An Analysis of Savings and Borrowing Behavior in the Generation-Z Cohort: Evidence from a National Study

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Abstract

This paper examines the determinants of savings behavior among Generation-Z respondents using the 2017 wave of the Panel Study of Income Dynamics (PSID) and its Transition into Adulthood Supplement. To our knowledge, very few studies have examined the determinants of savings and investment behavior among the Generation-Z respondents. This paper fills in the gap in literature by examining the determining factors associated with savings and debt management behavior in the Generation-Z.

Research questions

What are the determinants of having precautionary savings among the Generation Z respondents?

What are the determinants of credit card debt among the Generation Z respondents?

What are the determinants of holding risky assets among the Generation Z respondents?

How do the savings and debt related characteristics of Generation Z compare with those of the other cohorts?

Method

Data

This study uses the 2017 wave of the Panel Study of Income Dynamics (PSID) and its Transition to Adulthood (TA) supplement. The PSID is a longitudinal dataset that is hosted and managed by the University of Michigan. The PSID is a large nationally representative dataset that started in 1968 with 5,000 families. The Transition to Adulthood supplement contains detailed information on financial capability, assets and debt holdings among the emerging adults, including those from the Generation-Z cohort. 3,953 respondents. The dependent variables include in the study are emergency savings (1=Yes; 0=otherwise), stockownership (1=Yes; 0=otherwise), homeownership (1=Yes; 0=otherwise), student loans (1=Yes; 0=otherwise), credit card debt(1=Yes; 0=otherwise) and financial capability (0=Min; 5=Max). The independent variables include age, gender, marital status, educational attainment, race/ethnicity, and income. We run probit regression models for the binary dependent variables, and an ordered logit for the financial literacy variable.

Conclusion

The preliminary findings from this study shows that Generation-Z is more likely to have precautionary savings than the millennials. We believe that this is amongst the first studies to investigate the financial capability and asset ownership patterns of Generation-Z using a national dataset

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