How to Help the Next Generation Plan for Retirement

SYNOPSIS

- Retirement planning has become far more complicated for the younger generation relative to when current retirees first got started.
- Here are some tips to start preparing today for markets tomorrow that will help them navigate the complexities that they will most likely face.
- Disciplined investing can build a nice nest egg over time, but true financial freedom only comes when one accumulates money without fear of losing it.

OH, TO BE YOUNG AGAIN

Imagine starting over in your 20s, armed with what you know now. There would be no limit to what you could accomplish with decades of experience on your side.

Until scientists find a way to turn back the clock, the next best thing you can do is offer advice to the younger generation, particularly your grandchildren, so that they can avoid the pitfalls that only experience could help them navigate safely.

Many of the rules have not changed: don't spend too much money, don't take on too much debt, and always plan for a rainy day. Continue to reinforce these concepts in the same manner your parents and grandparents did for you.

But just as cars and computers have grown in intricacy over the years, so has the process of planning for retirement. Low interest rates, the impending extinction of pension funds, and increasingly complex financial markets require a far more sophisticated plan going forward.

You can help your grandchildren navigate these complexities by instilling upon them the importance of not just saving, but also investing by following these ten simple rules:

1. **Invest in Equities:** Recent grads should be 100% invested in stocks for three reasons. First, equities have delivered an average annual return of 10%, which is the largest of any major asset class. Second, this cohort has a long time horizon, so if the market were to experience another dramatic selloff, they would have the time to build back any paper losses. Third, the effects of compounding will amplify returns over time.

2. **Buy Index Funds:** Active management of a stock portfolio requires skill, education, and experience. Younger investors have none of these, and those who try will be doing nothing more than speculating. Only buy low-cost index funds that track major indexes.

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3. **Never Buy Company Stock:** Tell them to avoid the temptation to invest in their employer's stock. They may think that being an employee gives them an "edge," but it doesn't and never will unless their title begins with a "C" (CEO, CFO, etc.).

4. **Contribute Monthly:** Tell them to maximize 401(k) contributions to the point where an employer will match. Think of this as "free money" deposited automatically with every paycheck. Long-term investors ignore entry prices and never try to time buying. They invest monthly, no matter what the short-term trend in the equity market may indicate.

5. **Buy into Panic:** If the stock market sells off by 8% over any given month, take whatever excess cash and buy the dip. Only use excess cash, which is cash above and

beyond what is needed to pay bills. Make this a rule and systematic. No matter what, keep to this strategy. If there is no excess cash then wait for the next dip.

6. **Establish a Roth IRA:** Taxes are only going one direction, so recent grads should set up Roth IRAs before their incomes exceed the legal limit for these highly advantageous retirement accounts. Paying the tax now while their tax brackets are lower and before the politicians raise them higher will ensure that they get to keep more of their hard-earned investment.

7. **Learn How Money Works:** Our educational system is utterly useless when it comes to preparing kids for one of the most important subjects, which is how money works. Buy them books, pay for personal finance classes, have them sit with your financial adviser, and tell them to always keep three to four months of living expenses in cash (mandatory) because bad things will happen.

8. **Download these Apps:** Smartphone apps can help the younger generation start saving today. Mint by Intuit will help manage finances. Acorn will round up all credit card purchases and invests the change in low-cost funds. Have them download both.

9. **401(k) Loans:** In the pantheon of major financial mistakes, taking out a loan against a 401(k) balance reigns supreme. The temptation to tap this account over time should be squashed immediately if it ever surfaces. Barring a major emergency, there is zero upside.

10. **Tax Refund:** Younger workers tend to pay less taxes and may even get a refund at the end of the year. If a check shows up in the mail, deposit it in an account and invest it immediately. Resist the urge to wait for a market pullback and just invest it.

IMPLICATIONS FOR INVESTORS

Markets evolve over time, and what worked for you will not be enough for your grandchildren. Hence, build upon what was taught to you with these additional strategies, and the younger generation will be better off when it comes time for them to retire.

Lastly, pay close attention to the 7th point above because education cannot be stressed enough. I have lost count to the number of extremely wealthy individuals I have met in my career who live in fear every day of losing what they worked so hard to accumulate. Disciplined investing can build a nice nest egg, but true financial freedom only comes when one accumulates money without fear of losing it.

The bottom line is that the days of easy retirement planning are over and won't be returning for a very long time, but you can help kids get on the right track by following these guidelines.

Sincerely,

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