For Gen Zers, an Unfriendly Financial Climate

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AS A GEN Zer, you're waking up these mornings to an unfriendly financial climate. As you are graduating from school and taking on life, you're dealing for the first time with an inflationary environment that is forcing you to reconsider your spending habits. On top of trying to keep up with student debt payments, you're seeing substantial increases in the costs of living: food, buying a home or renting an apartment, not to mention some sort of social life.

So how did this happen? Among the many factors that combine to create our current financial environment, perhaps the biggest impact has come from the actions the Federal Reserve has taken to address a couple of crisis situations, or to try to keep them from becoming crises. In 2008 and 2009, the Fed poured money into the banking system to keep it afloat as risky real estate investments failed. Then again, as COVID-19 threatened the economy, the Fed threw more than $5 trillion into the economy to keep it humming. That situation was exacerbated by the pandemic's effect on the supply chain, but in both cases, it was a classic lesson in economics coming to life: too much cash chasing too few goods.

At some point, the piper had to be paid, pardon the old cliché. And now we're paying. And as a Gen Zer, it's the first time in your life you've had to manage your money around high inflation and an economic slowdown that threatens a recession. You have to be more aware of your money and how to spend it because your money isn't going as far as it used to.

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There's no easy answer as to how to handle a higher-cost world. Lower interest rates are predicted as early as the end of 2023, but more often than not the economy doesn't act as predicted. At any rate, in the meantime you'll have to budget your expenses more carefully than you might have in the past, including avoiding the big trap, that is, falling into more debt, in particular, credit card debt. The cost of debt has soared as interest rates have risen sharply on all loans, especially credit cards.

Your monthly budget starts with accounting for recurring expenses: your rent or house payment, car payment, student loan payment, utilities and groceries — the costs you incur every month. The rest might be considered discretionary, but it is advisable to set aside part of what's left every month, especially given the threat of an impending recession. Financial advisors will tell you it's good to have six months of expenses in a rainy day account.

A note about student loans: The current Administration has proposed student loan forgiveness of up to $20,000. The Supreme Court will rule on whether or not the program can be enacted without Congressional approval. As well, a student loan "pause" is scheduled to go into effect 60 days following that Supreme Court ruling or 60 days after June 30, whichever comes first. Stay tuned for updates on those programs.

We're here to help. For more information or to talk with an HBKS wealth advisor, call us at (716) 672-7800, or you can email me at lfiorella@hbkswealth.com.

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