The Kids Aren't Alright

The Motley Fool

By Dayana Yochim

Kids these days don't know how bad they have it.

As a nation, we're borrowing money at a record clip to pay for a lifestyle well beyond our means. Revolving consumer debt is nearly $800 billion, according to Federal Reserve Board estimates. Our personal savings rate is an emaciated *negative* 1.3%.

Up-and-comers aren't likely to turn this story around. Studies show that less than 20% of workers age 21 to 24 choose to sock away even one dime in their work retirement plans. When it comes to buying power, they've got *carte blanche* — or make that "card blanche." Coeds who aren't trotting off to campus with plastic they've had since junior high will find credit card applications conveniently stuffed inside their student-union shopping bags. Next: Graduate, get a job, then line up financing for a new set of wheels.

We're in trouble, little missies and misters.

Watch the attitude

I may be a prematurely cranky Gen X-er, but I have my reasons, thanks to a Cigna survey from a few years ago. Its "Workplace Report on Retirement Planning" sounds like the stodgy stuff that old fogies like to rip out of the local newspaper and mail to their grandkids.

But behind the doldrum title lies a revealing side-by-side comparison of the savings attitudes of "millennials" (the term *du jour* for workers born after 1979) and older baby boomers (those welcomed into the world between 1946 and 1956).

What exactly are kids these days thinking? Let's take a look.

According to the Cigna survey, one-third — yes, *one-third* — of millennials do not participate in their employer-sponsored 401(k) plan. That's more than twice the rate of non-participation of the older baby boomer generation. When asked to pick a phrase that best describes their retirement planning state of mind, 49% of the youngsters checked "I'm living for today."

Despite the temptation, we can't blame all their balking on being young and carefree. Millennials have financial worries, alright. They're just different from those of their elders. More than half said their biggest money concerns were covering everyday expenses and saving for a new house or car. Saving for retirement (37%) and paying for a child's education (22%) weigh heaviest on boomers' minds and wallets.

Just 15% of boomers said they worry about paying for their day-to-day costs, while just 15% of millennials are worried about paying for retirement.

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Still, even when they put their minds to it, millennials are not very emotional when assessing a 401(k) plan. Those worrywart boomers said "peace of mind" was a top plan benefit. Millennials cited "employer match" as the most important feature. (We couldn't agree more. That's why we call it "free money" in these parts.) Kids these days just don't see 401(k) plans as cutting-edge. They were 19% more likely to label the 401(k) as "the benefits of yesterday."

They may have a point. The 401(k) is more than 20 years old. And pension plans? They've gone the way of the dodo (unless, as my colleague Robert Brokamp recently pointed out, you're the company CEO).

Dude, where's my retirement?
I'm not going to tell the millennials to grow up, because frankly, acting adult is way overrated. However, if you want to continue skipping through life listening to your iPod at obscene volume levels, I have a few suggestions:

Don't supersize your lifestyle. You might not be a starving student anymore, but don't stop acting like it for as long as you can stand it. There's no bigger buzzkill than debt, particularly credit card debt. Even after you get your first 9-to-5 job, keep the roommates and the beater car. Eat cereal for dinner (but don't tell your mom). Take a bartending job or a part-time gig at a bookstore to make ends meet. Do whatever you need to do to keep debt under control while you can still get by on four hours of sleep a night.

Count your quarters. Remember that spare-change jar you kept in your dorm room? It was strangely satisfying to watch it fill up. Your 401(k) (or other work retirement plan or IRA) holds the same hypnotic qualities. Since the money coming out of your paycheck is pre-tax, you'll be surprised at how little it hurts to part with a few of those dollars. The paperwork is easy (and here's a bit of guidance on which investments to choose). Just ask your HR person for the proper forms, and you'll be done before your work buddies leave for happy hour.

Stay scrappy. You're young, nimble, and probably run circles around the rest of us on the office softball team. You can also kick butt when it comes to savings. A 25-year-old investing $200 each month for just 10 years will have $402,797 in her retirement kitty by age 65 (assuming an annual 8% return). If a 35-year-old were to invest $200 each month until age 65 — that's two decades longer than the 25-year-old in the next cubicle — she ends up with a little more than $300,000. Don't think you can get an 8% return? It's easy with an index fund such as **Fidelity Spartan 500** (FUND: FSMKX), which will give you broad diversification and positions in stalwarts such as **ExxonMobil** (NYSE: XOM), **Altria** (NYSE: MO), and as of a few months ago, even **Google** (Nasdaq: GOOG).

Question your elders. The boss has a lot on his (or her!) mind, including rising health-care costs, layoff lawsuits, and that stench coming from the lunchroom fridge. Many employers are passing the buck — literally — to their workers in the form of 401(k) administrative fees. They can kill your returns, so it pays to do a little digging. If you don't like what you see, invest enough to take advantage of any matching dollars your company offers, then shop around for a cost-efficient IRA. (Here are some important fees and features to weigh.)

Dream on. We love that sunny attitude you bring to the office. When it comes to the future, millennials have a brighter outlook than boomers do. Cigna data shows that boomers on the whole think they'll be working for the long haul — a full 25% believe they will have to work past age 66. Millennials are twice as optimistic that they'll retire before age 55 — perhaps I should marry someone a lot younger so I'll have a travel companion who can keep up with me by the time I can afford to quit work.

Program the aforementioned "to do" list into your Palm-cell-Blueberry-whatchamacallit and start now, while time — and gravity — are on your side. Need some more guidance? Give our new personal finance service, *Motley Fool GreenLight*, a try. We'll get you on the road to financial freedom in no time.

A version of this article ran in March 2004. It has been updated to work with the iPod nano.

Dayana Yochim is the co-advisor to The Motley Fool's new personal finance service, GreenLight*. Palm is a* Stock Advisor *pick. The Motley Fool has a disclosure policy.*