Ahead of RRSP deadline, a financial priority list for Gen Xers

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In the 90s, the term "Generation X" was synonymous with youthful angst. Thanks to Douglas Coupland and his seminal book of the same name, Canadians born between the mid-60s and the mid-80s were able to put names to the source of their ennui, like "McJobs," "boomer envy" and "semi-disposable Swedish furniture."

These days, Gen X still has plenty of angst, but their concerns usually involve things like mortgage payments, roof repairs and daycare costs.

Kurt Rosentreter, senior financial adviser and certified financial planner at Manulife Securities Inc., says that when it comes to their finances, today's 30-somethings and 40-somethings have "a lot of balls in the air."

"You've often got a mortgage, which is most likely going to be the largest debt in your life. You might have a line of credit from the kitchen renovation, you might have a car lease. You've probably got children, so you're thinking about their postsecondary education, which will typically hit before you retire," he says. "At the same time, people are spending on quality of life like never before. The day-to-day costs of essentials are high, and 'fun money' is high too."

With all these competing financial pressures, does contributing to an RRSP make sense?
Annie Kvick, certified financial planner and money coach in North Vancouver, acknowledges that it can be tough to meet all the financial demands faced by Gen Xers. But retirement is not that far away, Ms. Kvick says, and if you continually say, "I'll put RRSPs off until next year," or just concentrate on paying off your mortgage, you'll find yourself with fewer options down the road.

"If you have no savings, then you will have to downsize," she says. "If you want the freedom to choose when you retire, choose to stay in your home or to downsize, then you need some savings or you'll be forced to sell. So you need to actually do both – pay down your mortgage and save for retirement."

Before investing in an RRSP, Gen Xers need to make sure they've taken care of other essential priorities first, Mr. Rosentreter says. No. 1? Life and disability insurance premiums, he says. "You might have dependent children, a dependent spouse. You need to make sure if you died on the highway tomorrow or had a stroke, you have enough money to take care of the essentials first."

Next on the priority list: High-cost debt, including credit-card debt and the lines of credit that we all like to think are acceptable. As Mr. Rosentreter points out, if you're paying a line of credit at 5 per cent, that's an *after-tax* cost of debt, because you're paying down your debt out of your net paycheque. So to really get at the true impact of your debt, you have to gross it up by your tax rate, he says. "Without getting too technical, a 5 per cent cost of debt after tax could be an 8 per cent cost of debt pre-tax, so if you're not getting a pretty steady 8 per cent on your investments, you should be paying your debt first."

Third on Mr. Rosentreter's priority list are RESPs (registered education savings plan), because of the Canada Education Savings Grant. No matter what your family income is, the EDSG will pay you 20 per cent of the annual contributions you make to your child's RESP, to a maximum of $500 for each beneficiary, and a lifetime limit of $7,200.

"Then, well down the list of priorities would be RRSPs and TFSAs [tax-free savings account]," he says.

If you are one of the many Gen Xers who won't be retiring with a defined benefit pension from their employer, you're probably going to need to invest in both RRSPs and TFSAs, in order to enjoy the quality of life you have today, Mr. Rosentreter says. But the biggest mistake that 30- and 40-somethings are making right now is that they have no financial plan.

"They are flying by the seat of their pants," Mr. Rosentreter says. "They may be saving some money through RRSPs and RESPs, but they are just throwing money at a broker with no structure to it, and they are letting the broker get away with that. They have no idea what they are paying for fees for financial services, often they are underinsured and don't even know it, because they are relying on the group plan, which is usually junky."

Ms. Kvick, certified financial planner and money coach in North Vancouver, says the mistakes she sees with Gen Xers are about discipline.

"We don't want to take charge of our finances, and we haven't learned how to learn within our means," she says. "We get a raise or a bonus and that money just disappears. Or we upgrade to a bigger house. And so instead we should say, 'If I get a raise or a bonus, I'm going to take 50 per cent of that and put it in my savings, and establish those good habits.'"

Even if you can't afford an RRSP this year, the March RRSP deadline can at least motivate you to take a look at your finances and take some action, Ms. Kvick says. Putting a monthly, automatic RRSP contribution into place now can save some stress in the future.

"If you decide, I'm going to be proactive about it and [contribute] every month, you won't wake up next year and find that the same thing has happened again," she says.
And though Gen Xers might feel like they are too busy (or too scared) to face their financial reality, getting them to sit down and talk about their retirement plan with a certified financial planner can actually lift some of the burden and stress, Ms. Kvick says.

"We see our clients in their 30s and 40s, and they are worried, because they don't know where they stand. By getting an idea of how much they need to save now or later, they can actually enjoy today."