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Living for today: the Gen Y mindset

IFA Cover Story

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For the majority of Australian 20-somethings, or generation Y as we've been coined, conversations about overpriced rental properties, tertiary education bills, new car payments and overseas holidays arise far more frequently than discussions about financial advice.

After all, don't advisers prefer clients who actually have finances they can advise on?

For us generation Y folk, we might be in the position one day to invest money or buy property, but for now, unless we're getting help from the olds or have been diligent with our savings from day one, what we really need is financial education to help us manage what we have.

We were onto a good thing when schools introduced those Dollarmite bank accounts for us in kindergarten, but unless you were given a gold coin or two to add into that little yellow bank book that fell by the wayside and that was the last we ever heard about managing money at school.

The best you could hope for was a financially savvy mum and dad or family member, who might sit you down once you got a job to show you how to write up a budget, navigate your tax return online or buy you shares for your birthday.

Just over a year ago, 60 Minutes reported that generation Yers were up to their necks in $60 billion worth of debt, with one survey showing that 73 per cent of gen Y was affected.

People thought the global financial crisis might scare us, but no, we're still more familiar with the cost of the latest iPhone, plasma screen TV and pair of Gucci sunglasses than how or why we would seek financial advice.

Not to say there aren't a number of generation Y Australians who do seek advice, but on the whole the real issue is tapping into those that aren't accessing it, which according to Investment Trends data is roughly 60 per cent of the gen Y

population.

And that's 60 per cent not seeing any type of adviser, accountant or broker.

Investment Trends principal Mark Johnston says generation Y clients want low-cost advice, value for money and an adviser with good communication skills, and good budgeting and investment selection ideas.

The real challenge, however, when it comes to generation Y is the cost of advice, Johnston says.

"Putting together a statement of advice is a large exercise and when you have a group of investors that don't have a lot of money, the two worlds don't match up very well," he says.

"And it is difficult because financial advice can have a great benefit if delivered early, but the challenge is how the industry does that.

"The industry focuses on retirement planning more than it does budgeting and property advice, which is where there is the most pressing need from generation Y."

When it comes to these clients, limited advice is the biggest and fastest-moving thing currently happening in the advice space, he says.

"That is why it is important that the industry utilises lower-cost ways to deliver advice to generation Y as realistically these clients won't have the accumulated wealth of pre or post-retirees, not for sometime anyway unless they inherit it," he says.

FPA deputy chief Deen Sanders says generation Y believes strongly in the concept of work and life together.

"Previous generations, such as the baby boomers, were more of the idea that you work hard, retire and then enjoy things later, whereas generation Y is the opposite. They absolutely believe in living and working at the same time," Sanders says.

"They don't want to wait until retirement to do all the fun things. They don't have the same time horizons within their strategies. In saying that, they want to know not just how they can maximise money; they want advice on how to enjoy life."

Members of generation Y who seek advice tend to fall into two camps, he says.

"They're savvier with educating themselves online so usually if they do make contact with an adviser, it is because they have decided they want further help or they feel they have learned enough that they just want help with the transaction," he says.

Association of Financial Advisers (AFA) chief executive Richard Klipin says members of generation Y have just finished studying or are in their first jobs, with many still living at home or having to move back home due to the cost of living.

"On the older side of generation Y, however, there are people who are making big decisions around their career, family, where they want to live, insurance and investments, and who are also getting more serious about their super," Klipin says.

"Advisers need to understand this generation is different. Unlike those that came before them. they won't work for 40 years with the same employer. They will have multiple jobs and career breaks on the way through, so they want flexible strategies.

"Because they have lived in relatively peaceful economic times, with even the global financial crisis treating Australia relatively kindly, that has also influenced their behaviour.

"For this reason they are also far more short-term driven because they have the attitude that everything will be okay later on."

He says investments for younger and older members of generation Y could also differ, with the younger part of the demographic keen on car loans and holidays, whereas the older part of the demographic might be keener on home deposits and their children's education.

"Assessing these time horizons and clarifying their short and long-term goals are all important," he says.

"Generation Y has great potential but they do have debt. The earlier they begin practising good habits, however, the better off they will be later on. Our job is to engage with them and show them the value of advice."

Investment and Financial Services Association (IFSA) chief executive John Brogden says many generation Y members, whether they realise it or not, began an investment strategy the day they started working via their superannuation.

"We have to make the connection that they have in fact already begun an investment strategy and one which they can already make decisions around," Brogden says.

"The challenge for advisers is promoting the value of advice rather than the cost of advice.

"We need to target their focus on car loans and home loans and also consider that a lot of these people will inherit money that we don't want them to blow on a cheap thrill."

He says very few 22 year olds would be seeing a financial planner and the first hurdle for the industry is getting generation Y interested in investing.

"While they may have started an investment strategy through super, there are other areas of interest where the industry could provide a lot of assistance, for example, income protection for those who've opted to establish their own businesses," he says.

Association of Superannuation Funds of Australia chief executive Pauline Vamos says the industry has to learn to talk generation Y's language, make things easy and create more tools online as that is the space this generation occupies.

"I have daughters within the generation Y demographic and they don't understand why they can't do things online, consolidate things online or get answers online," Vamos says.

"They want simple low-cost help that is in their best interest and they don't want their money eroded by high fees or premiums.

"They tend to think about buying homes, getting married and having kids, so our dialogue really needs to be around those things. They need to understand that what they do today can impact later on, both in a good way and in a bad way."

A December 2009 report by Investment Trends revealed that when it came to seeking advice, generation Y felt they needed the most advice on property.

"About 41 per cent of generation Y respondents said they wanted advice around property financing, while 38 per cent said they wanted advice on choosing a property," Johnston says.

"About 37 per cent wanted general financial advice, so details on the share market, managed funds and financial products in general, with 35 per cent wanting advice on super.

"Interestingly, however, only 26 per cent wanted advice on managing debts and budgeting."

As part of the report, Investment Trends also asked respondents what financial events they thought they would require advice on, whether from a professional or other source.

About 78 per cent of respondents said they would require advice before buying

a home or investment property; 71 per cent before making a major investment decision; 72 per cent before retirement; 60 per cent before borrowing money; 53 per cent during a divorce; 40 per cent at retirement; and 34 per cent if they lost their job, Johnston says.

"What we found particularly interesting is that the number of events generation Y felt they would need advice on was higher than the number of events older generations did," he says.

The Investment Trends study also showed that within the next two years, 41 per cent of respondents were thinking about getting a home loan with about the same amount considering an investment property loan.

"About 32 per cent were considering insurance, with 28 per cent thinking about shares and 23 per cent thinking about consolidating loans," Johnston says.

"Of the financial decisions they were considering, nearly 80 per cent said they would seek the advice of a professional when it came to a home loan, with 73 per cent saying they would do the same when it came to consolidating loans."

Industry heads say apart from understanding the generation Y psyche, another challenge that advisers face is how they make contact and how they become visible to this audience.

Whether it is through their parents, online forums or various community groups, Vamos says sending communications via the post is a waste of time.

"They don't open it and they don't read it," she says.

Sanders says the industry must also be aware of the extent to which generation Y values the input of family and friends.

"There's a big difference in what a friend and a professional can tell you, but that doesn't change the fact that data shows that friends and family are a vital source of information for those that don't have an adviser and who are of a young age," he says.

"For this reason if you are an adviser and can get the friends and family of generation Y to refer your services, that can also go a long way."

Johnston says Investment Trends data shows that generation Y is far more likely to seek advice from family and friends than other groups. He says there is also a strong link between how much money people have and who they seek advice from.

"Advice from financial planners usually kicks in as wealth levels go up, but most start with getting advice from family and friends and then later an accountant or

bank-based adviser," he says.

There is a real opportunity for financial planners who want to diversify their offering through mortgages and loan consolidation to tap into generation Y, he says. "At the moment, however, generation Y seems to be more tapped into limited advice, retail banks and industry funds," he says.

CMC Markets chief market analyst David Land says family and friends are a common source of advice for generation Y and while professional advice remains important to them, there is certainly a growing interest in what family and friends have to say.

Klipin says generation Y absolutely values the advice of family and friends.

"If you're 20 or 25 and need advice, you're going to speak to your parents, family friends, siblings or a mate, so I think the industry and the profession has a role to demonstrate its relevance to generation Y," he says.

"Some advisers have already tapped into this trend and offer programs where they host events for both parents and their children, with some even offering pro bono work as in introduction for existing clients' children."

Vamos says it would be great to see advisers offering parents some form of reward for referring children, such as a gift voucher.

There are also things the industry could be doing to be more involved in this segment, such as talking to schools and advertising or using mediums such as television and social networking websites, Klipin says.

"There should be programs so that advisers can tap into schools and universities before they start their careers," he says.

"Rather than these people turning around at 35 and thinking I don't have much to show after 10 years of work, they can start planning from early on."

He says there has been a degree of work done in schools regarding financial literacy, but the inclusion of a financial literacy course on the curriculum should be considered.

"Big financial institutions and the entire advice community have a role to play in teaching these young people," he says.

"I know that generation Y isn't a segment advisers normally go after because it's not a segment that has huge resources, but it has great need and huge potential if advisers start early on."

Vamos says generation Yers will be loyal clients to advisers who make things easy for them.

"We do need to engage them though. We need to get blogging. We're not on Twitter or Facebook and we need to make ourselves visible in their communication space," she says.

"Generation Y aren't as keen on going to an office as perhaps their parents might be, which is why planners should consider online avenues and things such as webinars.

"Advisers need to make advice fun and create things like online calculators that can show generation Y what it can save and what it can buy. Put these people in the driver's seat and give them control over information.

"Put things in their pay packet such as details about how much super they've accumulated so they can more regularly see the difference they are making."

Vamos says ASFA has created a Super Guru website, which has basic information on super, and that these things are vital to creating a competitive edge in the market.

Sanders says one of the challenges to recruiting generation Y clients is the sheer noise that gen Y is exposed to, including everything from advertising, multimedia and the web, to television, newspapers, articles and blogs.

"There are a lot of people out there claiming to know things, so one of the difficulties is identifying an adviser as the most trusted source for this advice," he says.

"It's about advisers being able to engage with generation Y and in a fashion that generation Y will respond to."

He says members of generation Y are connected.

"They're on Facebook and using social media tools. They're absolutely on the web and they come prepared. So if you're not visible in this environment, they probably won't find you unless they're referred. They don't tend to be the phone book type," he says.

Having more generation Y advisers within the industry is also a good way to attract gen Yers, he says.

"We have over 1500 members that fit into this category and I think that's important because generation Y wants to talk to people that understand their challenges," he says.

"We also have a blog star campaign, which is entirely dedicated to youth.

"There is a blog website which shows what financial planning is about and why

it is valuable from a youth perspective.

"There is information for members of generation Y that don't have a planner and the potential next steps that they can take."

Land agrees that online education is popular and gives people easy access to information. "Things such as webinars give them a chance to ask questions online or over email," he says.

Industry heads say once advisers engage generation Y, it is important to remember they are motivated by different things as well as higher returns.

"Because generation Y has lower levels of accumulated wealth, they want to accumulate returns faster," Johnston says.

Klipin says while Australians love property there are still a number of people who have the same attitude towards investing in blue-chip shares.

Land says due to the cost of property, the stock market does provide a good alternative for those who want to invest in growth assets.

"Owning a home will remain an aspiration, however, the stock market has a much lower cost of entry, which is why that can also be an attractive option for young people," Land says.

"I also see generation Y being more active in their portfolios so I don't think they will be as likely to hold things for 10 or five years without regular changes."

He says generation Y is also willing to look outside traditional investment classes to things such as overseas shares and alternative assets like bonds.

"While we haven't noticed a spike in generation Y inquiring about ethical investments, it is becoming a trend in the US and that could be mirrored in Australia later on," he says.

Vamos says environmental and social issues are a hot button for generation Y.

"For some members of generation Y there is a real desire to understand and invest in ethical and green investments," she says.

Klipin says he has not seen a greater or lesser uptake in green investments by generation Y, but Brogden thought there could be.

"Particularly as more banks, fund managers and super funds sign up to the UN Principles for Responsible Investment, I think there could be greater interest from young people," he says.

As for super, industry heads say it is probably something that creates more of an

interest when people are in their 30s and 40s.

Johnston says interest in super generally takes off when the mortgage is under control.

"We found it interesting, however, that while generation Y was the least likely to have sought advice about their super, they were also the most likely to find problems in getting that advice," he says.

"These problems typically stem from the fact that before intra-fund advice, they weren't able to get any advice from their super fund and they also had difficulty finding a suitable planner."

Brogden says generation Y might think more about super if it were simpler.

"IFSA has been a loud voice calling for the industry to make it easier to consolidate accounts," he says.

"Many young people would have had a variety of jobs so as a consequence have multiple super accounts.

"If they were able to consolidate these super accounts easily and realise that rather than have $200 here and $300 there that they've actually got thousands of dollars in one account, I think they would certainly become more engaged."

He says advisers really need to become more than wealth and investment experts in the future. They need to be experts at looking after people's overall financial wellbeing.

"To engage generation Y, advisers need to take a broader and more education-type role," Brogden says.

Industry heads agree that either way, the industry needs to get on the front foot. Demographics are changing and generation Y is growing up.

The financial services industry is going to have a long future with this client base and the more help generation Y gets now, the better off it will be later on.

The more advisers do for them today, the savvier their pre and post-retiree clients will be in 20, 30 years' time.

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