

Who Wants to Live to Be 100?

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Those of you who have planned for it! Planning for the new projected longevity is even more crucial for the younger generation just now entering the work force. They will have less of a safety net from Social Security (while still having to pay into it) and most will not have any type of traditional pension. The full weight of preparing for retirement will be squarely on their shoulders. Unfortunately, even though the most powerful tools of investing are on their side (compound interest, a long investing time period, and tax advantaged accounts) several recent studies have shown that young workers are not making use of the tax-advantaged investment options available to them.

The three main reasons young people do not invest early are:

- Lack of urgency
- Lack of money
- Lack of financial awareness

As parents we can help them by addressing these three issues. We can show them that they are in fact wasting valuable time, that it takes less money to secure their future if they start earlier rather than later, and educate them about the investment vehicles that are available.

You can help by encouraging them to:

1. Establish a Dignity Fund.

The Dignity Fund should be kept in a money market, CD, savings account or a combination of all three. It should roughly equal six months' living expenses.

2. Take full advantage of the company's 401(k) or other retirement plans.

Contributions to a 401(k) are taken pre-tax and the money grows tax-deferred until taken out in retirement. Many companies will match a portion of the contribution. Employees should at the very least contribute enough to receive the full company match which is free money. The ideal amount to contribute is 10 – 15% of salary.

3. Invest in a Roth IRA.

A Roth IRA is a tax-advantaged account that you contribute to after-tax but the money grows tax deferred and is not taxed at withdrawal. This is a powerful investing tool for young people. Roths can be opened at any brokerage firm. Some 401(k)s include a Roth option.

4. Enlist for auto-investing.

They can set up a payroll deduction that goes automatically to their investment accounts. This is called the "pay-yourself-first rule".

5. Avoid credit card debt.

People need good credit to navigate in today's society. However, credit card debt can ruin the best financial plans. So people should limit themselves to one credit card to establish a good credit history and commit themselves to paying off that credit card monthly.

6. Get educated.

The following books can help with understanding the basics of investing and the opportunities that are available: *Morningstar Guide to Mutual Funds*, *Wall Street Journal Guide to Understanding Money and Investing*, and *The Only Investment Guide You'll Ever Need*. Or, of course, you can call us for personal, hands-on, advice and education.