Financial Distress: Credit Card Debt Among Younger Generations

Seetal Neelon

CPL Summer Institute 2024

Background and Definitions

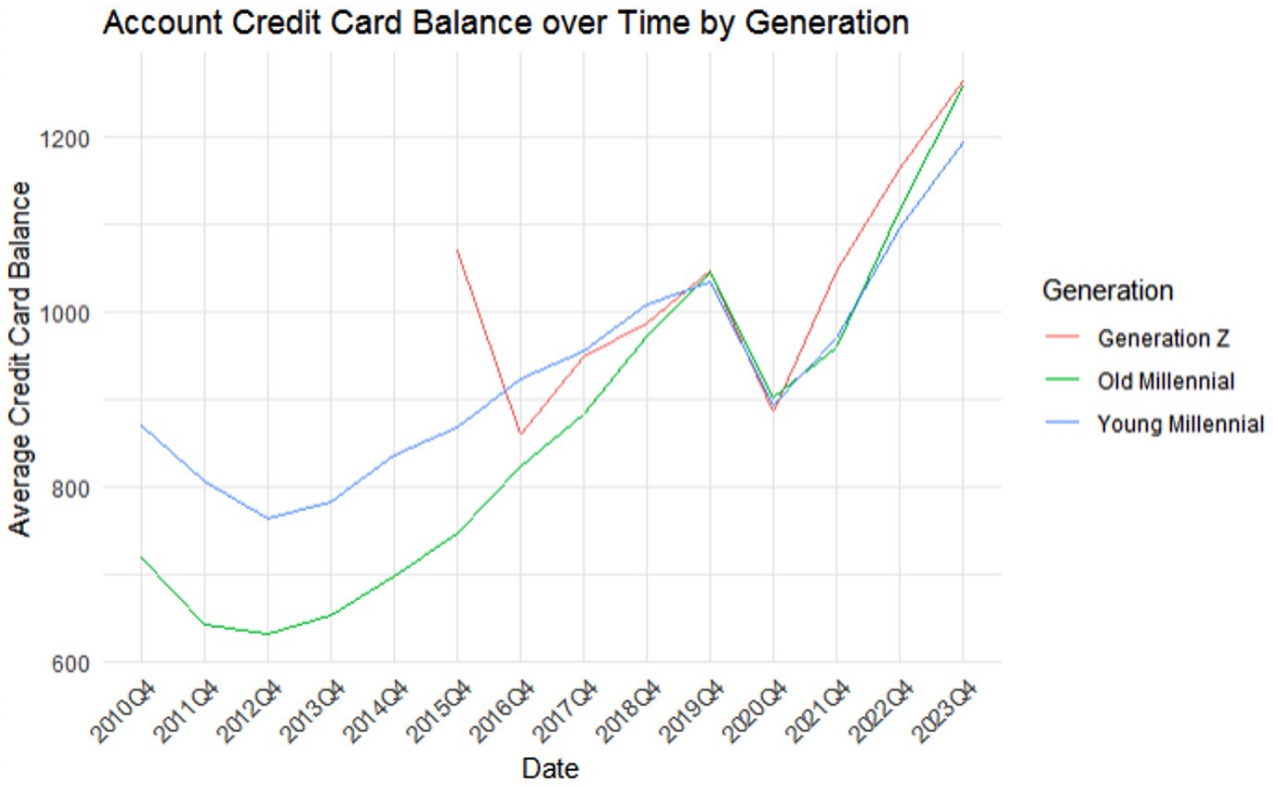
- Previous research has pointed to lower wealth building by Millennials compared to baby boomers, and a higher reliance on debt
- However, little research has been done on wealth building for Generation Z
- Long term effects of this are important to study, as it hampers future growth
- Generation Z were born between 1997 and 2006, Millennials were born between 1981 and 1996
- Millennials will be separated into “Young Millennials” (1989 - 1996) and “Old Millennials” (1981 - 1988)

Data

- UC-CCP
  - Contains national longitudinal data
  - Cross-sectional sample of 1% of US residents
  - Attributes of individuals included
    - Age, Children, Marital Status, Credit Score, etc.
  - Additional information about debt amount, delinquency dates, and current balances will be used
    - Gen Z is first reported in 2015

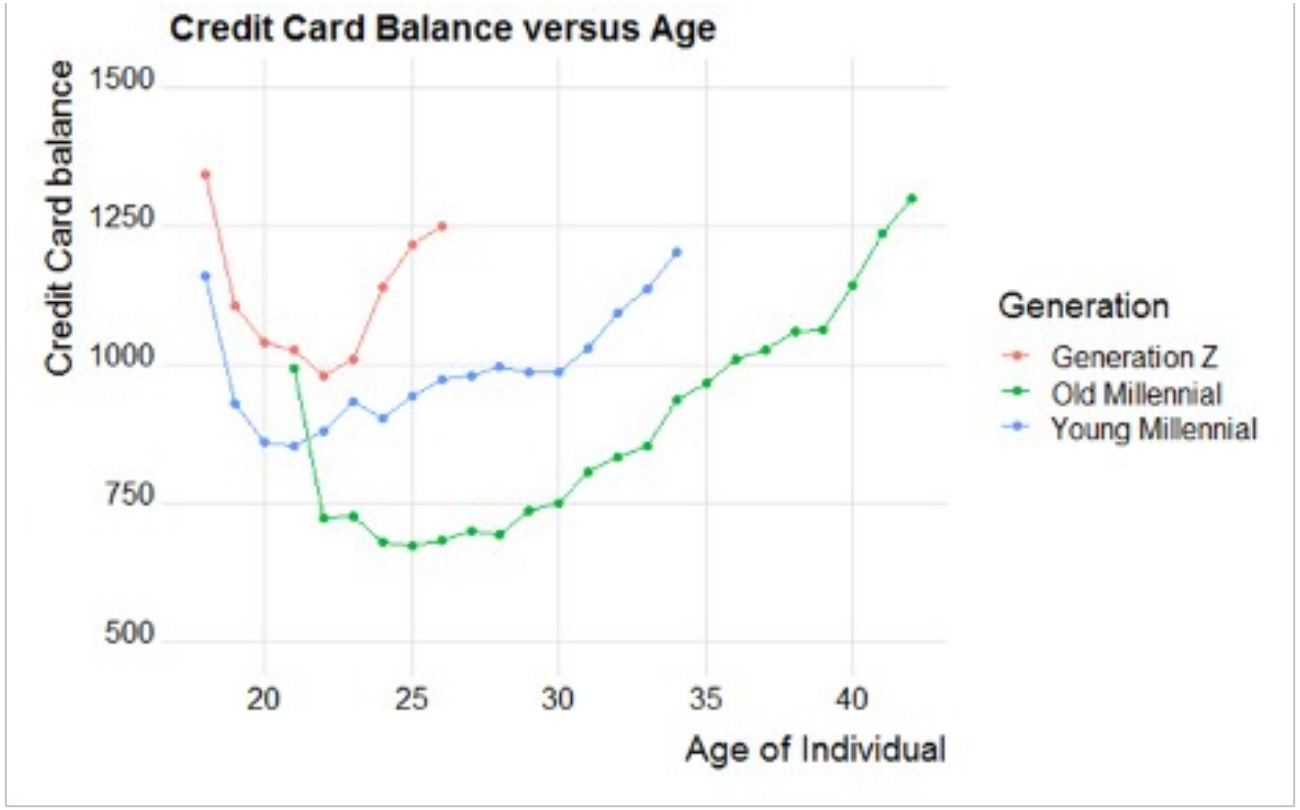
Average Credit Card Balance by Generation

- Gen Z and Millennials recently have used a similar amount of credit card debt
- Convergence in 2019 and 2020 due to Pandemic effects
- Although decreasing in 2020, credit card debt rapidly increased in the next few years



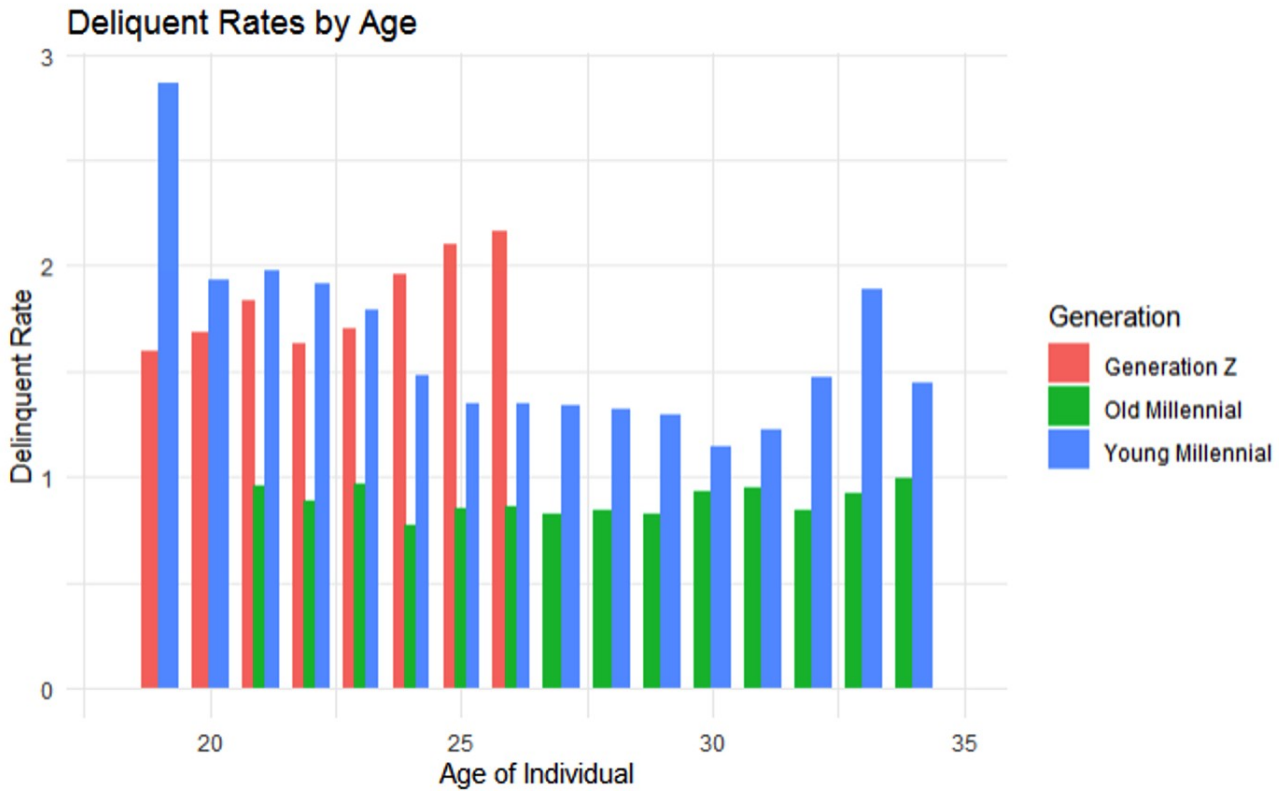
Credit Card Balance by Generation at the Same Age

- Generation Z and Young Millennials have high credit card balances
- Both have higher credit card balances than Old Millennials at the same age, having a higher reliance on Credit Cards



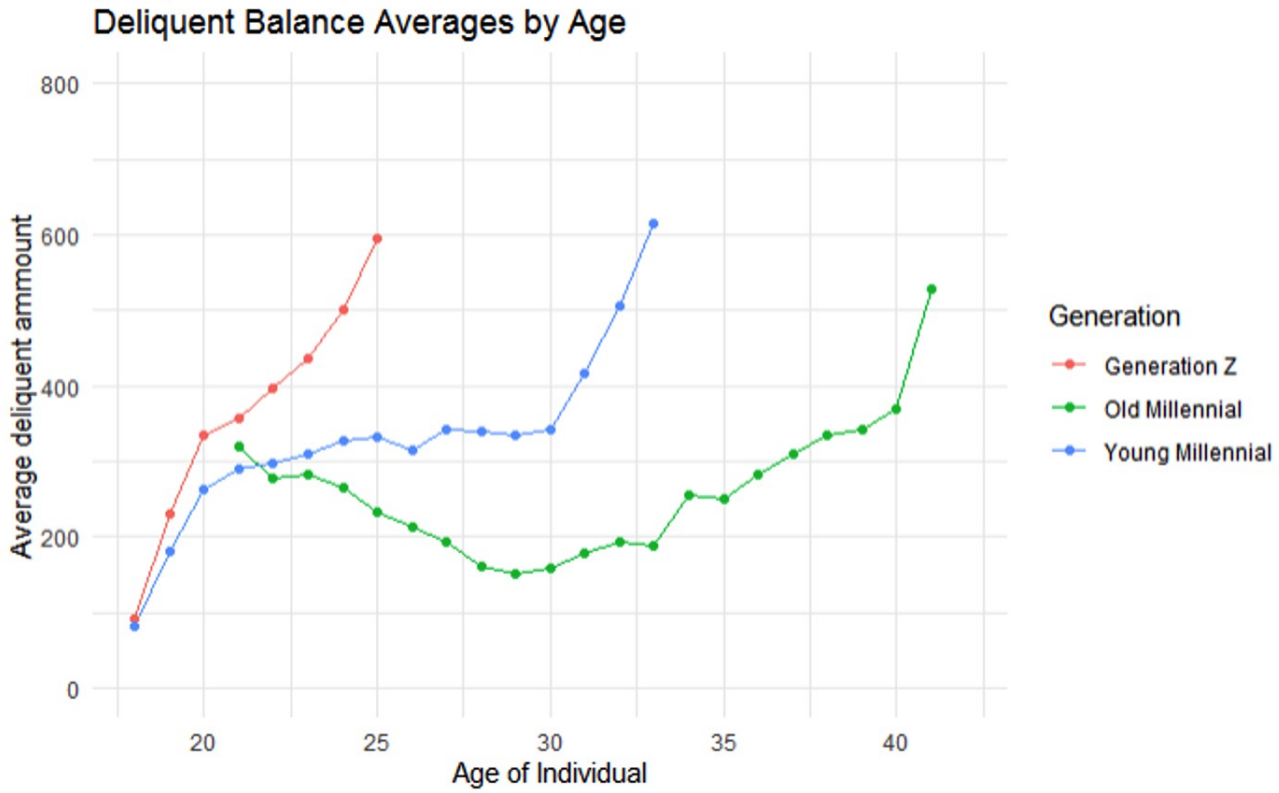
Credit Card Delinquency

- Generation Z individuals have higher delinquency rates than Old Millennials
- Younger Millennials have a higher delinquency rate in early years
- Generation Z does have a higher delinquency rate than Millennials overall



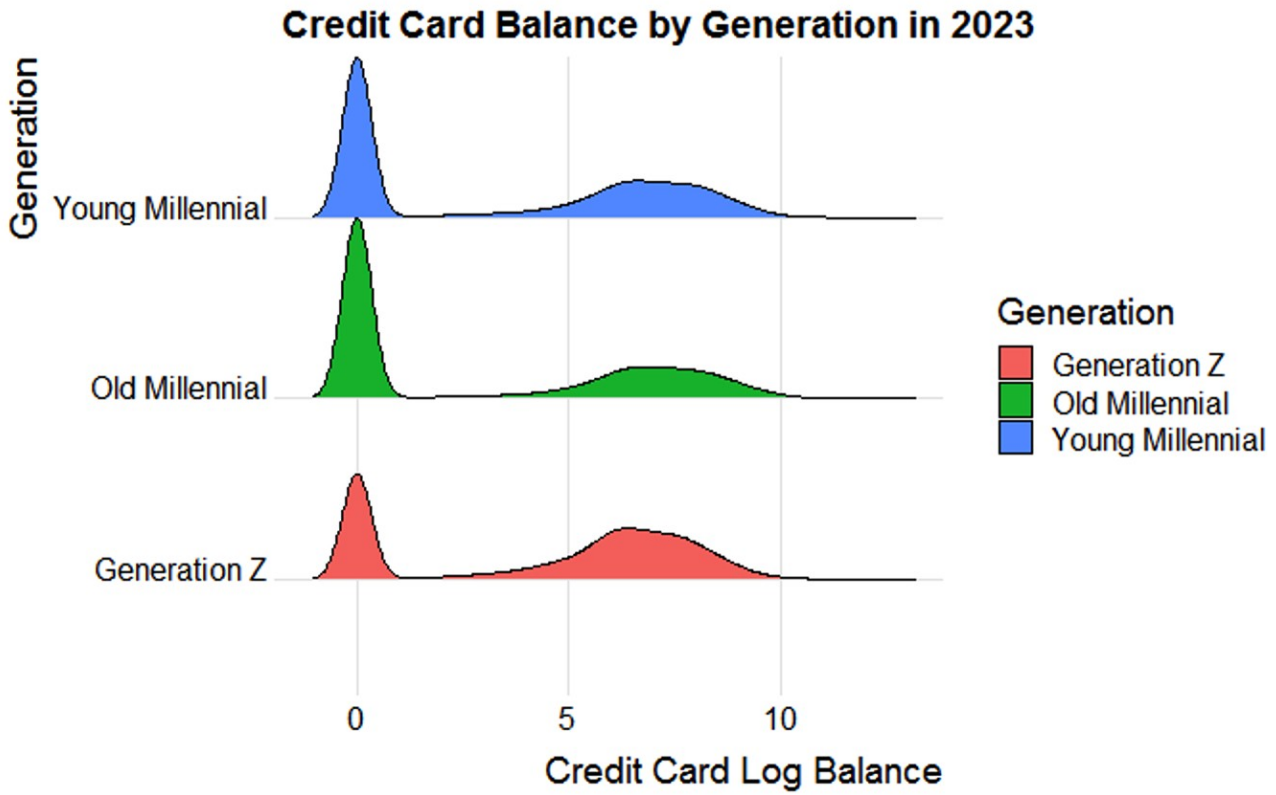
Credit Card Delinquencies Balances by Age

- Not only do Generation Z and Young Millennials have higher delinquency rates, but their average amounts are higher
- This can increase Generation Z's risk profile for Banks who might hesitate to lend money to them



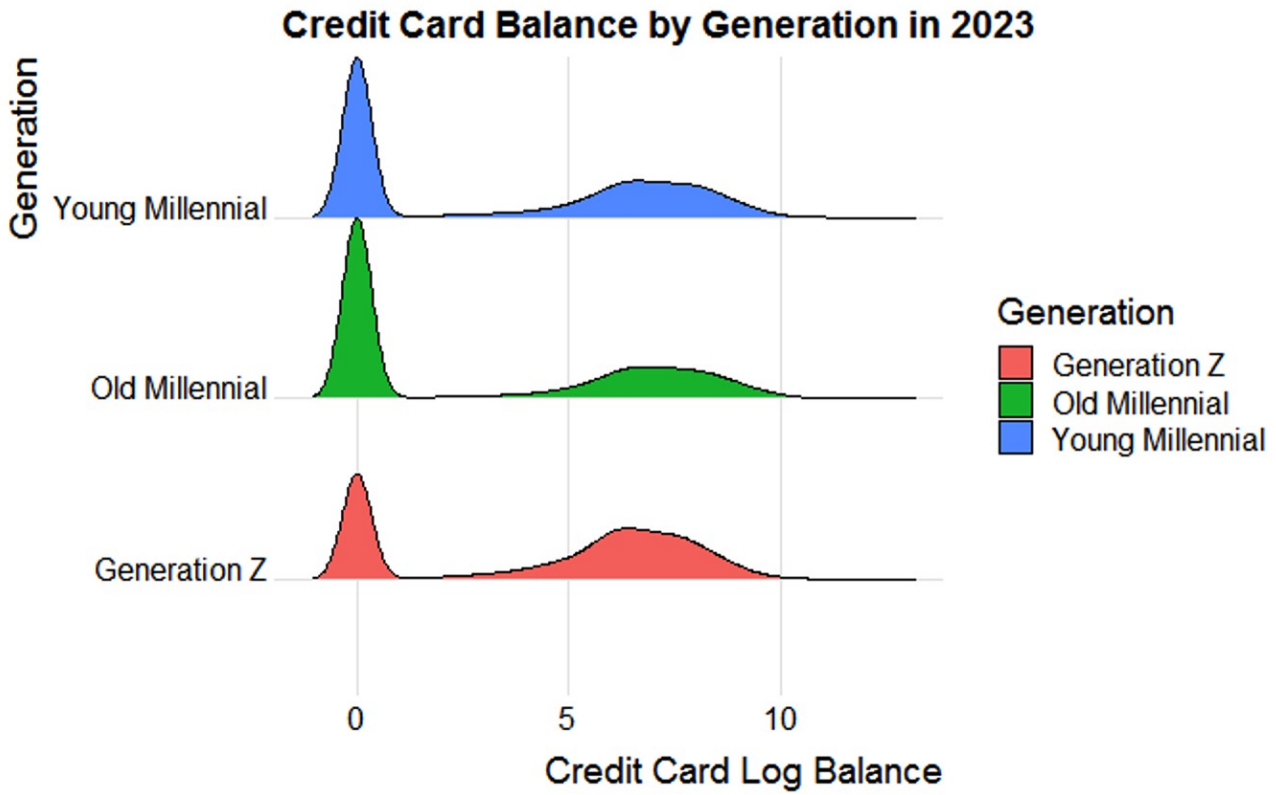
Increased Portion of Gen Z using Credit Cards

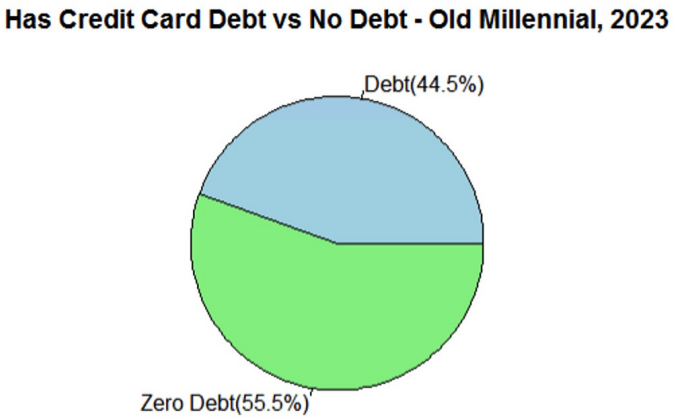
- A significant chunk of Gen Z have a larger portion of their generation with credit card balances than Millennials

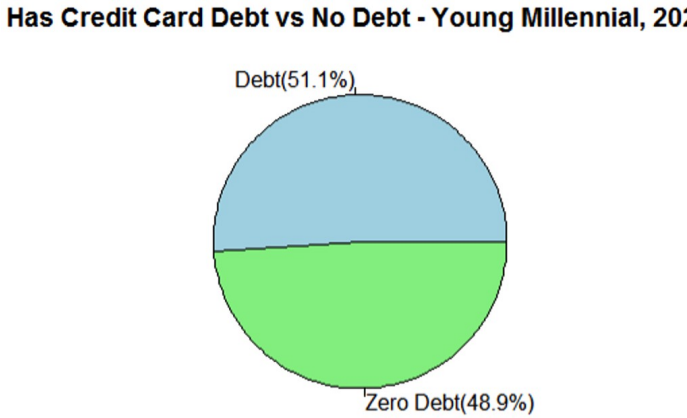


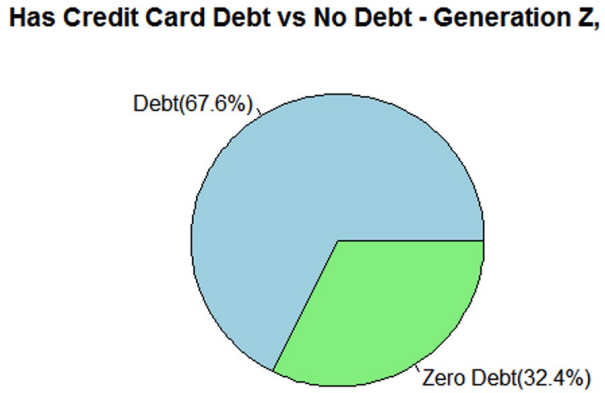
Increase in Portion using Credit Cards

- Younger Generations are more likely to use credit cards, with a notable increase in use for both Young Millennials and Generation Z
- Each generation uses more credit card debt than the generation before



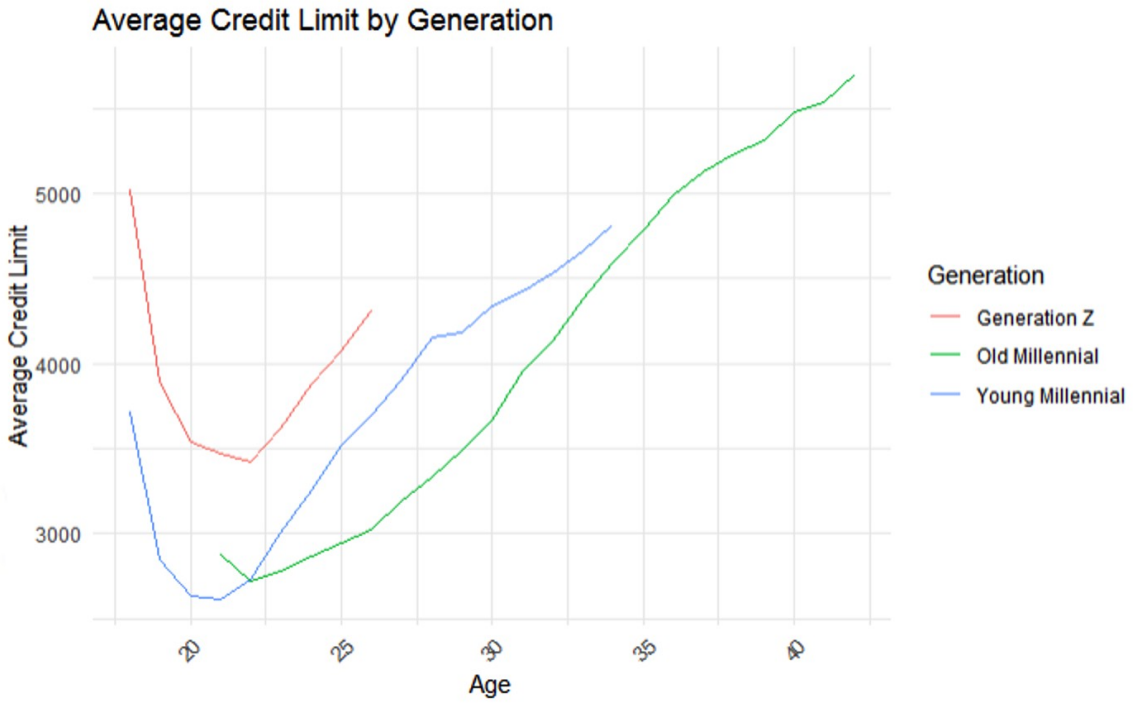


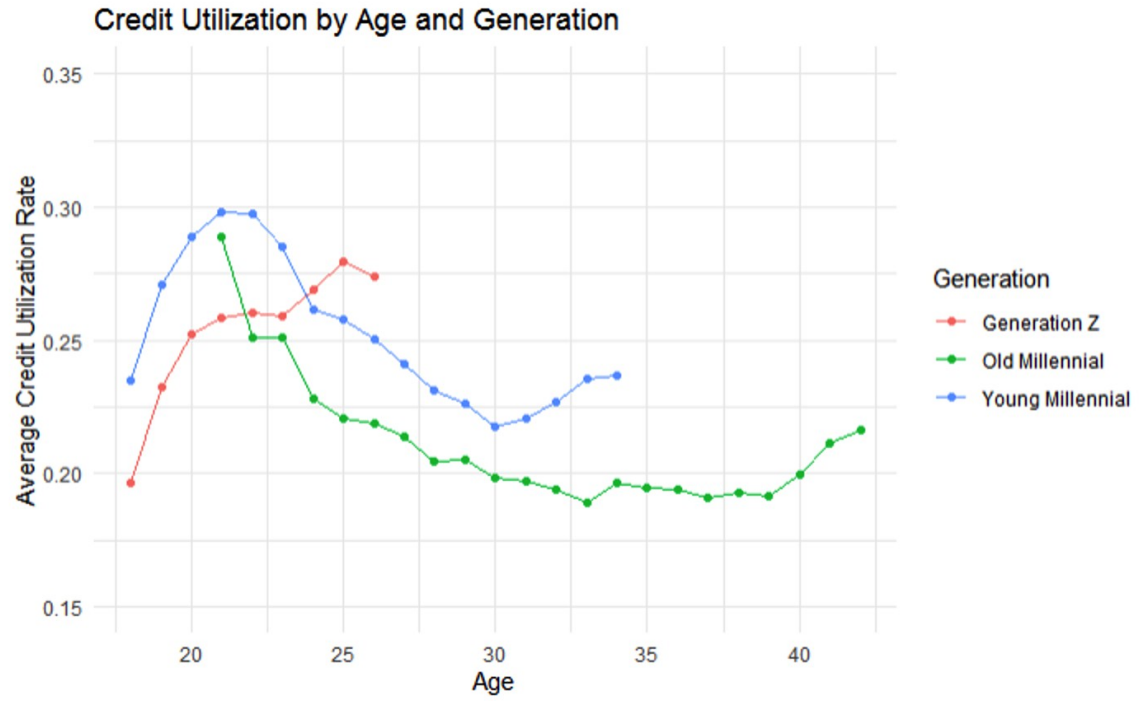




Generational Differences

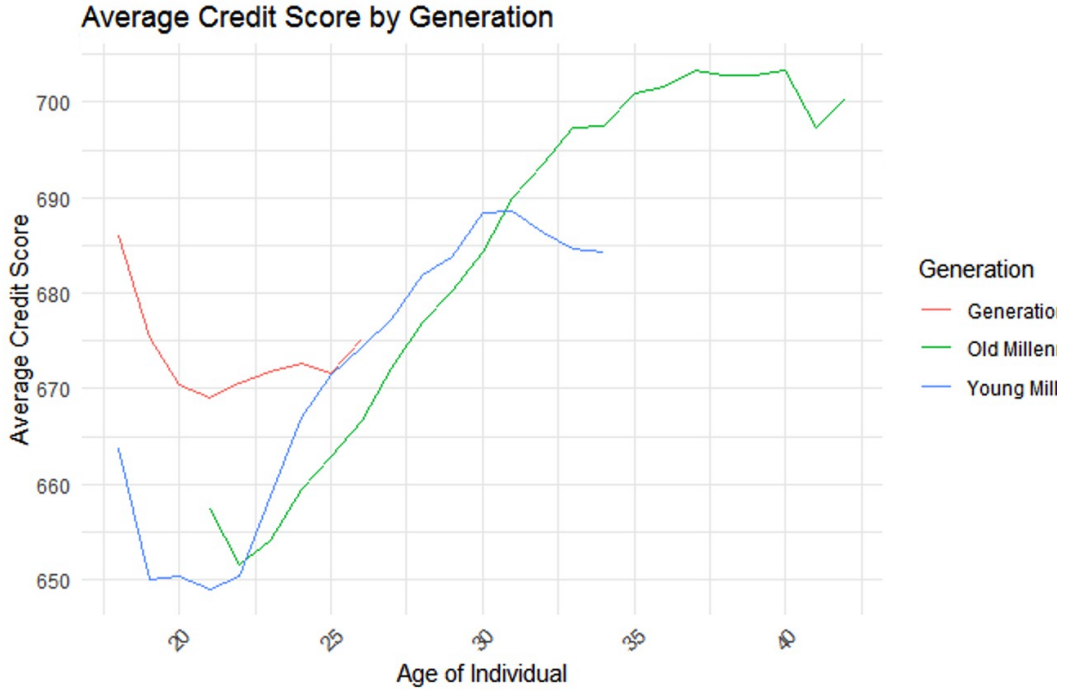
- Generation Z receives much higher credit limits compared to Millennials
- Old Millennials Credit Utilization decreases with age, while Young Millennials peak in their Mid twenties
- Generation Z has been increasing their Credit Utilization with age

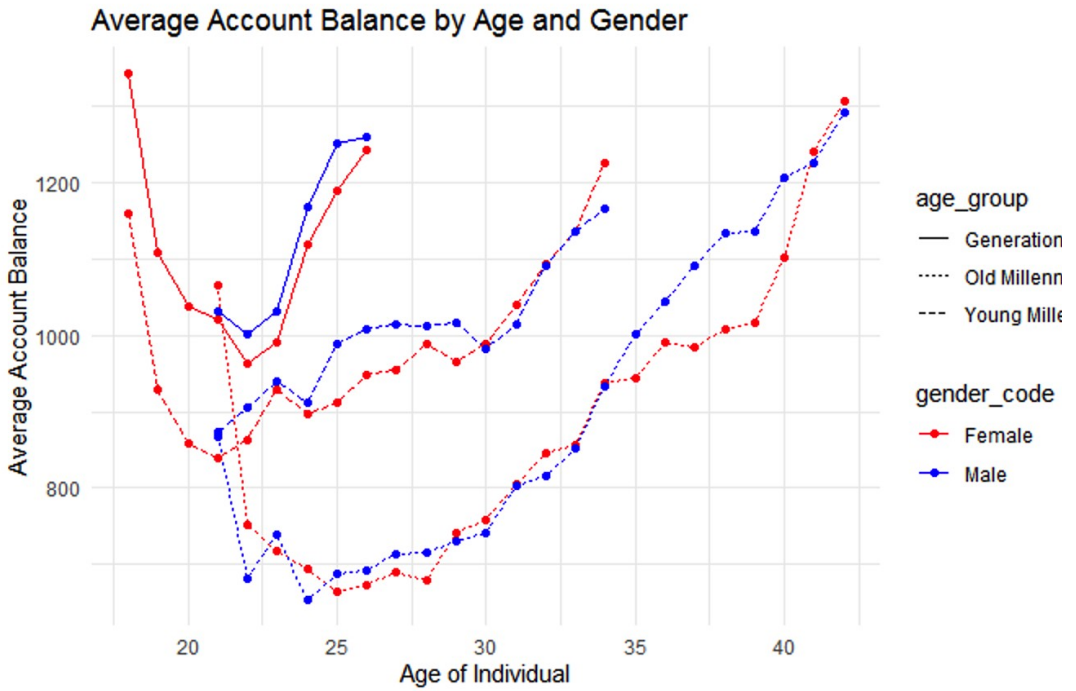




Generational Differences

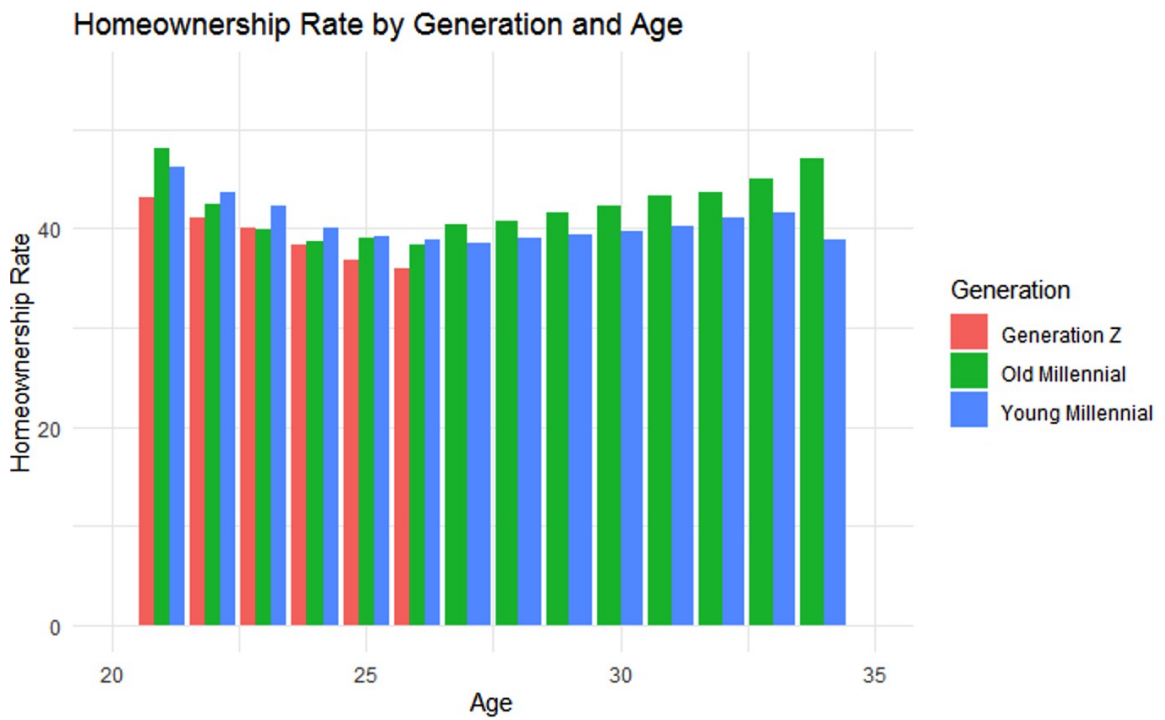
- Credit Scores for Generation Z is higher than Young Millennials and Old Millennial
- Credit Card Debt is mostly in line for Males and Females, but Male debt does surpass Female debt in some instances

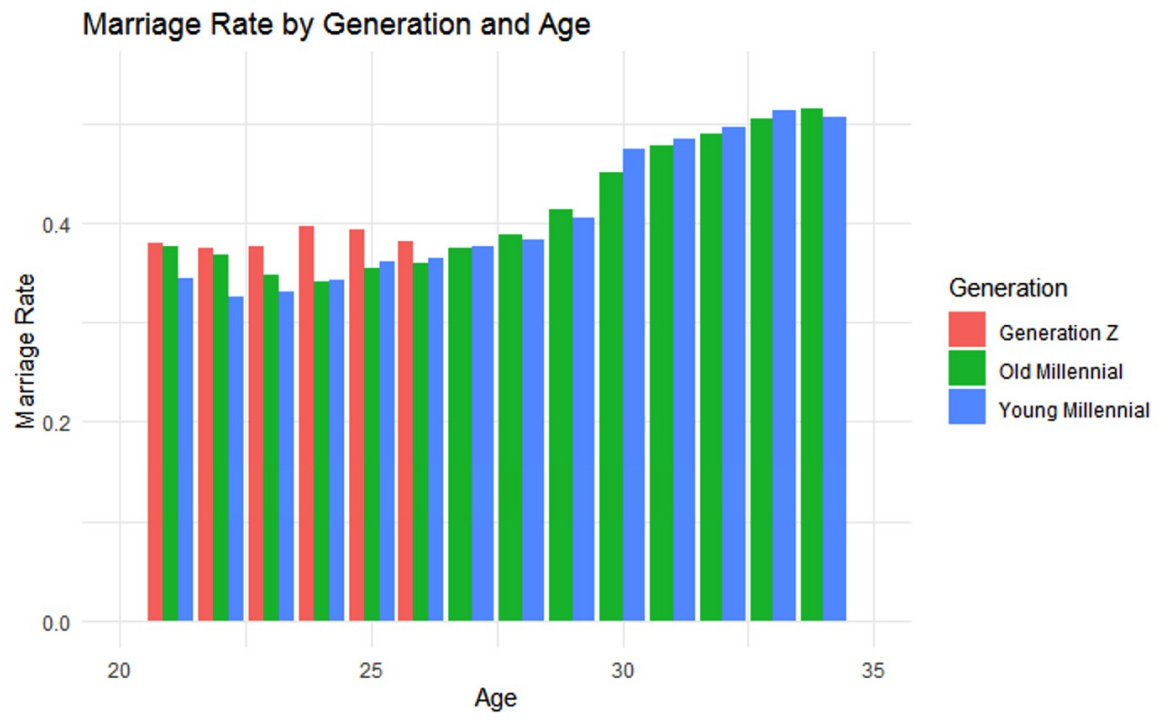




Generational Differences

- This increasing reliance on credit shows their weaking wealth building which may be contributing to their lower homeownership rate
- Causes a drop in homes with children, despite a consistent marriage rate among Young and Old Millennials





Next Steps

- Find effects of 08 Recession on Millennials to see if a similar pattern emerges for Generation Z
- Examine possible negative effects due to increased debt usage, especially due to a possible credit crunch from increased delinquencies
- Look at differences between Generation Z and Millennials to see what has led to the increase in Generation Z Credit Card Balances