How advisors can help Gen Z plan for a financial future upended by the pandemic

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Having a written financial plan, creating an emergency account for expenses, and putting money into TFSAs and RRSPs are some ways young adults can help secure their financial future.freemixer/iStock

Finding a route to financial independence is difficult at the best of times, but the COVID-19 pandemic tore up the map for the youngest adults.

A recent Canadian Bankers Association survey found more than half (53 per cent) of Generation Z survey participants, those aged 18-25, said COVID-19 had upended their financial security.

Yet, almost all of them (98 per cent) said they're making plans to strengthen their financial resilience. Financial advisors and planners can help Gen Z on this journey.

A written financial plan is a good place to start, some advisors say, and they stress that clear goals and emergency funds are important for clients in the gig economy or with uncertain incomes.

Determining what all the necessary expenses are – including rent, internet, cellphone, gas and groceries – is the first step, says Steve Bridge, certified financial planner and money coach at advice-only firm Money Coaches Canada Inc. in North Vancouver, B.C.

"Being able to set aside two or three months' worth [of funds for those expenses] … is huge because it relieves a lot of the stress of, 'I don't have work this month,'" Mr. Bridge says.

He says he advises young clients to set up a savings account labelled "holding account," which is to be used only for holding money for slower months.

Asif Khan, wealth advisor and financial planner at BMO Nesbitt Burns Inc. in Mississauga, says Gen Z clients should also start building investment buckets for a down payment on a house and for retirement.

Putting money into a tax-free savings account (TFSA) and registered retirement savings plan (RRSP) at this young age will be "explosive for them in retirement," he says.

"The TSFA and RRSP, for the long term for Gen Z, should be 100 per cent [in] equity compounding dividend-paying investments," Mr. Khan says.

Brian Cabral, director, wealth planning group, at CIBC Private Wealth Management in Toronto, says the decision on whether to use a strategy based on a TSFA or an RRSP depends on a client's tax bracket.

Although it makes sense to allow contribution room to grow in an RRSP until it's needed in high-income years for tax savings, clients can't go wrong making contributions to either plan, he says.

Furthermore, there are government programs such as the First-Time Home Buyer Incentive and Lifelong Learning Plan that allow young clients to tap into their RRSP savings to buy a first home or go back to school for more education, Mr. Cabral says.

How to save with student debt

While home ownership seems a long way off for members of this generation, having it as a goal can still be realistic even in the current inflated market.

Mr. Khan says although homes are priced higher, younger clients are experiencing much lower interest rates than their parents and grandparents' generations.

Yet, Mr. Bridge says that the basics need to be in place first.

“If owning a home is a really strong goal and the numbers can work, yes absolutely, save up for a home,” he says. “But, adding that to everything else that is going on at that age – finding a job, getting a regular income, potentially paying back student loans, maybe buying a car – saving for a home on top of that is a big ask.”

A particular stressor for Gen Z clients can be debt, particularly student loans. Mr. Bridge says advisors should help young clients pay down those loans sustainably.

“This comes down to cash flow – how much can a young person put toward [paying off these loans] every month and still meet their other goals?”

Paying down a student loan too quickly can result in building a higher interest debt if something like a car repair comes up, Mr. Bridge says.

Careful with ‘do-it-yourself’ investments

Gen Z clients being comfortable operating digitally also extends to their attitude to investments.

“We’re finding a lot of younger folks have decided to go with the do-it-yourself investment strategy,” says Shawn Khimji, vice-president, wealth management, at Alterna Savings and Credit Union Ltd. in Toronto.

“That can be challenging. …. If you’re not careful in your approach, especially in a market that’s changing or on the cusp of changing with high inflation or interest rates, your asset allocation may not be appropriate for the future state of the economy.”

There are web forums that recommend investments based on an ideology, Mr. Khimji says, adding that he tells clients to really know what they’re investing in.

The rise of bitcoin

BTF22 -2.05%decrease
and other cryptocurrencies also can capture Gen Z’s imagination. A do-it-yourself investor might believe that’s a path to easy money, Mr. Khimji says.

While he says he doesn’t have a problem with young clients putting some risk capital in cryptocurrencies, they shouldn’t put all their eggs in one basket.