THE WALL STREET JOURNAL.
WSJ.com

August 9, 2013, 11:40 AM ET

Voices: Rand Spero, on Helping Young Clients Prioritize Savings

Rand Spero

Voices is an occasional column that allows wealth managers to address issues of interest to the advisory community. Rand Spero is a financial planner and president of Street Smart Financial in Lexington, Mass.

One of the issues that I'm concerned about is young adults, even those in thriving professions, who are overwhelmed by their financial options. They are told by financial professionals and the media about all the different financial "buckets" that they should fill–housing, emergency funds, 401(k), insurance, students loans, 529 plans–and they don't know where to start.

A lot of advisers can be cavalier when telling people the things they should do, but they need to be more empathetic to the challenges facing young adults. They need to talk to them about what to do when they have too many financial demands and not enough assets to meet them all.

Often the media and financial advisers will focus on one bucket at a time and explain why it's crucial to fill that bucket–a 529 plan, for example. But then another adviser will say that retirement is the bucket you should focus on. This can get overwhelming.

There's no doubt that filling each one of these buckets has its advantages, but what's important is showing clients how to prioritize if they don't have the funds to fill them all. Don't set the bar so high that no one can realistically reach it. Rather show clients that not every bucket can or needs to be filled now.

I see there are three problems with focusing on too many buckets: potentially filling the wrong bucket first, becoming overwhelmed and therefore doing nothing, and potentially purchasing a financial product without considering whether it's truly a priority. To avoid these problems, advisers need to help clients come up with a systematic plan for saving.

First help clients prioritize their goals and determine how much is needed for the buckets that are most important to them. Make sure they understand that there are tradeoffs. For example, they might have to put off buying a home to save for retirement. Don't commit funds to any bucket until the clients understand the big picture.

Set up a timeline that shows the clients' savings priorities, but make it clear that they can increase contributions to other buckets at any time as their financial situation changes. So it's not all or nothing.

Advisers need to explain the ramifications of filling any of these buckets because there can be some costs associated with certain savings goals, such as savings vehicles that have a withdrawal penalty.

Advisers also need to be encouraging because the current economic environment is challenging for young adults. They should be supportive and realistic about helping clients reach achievable goals. I think it would behoove advisers to try to place themselves in the role of the young adult clients. They are facing some difficult choices and advisers should understand those challenges and help them prioritize which one to tackle first.