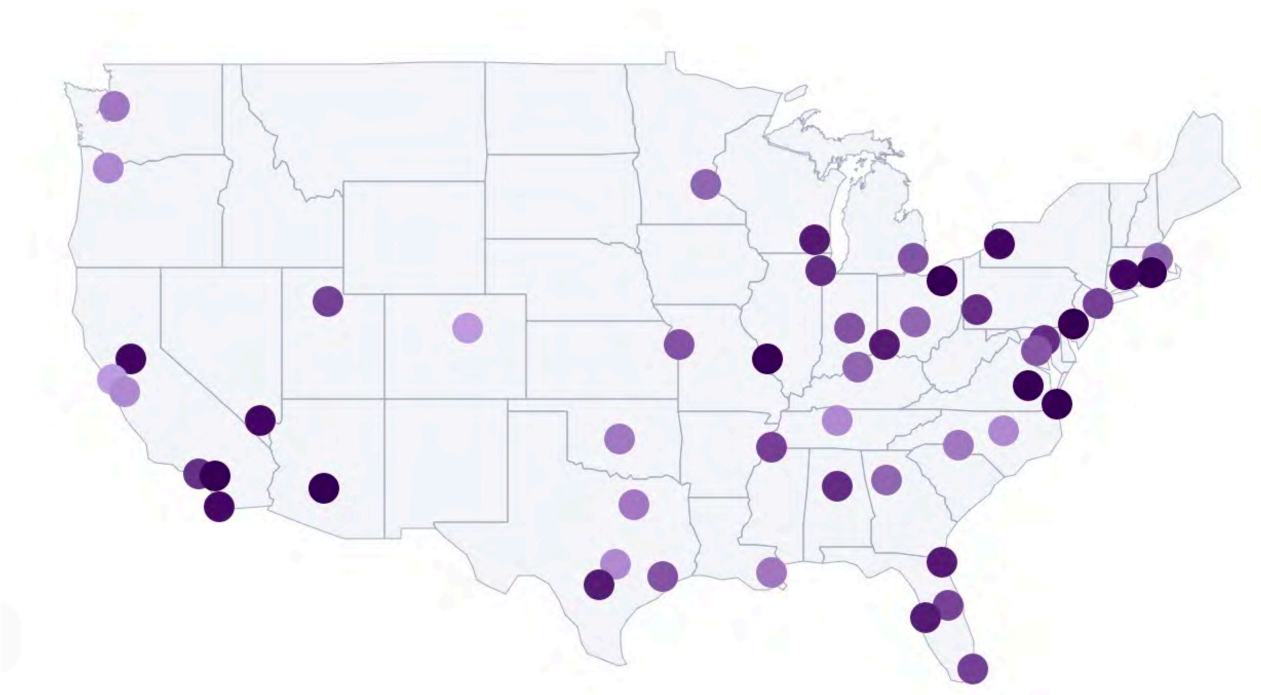
Legal & General U.S. Housing Study

2021 U.S. Millennials and Home Ownership - A Distant Dream for Most: Part 5



Student Debt and Cost of Healthcare Turn Saving, Credit Building Into a Vicious Cycle for Millennials

- **36 percent of millennials report that student debt is a major barrier to saving for a home down payment**
- **23 percent are strongly impacted by student debt**
- **While 45 percent of millennials hold saving for a down payment as their 1st priority, 26 percent would first fund paying off their student loans**
- **12 percent would first pay off their medical debt**
- **60 percent of millennials surveyed carry their own health insurance**
- **Survey subjects repeatedly call for cancellation of their crippling student debt**

We've been researching the plight of U.S. Millennials in trying to get onto the home ownership ladder, and in this fifth part of our study, we will look at the role of student debt, and to a lesser but related extent, medical costs, in keeping this generation from saving enough and building sufficient credit to buy their own home. In the previous four parts of this study, Millennials and Home Ownership, A Distant Dream for Most, we have delved into several of the other obstacles this generation faces in reaching their goal of buying a home, from the increasing lack of affordability of housing in big urban and suburban areas; to where the three different millennial age cohorts would prefer to live; the effect of the pandemic on homeownership plans; and the role played by wage stagnation and the massive divergence between the cost of houses and income growth. Our most recent segment of the study, Part 4, Mind the Gap: The Intergenerational Home Ownership Blues, looked at the complicated and disempowered attitudes millennials hold toward older generations and other factors that limit their access to affordable "starter" homes.

Medical Debt and More Individuals Shouldering Healthcare Costs

Healthcare insurance in the U.S. has traditionally been a benefit provided by corporations to their employees. However, a number of factors, from the Great Recession to the rise of the Gig Economy, have affected the degree to which Americans were covered during this critical time. During the recession of 2008-2009, loss of jobs and declining incomes meant that across all demographics, fewer Americans were insured. But more broadly, with the enactment of Affordable Care, many insurance decisions fell onto individuals seeking the best and most affordable coverage for themselves. Many turned to high-deductible plans, wherein the portion of the medical bill not covered by insurance falls on the shoulders of the individual insureds, in many cases unexpectedly.

Top 6 Insurance policy types held	
Health	60%
Auto Liability	45%
Auto collision	44%
Comprehensive auto	43%
Renter's insurance	39%
Life	31%

Source: Legal & General survey

Millennials are often afraid to call an ambulance in an emergency, as the average is cost is over $1,200.
Source: depositphotos.com

Lack of medical insurance, surprise medical bills, emergency services – these have all contributed to medical debt among millennials. A recent survey commissioned by HealthCareInsider.com found that the likelihood of millennials reporting a surprise medical bill was significantly higher than that of Generation X or Baby Boomers. In the HealthCareInsider.com survey, looking at the prior year, (2019-2020), 35 percent of millennial survey subjects had received a surprise medical bill, and 51 percent of those who had received such a bill reported that it was over $2,000. Out of those, 57% of millennials surveyed said they had $3,000 or less in savings out of which to pay the bill, while 22 percent indicated that they had no savings. These are hardly the circumstances for building sufficient savings to afford a down payment on a house.

The Spike in Student Loan Debt

Next, we look at an issue which has arguably affected the millennial generation more adversely than any other age cohort: student debt. As of November 2021, Americans owe $1.75 trillion in student loans. The skyrocketing cost of college tuition at a crucial point in their lifetimes, along with other catastrophic economic events, have indeed left many millennials financially crippled. As mentioned, medical expenses and debt serve as a similar obstacle to saving for a down payment on their own homes and, in many cases, building credit. Our research surveyed only millennials who were not yet homeowners; we hope that looking in depth at these quintessentially American social issues will help uncover some of the reasons why. Here's one unadorned comment we heard that sums it up:

> "College debt makes buying a home difficult."

It Takes a Down Payment to Buy a House

… And to get to a down payment you need to have savings of tens of thousands of dollars. Our study uncovered that for 45 percent of millennials, funding a down payment for a home is their top priority. However, when asked the question, "Which would you fund first?" an additional 26 percent—over half as many—said they would pay off their student loans before anything else. And another 12 percent said the same about their medical debt.

Student and medical debt impact	
Call student debt a major barrier to saving for a down payment	36%
Say they are strongly impacted by student debt	23%
Hold paying off student debt as first priority	26%
Hold paying off medical debt as first priority	12%
Carry their own health insurance	60%

Source: Legal & General survey

Our millennial-aged survey respondents told us:

> "… my wife and I both have a significant amount of student loan debt that is taking priority over us saving for a home. We have managed to save about $10k but realistically we need $50-$100k for a down payment where we live."

> "My generation is at a distinct disadvantage, having been saddled with large student loans and coming of adult age during the Great Recession, which severely impacted wage growth and opportunity for wealth accumulation in our early 20s."

Down payment funding and saving	
Not saving for a down payment	52%
Saving for down payment	48%
Those who hold saving for a down payment as their first priority	45%
Plan to fund exclusively or mostly from their own or partner's savings	80%
Plan to use family loan, gift or inheritance to fund down payment	22%
Among savers, those who can't buy yet	55%
Don't have a savings account or plan	36%
Have a savings account	36%

Source: Legal & General survey

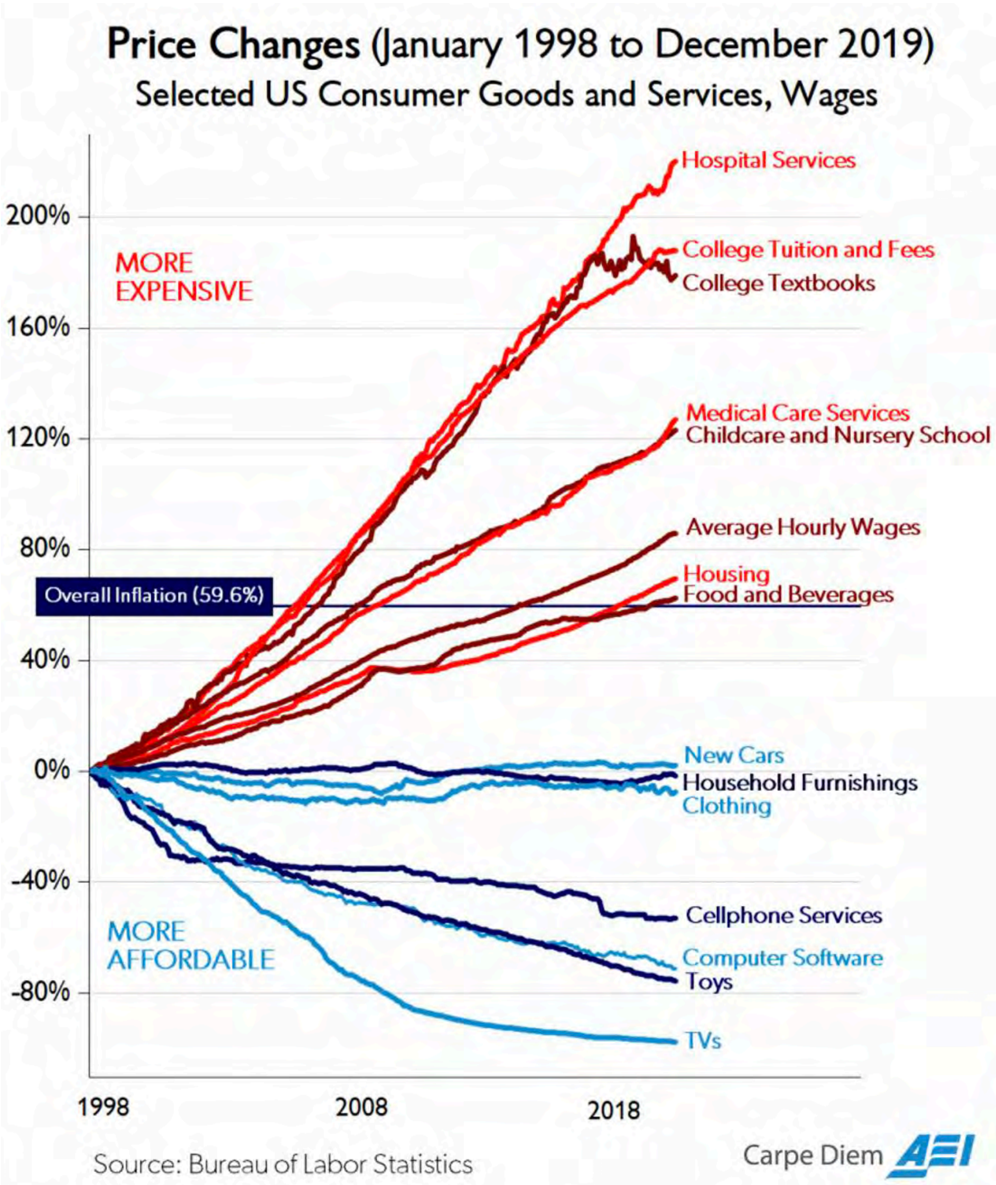
Millennials who don't have the benefit of help from family, whether in the form of gifts or loans through the Bank of Mom and Dad (BoMaD) or inheritance, are indeed at a disadvantage in accumulating the sort of wealth afforded by becoming property owners. Unfortunately, this group is also more likely to have had to fund their own educations. While the trope of self-made Americans putting themselves through college is as iconic as the 1966 Mustang, at some point when millennials were coming of age—some mark it around the turn into the new millennium—that part of the American Dream got a lot harder. Here are a couple of comments from our research that point toward this attitude—and for some, reality:

> "Y'all tricked me into thinking I needed degrees instead of anything else in life that matters. My life pretty much ended at 18. I'm an indentured servant to corporate America, at best."
>
> "Don't go to college."

Both College and Medical Care Became Unaffordable Faster Than Housing

Our research found that a significant portion of college-educated millennials feel student debt has affected their ability to buy a home. Among those we surveyed, 36 percent reported that it has "strongly or very strongly" impacted their plans, while 23 percent went right over into "very strong impact" territory. Let's look at how this happened, and why millennials in particular have been so strongly affected by the cost of education.

It was around 1998 that U.S. colleges and universities began aggressively hiking the price of their tuition and fees. The chart below, based on data from the U.S. Bureau of Labor Statistics, shows massive tuition inflation from 1998 until just before the pandemic—inflation that handily outstrips the rise in the price of housing and medical care services, though those too have risen sharply during the years millennials were coming of age. The only area of inflation worse than college tuition and fees is hospital services, which indeed are responsible—emergency room visits in particular—for the majority of medical debt strapping many millennials and other Americans.



How have colleges gotten away with these steep tuition hikes? A Boomer going to college in the late 1970s or early 1980s expected to pay, at the outside, $13,000 a year for the best private university—tuition and all fees included. Now that figure is closer to $75,000 a year. What happened?

Aside from the unsustainable business model adopted by many campuses—too numerous and overpaid administration, pie-in-the-sky building projects, etc.—one key reason analysts give for the runaway tuition inflation during this period is the ready availability of subsidized student loans. A decade before this chart begins, William J. Bennett, who was then Secretary of Education, wrote in an article entitled “Our Greedy Colleges”: “… Increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase.”

In the case of the average 18-year-old millennial choosing among just a few colleges at best, this 'cushion' also allowed a college to hold out on offering its financial aid package until after the student was admitted, leaving them little time to decide and no leverage to negotiate. This time-crunch game of chicken left incoming students few alternatives by the time they saw how much their education was actually going to cost them—and allowed, even encouraged, colleges to take a miserly approach to giving them true financial aid. Universities were able to pass off student loans as "aid," and many a college financial aid officer to this day will gravely look a student and her parents in the eye and say, "Everyone takes loans. It's just what's done, if you want an education…"

Aerial view, Harvard University: four non-indebted years was too much for most millennials to hope for.
Source: depositphotos.com

Millennials were the first generation to have their backs up against the wall with this unhappy choice between massive debt or no education. Then as now, education was considered a leg up to a better job and a better life, as echoed in some of the comments we heard through our survey:

> "I expect home ownership to be lower for people of my age because of student loans coupled with instilled independence (sometimes to a fault). I'm an outlier in that my family was able to cover college for me."

“I have long since accepted that I'm never going to be able to own a home. I have too much student loan debt, and I have not had any luck finding a job that would allow me to own a home.”

“I would love to be able to afford a home, and while I still (naïvely) hope and plan to, realistically it will be a LONG time before I am able to, because even working as a professor, having multiple degrees, supposedly being a professional, I don’t even make 50k a year. It is impossible to truly save for retirement, pay off student loans, and save for a home all independently.”

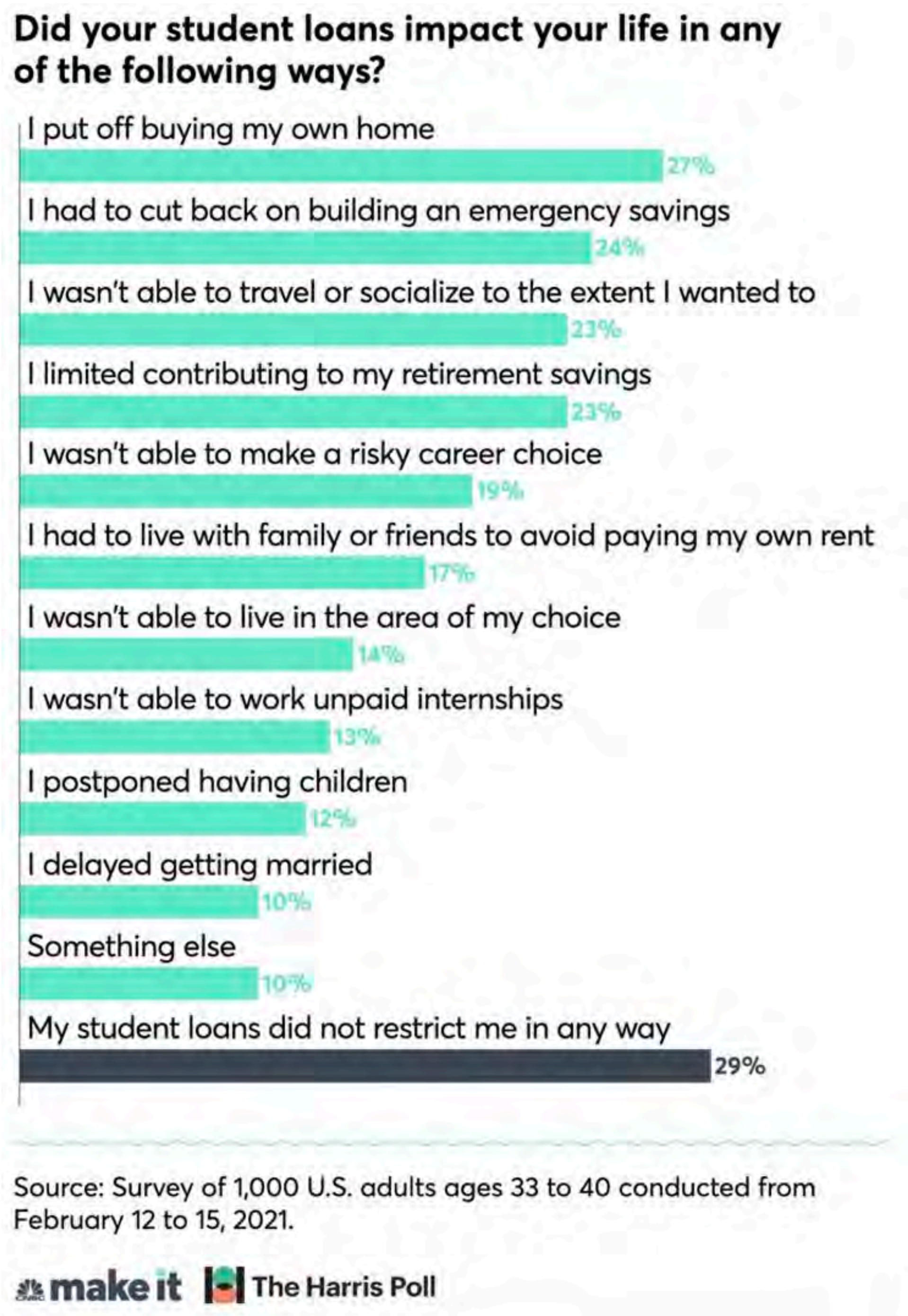
Recent research presents evidence that the next crop of students and employees, Gen Z, are more likely to become homeowners by taking a different approach to spending and saving. Having watched their millennial siblings and friends dealing with the consequences of student loan debt, some of them are playing hardball with institutions of higher learning to get more free and clear financial aid, while others are gunning for their employers to cover their student debt; still others are buying fixer-uppers in affordable cities and offsetting mortgage costs by taking in roommates.

Millennials’ Spending Priorities	
Eating + drinking out	69%
Groceries	68%
Entertainment	38%
Clothes	28%
Technology	18%

Source: Legal & General, 2021

Student Loan Debt Also Impacts Other Modes of Saving and Planning

A Harris Poll conducted in February 2021 showed that only 29 percent of millennials surveyed were not in any way restricted by student loans. The remaining 71 percent named among the top impacts: putting off buying a home (29 percent); cutting back on building emergency savings (24 percent); and limiting contributions to a retirement plan (23 percent). One in ten even delayed getting married because of the crushing debt from their student loans.



While saving is on a distant wish list for many millennials, one more overwhelming financial aspect of their economic "deal" is a lack of ability to plan financially for a future. Our research showed that almost one half (47 percent) of millennials who are not yet homeowners are not contributing to a retirement plan, either. Of those who are, 41 percent have a retirement plan through their jobs. The data showed that those without retirement plans are not likely to start retirement plans—meaning that half of those we surveyed are heading into a future without retirement plans.

Bucket List Top 5 (all millennial cohorts)	
Get Healthier/lose weight	66%
Own my own home	52%
Achieve a wealth goal, e.g. pay off student debt	51%
See a natural wonder	47%
Travel to an exotic location	47%

Source: Legal & General survey

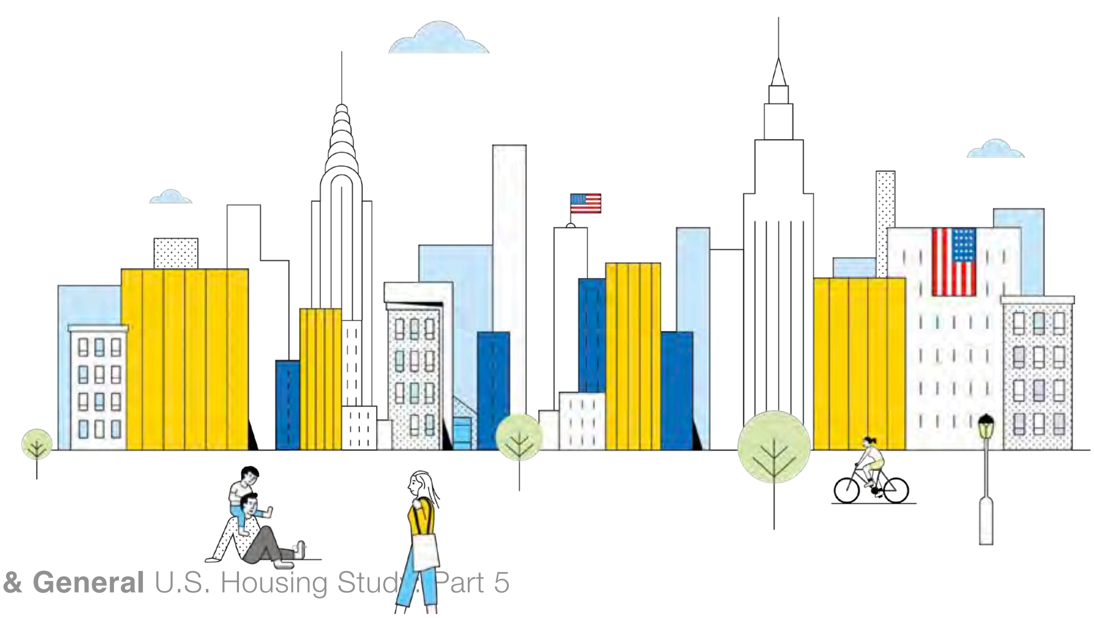
Student loan debt further adds to the economic imbalance. There's a huge disparity between those with higher education (45 percent) and those without (21 percent) having a retirement plan through their employer. However, 43 percent of those with higher education are not contributing to a plan, while a whopping 65 percent of those without higher education are not contributing. It would seem that retirement plans are way down the list of saving priorities for millennials—a distant goal—after paying off student and medical debt… and buying a home.

Is Relief In Sight For Student Debt Holders?

Another puzzling question about the student debt crisis for U.S. millennials is whether the current Administration is going to make good on its promise to cancel student debt. Viewed through the corridors of governmental policy, the answer is fairly complicated. As of this writing, President Biden has enacted targeted student loan cancellation for hundreds of thousands of student loan borrowers to the tune of nearly $10 billion. However, it's not clear, even to many student loan holders, whether their loan has in fact been wholly or partly cancelled.

In another move that could spell very good news for millennials struggling under the weight of student loan debt, the March 2020 $2.2 trillion Cares Act, passed with bipartisan support in Congress, granted significant student loan relief as well. Specifically, during the pandemic it called for no mandatory federal student loan payments, no new student loan interest, and no collection of student loan debt in default. This means, in effect, that any student loan payments that were not made during the pandemic would have been counted as if they were made—student loan holders weren't required to make any payments during the last two years, but they still got credit for making any missed payments.

One analyst estimates that together these measures could amount to $70 billion in student debt relief. But the burden is on millennials to figure out whether and by how much they can expect help—and it's still a long, long way from $1.75 trillion.



Survey Methodology

To understand millennials' attitudes to home ownership, drivers and barriers to ownership in particular the impact of Covid and student debt, we ran a survey of 875 Millennials based in the U.S. who don't own a property. The online survey was carried out in March/April 2021.

Study Authors

Sir Nigel Wilson
Group Chief Executive
Legal & General

A recipient of Queen Elizabeth's New Year Honours List and currently a member of the UK Prime Minister's Building Back Better Council, Sir Nigel Wilson was appointed Group Chief Executive of Legal & General in 2012, having joined as Group Chief Financial Officer in 2009. He won the 'Most Admired Leader' award at Britain's Most Admired Companies Awards 2017, for Management Today. In 2015 - 2016 Nigel was a member of the Prime Minister's Business Advisory Group.

John Godfrey
Corporate Affairs
Director
Legal & General

John has worked in the City of London for over 30 years. Having joined the firm in 2006, with responsibility for communications, public policy issues and the group brand, he spent 2016-2017 working at Number Ten Downing Street as Head of Policy under Prime Minister Theresa May, where his team was responsible for advice on a broad range of UK domestic and Brexit-related issues.

Edyta Borowy
Group Brand Insight
Manager
Legal & General

Edyta specializes in designing and developing research studies that look into current consumer and customer behavior and sentiment. Eliciting insights from the findings, she then translates them into business initiatives and strategies.