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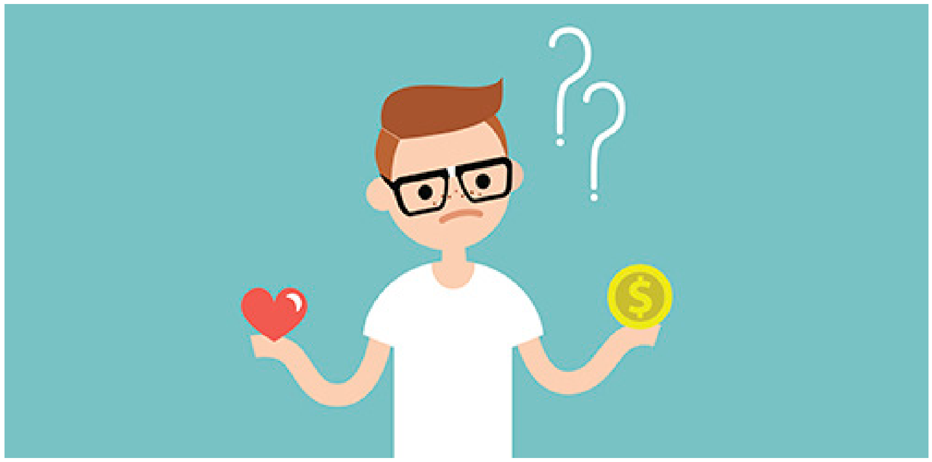
On the Retirement Stage: The Millennial Generation

Part II: The Approach



In our April blog, we introduced the Millennial generation and the financial challenges they face. We now turn our attention to how best engage them in thinking about their finances.

Millennials view work and retirement differently from their Boomer parents. For them, retirement is not a phase to be pursued after years of dedication to work or to one's employer. They want a job that provides them with a great work/life balance now, so they can experience all that "retirement" offers throughout their life. Why wait for retirement at an advanced age if you can experience the freedom now while young? Why even retire at all if you can create the kind of job that you will enjoy doing for the rest of your life?

With this in mind, we need to relate to this generation. Here are some ideas on how to start a financial education tailored to them.

Goal Setting

The first step is to encourage Millennials set financial goals. To suit their lifestyle, these goals may be divided into short-, medium- and longterm. The short-term goals are those that can be achieved easily and provide instant gratification, such as going on a holiday with friends in a year or two. The medium-term goals are those that require more effort and can be achieved over a longer-term horizon, such as paying off student debt in the next five years. The long-term goals are the most difficult ones to attain as they require substantial effort and cost the most, such as buying real estate.

This process is no different than what previous generations experienced. The only difference, perhaps, is that previous generations had different priorities and lived under different circumstances. Student debt was not as common for previous generations as it is for the Millennials and real estate did not cost as much as it does today. On the other side of the coin, Boomers had different priorities. They lived to work and saved their money for the next phase in their life: the retirement years. What a Boomer may have called a long-term goal, the Millennials may call a short-term or ongoing goal.

Budgeting

The next thing we need to focus on is to teach Millennials about budgeting. To attain financial goals, one needs to quantify one's living expenses and gain understanding of the different types of expenses before deciding where the trade-offs, if any, need to be.

One's living expenses can be divided into these three basic categories:

1. Necessities – These are the types of expenses that are necessary to meet one's basic needs;
2. Consumptive – These are the types of expenses that are not necessary but enhance one's present life;
3. Building – These are the types of expenses that build assets and create future value.

Looking at expenses in this light can drive action. You identify your own trade-off of consumptive expenses versus building assets.

Debt Management

For a generation who struggles with debt, mostly student debt, the next focal point is naturally debt management. Here, we want to point out the difference between good debt and bad debt. Good debt is the kind of debt that is necessary and sustainable, and it creates value in the future. Bad debt is the kind of debt that is unnecessary and unsustainable; it drains wealth without the prospect of ever paying for itself. A student loan is a good debt; credit card debt is a bad one! Not incurring bad debt in the first place or paying it off as quickly as possible should take priority over paying off good debt.

Tax Planning

In Canada, we have a tax-assisted savings regime. To get the biggest bang for a buck saved, Millennials need to understand how this regime works; what the different savings vehicles available under this umbrella are; and when to use which vehicle. For example, a Tax-Free Savings Account (TFSA) can be used as a saving vehicle for consumptive goals such as buying a car or going on a holiday, while a Registered Retirement Savings Plan (RRSP) is geared towards saving for longer-term goals such buying a house under the Home Buyers' Plan (HBP) or saving for retirement.

Millennials also need to tune in to the advantages of saving under an employer-provided registered scheme, such as a group RRSP or a registered pension plan. The tax savings realized from participating in these plans can go towards meeting that short-term goal of a holiday with friends.

Stay tuned for our next blog where we bring the Millennials' parents to the stage: Boomers.

http://www.retirementworks.ca/theworks/blog062018-Millennials-Retirement-Stage-II.html

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