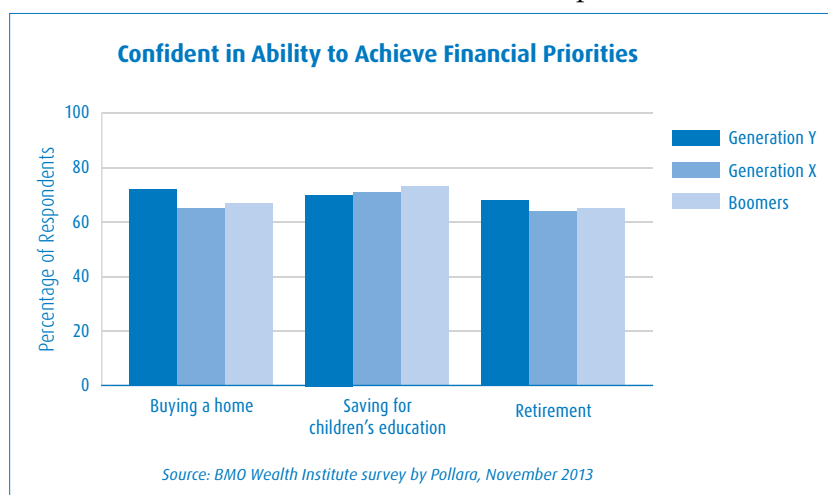
## The Big Three Financial Priorities for Generations X & Y

Generation X and generation Y have many financial concerns in common with earlier generations, including the baby boomers. Interestingly, in a survey conducted by the BMO Wealth Institute<sup>10</sup>, generation X, generation Y and the baby boomers all listed buying a home, saving for children's education, and preparing for retirement as their top three financial priorities. The following chart illustrates how similarly each of the three generations rank these priorities.

Despite widely differing perceptions, the generations have **much in common**.



**Three things in common: Generations X, Y and the baby boomers all listed **buying a home**, **saving for children's education** and **retirement** as three primary financial priorities.**



## Buying a Home

Being between the ages of 34 and 48, generation X is at a point where marriage, family and owning a home have become important priorities for many of its cohort. In the survey, the majority of both generations X and Y noted that they are confident that they will have the ability to buy a house in their lifetime. Members of generation Y surveyed were slightly more positive about this goal, having more confidence (72%) than generation X (65%).

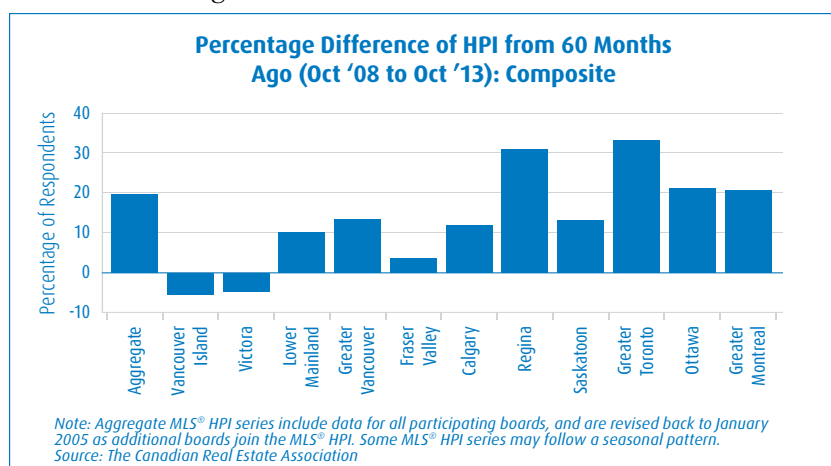
Some of the optimism shown by generation Y may be the result of not yet having considered the high costs of home ownership. Many in generation Y have only been in the workforce for a few years and are not yet focused on entering the housing market to purchase a family home. According to the Canada Mortgage and Housing Corporation, the average age of a first-time homebuyer in Toronto has been about 37 — still within the age range of generation X — for the past decade<sup>11</sup>. By its calculations, it will be at least 2016 before the first wave of generation Y

decides to enter the new and resale housing market in any meaningful numbers.

The real cost of home ownership in Canada has increased significantly since the time when baby boomers and generation X were purchasing their first homes. In the last 17 years, incomes have risen by just over 50% on average, yet according to the Canadian Real Estate Association average housing prices have more than doubled in this same period. Generation Y is faced with the uncomfortable reality that the average house in Canada now costs nearly eight times the average pre-tax annual income of a person with a full-time job. Back in 1997, it only cost about five times the average pre-tax income<sup>12</sup>. Home prices have jumped recently, with about 20% of the increase occurring within the last five years<sup>13</sup>. The accompanying chart shows that averages only tell part of the story. Some cities experienced increases of over 30%, while others were flat to slightly negative over the period.

**The first wave of generation Y is not expected to enter the new and resale housing market until**

**2016**



**Generation Y will have to work harder to save more than earlier generations to accomplish the goal of home ownership.**

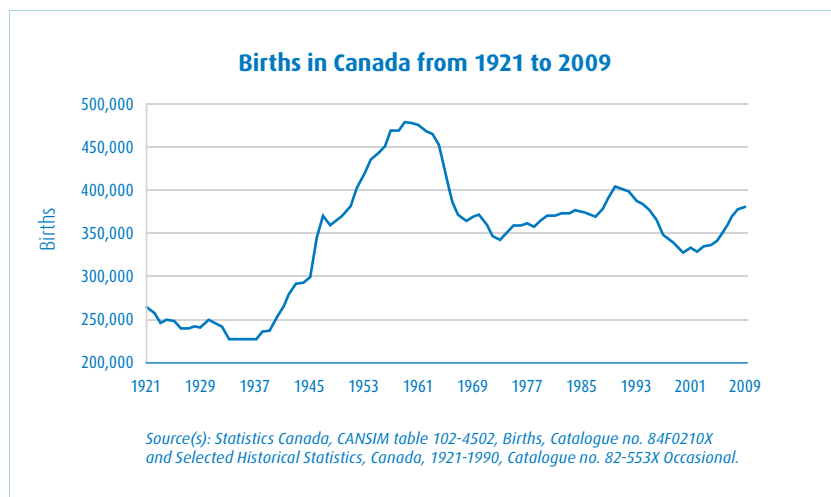
### Saving for Children's Education

The number of children born in Canada each year has fluctuated significantly over the last century. The attached graph from Statistics Canada<sup>14</sup> shows several peaks, including the postwar baby boom (reaching almost 500,000 annual births) and a secondary peak in the early 1990s that has been called the echo boom.

### Delaying Having Children

All three generations are also having their children later, on average, compared to previous generations. Statistics Canada noted that between 1971 and 2001 women were delaying having children to pursue higher education, for better career opportunities and to improve their work-life balance<sup>15</sup>.

**7 in 10**  
generation X & Y members  
are confident that they  
would be able to pay for  
their children's education.



This second peak is at the midpoint of generation Y. Generation X and the early part of generation Y are now at the point where saving for their children's education has become a priority. They are saving now to help their children in what will become a more competitive environment given the increase in birth rate that can be seen starting in 2001. In the BMO Wealth Institute survey, of the generation X and generation Y respondents that have or plan to have children, 7 out of 10 expressed confidence that they would be able to pay for their children's education.

This delay will result in many in generation X and generation Y becoming "parensoners", meaning retirees/pensioners with younger children still living in the home<sup>16</sup>. As their children get closer to attending post-secondary education, parensoners will have the additional challenge of balancing their desire to fund their children's post-secondary education with their own need to afford a retirement that may have already begun.

### Retirement

While retirement may be many years ahead for them, it is a subject of considerable interest to generations X and Y.

**Having children later in life is putting pressure on boomers as well as generations X & Y as they balance the financial pressures of saving for their retirement while paying for their children's post-secondary education.**

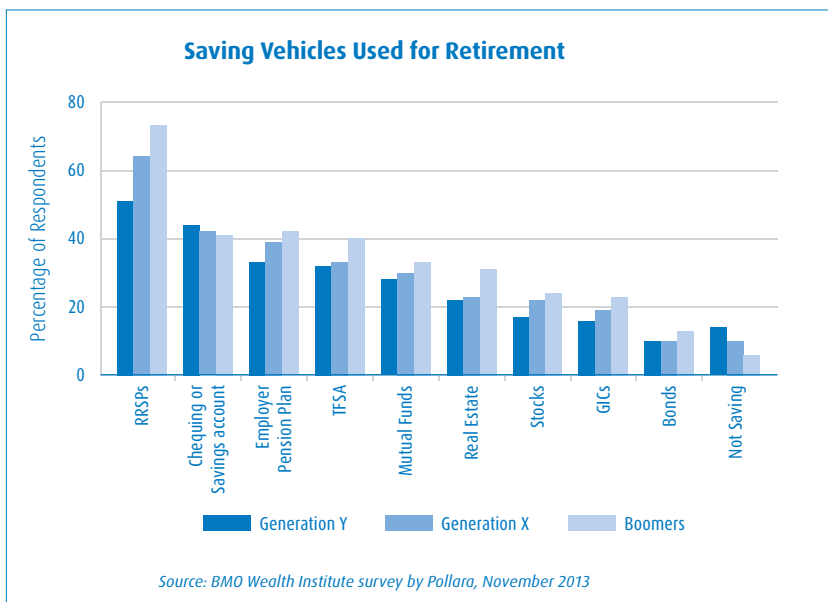
According to the survey, 65% of those surveyed had some level of confidence that they will be able to retire comfortably when they choose. In fact, 26% of the generation Y are very confident of retiring comfortably, yet only 17% of generation X and 16% of the baby boomers have the same high level of optimism.

When it comes to actually saving money to prepare for retirement, the results of the survey were not consistent with the level of confidence shown by generation Y. The following table shows that generation Y does not use or have access to the most popular retirement savings vehicles to the same extent as either generation X or the baby boomers. In fact 14% of generation Y said that they were not saving for retirement at all, as compared to only 10% for generation X and 6% for baby boomers.

Some of this difference can be explained by the fact that many employers no longer offer defined-benefit pension plans to their newer employees. There is also greater employment mobility, so fewer younger employees are qualifying for company pensions. This underutilization of available retirement savings options is especially concerning as the BMO Wealth Institute survey also showed that generation Y and generation X plan to retire two years earlier than the average baby boomer (at 61.7 years of age rather than at 63.7 years of age).

The combination of less savings for retirement, less access to company pensions, a planned earlier retirement age, ongoing education savings, and increased costs for basics such as food and housing leave generation X and generation Y

**Despite their confidence in retiring in relative comfort, generation Y demonstrates the **lowest use** of retirement savings vehicles and savings rates.**



with a much lower probability of achieving their retirement goals than the baby boomer generation before them. The end result is that it is very likely that generation X and generation Y will have to save more efficiently and work more years than the baby boomers did.

#### **Support for Parents**

Providing financial or other support for their parents is not yet a priority for generation X or generation Y as many of their parents are still working and in good health. It is much more of a concern for the baby boomers, as many of them have parents who have retired and are at an age when health concerns can become significant.

### **Need for a Financial Plan**

With all these competing goals, it is becoming more important for generations X and Y to engage in financial planning. In fact, rising costs and a desire to achieve goals earlier than the baby boomers did mean that financial planning has to be undertaken with an urgency unseen in previous generations. Financial planning helps to prioritize goals and sets effective savings strategies designed to meet goals within a planned period. Both generation X and generation Y understand the importance of financial planning with 93% and 95% rating financial planning as important to the long-term

financial security of them and their families. Yet in reality, only a fraction of those asked actually have a financial plan. Only one-third (35%) of both generation X and generation Y have financial plans, but almost half (45%) of baby boomers report that they have a financial plan. This gap between understanding the importance of a financial plan, and actually having one is a strong sign that generations X and Y have to take active steps to improve their financial situations.

### **Building Values and Making Decisions**

Generations X and Y are not only active adopters of technology, they are also more strongly influenced by the information that is available in their digital worlds than earlier generations. Generation Y is almost twice as likely to gain access to the wide availability of digital information by purchasing the latest TV / entertainment system or smart phone (iPhone or Android-based) when compared to baby boomers<sup>17</sup>. Generation Y is also much more likely to research and purchase these items online.

### **Digital Sourcing for Generation Y**

Electronic information sources of all kinds influence generation Y more than prior generations.

**In general, generations X & Y will have to save more and **work longer** to attain the retirement lifestyle they envision for themselves.**



<http://www.bmo.com/home/personal/banking/financial-planning/day-to-day-finances/overview>

**A majority of generation X & Y understand the importance of financial planning but **only 1/3** have a financial plan.**



Generation Y highly values the texts, emails, and social media interactions that they receive directly from friends, family and peers about many products, and acts on this information. While the baby boomer generation does use texting and social media, it uses them to a lesser extent than generation Y and generation X<sup>18</sup>. Generation Y is also much more influenced by search engine results than by the direct advertising favoured by baby boomers.

## Connecting with Generations X & Y

Even though there is much more information available than ever before, especially through all of the newer electronic channels, generation Y and generation X appreciate clarity, transparency and the opportunity to learn something new in the product information delivered to them. Messaging that is overly complex or that doesn't tell a clear story is quickly dismissed as a relevant source of information<sup>19</sup>.

### Greater Use of Text Messaging & Social Media

When it comes to receiving information that will help with making decisions about their financial situations and financial services purchases, the generations show similar tendencies to the way they

purchase the latest electronics. Generations X and Y are much more comfortable interacting with their financial advisors via text messages (59% vs. 43%) and through social media (45% vs. 18%) than baby boomers. In fact, generation X and generation Y are almost twice as likely to say that they collaborate more effectively with their financial advisors through technology (62%) than baby boomers or earlier generations (33%)<sup>20</sup>.

## A Generation of Spenders or Savers?

Spending habits are a key area where the generations express criticism of each other. Generation Y is specially targeted as there is a perception that they are less careful with their money than the earlier generations. Surprisingly, the BMO Wealth Institute survey results showed that both generation Y and generation X are more likely to have a monthly spending plan or budget than baby boomers. When asked in the survey if they have a monthly spending plan or budget, 77% of generation Y responded affirmatively, 79% of generation X agreed, but only 72% of the baby boomers did so.

How well generation Y sticks to their budget is a good question.

**When it comes to digital technology and online retail, generation Y is more **savvy** and **engaged** than any other generation.**

**Generations X & Y value **clarity** and **transparency** over complexity when evaluating information.**



A much greater proportion of generation Y admitted to sometimes making impulsive purchases (79%) as compared to generation X (70%) and the baby boomers (only 59%). Furthermore, generation Y was more likely to sometimes regret their purchases (67%) than baby boomers (45%).

### Shopping Habits

Apart from these impulse purchases, there is evidence that the shopping habits of the three generations are quite similar. When asked in the survey if they shop around and compare prices before making a purchase, approximately 95% of each generation agreed. Furthermore, when asked if they are able to say “no” to purchasing something they really wanted even though it was too expensive, a very similar 95% agreement level was seen across the three generations.

## Not Setting Something Aside for the Unexpected

Building a budget is very important because it can help to prepare for the unexpected. With the economy showing some signs of improvement, the fear of job loss may not be as high today as it has been in the past few years. The rate of unemployment in Canada is down from its recent peak of

about 8.5% in 2009, but it is still relatively high at around 7%.

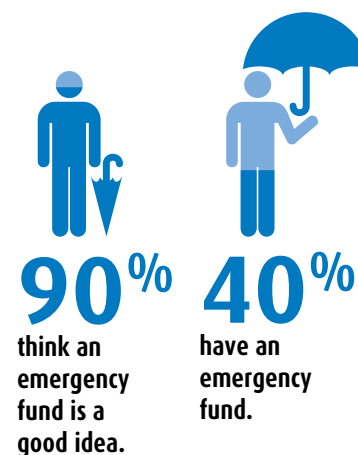
One of the best ways to protect from the financial implications of being “downsized” is to set up and maintain an emergency fund equal to at least 3–6 months of regular expenses. All three generations agree (with an very high average of 93%) that emergency funds are important for long-term financial security. What differs though is the implementation and maintenance of an emergency fund. Only about half of those surveyed actually have emergency funds (44% of generation Y, 43% of generation X and 51% of baby boomers). This is a real concern that should prompt immediate action as similar low percentages of those surveyed believed that they could actually live off their savings if they lost their job.

## Employment History

A major concern for generation Y is the struggle that they face to find a job in the field in which they trained, while accumulating significant student loan debt. Even though earlier generations characterize generation Y’s work ethic negatively, history indicates that the unemployment rate experienced by the baby boomers, generation X and generation Y when they were younger workers (aged 15 to 24 years) were surprisingly

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**Baby boomers and generations X & Y understand the importance of setting aside 3-6 months of expenses in an emergency fund yet few actually save for a rainy day.**

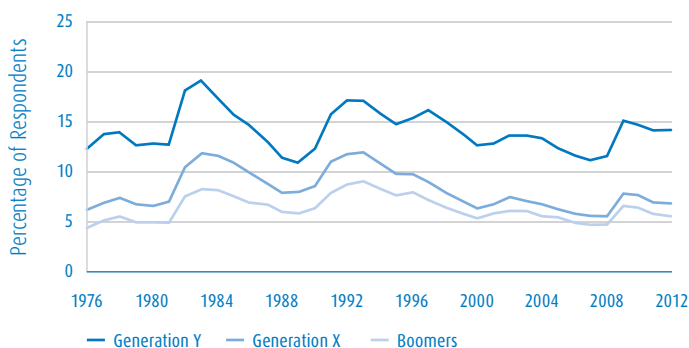


similar, at about twice the rate of unemployment in the general population. The attached graph also shows that as a percentage, the baby boomers actually had higher peaks of unemployment in their younger years (just over 19% in 1984) compared to both generation X (about 17% in 1992) and generation Y (almost 15% in 2009)<sup>21</sup>.

dollar terms is even more troubling. A 25 to 34 year-old living in Vancouver made the equivalent of \$38,335 in 1981, compared to only \$34,633 in 2006, both in inflation-adjusted dollars<sup>22</sup>. It is believed that this inflation-adjusted comparative has dropped further in more recent years given the trend towards part-time, temporary

**Lack of good employment prospects, accumulation of student debt, lower real wages and higher living expenses create *unique financial pressures* for generation Y.**

**The Unemployment Rate Has Always Been Higher Among Young People**



Source: Statistics Canada, Labour Force Survey, 1976 to 2012

## Working More for Less

What these unemployment statistics don't show is that the median hourly wage (adjusted for inflation) for generation Y is lower than it was for the baby boomers (about 13% lower for men and 8% lower for women). Putting these amounts in real

and contract work at the expense of permanent full-time jobs. Combining a lower real wage with increased expenses, especially housing costs, leaves generation Y in a much more difficult financial position than either of the preceding generations when it comes to achieving the future they desire.

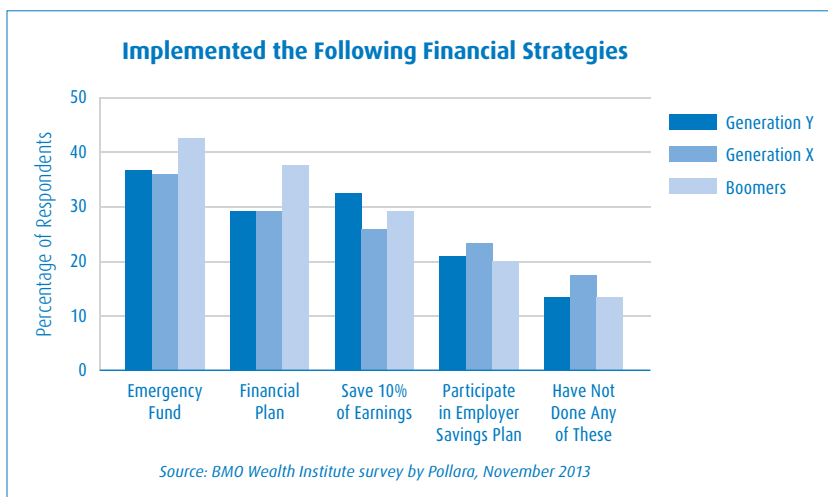
## The Discipline to Save

It is important for both generation Y and generation X to get into the habit of saving for the future, with the economic environment described above showing difficult challenges ahead. Savings accounts such as Tax-Free Savings Accounts (TFSA) should be more widely considered as emergency funds. Only 32% of generation Y and 33% of generation X surveyed had these accounts and benefit from the tax-free growth and flexibility they offer. Retirement accounts should be put in place, with a regular plan of monthly contributions.

## Protecting from the Unexpected

When it comes to protecting themselves and their families from the unexpected, the surveyed members of generation X and generation Y have expressed a very high understanding of the value and importance of having life insurance and health and disability coverage. About 90% of generation Y and X surveyed rated life, health and disability insurance as important for the long-term financial security of them and their families.

**Greater knowledge of life, health and disability products would be beneficial.**



There has to be a balance between spending and saving in order to meet current needs and long-term goals. The development of a financial plan to help get the right balance is an important step in gaining more control and financial security.

While both generations ranked life, health and disability insurance very highly, their familiarity with these coverages was much lower. Only 73% of generation X and 75% of generation Y said they were familiar with life insurance. This demonstrates an opportunity to learn more about the benefits of such coverage, and the affordability of coverage resulting from the younger

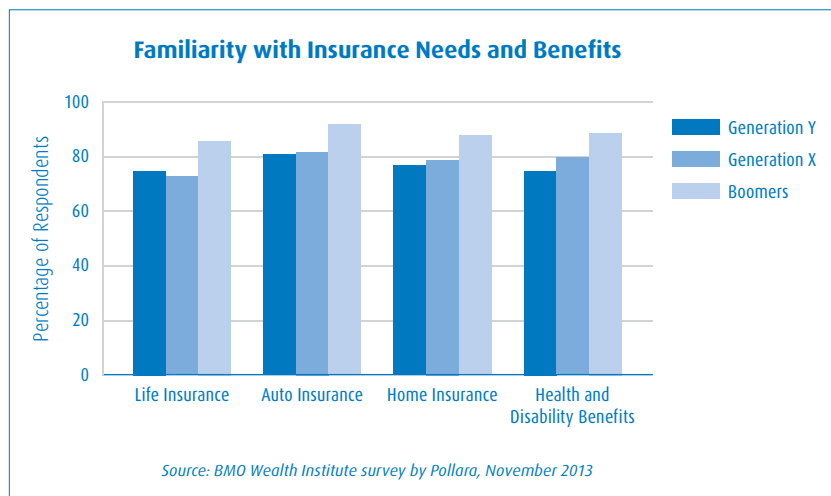
age of these two generations.

When compared to baby boomers, generation X and generation Y are not as familiar with the different types of

## Conclusion

While the BMO Wealth Institute survey shows that there is a solid understanding of the importance of planning for a

**Generations X & Y would benefit from knowing more about the coverage they already have as well as other stage-of-life appropriate insurance products.**



insurance policies that they already own.

The table above shows the difference in understanding of the three generations for their home insurance, car insurance, and employer-provided health and disability insurance. In each of these cases there are opportunities for generation X and generation Y to learn more about the coverage they have, coverage that would be beneficial to acquire, and how these products can help them should any unforeseen event occur.

financial future that will meet personal expectations, the implementation of the financial components necessary to achieve personal goals still falls short for many in generation X and generation Y.

We believe proactive planning and professional advice go hand in hand. By working with a BMO financial professional who understands the importance of addressing financial priorities, members of generation X and generation Y can receive advice that is tailored to their individual needs and start to plan for a financially stronger future.

**While many in generations X and Y do have a budget, a very important next step would be to develop — and then implement — a basic financial plan.**

## Footnotes

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