All of the news surrounding the baby boomers’ retirement wave has overshadowed the fact that the youngest adults need help in securing their financial futures.

By Jennifer DeTroye

Have you heard anything lately about the baby boomers retiring? You’d pretty much have to be living under a rock to answer that question with a “no.” As a Center for Financial Security, we serve a variety of audiences across current topics that have the potential to affect our industry’s future. One particular issue that spans all generations has captured our attention: financial literacy. Although much is being asked about what the boomers know about basic retirement concepts, we have turned our attention to the opposite end of the financial planning timeline — the millennials. Born between 1980 and 2000, the oldest members of this generation are in their early to mid-30s. This means they are at a prime age to begin thinking about financial products and services.

We set out to establish a baseline of what this generation knows, thinks, and feels about money and investing. So we partnered with Texas Tech University’s Department of Personal Finance on a research project. We wanted to produce fact-based, substantive research to shed some light on millennials’ current reality — starting with their financial literacy.

Well, the results are in — and after we lifted our jaws off the table, we knew that we could not turn a blind eye to the absolutely tragic statistics about this generation’s aptitude regarding basic financial principles. Our research shows that millennials are the least financially literate of all generations. In fact, only 5 percent of millennials can demonstrate a basic understanding about borrowing, saving and investing.

How are we judging what makes someone financially literate? Let me introduce you to FLAT. FLAT stands for Financial Literacy Assessment Tool, developed by Texas Tech University. It comprises 20 questions. Sixteen of those questions assess knowledge and ability across the four primary areas of financial literacy: basics, borrowing, investing and protection. Four additional questions capture the respondent’s self-assessed confidence to put their knowledge to use across these four key areas. This makes FLAT uniquely objective compared with other financial literacy assessment tools.

It’s important to note that none of the generations did particularly well in this assessment. Only 16 percent of boomers and 14 percent of Generation X are deemed financially literate. But what makes the millennials’ 5 percent statistic especially alarming is that this generation is coming of age in a financial environment that requires them to make more numerous and more increasingly complex financial decisions than any previous generation — and they are the least equipped to do so.

The obvious justification for the millennials’ lower scores is that this group has the least amount of financial decision-making experience. Which begs the next question: Which comes first? Do millennials become financially literate and, as a result, make sound financial decisions? Or, as they build their knowledge through the experience of making good (and sometimes not so good) financial decisions, do they become financially literate? Just like the “chicken or egg” dilemma — the answer is not entirely clear. In the case of financial literacy, it’s most likely a little of both. Our challenge is to help make their learning more efficient — so instead of a potentially costly trial-and-error approach, they are equipped to make better financial decisions from the start.

It’s not all bad news for this generation. Millennials are becoming a financial force to be reckoned with. By 2017, their spending power will hit $200 billion. And the “great wealth transfer” from the boomers that is already underway is expected to reach $30 trillion.

With all of this untapped potential — who is helping this generation? Our industry is focused on the boomers right now — and rightfully so. They also desperately need our help. So if the boomers represent your target market and your comfort zone, why should you turn some of your attention to the millennials? What’s in it for you? We are all here because someone brought us in and helped us in some way. Let’s offer a hand up to a millennial in the same way we were offered one.

Let me leave you with one last reminder. Your clients’ children do not want to work with “their father’s advisor.” Some of your more savvy clients may have turned the tables on you already and asked about your succession plan for your practice. Maybe their question made you stop and think — but perhaps not enough to take meaningful action. Now is the time to address this challenge. Go out and find a smart, savvy, ambitious millennial to be part of your team. Start introducing them to your clients — or better yet, to your clients’ kids. That way, when the transfer of wealth from their parents occurs, the relationship remains with you. And more important — you’ve helped what could be the next “greatest generation” become more financially successful, to plan for their future and to protect their assets. And that’s good for everyone.

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