Millennials, You Can Have Your Avocado Toast and Eat It, Too

Perhaps surprisingly, Millennials are a generation of savers. These five tips can help them take the next step to becoming smart investors.

IF THE STEREOTYPE IS TO BE BELIEVED, MILLENNIALS ARE FINANCIAL FOOLS. They choose pricey avocado toast over home ownership and artisanal coffee over retirement savings. But are they really so foolish? We can't speak to Instagrammable breakfast preferences, but when it comes to retirement saving, Millennials may be doing better than most think.

Just under half the age group, born between 1980 and 2000, are saving for retirement. The problem is, as many as 45% believe that their personal savings accounts are more important than investing.[1] Stinging memories of the early 2000s and the 2008 Great Recession have scarred many.

On top of that, many are burdened by high costs of living, credit card debt, and an average of $29,200 in student debt.[2] Considering these anxieties, transitioning from spender or saver to smart investor may be intimidating.

Here are five tips to help Millennials make this financial lifestyle change:

1. **Manage risk—market risk should be second to longevity risk.** Half of the Millennial generation wants to invest their money but doesn't know where to begin.[3] Savings accounts are safe and easy. Investing in the stock market may seem risky, even scary. But new investors must stop fearing market risk and start fearing longevity risk if they don't want to outlive their savings.

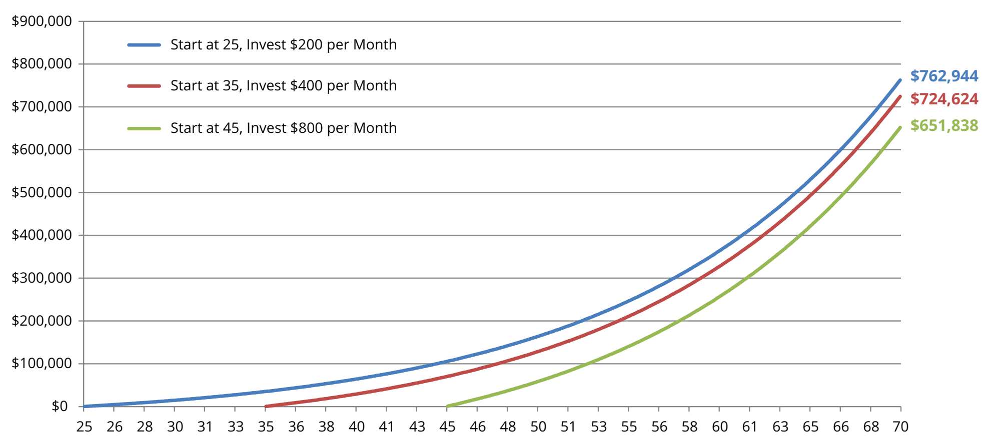
   Assuming a 7% rate of return, a 25-year old who invests 8% of a $40,000 annual salary that increases by 2% every two years (a modest assumption) will have saved more than $1.4 million for retirement by age 70 (this hypothetical illustration does not reflect the performance of any particular investment). Savings accounts, quite simply, can't do that. By nature, they have low interest rates and they grow slowly.

Key Points

- Millennials are saving more than many people think—the problem is that they're using savings accounts rather than investing.
- Millennials need to be more concerned about longevity risk than market risk.
- While many Millennials are rightly concerned about their student loans, saving for retirement early may be a better financial decision than paying off student loans.

2. **Time is your greatest asset—use it.**
   Thanks to compound interest, investors stand to gain much from retirement investing. Assuming a 7% rate of return, a 25-year old who invests $200 monthly until age 70 will have grown her investment to $762,944. If she waited until age 35, investing twice as much monthly, or age 45, quadrupling her monthly investment, she would not be able to achieve the same results as if she had started investing more modestly at age 25 (**FIGURE 1**).

   FIGURE 1
   25-Year Olds Can Save Much Less and Still End up With More

   This hypothetical illustration assumes a 7% rate of return; this does not reflect the performance of any particular investment.

   Most of the generation has 40 years to take advantage of compound interest. Even the oldest members have about 30 years. Time is still on the side of Millennials.

3. **Be holistic—Invest enough and then some.**
   Starting early is not enough. To build a comfortable retirement nest egg, try to invest about 15% of your income—Millennials are averaging only about 10%.[4] Try to gradually increase the amount you invest until yo reach that 15% goal. Think about inflation risk and market risk, and how they'll impact your retirement. On top of that, you'll want to have enough invested to cover emergency medical or life expenses. Taking a holistic approach to retirement investing leaves you prepared for multiple scenarios.

4. **Prioritize—Saving for retirement is more important than paying off student loans.**
   Investing when saddled with heavy student debt may be daunting, but even so, prioritizing saving for retirement is pivotal.

   Let's say you and a friend each have a loan of $29,000—about average for a college graduate in 2019. The interest rate on direct subsidized student loans for 2019 was 4.53%, so the minimum monthly payment over the course of a 20-year term is $184.[5] You budget $250 monthly for loans and investing, putting the minimum toward your loans, and invest the remaining $66.

Your friend also has a $250 monthly budget. But he puts it strictly toward loan payments, figuring he will invest once his loans are paid off. He ends up paying off his loans in just under 13 years. For the next 7 years he invests that monthly $250 in the market.

At the end of the 20-year period, you both will have paid off your student debt and will have watched $250 leave your accounts each month. But, assuming a 7% rate of return, you will have $34,413 for your retirement, and your friend will have $28,275.

5. **Value the human touch—with parents and a financial professional.** In a digital age of apps and robo-advisors, it's easy to forget the benefits of human connection. Only 46% of the Millennial generation talk to their parents about personal finances.[6] But parents can share their experiences and the do's and don'ts they have picked up along the way. Parents can also help recommend the right financial professional.

   Investors may benefit greatly from working with a human financial professional. He or she can help not only to make the most of retirement savings, but also to plan for travel, buying a home, starting a family, or achieving financial freedom.

Millennials aren't fools— they know life is about more than avocados and Instagram. They recognize the importance of saving despite the hurdles in front of them, and most of them are already doing it. The next step is to embrace risk and become investors. Creating a smart investment plan now, sticking to it, and letting compound interest do its thing, may be able to allow Millennials to eat their avocado toast and enjoy a comfortable retirement, too.

Talk to a financial professional today to develop an investing plan that's right for you.

[1] Business Insider, "A Surprising Number of Millennials are Saving for Retirement, and They're Making Gen X Look Bad," 11/11/19
[2] Forbes, "Student Loan Debt Statistics In 2020: A Record $1.6 Trillion," 2/3/20
[3] Wall Street Journal, "A Guarded Generation: How Millennials View Money and Investing," 3/13/20
[4] Market Watch, "Millennials Are 'Delusional' About How Rich They're Going To Be," 9/19/19
[5] Federal Student Aid, Interest Rates and Fees
[6] Business Insider, "Millennials Might Lag Behind Their Parents When It Comes to Money, but There's Something They Do Better: Talk About It," 10/31/19

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