GENERATIONAL PARTICULARITIES IN FINANCIAL BEHAVIOR. EXAMPLES FROM ROMANIA

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Abstract
Undoubtedly, financial behavior is a particularly complex one, which incorporates a multitude of factors. In order to have a better understanding of the motives that act upon the financial (and investment) behavior, numerous theorists have made efforts to explain what exactly (and how it) impacts decisions. Moving to the pool of investors, the aging rate of population is increasing at a dramatic rate in countries like the United States, or in regions such as Europe (implicitly in Romania). Due to this increase in the proportion of elderly people, it has become of interest to understand how these people can make rational financial decisions. Therefore, we aim to examine whether the elderly make more profitable investment choices as they acquire more knowledge and experience in the field of (stock) investments, or whether aging gives us the exact opposite, causing investing skills to deteriorate with age due to the adverse effects of cognitive aging etc.

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1. Introduction

Investment decisions involve directing financial capital to assets that will produce a (high) return for the investor over a given period of time. The investment decision specifically takes into account what investments to make.

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Starting from the feeling of concern among the elderly about the difficulty of generating the annual income necessary to sustain their quality of life at the same level as before retirement, it is useful to understand the investment decisions of individual elderly investors because the returns generated by the financial benefits can be a significant component of post-retirement income. The same need for understanding applies to younger generations, considering their behavior under the use of technology and not only, which impacts their financial decisions.

2. General aspects on Generations

A generation is a group of people with similar ages, being born in the same period, and that experienced the same historical events in the same period of time (Ryder, 1965). Borodin et al. (2010) consider that individuals from the same generation are similar from a cultural, technological, political and economic perspective, experiencing the same events in the world and natural disasters, and thus forming similar opinions, values, choices and beliefs. So it`s clear that each generation has different experiences and perspectives in terms of values, expectations and beliefs (Smith et al., 2013).

In the investment behavior context, the following five generations are considered: Greatest Generation, Silent Generation, Baby Boomer (Post-War Generation), Generation X and Generation Y. Considering that there is no general valid source that precisely defines the start and end of the generational time periods, we will discuss and approach generations taking into account the classification from table 1, as proposed by Gaylor (2002), Brokaw (1998) and Strauss and Howe (1991). Studying each generation with its particularities provides information relevant to the financial field, such as contributing to understanding and managing emotions in periods of high market volatility but also to understanding the costs and benefits of long-term investments (Lehman and Osteen, 2012).

Table 1: Generations Classification

Generation	Period	Age in 2022
Greatest Generation	1901 – 1924	98+
Silent Generation	1925 – 1944	97 – 78
Baby Boomer	1945 – 1964	77 – 58
Generation X	1965 – 1985	57 – 37
Generation Y	1978 – 1994	50 – 28

Source: According to Gaylor, 2002; Brokaw, 1998; Strauss and Howe, 1991

According to Population Pyramid (2022), and their data provided on the Romanian population structure based on age, we can say that in Romania the population is getting old. In 1990, people from all generations were living in the country. Those individuals aged between 25 and 44 in 1990 are currently part of the Baby Boomer generation, being born between 1945 and 1964. This generation represented more than a quarter of the overall population of Romania in 1990, counting 6.321.326 citizens (26.8% out of the total). The Baby Boomer generation and the first individuals born in generation X (20-24 years old in 1990) are representing the active population, having the best work performance. At the base of the age groups pyramid, there is Generation X and Y, forming 40.5% of the total Romanian population in 1990 and counting a total of 9.499.008 citizens.

Thus, in 1990 there were no reasons of concern regarding the age structure of the population in Romania, the pyramid being pointed towards the top and indicating that the population is young. On the contrary, in 2020 it can be noticed – according to Population Pyramid (2022) - that the Baby Boomers and those from generation X are climbing towards the top of the pyramid, aged now between 37 and 56 years old. The number of newborns during 1991-2020 period is significantly lower than the one registered during the communism period. In addition, after 1990 emerged the emigration phenomenon, with the movement of several people to Eastern Europe. As a result, in 2020 the Baby Boomer generation aged between 56 and 75 years old and represented 23.3% of the Romanian population (4.506.416 citizens). Generation X aged between 35 and 55 in 2020, while generation Y aged between 26 and 48. The last two generations represented 42.8% of the total population in 2020 (8.214.903 citizens).

Nowadays, the Romanian government is starting to feel the financial pressure generated by the aging population under the current pension's payment. In this respect, postponing the minimum retirement does not appear as a viable solution since the current retirement threshold age is at 65 years. Thus, those who are part of the "Baby Boomer" Generation, thinking about moving into the next stage of life, quite legitimately ask themselves the question: "With what financial resources will I live after retirement?"

3. Generations and their Characteristics in relation to Financial Behavior

There are authors who showed that because of experience, older investors have more knowledge on investments and could show a greater awareness of the fundamental principles of investments (Goetzmann and Kumar, 2008). They also claim that the investment wisdom of the elderly could help them make better decisions, being less prone to behavioral biases. Still, there are other categories of people who are interested in investing their capital, which is why the following areas cover a number of characteristics related to the financial behavior of different generations.

3.1. Greatest Generation

Tom Brokaw (1998) was the one that gave the name of the Greatest Generation in his book "The Greatest Generation". Given the current age of the Greatest Generation, the few ones left alive are currently more concerned with health issues or transferring their properties to others rather than with the future of listed companies' shares. However, all current generations can learn from the perceptions that this generation had. Many of those who are part of this generation did not have retirement as their goal, but guided their lives around work and obtaining enough income to be able to cover basic needs. In their work, Drew and Tackett (1989) argue that those who are part of the "Greatest Generation" and have reached retirement can rely, in most of the cases, on incomes coming from corporate pensions.

3.2. Silent Generation

The Silent Generation is defined by the same ideals of hard work as their parents, who belong to the "Greatest Generation". Growing up during World War II and participating to popular civil rights movements, people of this generation begin to appreciate independence while emphasizing a better lifestyle than the one experienced by their parents.

Mathew Greenwald & Associates (2005) - a company with expertise in financial services research - conducted a study for MetLife Mature Market Institute on a sample of 1012 respondents, 503 being close to retirement and 509 being already retired. The participants had ages between 59 and 71 and at least $100,000 in non-residential assets. The main conclusion of the study was that those who are part of this generation tend to overestimate their income and underestimate their expenses after retirement. Thus, almost two-thirds (63%) of those who were about to retire expected to spend less after retirement than they did in the previous years, but according to the 509 already retired respondents the reality seems to be different. They claimed that after retirement they spent almost the same amount of money (51%) or even more (19%) than in the pre-retirement period. Regarding post-retirement income, almost half (48%) of the 503 respondents not yet retired expected the state to provide them with at least 30% of their income earned before retirement.

Having in mind that those who are part of this generation were affected by the losses suffered by their parents during the Great Depression, we may say that the investors born between 1925 and 1944 have an extremely cautious behavior in their process of taking investment decisions, with a very high level of risk aversion. Investors part of the Silent generation were not surprised by the recession that took place in 2008, being already used to accept a reduced return on guaranteed interest (certificates of deposit, fixed annuities, etc.); so, we may affirm that they were not too bothered by the decline in yields caused by the economic crisis. Thus, they could still invest with a sense of security in safe investments with a lower fixed income, such as bonds, government securities or bank deposits.

3.3. Baby Boomers

Baby Boomers generation consists of those born between 1946 and 1964. Approximately 79 million children were born during this period as many young people returned from World War II with the wish of growing a family (Rosenberg, 2012). Due to this baby boom, we expect the number of old people to double between 2011 and 2050, from 40 million to 89 million of elderly persons (Gelinas, 2011).

Due to the economic context of the years experienced, those who are part of this generation had to take economic decisions very different from their parents`, characterized by a low return on investments. While most of the silent generation have already retired around 2010, most of the "Baby Boomers" are just thinking to the moment of the retirement.

The last 20 years - characterized by the recession from 2008, but also by the economic changes caused by the Covid-19 virus - made the investors who are part of this generation to rethink their own investment decisions. In order to secure their monthly income, many of them have decided, voluntarily or involuntarily, to postpone retirement as much as possible and to work as much as possible. With the aging of the population, people born between 1946 and 1964 are worried, on one hand, about the state's ability to pay the pensions that can ensure a decent income for a living and on the other hand about their future outlook.

From a stock investment perspective, we may say that Baby Boomers' appetite for risky investment is not much higher than the one of their parents. This generation experienced two important economic phenomena during their working careers (O`Neill, 2010): (1) the inflation growth of the 1990s and (2) the "real estate bubble" of the 2000s that crushed in 2008 causing an economic, financial and social crisis. This generation, by the age of retirement, will already have faced many investment risks without too many positive results. Thus, the disappointments generated by not being rewarded, have lowered the expectations of future success.

3.4. Generation X

The name of "Generation X" comes from Douglas Coupland's work entitled "Generation X: Tales for an Accelerated Culture" published in 1991. Therefore, it can be considered that after the 1990s, humanity began to become aware of the changes affecting society both in a positive way (through technological advance) as well as in a negative way (through the increase in the stress levels, pollution, etc.). Thus, we may begin to delimit the generation as one that has reached maturity, and even aged. More, Generation X is known to be reluctant to change and technology, being curious and deeply socially involved. As well as the Silent Generation, Generation X has been defined as an in-between generation.

Generation X has gone through several difficult economic moments such as the Great Recession or the Financial Crisis of 2008. For those individuals who are part of the active population cohort - which in 2022 is aged between 37 and 57 - it happens that they are the main economic support of the state. Thus, their decisions at the social, economic or financial level are strongly influenced by two opposed perspectives. On one hand, their parents, probably retired, can advise them based on their vast experience provided by the passage of time, marked by many changes of political, economic, financial or social order. On the other hand, the children of these generations have complicated, up-to-date requirements regarding technology and access to education. Consequently, those members of "Generation X" are always in a difficult situation, having to balance opinions of two categories of people with opposite principles. In other words, they have to provide a better life for their parents, while giving them satisfaction when they use the advice received from them, but they also have to keep up with the new generation (who does not believe in grandparents' principles), and ensure the financial comfort that allows their offsprings' access to technology and education.

Knowing the challenges of the last 30 years in Romania (the Revolution of 1989, the Financial Crisis of 2008, the crisis generated by the Covid-19 pandemic), the general wealth level of those who are part of

Generation X is somewhat higher than in rest of Eastern Europe. Thus, the challenges of these generations lie in their ability to maintain the consumption patterns of both their parents and their children, as none of these categories is completely independent in the face of rising healthcare, education or even property costs. On another note, in the United States of America, Generation X is in the same situation, facing similar challenges. According to data published by LendingTree (McNair, 2021), those who are part of this generation today have the highest average debt compared to any other generation. Between 2016 and 2019, Generation X individuals increased their average debt by approximately 10% ($11,898), being structured as follows: real estate debt by 62%, education debt by 10.7%, car loans by 13%, overdrafts on credit card purchases by 8.6%, other personal loans by 5.7%.

3.5. Generation Y (Millennials)

Contemporaneity is characterized by speed, respectively the rapidity with which changes occur, reflected at commercial level inclusively (eg. fast fashion, the diversification of product ranges of retailers in the electronic industry, etc.). Thus, speed and portability are becoming buzzwords these days. Among those at the heart of this wave are millennials, also known as Generation Y. The millennial group is born somewhere between 1982 and 1995 (Accenture, 2017), entering the investment scene in earnest. With a preference for technology, millennials are accelerating companies' transition to automation, and they regard the traditional management of financial assets as bureaucracy. Therefore, it is not at all surprising that individuals in this age group have a higher propensity to use modern technological tools, considering them mandatory basics in the services they use. According to Accenture (2017), almost half of millennials (45%) are open to using technological alternatives in investments, such as Google's investment options. Consequently, technology, in general, as well as digital platforms, in particular, facilitate the participation in the investment sphere of millennials, but also of Generation Z (the cohort that follows Generation Y). Undoubtedly, the investment style also differs between millennials and the generations that preceded this category. Before the Internet, trading and investing were the practices of those with sufficient financial resources to afford a private stockbroker (Curphey, 2019). Later, with the development of telephone trading and low-cost accessible services, the democratization of investments was achieved. Additionally, with much easier access to information, millennials (as well as members of Generation Z) prefer self-advice to traditional financial advice (Curphey, 2019). However, there are also a number of financial recommendations that millennials take into account, and these come from robo-advisors (67% of millennials turn to their recommendations) (Accenture, 2017). Robo-advisors can be understood as digital platforms that provide personalized financial support based on algorithms, and that involve minimal human interaction (Investopedia, 2020). Another element of novelty that millennials bring to the investment area includes the practice of investing in cryptocurrencies and in the shares of tech companies, at which a considerable number of investors have not yet reached (Curphey, 2019). Last but not least, millennials (as well as Generation Z) are much more concerned with the social and environmental impact of their investments, respectively of responsible investing, to which established players in the financial markets often do not understand and do not pay enough attention (Curphey, 2019).

4. Conclusions

Nowadays, the labor force in Romania and the dominant consumption patterns are part of the last three generations described, "Baby Boomer", Generation X and Generation Y. Considering that each of these generations was influenced by different economic events, we can indeed identify diverse financial attitudes and beliefs, but significant similarities can also be observed if we analyze their financial goals, asset allocations and investment preferences. One of the common investment goals for all three generations is the need to save money for retirement, however, the reason for setting this goal differs from category to category. Many Baby Boomers have already retired or are nearing retirement and are concerned about the limited time they have left to accumulate assets. Younger generations (X and Y) consider capital accumulation for the post-retirement period a priority due to the multitude of information they receive every day about the benefits of a private pension and the general skepticism about the financial sustainability of the public pension system. Another similarity identified in the behavior of investors who are part of these three generations is the tendency to invest with the assistance of a financial professional, using either financial institutions, an independent advisor (broker) or even robo-advisors. Major differences between generations are to be found in the attitude towards risk. Millennials with large sources of capital, despite the fact that due to their age they would have a longer period to invest and recoup losses, have a surprisingly cautious investment behavior. Comparing Gen Y with Gen X, it turns out that Gen Y are less likely to own stocks, being more likely to direct their income to financial assets that involve a higher level of technology (cryptocurrencies, etc.). The behavior of investors who are part of these three generations is marked by the fact that the majority of millennials use technology for their activities of prospecting and substantiating the financial investment decision, while those of Generation X use these tools to a lesser extent; the Baby Boomer generation uses it to the smallest extent among all generational categories considered.

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