When should millennials start saving for retirement? How about now

GAIL JOHNSON
Special to The Globe and Mail
Published Wednesday, Oct. 21, 2015 5:00AM EDT

For as long as she can remember, Madeline Hannan-Leith has wanted to be a therapist. The Vancouver resident is nearing that goal: She's working on her master degree in counselling psychology at the University of British Columbia in Vancouver.

Not one to shirk hard work, she's held down several jobs simultaneously over the years to help cover her expenses. But with so much postsecondary education behind her, Ms. Hannan-Leith will still be facing a heap of debt once she graduates. It's a wearying thought for the 29-year-old.

"I've funded most of my education through student loans, so they're pretty substantial," the Winnipeg native says. "Student loans are always on the back of my mind; the financial stuff is always on my mind.

"I can't worry about that too much right now or else I'd get overwhelmed," she adds. "But how am I going to chip away at what could be $80,000 in student loans by the time I'm done?"

Even for those who aren't drowning in student debt, those in their 20s face unique financial challenges. While moving out for the first time may be new and exciting, supporting yourself may not. It's a time in life when incomes are typically low and savings accounts, if they exist at all, are lean. For those who do have some money tucked aside, that cash is more likely to be used to fund a car or a plane ticket than retirement.

If a lot of twentysomethings seem overwhelmed by money matters, it's hard to blame them, says Barbara Knoblach, a certified money coach in Edmonton with Money Coaches Canada.

"Many young people do not know how to handle their money at all, because they have never been taught," Ms. Knoblach says. "It's still a taboo in many families: Parents will not talk to their kids about money and debt, and so young people are not prepared for anything that comes down the pipe, whether it's paying bills or budgeting or dealing with credit card debt. They have no clue. They often learn by trial and error, and some make some bad mistakes along the way and they are struggling."

Chief among those mistakes? Racking up credit card debt.

“Credit card debt is really a disease prevalent in North America, especially with younger clients,” Ms. Knoblach says. “They have never learned to manage money, and they get accepted for a credit card the moment they turn 18. They don’t quite understand how it works: They get a $5,000 limit and think it’s their own money and they can go and spend it, but that’s not the case.”

Learning basic money-management skills, such as budgeting and saving, early in life is crucial, and not just to avoid a disastrous credit report.

“You want to be proactive and realistic with your money, and that starts with a responsible financial routine,” says Wade Stayzer, vice-president of sales and service at St. Catharines, Ont.-based Meridian Credit Union. “If you create healthy financial habits, like making a budget and sticking with it, being on top of and aware of your debts, paying bills on time, making at minimum the minimum credit card payments, having a savings account, and living within your means, those strategies will follow you throughout your whole life. Make sure you understand the fundamentals of money management.

“And just because you have an income you’ve never had before,” he adds, “don’t blow your money.”

When it comes to saving, Ms. Knoblach suggests young clients set up a “1 per cent account.” They direct just 1 per cent of their net pay to it – for instance, $15 from a $1,500 paycheque. The amount may be small, but it’s manageable, and the strategy helps people develop healthy habits.

“I find it easy to get young clients to commit to this savings routine,” she says. “They really cannot turn me down: $15 is the same as going to Tim Hortons three times. Once you’re in this habit, you can go from 1 per cent to 2 per cent [when your income rises]. The most important part is to get started.”

Naturally, twentysomethings don’t place a high priority on retirement planning; they’re more inclined to save for things such as travel, a vehicle, or a down payment on their first condo. To that end, Ms. Knoblach has clients budget and save for short- and long-term goals. Putting money aside for a trip means they don’t end up feeling deprived and dipping into their long-term savings.

“Financially savvy young people should recognize that starting a long-term savings plan is a really smart move, because time is on their side and any amount they can set aside for retirement now has many years to compound,” she says.

Simply defined as interest on interest, compound interest can have some astounding results when people start saving early. A single contribution of $10,000 into a tax-free savings account (TFSA) at 18 becomes more than $257,000 by 65, assuming a 7-per-cent return during that period, according to David Baskin, president of Baskin Wealth Management in Toronto.

"It doubles every 11 years, and when you start that early you've got a lot of doubles," he says. "It's enormously powerful."

Savings are typically better directed to a TFSA than a registered retirement savings plan (RRSP) when someone is just starting out. The 20s are typically low-earning years, when people won't benefit from the tax break that RRSPs offer to high-income earners.

Understanding investments and your own risk tolerance are other steps young people should consider, even if retirement is a hazy concept to most of them.

"You want to make sure your investments match your stage of life, and you can take more risks when you're younger," Mr. Stayzer says. "If you're in your 20s investing in a 2-per cent GIC [guaranteed investment certificate], you're not getting the potential upside that you deserve.

"When it comes to savings, it's a journey, not a sprint," he adds. "The sooner you start contributing to your future savings, the better off you're going to be in the long run."

Ms. Hannan-Leith at UBC has another piece of advice for people her age who are grappling with their finances: Get professional advice. She enlisted the services of Ms. Knoblach after seeing her mom turn to money coaching for help, to positive effect. "It has completely turned her financial situation around," Ms. Hannan-Leith says. "Before I had help, I felt like my finances were all over the place. I had no sense of money coming in, money going out; I was in credit card debt and I was in denial. I'm a really structured person and really appreciated having a financial plan that dictated what's happening with my money every month.

"Financial concerns are so huge for the academic crowd, and my friends are very curious about financial planning and skills," she adds. "It feels like a safety net. It's like counselling for money."