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A Financial Catch-Up Plan for Generation X

Hit hardest by the Great Recession, this generation juggles life changes and a need for financial recovery.

by Teri Cettina | Posted: September 27, 2015

The group of Americans known as Generation X (born between 1965 and 1980) hasn't traveled the easiest financial road.

They began their work lives in the midst of the dot-com bubble, and were hit hardest — layoffs, a drop in their home prices, and losses in their investments — by the Great Recession from 2007 to 2009, according to a study from The Pew Charitable Trusts (http://www.pewtrusts.org/en/research-and-analysis/reports/0001/01/01/retirement-security-across-generations). A study by the financial education think tank Financial Finesse (http://www.financialfinesse.com/wp-content/uploads/2014/01/Generational-research_2013_press_release_1.13.14.pdf) found that Gen Xers are also lagging in retirement planning and cash-management skills.

While this may sound like a doom-and-gloom prognosis for 35-to-50-year-olds, it doesn't have to be.

Playing catch-up

"Gen Xers still have plenty of time for smart financial planning," says Bill McManus, Director for Strategic Markets for Hartford Funds, a company that provides Wells Fargo Advisors with training, product, and research offerings. "This generation is expected to live longer — perhaps even to age 100 — which means their financial assets could have more time to grow than they might think."

The key is for Gen Xers to start putting a financial catch-up strategy into motion as soon as possible. Some essential moves to consider, according to McManus:

1. Lay out a long-term financial plan.

"It's easy for people to get overwhelmed by their daily family and work priorities, and also the complexity of the financial world, that they just continue doing what they've always done with their money," says McManus.

Gen Xers have a lot of tasks to tackle — planning for kids' college educations, paying off debt, helping elderly parents, and saving for retirement. With all these plates in the air, it can be helpful to work with an experienced Financial Advisor to set priorities and create time-specific investment plans for each of your financial goals.

2. Plan to live and work longer.
"Longevity management" is an important concept for Gen Xers, says McManus. Since you'll likely live longer than your parents did, it's a good idea to talk with your Financial Advisor about exactly what you'd like your later years to look like — lifestyle and spending plans, health concerns, family legacy, and charitable goals. That way, you can create a plan to help ensure that your money keeps up with your "longevity goals."

Many Gen Xers may also need or want to continue working in some capacity after age 65. "Look at the work you're doing now and begin planning how you could set yourself up to work differently later in your career — perhaps as a consultant, specialized researcher, or a part-timer in your own business," suggests McManus. You might appreciate both the income and social network that comes from working in your later years.

3. Dump debt and sock away those old loan payments.
One advantage of being a Gen Xer is that you're probably hitting your peak earning years. Take advantage of that higher level of income, suggests McManus: If you haven't already, pay off any outstanding student loans, credit card debt, or vehicle payments. Once you've done that, start saving.

"Many Gen Xers tend to be spenders, so it may take some discipline to put the amount of those old loan payments into an emergency savings fund or retirement account," McManus says. "However, it's important to do those things if you want to have a comfortable future."

4. Review retirement investments.
The general rule of thumb is to invest 15% of your gross pay into retirement accounts — either through a workplace plan like a 401(k) or an Individual Retirement Account (IRA) or Roth IRA. Beyond that, though, it's important that your investment choices match your estimated retirement date, especially if you've suffered some losses in the past from the recession.

"Some Gen Xers may be invested in either overly risky investments, because they're trying to make up for earlier losses, or too-conservative options because they fear another recession," says McManus. Your Financial Advisor can review your investment mix to make sure it's right for your time horizon. Your Advisor can also offer education and insights about the economic markets to try to make you feel more comfortable with your investment choices, notes McManus.

5. Take advantage of retirement catch-up options.
Once you turn 50 (which is just around the corner for older Gen Xers), talk to your Financial Advisor and your company's benefits manager. You may be eligible to contribute extra "catch-up" amounts to your retirement plan — including 401(k), 403(b), 457(b) Simple, and Traditional or Roth IRA. These extra contributions could make a noticeable difference in the eventual size of your retirement nest egg.

Whatever updates you make to your financial plan, it's a good idea to start putting them into action as soon as you can. "Generation Xers don't have as many years left as Millennials to improve their money situation, but they definitely have more time than Baby Boomers," says McManus. "There are many reasons for Gen Xers to be optimistic about their money options, both today and in the future."

Teri Cettina is a personal finance writer based in Portland, Oregon, and a frequent contributor to Lifescapes.

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ADDITIONAL RESOURCES

If you're at the life stage where you or your spouse is considering staying home to raise your children, you'll need to think about the financial considerations (https://lifescapes.wfmagazines.com/plan_invest/wealth_and_your_family/article/when_women_take_a_break/).

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