AN AMERICAN PORTFOLIOS' GUIDE

Coming of Age: The Emerging Gen Z Investor

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Generation Z, individuals born between 1996 and 2012, represent the most ethnically diverse and largest generation in American history, making up 27 percent of the nation's population.[1] They are the first generation born without knowing a world without the Internet, and with no real memory of Sept. 11, 2001.

As Gen Zers begin their journey into adulthood, they face the same challenges of previous generations … though by early indications, they may be better prepared to meet them than their elders were.

In this white paper, Coming of Age: The Emerging Gen Z Investor, we explore how Generation Z differs from the much-analyzed Millennial generation, discuss strategies for building a strong financial foundation, examine issues Gen Zers are likely to face in their 20s and outline what they need to think about in the phases of adulthood that still lie ahead.

Starting from an Excellent Place

Whatever the stereotypes may be of Gen Z, one of their most underappreciated personality traits is their seriousness about finances, which stands in stark contrast to their Millennial brothers and sisters.

Unlike a Millennial generation overburdened with student debt, Gen Zers have been much more conservative about accumulating excessive student debt, providing them with a sounder financial footing to start their adult years.

Three findings from recent surveys illustrate the sharp generational differences.

35% Thirty-five percent of Gen Zers plan to start saving for their retirement in their 20s, versus just the 12 percent of Millennials who did.[2]

23% Twenty-three percent of Gen Zers said that debt should be avoided at all costs, compared to a Millennial generation still burdened by high debt levels.[3]

25% Only 25 percent of Gen Zers expect to receive retirement income from the government, as opposed to a third of Millennials.[3]

Laying a Solid Financial Foundation

Adult members of Generation Z find money to be the greatest stressor in their lives, with four of five citing money as the No. 1 source of anxiety.[4] Fortunately, much of this financial-related stress can be reduced with careful planning and working with an experienced financial professional.

As with any generation, the financial demands can feel overwhelming at the start of adulthood. Even the everyday costs of rent, food and utilities—not to mention phone and streaming services—are enough to strain any young adult's finances. Add in a future home, a family and retirement, and it can seem like an impossible task.

However, what many overlook is that these financial responsibilities don't come all at once; they emerge over time and can be more readily met as individual incomes grow in concert with expanding professional skills and experience.

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Building Blocks for Financial Success

Laying a good foundation early in life is not only essential to achieving long-term future goals, but can also help relieve everyday financial stress and promote greater personal satisfaction in the process. The building blocks of a sound financial foundation begin with:

Creating a Budget

A budget is the cornerstone of financial success. Having a budget accomplishes two critical things. First, developing a budget entails tracking expenses to understand where money is being spent and how much is being spent. This knowledge is crucial in helping individuals identify ways to cut spending so that it can be redirected to fund financial goals. Secondly, a budget also becomes a discipline that keeps individuals from overspending. Spontaneous spending is more likely to occur when no budget guidelines exist, undermining the ability to save and reduce debt.

Paying Off Student Debt

Student debt is expensive. Individuals should explore the many ways to reduce student debt, including consolidation and refinancing, government repayment programs that may cap monthly payments and reduce principal repayments, and loan forgiveness programs for certain teachers and public service employees. For more information, read our FREE blog post on Ways to Manage and Reduce Student Debt.

Establishing an Emergency Fund

As any adult can attest to, unexpected expenses will occur, whether it's a large car repair bill or the loss of a job. Having an emergency fund of at least three months' living expenses can shield individuals from the stress of confronting unanticipated financial setbacks. This emergency fund can be built up incrementally over the course of time.

Building a Good Credit Score

A good credit score is important for many reasons.

- It helps to obtain favorable rates on auto and home loans—or to get the loan at all.
- It may be a condition of employment.
- It may eliminate the need for security deposits on utilities and phone contracts.
- It could help to obtain lower auto insurance rates.

To earn a good credit score, individuals should keep credit card balances low, pay them off right away and make on-time payments. If an individual has been rejected for a credit card, he or she may want to consider applying for a secured card through the bank or credit union where he or she currently has an account. Just make sure that the card provider reports payment activity to a recognized credit bureau, such as Experian, Equixfax or TransUnion.

Paying into the Future

Future goals, like saving for a house or retirement, should be viewed as bills owed to an individual's future, and should be paid first as any bill is. As such, they should be budgeted and are best paid through monthly electronic withdrawals from a bank account or direct deposits from a paycheck. Such systematic saving avoids the temptation of spending money on unnecessary things and ensures that important goals are being funded in a disciplined way.

Securing Health Insurance Coverage

The blessing of youth is great health, and for many young adults the temptation is to rebuff health insurance because it's expensive or viewed as unnecessary. Remember, financial success is as much about avoiding financial losses as it is about building financial wealth. Yes, Gen Zers may be exceptionally healthy, but sickness and accidents are real financial risks. Having health insurance coverage protects everyone from the deep financial losses that may come with an extended illness or serious accident.

Five Tips for the Early Career Years

There are many important financial issues and questions that Gen Zers will confront in the early years of their career, including:

1 Negotiating Pay and Benefits

While many young workers feel that they do not yet have the experience and skills to negotiate a salary, there is, nevertheless, usually some room for negotiation before beginning any job. Here are some quick tips to consider.

>> Wait until a job offer is made before negotiating compensation. A job offer demonstrates an employer's interest, which may indicate a willingness to pay a bit more to get the desired candidate onboard.

>> Research the industry and its pay scale so that a counteroffer is grounded in reality.

>> Be sure to communicate excitement about joining the prospective employer and frame requests in respectful questions, e.g., "I was thinking that the skills gained by my internship experience might have suggested a higher salary offer. Is that something you would consider?"

>> Look to make a counteroffer in a desired range (e.g., $50,000-$55,000) so that the employer has flexibility in its response.

Remember, negotiation isn't always about pay; it can be about benefits (e.g., continuing education) or work flexibility (e.g., ability to work from home one day a week).

2 Contributing to a 401(k) versus Paying Off Debt

The answer to whether it's better to contribute to an employer's 401(k) plan or accelerate paying off debt will differ according to each individual's unique set of circumstances. Generally speaking, individuals should consider:

>> Look at whether or not the employer matches a portion of the employee's contributions. If it does, it may be advantageous to contribute up to the match so as not to forfeit that benefit.

>> Consider how the interest rate on the loan compares to the expected rate of return on investments made in the 401(k) account. However, it is not the straight-up calculation it appears to be since investments in a 401(k) will compound for decades to come.

>> Take into account the psychological benefit to retiring debt early. If emotional comfort is derived from becoming debt-free, then the relative financial benefit may be less important.

Whatever the individual circumstances may be, an experienced advisor can be a valuable resource in making an informed decision.

3 Pursuing Extra Money Avenues

The Internet provides myriad opportunities to make additional money online in the evening or on the weekends. As long as it doesn't violate the employment agreement, freelance work can be an excellent way to retire debt sooner and build wealth more quickly.

4 Saving versus Investing

Gen Zers are confronted with many financial goals with varying time frames, such as buying a house, saving for retirement, or paying for a wedding and honeymoon. The time horizon of investments and savings should match the time horizon of their goals. For instance, investing in long-term assets, such as stock mutual funds, are appropriate for the longer-term goals (e.g., retirement), while funds to meet goals with a shorter time horizon—buying a home or paying for a wedding—should be placed in safer, more liquid places like a savings account, money market or short-term certificate of deposit.

5 Staying Diversified

Gen Z investors differ from older generations in their investment preferences. For example, they place a greater emphasis on new economy stocks and directing their investments into companies that reflect their values on social, political and environmental issues. In pursuit of such investments, Gen Z investors should not overlook the benefits of having a fully-diversified portfolio.

A Peek Ahead to the Next Financial Phase

As time marches ahead, the scope of financial responsibilities and needs will expand in even more complicated ways.

Marriage will require thinking about life insurance and disability insurance, especially if rent or mortgage payments are based on two incomes. Term insurance is a very affordable way to protect against being forced to move or downsize because of the loss of one spouse's income.

Children will change everything, from needing more life insurance to protect a surviving spouse and children to funding a college savings plan. Having a will is no longer a "nice to have"; it becomes mandatory to ensure that children are placed with the parents' guardian of choice.

Eventually, with age and greater wealth, Gen Zers will need to think about creating trusts, revising outdated wills, writing living wills and health directives, and obtaining long-term care insurance.

Complex financial needs, multiple financial goals and limited financial resources can make planning for the future an overwhelming task. However, with the right perspective, an understanding that these challenges are addressed over many years and an experienced financial advisor on which to rely, this personal financial journey can be made with greater confidence, lower stress and more successful outcomes.

Sources:

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3. Villa, Denise; Dorsey, Jason. (2017). *The State of Gen Z* 2017. The Center for Generational Kinetics. https://genhq.com/gen-z-2017-research-white-paper/
4. Anagnos, Chloe. (2020, February 25). *Gen Z Is Way Ahead of Millennials.* Foundation for Economic Education. https://fee.org/articles/when-it-comes-to-money-gen-z-is-way-ahead-of-millennials/

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