https://www.wsj.com/articles/your-parents-financial-advice-is-kind-of-wrong-11568367000

YOUR MONEY

Your Parents' Financial Advice Is (Kind Of) Wrong

The personal-finance playbook followed by past generations doesn't add up for many people the way it used to. It's time for some new money rules.

By Julia Carpenter

Sept. 13, 2019 5:30 am ET

Liz Weeks listened to her parents. Go to college, they said. Then get a good job, save for a down payment and buy a home. That was how they achieved financial success.

So she followed their playbook. She borrowed more than $165,000 to attend the University of Rochester, and then law school at Syracuse University. Now 32, she is a regulatory attorney in Seattle.

But things haven't gone as planned. Ms. Weeks still owes more than $140,000 on her student loans despite making monthly payments over the past decade. Home prices in Seattle have soared as the economy has boomed. In 1989, the median home price there was $77,300, or $163,773 in today's dollars, according to the National Association of Realtors. Today it's $542,700.

Seattle attorney Liz Weeks owes more than $140,000 on her student loans, despite making payments for much of the past decade. "I have been stressed about money since I was 11," she says. PHOTO: IAN BATES FOR THE WALL STREET JOURNAL

"I have been stressed about money since I was 11," Ms. Weeks said. "There was always this overarching sense of dread. The debt I have now colors so many of the decisions I make."

For Ms. Weeks and her peers, the rules have changed. Americans entering the workforce in the decade since the financial crisis face a starkly different landscape than their parents did at the same age. They often have far higher student loan debt.

Housing eats up a bigger chunk of each paycheck. And young households have lower incomes and fewer assets than previous generations did at the same ages.

The crushing weight of student loan debt and the steep rise in housing costs didn't happen overnight. But over three decades, these changes have reshaped the financial lives and dreams of young Americans. The personal-finance playbook followed by past generations—take on "good debt" for school, buy a home, then save up enough to send your own kids to their dream college—doesn't add up for many people the way it used to.

Consider:

• College tuition has soared 1,375% since 1978, more than four times the rate of overall inflation, Labor Department data show.

• Student loan debt has quadrupled since the start of 2005 to $1.48 trillion, according to the New York Federal Reserve, rising faster than any other form of household credit over that period.

• Median rent nationally hit an all-time high of $1,008 a month in the second quarter of this year, according to Census Bureau data. It climbed 20% faster than the overall inflation rate from 1990 to 2016.

• The typical U.S. home now sells for more than four times the median U.S. income, according to the Joint Center for Housing Studies at Harvard University. Between 1980 and 1999, home prices were closer to three times household income.

• Given the savings rates of the millennial generation born between 1981 and 1996, rental-listing company Apartment List estimates that two-thirds of millennial renters would require at least two decades to save enough for a 20% down payment on a median-priced condo in their market. Just 11% would be able to amass a 20% down payment within the next five years.

• The upshot: Millennial households had an average net worth of about $92,000 in 2016, nearly 40% less than Gen X households (people born between 1965 and 1980) had in 2001, adjusted for inflation, and about 20% less than baby boomer households (born from 1946 to 1964) had in 1989, according to data from the Federal Reserve.

So it's time to kill the idea that student-loan debt is always "good debt," to admit that buying a house isn't always the right move, and to refashion these old expectations. It's time for a new playbook.

Educational Debt Isn't Necessarily Good Debt

Some parents tell their kids not to worry about taking on student-loan debt because it is "good debt." Investing in yourself is important, but it's possible to invest too much. It's important to consider your potential career path as well as your debt repayment strategy.

> Plenty of people are already in too deep. More than 2 million borrowers have defaulted on their loans in the past six years.

Taking out loans isn't a guarantee you'll graduate. The think tank Third Way found that at more than a third of American colleges, less than half of the students will earn a credential within eight years.

And even if you do make it to graduation, who's to say the degree could win you your dream job? Four in 10 recent college graduates are in jobs that don't require degrees, according to research from the New York Federal Reserve.

After college, you may want to consider graduate school as a means of moving your career forward. But is it worth it to borrow tens or even hundreds of thousands for that advanced degree?

If your starting salary out of grad school will be more than the loans you take out to cover your education costs, it's probably a good investment, says Mark Kantrowitz, vice president of research at savingforcollege.com. If you check this box, you should be able to pay off your loans in 10 years or less. (There are exceptions, like doctors heading into low-paid training programs. In these cases, use the starting salary after residency and fellowship.)

You can also think incrementally. Is the amount you will gain in salary after completing a graduate program more than the debt that you must take on to get the degree? If so, it makes sense. For example, spending $50,000 to get a nursing degree is a good investment if your salary will immediately jump from $30,000 as a home health aide to $80,000 as a registered nurse.

You might not have to pay big bucks for a multiyear program to land the job you want. New specialized graduate degrees are becoming more popular. A master of business analytics, which generally takes one year to earn, might suit you better than a traditional two-year M.B.A. and leave you with less debt. Instead of a three-year law degree, check out master of legal studies programs. They take one to two years to complete, can often be done online and cost around $20,000 to $45,000—often cheaper than a year of law school.

Don't Assume You Should Buy a Home

A home of one's own remains an integral part of The American Dream.

But the thing is, a house may not always be a good investment. Especially in the hottest housing markets.

Sarah Behr, a financial planner and founder of Simplify Financial in San Francisco, said she cautions even those clients who can scrape together enough to buy a home that it may not be the right investment for them.

"Housing as an asset is expensive, so if you're not going to be somewhere for seven or eight years, it's hard to break even and hard to know if you'll make enough equity to offset the cost," she said. "Even if it is attainable, it's not necessarily the best use of your money."

There are a couple things to keep in mind when you're considering home ownership. You may be one of the fortunate who already have the money to put down 20% for a down payment. But ask yourself: can you afford the monthly mortgage payments, or will it be hard to make ends meet? Have you depleted your savings entirely, putting you at risk for default if your employment situation changes? And lastly, per Ms. Behr's point, think about how long you plan on staying in this house—maybe you're already restless and planning to move soon, in which case it might be hard to break even, especially if you factor in the considerable costs of closing on a home purchase.

What's The Best Place for Financial Growth?

Another achievement up for debate: living in your dream city. It might not be as dreamy as you think.

Yes, there are cool jobs in growing sectors, drawing young graduates to places like New York and San Francisco. But housing costs in those cities are high.

Some make it work by living far outside the city center, where things are often cheaper, or by putting a hold on their financial goals to free up more room in the budget for pricier housing.

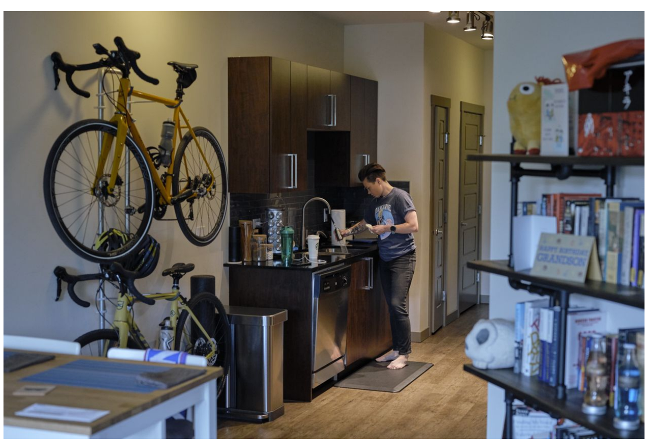
Others leave these places altogether. Austin, Texas, Nashville, Tenn., and Portland, Ore., are seeing a boom as workers leave big, pricey cities to instead work remotely in less expensive areas. Median home prices have still risen in these cities, but owning a home is more achievable. The median home price in Nashville, for example, was $276,800 in July 2019, still lower than the national media home price of $280,800, according to the National Association of Realtors.

If you want to get ahead in the game, think about where you want to live long term as you consider where you go to college or grad school. Unless you're at a top school, the employers coming to recruit on campus might largely be regional, so pick somewhere you think you'd want to work after graduation, says Jill Tipograph, co-founder of Early Stage Careers, a coaching firm.

Not All the Old Rules Are Dead

Part of the generational disconnect is the idea that frugality alone will allow a responsible young professional to reach these financial goals. Ditch the Sweetgreen salads and dial back the spending on your fancy coffee, the advice goes, and you'll be able to afford that down payment in no time.

But Ms. Weeks, the Seattle attorney, already brings her lunch to work. She takes the bus. She and her husband, a leasing professional, have decided they'd rather save money than celebrate their marriage with a wedding. They do hope to take a vacation, just the two of them—something they still haven't done since they got married in 2017.



Liz Weeks marinates chicken in her Seattle apartment. Rents in the U.S. climbed 20% faster than the overall inflation rate from 1990 to 2016. PHOTO: IAN BATES FOR THE WALL STREET JOURNAL

"Fifteen dollars on lunch each day, times seven—[bringing your lunch] might help a little bit, but it's not going to make a dent in the debt that's left," Ms. Weeks said. For her, amassing a down payment seems entirely out of reach right now.

She's not the only one. The homeownership rate for millennials was around 38% in 2017, according to research from the Urban Institute, about seven percentage points lower than the rate of Baby Boomers and Gen X-ers at the same age.

"One of the expectations is you should be able to afford a house, and if you can't, it's seen as if you've missed one of the rungs you're meant to climb up in your life," said Rob Atkinson, founder and president of the Information Technology and Innovation Foundation and senior fellow at the Brookings Institution.

"I think for other people, they just give up and say, 'It's not going to happen for me.' And I assume there's a certain level of disappointment and a sense of failure."

When the disappointment sets in, some people can be put off of saving or goal-setting entirely. Without advice that feels relevant, they not only give up on traditional goals, but the methods as well.

But while throwing your hands up may provide some temporary relief, it won't cure this nagging sense of paralysis that holds so many people captive.

THE NEW RULES OF MONEY

Read more of the Journal's coverage of the financial challenges facing young adults.

- Five Cities: Living on $50K a Year
- The Tax Questions People Ask After Getting Their First Paycheck
- When a Sublet Scam Wipes Out Your Starting-Out Cash
- Frugal Friends and How to Find Them
- Money Advice From the Pros
- A Financial Starter Kit

You still need to know your numbers—how much you make, how much you owe and how much you spend.

After confronting the numbers, determine reasonable goals and rewards: if you're not buying a house right away, perhaps you're contributing to an investing goal or savings account instead. Set aside a small amount of money every month. You can automate a monthly deposit and account for that in your budget so you don't "miss" the money and feel crunched on cash.

From there, maybe you drop your savings in a high-interest savings account, or do your research and explore the world of investing. The cost of putting money to work in the stock market is lower than ever, especially if you keep it simple and invest in something like a low-fee S&P 500 index fund.

Retirement savings may not be a physical asset like a house or a car, but that pile of money is ultimately the most important financial goal to keep on your list. If you're lucky enough to work for an employer that offers a 401(k) match, take advantage of it. If you don't have a 401(k), consider a Roth IRA, which will allow you to take money out for emergency expenses, and a health-savings account, which will help you escape tax penalties, should you need to withdraw for a medical expense.

A savings account, a 401(k) or a health-savings account aren't tangible in the same way as a house, but they're plus marks in your asset column. And if you feel like you have something going right, if you're contributing in some small way to your future, you'll feel less helpless in the long run.

There's one more thing: Within reason, allow yourself some small joys. There's a difference between someone who saves some money and enjoys themselves occasionally and one who saves nothing and splurges on brunch every day. When you're feeling less helpless about your financial health, you can feel good about putting money toward the things that make life worth living.

The goal-setting isn't just important for young adults to understand, though; it's important for their parents to get it, too. A more realistic, empathetic conversation between the generations can also lead to more conversations about money, period.

Ms. Weeks knows her parents meant well when they told her college debt was "good debt," and they also weren't the only ones to dole out this mistaken advice.

"As you get older, you learn your parents are fallible," she says. "I wish they'd been more upfront about how hard it was, because it feels like a moral failure when you can't reach these milestones."

Student loan debt has quadrupled since the start of 2005 to $1.48 trillion. Here, Liz Weeks' law degree in her apartment in Seattle. PHOTO: IAN BATES FOR THE WALL STREET JOURNAL

In Which I Follow My Own Advice

I applied this advice to my own life on a recent drive with my parents back home. I knew I wanted to talk with them about how they'd seemingly so easily reached these huge goals.

When they were 28, my parents were already married, with a kid and a house. At the same age, after a series of too-many-roommates scenarios, I now split rent with my girlfriend, and we're both on the same page when it comes to spending money. We budget together every month and we share a credit card, mostly for the convenience, but also for the points. One day, we want to own a home, but for now, we're just trying to save what we can without sacrificing the occasional dinner out. After seeing our friends drop thousands of dollars on weddings, we've agreed a big party like that isn't in the cards right now.

I've had to redefine so many of my goals. Home ownership, as much as I dream about it, just isn't a viable option for me right now, and like Ms. Behr suggested, I don't know if it would make the best use of my savings, either. Instead, I do what I can: I have taken advantage of every 401(k) match offered (in my first job, that was just 1%, but I was so excited) and I contribute every month to my savings and investing accounts. I want to learn more about investing and I still dream of buying a little house with a wide window seat, just like the ones I bookmark on Zillow. But for the time being, I feel comfortable just setting aside what I can.

And as my dad told me, he and my mother didn't start "paying themselves" until much later in their marriage. Before then, they were too busy putting money toward their mortgage, their credit card bills and their childcare costs. He said back then they simply didn't have the cash to stash in a savings account. In that way, I'm already ahead of where they were at my age—just not in a way I expected to be.

The last time I visited my parents, we talked about my own goals. I want to go to graduate school one day, but I'm afraid of taking on that much debt. I still want to buy a home, but a down payment feels incredibly elusive to me. My parents, to their credit, tried to understand.

They bought their first home in the 1980s: a one-bedroom starter home in Decatur, Ga. With some help from my grandfather, they came up with $10,000 for their first down payment (around $22,200 in today's dollars).

"You know, nowadays 10% isn't enough," I told my mother, reminding her of how she and my dad afforded their first house. Lending practices have changed. "A lot of times, you have to have 20% already saved for your down payment."

She was shocked. "Who can save up 20% for a down payment?"

—Rachel Feintzeig, Laura Kusisto and Josh Mitchell contributed to this article.

Write to Julia Carpenter at Julia.Carpenter@wsj.com

SHARE YOUR STORY

Fill out the form below to contribute to an upcoming reporting project about debt in America.