Millennials: Your Dollars in 30 Years

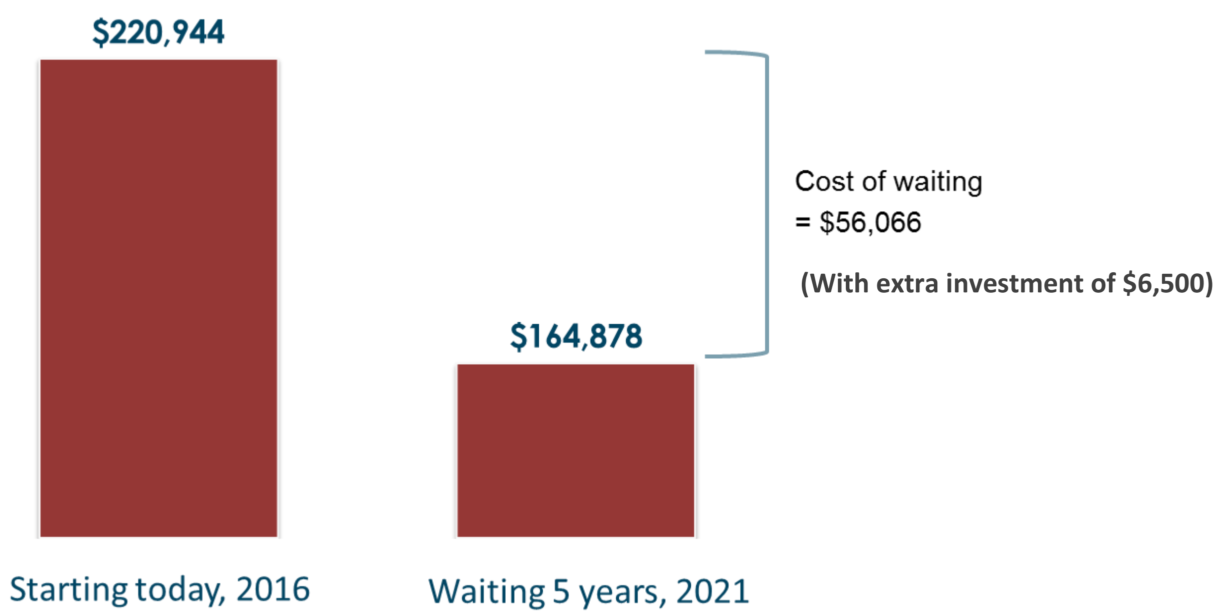
Many millennials believe they will never accumulate a million dollars in their lifetime. Although they may face significant financial burdens that previous generations did not necessarily struggle with, particularly as optometry students and young ODs, they can potentially have a comfortable standing for retirement if they start saving early and gradually increase their contributions to their plans.

Student loan payments are taking up a growing chunk of post-graduate income, explaining why the primary concern for millennials is the heavy burden of student debt. The average Class of 2016 college graduate has $37,172 in student loan debt[1], which translates into larger monthly student loan payments, diverting money that could otherwise go into retirement accounts. The average debt of an optometry student is higher still, with many ODs graduating with more than $200K in student loan debt[2]. Not only is average debt rising, but more students are taking out loans to finance secondary education. Almost 71% of bachelor's degree recipients will graduate with a student loan, compared with less than half two decades ago[3].

Aside from increased student loan debt, how else do millennial optometrists differ from previous generations? Millennials are renting more often, rather than taking on home ownership. 56% of renters said they would choose to rent because they do not have enough money saved or have too much debt[4]. According to Zillow, average rental rates are up 11% since 2012, and the cost of living is rising[5]. Because tenants are spending more on rent, less of their earnings are going into savings. And, if they're not saving early, they could be missing out on thousands of dollars of accumulation, or the benefits of compounded interest.

Whether young doctors of optometry decide to work for a large practice or launch their own, the resulting impacts of debt remain the same. Most new business owners rely heavily on personal assets and loans to get their practices started. The effects of student debt could be significant, even among the startups that are heavily funded by external capital[6].

People often use the phrase "time is money," and in this case, the longer you wait to start saving for retirement, the more you miss out on the benefits of the incredible power of compound interest. For example, suppose you are a Paraoptometric with a $30,000 salary. You receive 4% annual raises, and plan to retire in 30 years. You put 4% of your salary into a retirement plan each year and earn an 8% annual return. If you started investing today, you'd have $220,944 when you retire. If you waited 5 years before investing, you'd have $164,878. In this hypothetical case, waiting five years would cost you $56,066.



Although someone who starts saving today puts away about $6,500 *more* than if they waited 5 years, since they are investing their money for a longer period of time, they end up with a significantly higher ending balance because of compounding interest.

A key message for millennial optometrists is to *pay yourself first.* It's important to put money away into a retirement savings account right when a paycheck is received, and to increase yearly contributions with each salary increase. Millennials may be constrained by student debt and demanding monthly expenses, but with small steps, they can be making their way towards a more comfortable financial position for retirement.

[1] https://studentloanhero.com/student-loan-debt-statistics-2016/
[2] http://www.aoa.org/news/aoa-focus/januraryfebruary-2015/doctor-debt?sso=y
[3] http://blogs.wsj.com/economics/2015/05/08/congratulations-class-of-2015-youre-the-most-indebted-ever-for-now/
[4] http://libertystreeteconomics.newyorkfed.org/2014/09/why-arent-more-renters-becoming-homeowners.html#.V6iMYdIrLcs
[5] http://www.zillow.com/research/rent-ready-to-outpace-home-values-9457/
[6] http://www.kauffman.org/blogs/growthology/2015/05/3-ways-student-debt-can-affect-millennial-entrepreneurs

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