



# MILLENNIALS GUIDE TO FINANCIAL HEALTH



As of 2020, **21 states are requiring high school students to take a course in personal finance** and the basics of money management. Why? Recent research from the National Center for Education Statistics has found that one in five American 15-year-olds lack the financial literacy to understand basic financial concepts.

With the increasing concerns around student debt, the rise of the gig economy, and the shift away from employer-provided pensions, personal finance classes that cover topics like budgeting, saving, credit scores, and the cost of borrowing are growing in popularity as well as necessity.

When someone is still young, it can be difficult to navigate saving and investing for their financial future. With so many important factors competing for their attention like paying off student loans, funding a retirement account, building up an emergency fund, buying a house, taking a vacation, and getting married, it is hard to know where to begin or what to prioritize.

In this guide, we touch on everything from how to identify that **it's the right time to work with a financial advisor**, to different retirement plans and how to evaluate their unique strengths and weaknesses.



# WHEN IS THE RIGHT TIME TO SPEAK TO A FINANCIAL ADVISOR?

Thanks to the internet, it can feel like there is a seemingly bottomless reservoir of valuable information right at our fingertips. With all this knowledge and wisdom available to us, why would anyone need a financial advisor?

The short answer is time.

It would take years for an individual to develop the same level of professional, reliable knowledge financial advisors use every day to help people reach their financial goals. The potential outcome of an individual's investment efforts, their wealth management strategy, and their retirement planning can drastically change depending on seemingly small choices; small choices that an advisor can help someone understand and navigate to ensure they are making the right move.

Say for example that when John is 25, he starts investing \$200 a month. By the time he turns 65, his investment portfolio could be as much as \$520,000. Now say John decided to go on a few vacations in his twenties instead with that money, and because of that he didn't start investing until he was 35.



Even if he invests the exact same amount—\$200— his portfolio at 65 will be worth about \$245,000, which is less than half of what it could have been if he started investing 10 years sooner.

The younger someone is, the more time their savings and investments have to grow. When someone recognizes the importance of working with a financial advisor when they are still young, they set themselves up for a life of financial wealth and prosperity that won't just impact their life, but the life of their loved ones as well. So, when is the right time to start the conversation?



## HIGHER EDUCATION

Graduating from school—whether it be from college, trade school, or a certification program—is one of the most rewarding, worthwhile achievements of a person's life. With so much opportunity and potential ahead of them, it is hard to imagine anything could cast a shadow on that moment. Then, they remember the student loans that have been piling up over the past four years.

Student loan debt is one of the primary roadblocks that **forces nearly a third of borrowers to delay investing and saving** for matters like retirement. The average public university student **borrows \$30,030 to attain a bachelor's degree**. Private, for-profit students borrow about \$10,000 more than that to get their degree.

Currently, it takes **the average student borrower 20 years to pay off their student loan debt**. A financial advisor can help their clients develop a more holistic approach to their finances that allows them to pay down their loans but won't require them to put off or forego important investments that can and will impact their future financial health.



## BUYING YOUR FIRST HOME

In an ideal world, everyone would have the time and budget to work with a financial advisor. This is because advisors do more than just balance budgets and help plan for retirement. In addition to ongoing financial maintenance, advisors can be great assets to utilize for big purchases like a first home.

Not only can an advisor help determine a realistic budget for a new home, but they can also help determine things like someone's break-even point, or how long it will take for them to recoup their **closing costs**. Factors like this are important to consider when buying a new home because closing costs can range anywhere from 2% to 7% of the home's purchase price.

Additionally, a lot of people don't know to factor in for hidden costs when purchasing a home. When you consider that the average cost of a major roof repair can be anywhere between \$1,500 and \$7,000, it is easy to understand why accounting for possible expenses like these is crucial when gearing up to purchase a home.

Financial advisors can help set up an emergency fund—typically 1% to 2% of a home's value—to cover unexpected costs and repairs so no one is left with a bill they can't pay.

A photograph of a family of four sitting on a porch in front of a house. The father is in the center, wearing glasses and a blue checkered shirt. The mother is to his right, wearing a dark blue dress. Two young girls are sitting on either side of them, one in a blue shirt and light green skirt, the other in a maroon shirt. They are all smiling and looking at each other. The house has a dark grey roof, light green siding, and a black door with a white decorative element above it. A blue curved graphic element is on the right side of the page.

## HAVING CHILDREN

It should come as no surprise that having a child adds a variety of new financial considerations and expenses to any family. Today, a middle-class couple (\$59,200–\$107,400) **will spend over \$230,000 to raise a child**, which is approximately \$12,980 per year. That cost doesn't even include the price of a college education.

Additionally, reports show that this annual expense increases as that child gets older. An infant that is 2 years old or younger will cost a family about \$300 less than that average annual expense. In contrast, a teenager between the ages of 15 and 17 can cost as much as \$900 more than that projected annual amount.

In today's everchanging economy, it is more important than ever to work with an advisor to help navigate expenses associated with raising a child. In doing so, parents can be better prepared to weather the continuous fluctuation of child care expenses and avoid having to compromise future financial security.

## Child Care

According to a [study](#) conducted by [Next100](#) and GenForward, the increasing cost of child care heavily influences a Millennial's thought process around when—if ever—to start a family. In fact, nearly 3 in 5 childless millennials say the reason they don't have kids is because it is just too expensive.

Even though some of the states in the U.S. offer free pre-K, there currently is no federal initiative to offer free or even affordable care for children under the age of 3. According to the [Center of American Progress](#), the average U.S. family with two working parents pays around \$13,000 per year for child care. That could end up being up to 17% of a family's gross pay.

A financial advisor can help navigate [tax credits](#) and tax codes to help figure out ways to save on child care expenses. A few ways they can help around tax time are:

- If someone has a baby before the end of the year, they can adjust their withholding now and use the extra cash to save for the new baby.
- Depending on income and a child's age, families can receive a tax credit of up to \$3,600 per child.
- Families with earned income might be eligible for the earned income tax credit, which is one of the most valuable tax credits available to families with low to moderate income.

## Higher Education

College tuition has more than doubled in the United States since the 1980s. With this rapid increase in the cost of education, parents should consider starting to save as soon as possible for their children's tuition.

Assuming an annual return of 6%, if a parent starts to save \$500 a month at the time of their child's birth, they could save about \$190,000 by the time that child turns 18. If that same parent chooses to hold off on saving until their child is 10, they would only have around \$60,000 by the time their child graduates high school.

Financial advisors can help walk new or soon-to-be parents through the process of setting up a higher education savings plan, so they can maximize their return on investment early on.



## SAVING FOR RETIREMENT

One of the biggest benefits of working with a financial advisor is being able to utilize their expertise when planning for retirement. Unfortunately, many underestimate the amount of money they will need to maintain their desired lifestyle after they stop working full time.

At the end of the day, retirement planning is a multifaceted equation. It includes identifying sources of income, sizing up expenses, implementing a savings program, and managing assets and risk. Many popular investment vehicles, such as individual retirement accounts (IRAs) and 401(k)s, allow retirement savers to grow their money with certain tax advantages.

Navigating these retirement strategies; however, can be riddled with complex decisions that have a significant impact on the amount of money someone is able to access during their retirement years. Additionally, just like parents having to start saving for their children's future well in advance, individuals need to start strategizing and saving for retirement as early as possible.

Retirement planning starts long before someone actually retires, so working with a professional who can explain the ins and outs of **social security strategy**, **tax planning**, and **Medicare supplements** can make the journey a lot smoother.



# HOW TO GET STARTED

It can be difficult to know where to start or what to prioritize during the first stages of your journey towards financial health and wealth. Should you invest or save? Should you focus more on retirement or child care? When you choose to work with a financial advisor, you take the guesswork out of your future.

At JL Smith, we offer specialized advice on everything from **social security tips** for married couples to why **it is never too late to work with a financial advisor**. If you have questions about your individual financial goals, let's talk. We're here to help ensure your future is vset for success.

