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Generations and Their Money: Do You Fit the Profile?

Today's America is a melting pot, not only in its ethnic, religious and socioeconomic diversity, but also in its generational makeup, with people who came of age in the early decades of the 20th century mixing with youngsters who were born in the late 20th or early 21st century.

Nowhere are generational distinctions more evident than in the handling of money. Ultimately we are all products of our experience, said Bhaj Townsend, CFP®, CLU, ChFC, founder of Focus and Sustain, in Kirkland, Wash. "Generational spending depends on two main factors: habits learned and habits observed — whether the wealth grew, stayed the same or was diminished as it effected the receiving generation."

One way to better understand ourselves and the people around us, as well as where our country has been and where it's headed, is to examine how each of the four largest generations in America today handle their financial lives, from their spending and saving habits to their approaches to debt to their attitudes about passing assets to succeeding generations. Here's a generational breakdown:

Traditionalists, or the Silent Generation: Born in roughly the 1925–1945 timeframe, this is a generation shaped by the Great Depression and World War II. They tend to be heavily cash-reliant and averse to spending what they don't have (taking on debt), explains Townsend. With the hardships of the Depression looming large, frugality and an emphasis on saving money are hallmarks of the Silent Generation, she said

For them, legacy is also important. "They tend to be more concerned about what's going to happen to their money when they're gone," Townsend explains, "and they're concerned about how generations after them handle money."

The Baby Boomer Generation (1946-1964). The Boomer Generation has prided itself on taking a different route from their parents, including their handling of finances. This huge generation is considered more credit-savvy (and thus, perhaps more reckless with their money) than preceding generations. Some point to the spread of gaudy McMansion housing developments as a manifestation of Boomers' reckless materialism and their rebellion against the frugal practicality of their parents.

Boomers' shared sense of financial idealism — that their investments (in real estate, in the stock market) were destined to perpetually grow in value — was dashed by the recent series of financial downturns, the most recent one particularly. As the generation closest to retirement, the 2008 financial meltdown was especially ill-timed and damaging, but also constructive. "They're now seeing the value of being in control of their money behaviors," said Townsend. "They're also having to shift into conservation mode with their money."

Boomers generally are less inclined than the Silent Generation to view 60 or 65 as a firm retirement age. Some need to keep working to restore their retirement nest eggs; for others, staying active in the workforce is more of a lifestyle choice.

Generation X (born roughly between 1965-1976). Gen Xers came of age straddling the world of checkbooks and cash on one side, and the plastic-centric world of online transactions and debit cards on the other. “On one level,” said Townsend, “they’re used to having easy access to money and credit, because that’s what their parents had. But I think that on another level, they’re more interested in conserving cash than perhaps their parents have been.”

With greater access to money, Gen Xers have struggled not only to establish what money means to them, but also to find the tools to manage their money, given their financial priorities. Having witnessed the recent damage inflicted to their parents’ retirement nest eggs (and their own), Gen Xers are more tempered in their expectations — of how their investments will perform, and of whether they’ll ultimately end up doing better than their parents did financially.

Generation Y/Millennial Generation (roughly 1977-1995). Like the Silent Generation, Millennials are coming of age in a period of financial upheaval, and at a time where for many, finding a well-paying job (or any job at all) isn’t a given, it’s a struggle. What’s more, many Millennials have been forced to live with their parents as adults.

Millennials may be more financially grounded as a result of these struggles, said Townsend. “They are echoing Baby Boomers in wanting to do things differently. They’re questioning whether they need that McMansion and they’re looking to buy things that last a long time — they’re conserving money to buy the grains instead of the bun.”

That behavior is partly a backlash against the easy-money, debt-reliant mindset that contributed to America’s recent financial tailspin, Townsend asserts, and partly a result of witnessing their own generation and others struggling financially of late.

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