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Gen Y Needs to Save: Impatience, Financial Illiteracy Could Stunt a Go

By Christina Burton
MarketWatch (MCT)

WASHINGTON--A lack of knowledge about **finances** could make planning for retirement much harder work for young adults.

Almost half--47 percent--of Americans born between 1977 and 1994, also known as Generation Y, are below average when it comes to financial literacy, with little understanding of how to budget and save efficiently, according to a survey by the National Foundation for Credit Counseling.

The survey, which polled 1,000 adults in March, also found that 45 percent of Generation Y adults have no savings.

Retirement savings are of particular concern for younger Americans because under current actuarial assumptions the Social Security trust fund will be exhausted in 2039, the year the first of Gen Y will turn 62, and benefits could be threatened unless changes are made.

Social Security Administration officials and financial planners continue to emphasize the importance of individual savings, retirement plans--401(k) accounts and individual retirement accounts--and Social Security benefits for post-work income, what the SSA calls a "three legged stool."

Both advise not relying solely on Social Security for retirement income.

George Barnes, an investment adviser at Prudential Financial Planning Services in Newark, N.J., applied the slogan from discount clothier, Syms: "An educated consumer is our best customer when it comes to investing."

The key things to learn: save, even if you can only save small amounts, and make wise investments.

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"Time is money's best friend, so starting to save or invest early can yield tremendous results, even if it's small amounts, as over time they add up," Gail Cunningham, public relations vice president at the NFCC, said. "When you're young and just starting out, you have so many needs and wants that finding that extra money is particularly hard, especially since retirement seems so far off."

Fresh-from-college adults widely use regular savings accounts, money market accounts and certificates of deposit at commercial banks--all ways of saving but with lower yields than investing in bonds or the riskier stock market. Those working for employers who provide 401(k) retirement plans can learn much from the plan materials, Barnes said.

When trying to save money for reserves or emergency funds, "there's nothing like the bank," Barnes said.

The Federal Deposit Insurance Corp. insures savings accounts and CDs, up to $250,000 in most cases, and there is more liquidity with those vehicles. Savings accounts are more liquid than bonds or stocks, meaning an investor can sell quickly in an emergency and get all of his or her money back.

Barnes suggests that the out-of-college jobless interested in saving for retirement explore IRAs, retirement accounts for individuals that can invest in securities like common stock or mutual funds.

Less risky IRAs have stated interest rates and are similar to long-term CDs while high-risk IRAs invest your money in market securities like mutual funds. If an IRA account holder withdraws money early, the withdrawal could be subject to taxes and penalties. A big benefit, though, are the tax savings. ING Direct, Fidelity, The Vanguard Group and T. Rowe Price all offer IRA accounts.

According to Barnes, who has 17- and 18-year-old children, a generation used to quick access lacks patience and education on the volatility of the investment markets. As cliche as it may sound, he said, "Education is really the key to success."

"There's a mindset that is possibly generation-wide that is 'instant gratification,'" Barnes said. "You Twitter just so you can find what someone is doing today. You microwave, (you) have Easy Pass."

"As a result, when you don't see a result immediately, or you don't see value immediately, you question the source," he said.

Along with education and the need for discipline, or the ability to stay on a budget and balance a checkbook, Barnes says there is an issue with trust among younger adults; if there's a risk attached, young adults are deterred from buying in.

"Authority is questioned more often now," he said. "That kind of mentality carries over in your investments. What is missing that was very prevalent for that older generation is trust."

"It always helps to see the prize awaiting you at the finish line," Cunningham said. So, young adults should consider the following: Assuming a 25 percent tax bracket, invest just $40 per week for the next 50 years until retirement. An annual return on 8 percent will build into a nest egg of $1,000,000 after taxes.

Where are you going to find that extra $40?

"There are only three answers," she said. "Increase your income, decrease your expenses or both. If it's worth it to you, you'll find a way."

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