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The Plan for Younger Savers

The pandemic is (hopefully) behind us – what does this mean for the younger generation of savers?

By Olivier Rident, Wealth Manager at MASECO Private Wealth

Over the past 18 months lockdowns across the world have, for those fortunate enough to maintain their income, allowed savings to build up. Governments in the UK and the US tentatively re-opening society presents an opportunity to take stock of our financial situation, as many households can expect their outgoings to increase in line with the return to normality.

The last thing anyone likely wants to hear right now (especially those in the first half of their careers) is that they should focus on saving. Never in recent history have we customers and the hospitality and entertainment industry needed each other so much (money is, after all, meant to be spent). I do not imagine I am alone in feeling that we could all do with a small frivolous spending budget to (cautiously) celebrate.

That said, once the dust has settled and the 'fun' pot has been set aside, what if cash remains?

In the earlier 'accumulation stage' of life (typically those in their earning years, when earning more than they are spending), it is all too easy to have nebulous financial goals, and simply rest on our laurels. However, whether we like it or not, investing and planning is for everyone, regardless of level of income, age, family responsibilities or the complexity of our financial situation. 'I just contribute to my work pension', or 'I might use some savings for a deposit' are often as far as 'The Plan' goes when I first speak to younger clients whose lives are simply too busy to focus on financial administration.

Looming inflation has been the concern of many commentators in recent months. It is therefore crucial to focus on 'How', when saving. If inflation fears do materialise, history tells us holding real assets may serve investors better than holding cash (which may buy you less and less bread with every passing day). We work hard for our savings, so we ought to let them work hard for us.

Many of us can also be discouraged by our own procrastination, but we should consider that while today is not quite as good a time as yesterday, it may be better than tomorrow. Younger investors in the accumulation stage of life should be reassured by one thing – time is on their side. The benefits of setting aside and investing even a small amount of money early and consistently can reap rewards over time in the form of compound growth.

How much?

Before considering the How, the first question you need to ask is How much?

More specifically, how much cash do you need at hand for the next few months and years and can you expect any surplus? Some of those in the early accumulation stage will of course think first about important short-term expenses – some may not have much in the form of required expenditure, while others may have mortgage liabilities, education loan repayment considerations or a young family to care for (this article does not specifically discuss protection planning, but it is worthwhile noting the paramount importance of robust protection within a financial plan). Children may feel expensive today, but they do not tend to get cheaper for quite some time into the future, so again, forward thinking is no wasted exercise.

This exercise is a fine balancing act. Leave yourself with too little cash at hand, and you could be forced to access investments at a sub-optimal time (time is no longer on your side here). Give yourself too much of a cash mattress, and that mattress may quickly deflate due to rising prices. The key is to assess the right balance for you based on the stability of your income and the level of your required versus discretionary expenditure.

How?

Once you understand how much you can put towards saving, then you can start to focus on the How.

The How is treacherous enough for those contending with one country's rules with investments, let alone two. Qualified pensions are always a good place to start, especially for US connected individuals living in the UK who should, generally (subject to individual circumstances) be able to rely on the US/UK tax treaty to ensure tax benefits are transportable across the Atlantic.

Outside of qualified pensions, How you invest becomes of paramount importance to consider for a US connected person in the UK. As an example, for many Britons with no US ties, Individual Savings Accounts (ISAs) typically stand in firm pole position as a sensible way to save. Tax-free growth and income are nothing to be shrugged at. As many US taxpayers know all-too well however, satisfying the UK rules is not enough, and most UK-based investments, unless in the form of single securities, need very close consideration to understand how the US might treat them.

Once you understand the How much and the How, 'The Plan' can start falling into place around these two pillars. The strategy should be regularly monitored and rebalanced to take into account market movement, additional savings for investment and any future changes in goals and objectives or changes in personal circumstances. But, from the moment you take initial action onwards, time is on your side. This year more than ever, you (and, most likely, your home Wi-Fi) have worked too hard for your savings to be ignored. ★

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