

Younger Generations—Overcoming the Challenge of Saving for the Future

Young adults in their twenties and early thirties—so-called "post boomers" or "Generation Xers"—face a variety of challenges in their quest for financial security. Some of these challenges are similar to those faced by previous generations, while others are unique to the times. If you are a Generation Xer, here are five financial tips to help you manage your money and plan for your future:



1) Invest in your future. Okay, you finished college and have a good job, but who knows where tomorrow's opportunities may lie? Moreover, ongoing technological changes in many fields will require continuous upgrading of education and specific work skills. One way to improve your job and career prospects in the 21st century is to give a high priority to furthering your education. The more varied and flexible your skills, the more attractive you will be to prospective employers.

2) Start an emergency/opportunity fund. The uncertainty surrounding the world of work will quite likely mean your working life may be punctuated by a series of job and career changes. If you need to go to school full-time to change career paths, you may have stretches of time without stable income. Building up an emergency fund (while fully employed) to cover three to six months of "bare bones" living expenses can help you control work-related transitions. This type of savings fund can also be used for opportunities such as starting your own business.

3) Save early and continuously for retirement. If you aren't aware of it yet, welcome to the reality that saving for retirement is a responsibility that falls squarely on your shoulders. Even in 401(k) plans that have employer-matching contributions, the bulk of the funding will be left up to you through tax-deferred salary reductions. In addition, the uncertainty surrounding the future of Social Security raises questions about what kind of retirement benefit the government may provide 30–40 years from now. While that may seem like a long way off, the key is to make time your ally.

Remember, what you accumulate during your working years will be the primary source of your income for your retirement years. And, even if inflation stays low and averages just 3% annually far into the future, prices will still double about every 24 years, cutting the purchasing power of your retirement funds.

4) Let retirement funds accumulate. If you change jobs early and/or often in your working years, consider rolling over your account into an Individual Retirement Account (IRA) or new company plan. It may be tempting to cash in the account, especially if you have accumulated only a small amount, but doing so would make it immediately taxable, and you may also incur an early withdrawal tax penalty. However, the greater concern is that you would also be cashing in part of your most important ally—time.

5) Use credit cards wisely. Beginning in college, young adults are targeted by credit card companies. While credit cards are often a great convenience, (it's virtually impossible to conduct some transactions such as making airline ticket reservations with out), they have the potential to create debt problems. Over-spending on credit can create an illusion of wealth because payments can be stretched out far into the future. Paying off the full balance each month (except for emergency situations) is the best way to control your use of credit.

Found, Not Lost

Some people have used the term, "the lost generation," to describe today's "twentysomethings" (and those in their early thirties). However, if you learn some basics about personal finance and apply a little common sense to managing your financial affairs, you'll be able to describe *your* future in far more satisfactory terms.



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