Where Generations Really Differ

Do generations have a lot in common, or are their values and attitudes far apart? Depends on who you ask, it seems. There are plenty of commonly held stereotypes about each generation. What’s the first word that comes to mind when you think of baby boomers? Millennials? We all have our impressions of what defines or separates the generations.

But are they really all that different from one another, in terms of their attitudes and values? We surveyed some of the social science research to find out where these cohorts truly differed and where they were actually on the same page.

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THE GENERATIONS DEFINED

<table>
<thead>
<tr>
<th>Generation</th>
<th>Born Date</th>
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<tbody>
<tr>
<td>Silent</td>
<td>1928–1945</td>
</tr>
<tr>
<td>Baby Boom</td>
<td>1946–1964</td>
</tr>
<tr>
<td>Gen X</td>
<td>1965–1980</td>
</tr>
<tr>
<td>Millennial</td>
<td>1981–1996</td>
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<tr>
<td>Gen Z</td>
<td>1997–2012</td>
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</table>

Source: Pew Research

A Generational View

A new generation is coming of age: Generation Z, they’re often called, or sometimes the iGeneration. As with every generation, they’re being shaped by the major events and developments of their childhood and early adult years. They’ve never known a world without YouTube — or an America before 9/11. Instagram and “smart” appliances are just part of everyday life, and so is the pressure on middle-class job opportunities.

Will this new generation have different needs and priorities than those who came before them have? It’s our job to serve investors at every stage of life. But to serve them all well, we have to consider if and how generations may differ, one to the next.

In this issue, we take a broad view of the generations we serve. We look at shifting attitudes about major things such as family, work and education. We consider how the educational picture has changed. We also summarize the questions our certified financial planners typically get from each generation. And we highlight the life-stage resources we have on our website: information to help each generation take on the biggest financial goals and problems in front of them.

Today’s young people certainly face some unique circumstances, compared with the baby boomers and Gen Xers who are now 20 or 30 years into their working adult lives, or even the millennials who are starting families and filling out mortgage applications.

But in our research, we were surprised to learn how similar the generations actually are to one another, in terms of values and attitudes. It’s our pleasure to serve you all.
Family

One area where generations clearly differ is family-formation trends. Compared with Generation X and baby boomers at the same stage of life, fewer millennials are married, and those who do marry are tying the knot at a later age. Research shows that only 46% of millennials between 25 and 37 years old are married, compared with 57% of Gen Xers and 67% of the early cohort of baby boomers at the same ages.¹

Family dynamics are changing in other ways, too. Dads are more involved in child-rearing than ever before. In fact, 17% of stay-at-home parents in 2016 were fathers.² Younger people are also living at home with parents until a later age, driving down the household formation rate compared with earlier generations. About 15% of millennials without a bachelor’s degree were living at home with parents in 2018, a considerably higher share than for previous generations at the same age.³

BOTTOM LINE: Family trends could be driven by a range of influences, but finances are almost certainly a factor. Young people today face higher education costs and a delayed start into the working world, on average, while wages are flat or down for everyone except college-degree holders.

Work

The nature of work is changing, for certain. The rise of the gig economy is one prominent sign, but it’s just a drop in the bucket compared with other major changes to the job force. Automation and other technologies have transformed many industries, making many jobs physically safer — but also eliminating traditional career paths, in some cases. The number of workers represented by unions shrinks with every decade: 50 years ago, it was a third of all workers,⁴ while today it’s less than 11%.⁵

But do the generations differ in terms of their attitudes about work? It doesn’t appear so. The Center for Evidence-Based Management aggregated a wide mix of studies on the topic and found that there were no significant differences between generations in terms of work ethics, and only minor differences in terms of other things, such as organizational commitment.⁶ Clearly, those values are being handed down — intact — from one generation to the next.

BOTTOM LINE: While workplace attitudes may not differ much, the other changes in work may be eroding job stability and driving job-hopping. Frequent switches could make it harder to save for retirement, given the administrative burdens of switching plans and losing vesting benefits.

Money

There are a few core differences between generations about money, it seems. Millennials are decidedly more risk-averse than Gen Xers and baby boomers. In fact, they’re more in-line with the silent generation, the cohort of people who lived through the Great Depression and World War II. Experts attribute this conservative attitude to the life experiences of millennials, who came of age during the financial crisis or, for some older millennials, during the dot-com bust.⁷

Spending priorities are another gap. Today’s young people rank “travel” as one of their top spending priorities, and they have less interest in purchasing their own home. When baby boomers and Gen Xers were at the same young-professional age, buying a house was one of their top priorities.⁸

But generations were all in the same boat in another area: They have debt to pay off. In a survey by LendEDU, people were asked how they would invest $10,000. The single highest answer among all generations was to pay down debt. While millennials have a much higher student loan burden than earlier generations, Gen Xers and baby boomers face the common problems of credit card debt or home loans.⁹

The generations are also similar in another respect: Their awareness of investment options is skewed. In the LendEDU questionnaire, all of the surveyed generations put “invest in stocks, bonds or mutual funds” pretty low on the list.

HOW EACH GENERATION WOULD INVEST $10K

<table>
<thead>
<tr>
<th></th>
<th>Millennials</th>
<th>Gen Xers</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay off debt</td>
<td>22.4</td>
<td>25.3</td>
<td>33.0</td>
</tr>
<tr>
<td>Real estate</td>
<td>15.1</td>
<td>14.6</td>
<td>11.2</td>
</tr>
<tr>
<td>Savings account or CD</td>
<td>7.7</td>
<td>10.8</td>
<td>17.1</td>
</tr>
<tr>
<td>401(k) or similar</td>
<td>8.5</td>
<td>9.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Not sure</td>
<td>7.7</td>
<td>8.4</td>
<td>8.7</td>
</tr>
<tr>
<td>Stocks, bonds or mutual funds</td>
<td>6.6</td>
<td>8.1</td>
<td>6.7</td>
</tr>
</tbody>
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BOTTOM LINE: With an overly conservative mind-set, millennials might be under-investing in stocks. And all generations show a low awareness of the opportunity to put more money to work in stocks, bonds or mutual funds.
Subtle differences with financial impact

We found plenty of similar viewpoints among the different generations. But there are distinct differences, too. In some cases, such as in family-formation trends, the economic backdrop is clearly a factor in how attitudes have changed. Ultimately, these attitudes affect the ways that each generation thinks about its financial choices.  

⁴ NPR, 50 Years Of Shrinking Union Membership, In One Map  
⁵ Bureau of Labor, Union Membership (Annual) News Release  
⁷ Investopedia, Millennials Are Risk Averse and Hoarding Cash  
⁸ Source: CFA millennials report  
⁹ lendedu.com/blog/10-ways-to-invest-10000/

Top Questions by Generation

When we are travelling and meeting with groups of shareholders, we tend to hear the same questions or themes from investors according to their age. You may find that you share the same concern as your peers, though we’ll caution right now: The answer is basically always, “It depends.” Each person faces unique circumstances, so it’s hard to give a concrete answer to these common questions in print. Still, we offer below how we think about these frequently asked questions.

BABY BOOMERS

How much money do I need to retire?

In order to give an answer, we have to find out what kind of income someone anticipates getting from Social Security payments and from a traditional pension, if he or she has one. With those numbers in mind, we can estimate how much annual pre-tax money that person will need to draw from such savings vehicles as 401(k) plans and IRAs.

Ideally, all that savings will continue to be invested through your retirement, so that it’s earning a return as you age. If the money is invested and expected to earn, say, 4% to 10% per year (a reasonable long-term average for a mix of stocks and bonds), the lump-sum amount you need at retirement will be somewhere between 10 to 20 times the needed annual income.¹

GEN Xers

What amount should I be saving for my kids’ education?

This one is a little easier; whatever you can. The truth is, the price tag on education varies incredibly, depending on what field your child chooses and how he or she obtains the education. We also find that our investors are most focused on this question just when their finances are most thinly stretched — as they’re raising children, saving for retirement, maintaining a household and maybe even supporting their own parents.

MILLENNIALS

Should I combine my finances with my spouse’s?

This is another hugely personal question. Young people are more likely, we find, to keep finances at least somewhat separate. There are advantages either way, so this one is really a matter of considering your strengths and weaknesses individually and together.

For most couples, we think combining can offer the most straightforward partnership for managing money. But — and this is a big, big but — there are circumstances that could push you to keep finances apart for the long term. It could be as simple as having very different spending attitudes and wanting to keep funds apart to establish limits on spending. Prior divorces, hefty debt problems or addiction issues are major reasons to keep finances separate even when your lives are otherwise combined.

Financial issues are a leading cause of divorce. It doesn’t necessarily mean you should keep your finances apart, though. The process of combining finances and working through your problems and conflicts effectively could be one of the things that helps a marriage succeed.  

¹ Source: Homestead calculations
Five Things That Have Changed About Education

As we investigated the similarities and differences among the generations of investors we serve, one of the biggest areas that stood out was education. In terms of its necessity, its impact on income levels and what it takes to obtain higher education, things have truly shifted from one generation to the next. Here are five themes that stood out:

1. **49% more with some college or a degree**
   The population of young people who are going to college has increased with every generation. In the silent generation, only about 28% of young adults had degrees or some college. For early baby boomers, it was 45%, but for millennials, it’s about 67% — about 1.5 times as many as the early baby boomers cohort.

2. **Only college graduates seeing income gains**
   The popularity of college is no shock when you consider the way employment and income opportunities have shifted over time. In fact, only college graduates have seen rising median income levels in recent decades. In contrast, those who have education levels below bachelor's degrees — even those who have some college — have all seen median income levels decline since earlier generations.

3. **For most, longer time in school than expected**
   A four-year bachelor’s degree should take four years, right? Not for the average student, according to the National Student Clearinghouse. In fact, it took an average of 5½ years to complete a four-year degree, and about the same amount of time for those who earned a two-year associate’s degree. These averages were about equal for students at public and private nonprofit institutions for a four-year degree. Among for-profit schools, the typical time-to-completion was even longer, averaging almost nine years for a four-year degree. (We note that these numbers reflect total time from start to finish, not the time actively enrolled.)

4. **25% higher costs each decade**
   Looking at the trend of increasing college costs, we found that the average price tag of a four-year college went up about 25%–30% per decade between 1985 and 2015 — and that’s looking at it in constant dollars. In other words, after accounting for inflation, the average four-year school cost at least 25% more every 10 years. At some point, the trend has to slow — but not yet.

5. **Debt burdens continuing to grow**
   As the cost of education outpaces general inflation, students are taking on more loans to cover the expense. According to the Federal Reserve Bank of New York, graduates in the class of 2015 had about $34,000 in student loans, up from about $20,000 only 10 years before. Surveys suggest the averages have continued to rise for subsequent graduating classes.

A sign of the times
Education is one area where today’s young people face truly distinct circumstances compared with earlier generations. As their employment options change, more young people are pursuing college, and the costs are rising steadily.

The financial impact of this trend can be huge for families, as it’s common for both students and their parents to take out new loans to fund education costs. The good news? The savings and investment options have expanded, too. Visit us at homesteadfunds.com/goals to see how we can help you plan for and tackle your higher education goals.

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1. Pew Research Center, Millennial life: How young adulthood today compares with prior generations
2. Center for Evidence-Based Management, CAT-Generational-Differences
3. NSC Research Center, Time to Degree: A National View of the Time Enrolled and Elapsed for Associate and Bachelor’s Degree Earners
4. National Center for Education Statistics
5. Federal Reserve Bank of New York, Household Borrowing, Student Debt Trends and Homeownership
Choose Your Life Stage for Help Defining Your Goals

Sometimes it’s easier to start a financial plan by focusing on where you are today. Visit the Guidance Center on homesteadfunds.com for more ideas and next steps to begin your journey.

EARLY CAREER

- Establish an emergency fund
- Save to buy or renovate
- Save for a new vehicle

It’s all about that base.

MIDCAREER

- Continue to fund retirement savings
- Get into the groove!
- Build up your child’s education fund
- Take advantage of retirement plans
- Save for special events

LATE CAREER

- Continue to fund retirement savings
- The long and winding road.
- Consider systematic redemptions

RETIREMENT

- Save for celebrations
- Consider shifting investment mix
- I did it my way!
- Establish ways to give to others
- Review investment mix
- Consider systematic redemptions
News Briefs

IRA Year-End Reminder

Contributing to an IRA can offer tax benefits. Homestead offers Traditional, Roth, SEP and Spousal IRAs. You have until April 15, 2020, to make a contribution for the 2019 tax year, but why not make your contribution early before year-end holiday expenses can crimp your budget? For more information, visit homesteadfunds.com. Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

Barron’s: Best Mutual Fund You’ve Never Heard Of

Homestead’s Value Fund was included in Barron’s recent article, “The Best Mutual Funds You’ve Never Heard Of,” a short list of funds with solid long-term performance track records run by boutique firms. Read the entire article on our website: http://bit.ly/hsf_barrons

Staff Updates

Congratulations to Dave McCaskill for obtaining his FINRA securities Series 6 (Investment Company and Variable Contracts Products Representative) and Series 63 (Uniform Securities Agent State Law) licenses, and passing the Securities Industries Essentials Exam. Dave joined Homestead Funds in March and looks forward to talking with shareholders over the phone.

Wayne Parks joined the Homestead Funds Operations team in September as an investment technology and trading specialist. He comes to us from T. Rowe Price and will be helping RE Advisers with its investment systems and processes.

Mark Edwards brings over 20 years of experience providing investment guidance to his new role as a senior client relationship advisor. He has worked closely with the co-op community during his time with National Rural Electric Cooperative Association’s Personal Investment & Retirement Consulting team.

Investing in mutual funds involves risk, including the possible loss of principal. Past performance does not guarantee future results. Investors should carefully consider fund objectives risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 800.258.3030 or visit homesteadfunds.com.

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Equity securities generally have greater price volatility than fixed-income securities and are subject to issuer risk and market risk. Index funds may hold securities of companies that present risks that an investment advisor researching individual securities might otherwise seek to avoid and are subject to tracking error risk. Value and growth stocks are both subject to the risk that returns on stocks within the style category will trail returns of stocks representing other styles or the market overall. Securities of small and midsize companies tend to be riskier than those of larger companies. International investing involves currency, economic and political risks, which may be greater for investments in emerging and frontier markets.

The views expressed are those of the individuals as of September 3, 2019, and may have changed since that date. The opinions stated may contain forward-looking statements and may discuss the impact of domestic and foreign markets, industry and economic trends, and governmental regulations of the funds and their holdings. Such statements are subject to uncertainty, and the impact on the funds might be materially different from what is described here.

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