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Why a Millennial Prefers to Save

Matt Spezialetti, Portfolio Advisor, Herbein Wealth Management

Saving has a very positive connotation. You can save a life. In sports, you can save a game. A very admirable goal is to save the world.

However, I've heard many financial professionals lament how younger generations (millennials, specifically) don't save enough money and, in turn, fail to appreciate the value of a dollar. To the extent it helps reform that opinion, here are three of the main reasons that I, a millennial, choose to save.

Future kids – Breaking news: College is expensive and student loans are out of control. But remind yourself what a college degree (and perhaps even further education) means in terms of earning power in future years. I don't plan on having children any time soon, but when a private university over four years could cost upward of $200,000, it's better to be prepared.

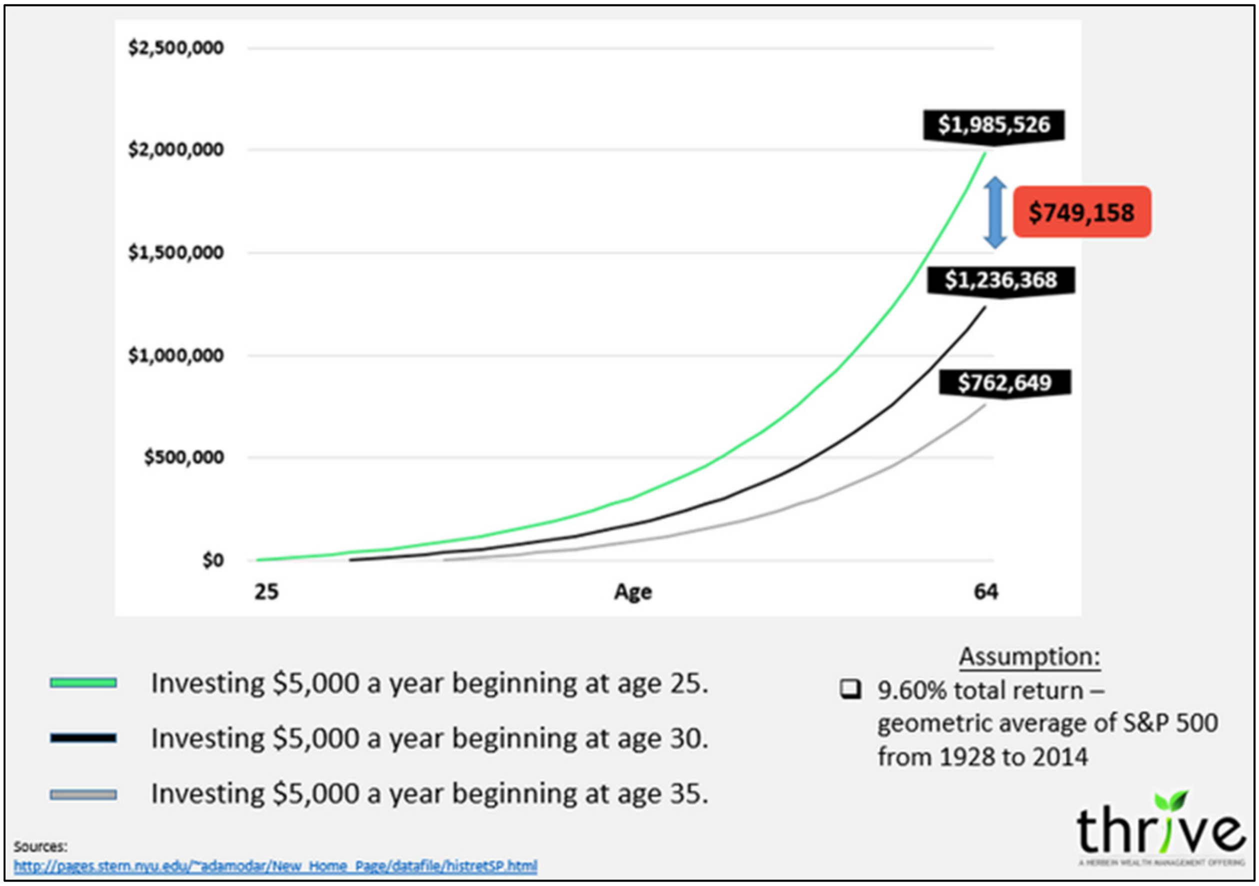
Enjoyment – In a lot of ways, saving is about opportunity cost and how much you value the pleasure of the concert/game/gadget today versus income in the future. Fortunately (or unfortunately, depending on your point of view), I have seen way too many charts and graphs showing the benefits of patient investing for the long term. It might not be the sexy thing to do right now, but my age and long-term outlook allow me to consider taking advantage of a 100 percent equity portfolio. There will come a time when, nearing retirement, I can no longer do that – and neither will you.

Social Security – I'm not a pessimistic person (although the Flyers and Eagles are pushing me there quickly), but I believe Social Security may look vastly different in 40 years. I don't have a pension, and I have no idea how much help the government will give me when I decide to stop working. That means I'll likely have to rely more on my personal savings, whether that's through an employer-sponsored retirement plan (think 401(k) contributions), an IRA or a traditional investment account. The two easiest ways to combat issues related to disappearing future income are to work longer and save more. I can only do the latter for now.

Yes, saving is important. But I also subscribe to the motto of, "Do what makes you happy." These ideas (saving and happiness) do NOT have to be mutually exclusive. If your happiness comes from buying material things, go right ahead. As long as you have enough cash to support your lifestyle, you are helping drive the American economic engine to the forefront of the world. If you find value in creating a safety net for retirement, or even in retiring earlier, saving may bring the happiness you seek.

While overspending is a natural downfall of the former philosophy, I would argue that underestimating the future benefits of saving (or a lack of knowledge regarding them) plays a large role in the decision to spend too much in the present. Happiness is hard to quantify because it is a feeling. Future benefits are equally as hard to quantify because they are based on your utility curve of happiness/consumption (if I may get a bit technical).

Not many people I know go around thinking about their marginal utility curve. But it doesn't have to be that complicated. Simply being more informed about the benefits of saving in **dollar terms** will go a long way toward pushing people to adopt a long-term attitude. For example, see the chart below.



Assuming a geometric average return of 9.6 percent, starting to save $5,000 a year at age 25 instead of putting it off until you turn 30 turns into almost an additional $750,000 over a lifetime. Now, I know that not every 25-year-old, likely near the beginning of their earning potential, will be able to sock away $5,000 a year. The point is that the benefits from saving early, in whatever amount you can, compound over time.

Suddenly, I've found, the urge to save gets a bit stronger.

About Matt Spezialetti, Portfolio Advisor, Herbein Wealth Management, Wyomissing, PA

Matt graduated from Temple University in May of 2015 with a master's degree in Investment Management. He received the Dean's Certificate of Excellence and was a member of the Financial Management Association. At Herbein Wealth Management, Matt is a Portfolio Advisor as well as a Thrive Wealth Specialist.

Matt earned a bachelor's degree in Communications and a minor in Economics from La Salle University in Philadelphia. Currently, he is a CFA Level II Candidate. In his personal time, Matt is a camera operator at the Reading Fightin Phils and covered high school football for the Reading Eagle this past fall.

His prior work experiences include stops in Bristol, CT as a Stats and Information Associate for ESPN and Charlotte, NC as the Media Relations Associate and Manager of Promotions for the Charlotte Knights.