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The Biggest Money Mistakes We Make—Decade by Decade

Our financial errors vary by age. Here's a look at what we get wrong and how to do better.

By Charlie Wells

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Our relationship to money changes as we get older. So do the mistakes that we make with it.

Every new stage of life brings new financial strategies we need to follow. And at every stage we find new ways not to follow those strategies, costing ourselves money and jeopardizing our security.

What's more, economic and demographic changes ensure that those mistakes aren't static, so that the mistakes of the current generations aren't the same missteps that their predecessors struggled to avoid.

For instance, when we're first starting out in our careers, we need to be aggressive with our investing so we can build a nest egg that grows over decades. But research shows today's 20-somethings hold back on investing or make very conservative moves, because they're uncomfortable with big risks.

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Meanwhile, these days more people are waiting until their 30s to take big plunges like marriage and children. That means a lot of complex financial questions piling up all at once, and many opportunities to mess up. In their 40s, people often fail to pay down a mortgage quickly enough, leaving them covering the costs into retirement. And they don't pay enough attention to how college expenses—or the cost of providing for children and aging parents at the same time—will affect their finances.

Our fifth decade, unfortunately, often means realizing we're going to come up

short in our retirement savings, sometimes because we've lived too large or because we've made plans that are too ambitious, such as launching a business. Finally, in our retirement years, we often don't make an uncomfortable but necessary move—giving family members the power to make big financial decisions for us—even though research shows most of us need that help a lot sooner than we realize.

Here's a closer look at some of the biggest mistakes we make, decade by decade—and how to avoid them.

20s: Playing it too safe

The first full decade of adult life should be about investing heavily, experts say. Yet 20-somethings don't take enough risks with investments to build up big returns. It's a conclusion backed up by a number of studies, including a 2016 analysis by Lindsay Larson, an assistant professor of marketing at Georgia Southern University's College of Business Administration.

Her team sampled a group of roughly 100 millennials and found that they tended to favor retirement accounts with little stock and more guaranteed income —choices that would bring skimpy returns over time. When asked why they chose such a conservative portfolio, participants said things such as, "I honestly know nothing about money right now," but explained that a portfolio with a lower risk level seemed like the "best option."

A majority of the sample "were selecting retirement portfolios more appropriate for employees nearing their retirement, rather than starting their careers," Prof. Larson says.

Her study draws on literature that finds that millennials have particularly low financial literacy. Additionally, her study suggests that millennials often struggle with independent thinking, decision making and risk taking because they fear making mistakes. Ms. Larson notes that this lack of risk tolerance is unique to current 20-somethings, and may stem from periods of financial uncertainty during their lifetimes, from 9/11 to the financial crisis.

Her solution isn't for millennials to take on the riskiest financial investments they can find. Instead, the study suggests that target-date funds, which start out with riskier allocations that gradually become more conservative, are a possible solution.

Other studies show that another kind of crucial investment often gets neglected when people are in their 20s: human capital.

Playing It Safe

Percentage of those surveyed within each generation who feel investing is too risky

MILLENNIALS	GENERATION X	BABY BOOMERS	SILENT GENERATION
46%	39%	37%	33%

Bolder With Age

Millennials hold more investments in cash and less in stocks than older generations.

	MILLENNIALS	GENERATION X	BABY BOOMERS	SILENT GENERATION
Cash	**70%**	**68%**	**60%**	**53%**
Equities	14	17	20	22
Bonds	7	5	5	9
Real estate	4	3	3	4
Alternatives	2	1	1	1
Other	1	3	8	8

Note: Silent generation, boomer and Gen X respondents with at least $100,000 in household assets and millennial respondents with at least $50,000 in household assets.

Source: BlackRock Global Investor Pulse THE WALL STREET JOURNAL.

One 2015 study by Brian Cadena at the University of Colorado Boulder finds that the link between many of these people is impatience. It is not necessarily that people in their 20s are more impatient, but that people in their 20s tend to face the most decisions about investing their time and money in education. He examined data from the National Longitudinal Survey of Youth and identified the behaviors of impatient individuals.

He found that the impatient are over 50% more likely to drop out of high school despite expressing a desire to finish. The impatient are over 20% more likely to drop out of college with no more than a single year under their belts. Of those who have finished three years of college, the impatient are nearly 70% more likely not to finish their degrees and that means significantly reduced income over their lifetime and reduced investing options.

Impatience can also have negative consequences on future wages, the study suggests. For instance, human capital is also developed on the job, yet impatient people switch jobs often, hampering their chances at developing such capital and salary increases later in life. The study used historical data that didn't include millennials, who tend to switch jobs more often in today's environment. Although this cohort wasn't captured, the point of the study was to show that impatient people switch jobs more often than expected, given many controls.

Mr. Cadena found impatient people change jobs about 7% more than the patient after completing their education. And while today's employment paradigm may involve frequent job changes, Mr. Cadena's study finds that impatient people's job switches do not bring increases in wages. All things combined, he finds impatient people have earned more than $75,000 less on average than patient people.

His solution: Early education should emphasize not just hard skills, but also "soft skills" like patience. He also recommends looking at investment in human capital as we might consider getting in shape, for example, by learning to better delay

gratification.

30s: Overwhelmed by Complexity

More so than in previous generations, the third decade of life is when many people start making huge adult commitments such as getting married or having children.

Yet many go into that situation with heightened expectations. Manisha Thakor, director of wealth strategies for women at Buckingham & the BAM Alliance, says she comes across many people in this phase of life who want the same standard of living they remember their parents enjoying when they left home.

What 30-somethings forget is that it took their parents decades to build up to that stage, she says. Trying to live too large can lead to credit-card debt, and spending instead of saving means missing out on compounding interest. “Early on, you may live more like a recent graduate student than the overly romanticized images we see in TV and movies,” she says.

What’s more, finances overall are more complicated than in the past. Today’s 30-somethings have more options than previous generations in their age bracket. But that doesn’t mean they’re prepared to tackle the complexity. And that’s where the mistakes come in.

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Nick Holeman, a financial adviser for robo-advisory firm Betterment, gives the example of Roth individual retirement accounts. Those in their 20s probably don’t have enough money to seriously consider these accounts, which let people withdraw money tax-free. But as people hit their 30s, and Roth IRAs become more attractive, they need to be aware of the complexity around these accounts. For instance, the annual contribution limit for those under 50 is $5,500. Contributions in excess of this amount may be applied to the next year, but account holders will be charged a 6% penalty for the current year.

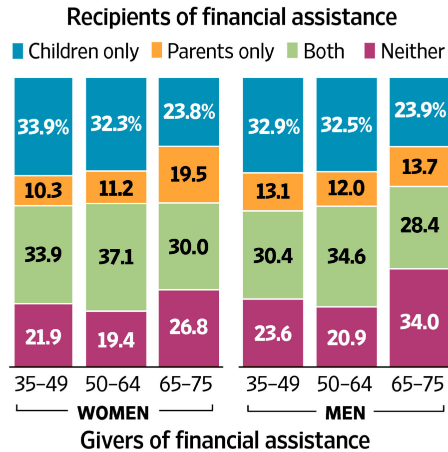
40s: Misjudging big expenses

By our 40s, we tend to be about halfway through our working lives—just as bigger expenses enter the picture. Many financial advisers point to two in particular that can be rife with error: the house and the children.

Many people spend too much on their homes, and a number of people in their 40s don’t work aggressively enough to pay off their mortgages, which can lead to a less-than-optimal income in retirement, says Minneapolis-based financial adviser Jonathan Guyton of Cornerstone Wealth Advisors.

Squeezed in the Middle

Among men and women who have living parents and adult children, over 30% said they provide transfers of either time or money to both generations, according to an analysis of a 2013 panel study.



Source: The Gerontological Society of America
THE WALL STREET JOURNAL.

"The question that comes into play in your later 40s really is: When do we want our mortgage paid off? Let's say that I'm 47, bought a big house a couple of years ago, but my 30-year mortgage isn't going to be paid off until I'm 75," says Mr. Guyton. "This means during the time in retirement when I'm going to want to spend the most, I'm going to have this albatross around my neck."

He recommends that people in their 40s restructure mortgages so that they are repaid earlier, for the sake of their retirement income.

Others in their 40s find themselves spending too much on their children. The big cost, especially in the later years of the decade, is college. "People want to save from the time their children are born, but nobody really knows how bright their kids are going to be, or if they are going to want to go to state university or a small private school. And it usually isn't until the child is maybe 10 or so that this starts to become clear," says Mr. Guyton.

He recommends thinking about the educational decision like buying a car: What will thousands of extra dollars in tuition bring? And parents should consider not only what giving up $200,000 or more could do to retirement plans, but also the opportunity cost of not having the money grow in the market.

Even before these considerations come into play, expenses such as sports or extracurricular activities can get out of hand. Jennifer Lane, a financial planner at Compass Planning Associates in Boston, Mass., recommends that, in general, parents pay no more than 10% of income on expenses for children. She has also found that allowances help keep costs down. "They'll choose not to spend when it's their money versus your money," she says.

Supporting children carries more complications when people must care for aging parents. Financial advisers say they are seeing clients as young as their 40s struggle with this "sandwich" effect, which is different from years past. Because so many people had children later, they must care for them at the same time they have to begin helping older parents. In the past, there was usually more of a gap between when responsibilities toward children ended and care of aging parents began.

Scott Cole, founder and president of Cole Financial Planning in Birmingham, Ala., says this is a trend he sees not only with his clients, but in his own life. At 46, he has two children, ages 5 and 7, and with parents in their 70s, he anticipates care-

related expenses within the next few years. He notes it is important to plan well in advance to avoid financial surprises.

Ms. Lane of Compass Planning says that the age of children on the other end of the "sandwich" can vary, now that some parents are waiting longer to have children. She sees clients in this position with children who aren't even teens, to those around college age.

Ms. Lane recommends keeping a "business relationship" with parents when care needs come up. Instead of saying things like, "Don't worry, mom, everything will be all right" and then taking on too much financially, she advises sitting down with financial decision makers and asking questions like, "What's the best way for the family to make this all OK?"

Failing to do so can pass on the financial burden to the next generation, she says.

50s: The difficulty of catching up

One nightmare scenario for many in their 50s is the realization that they may not have enough money stashed away for retirement. Adults now live much longer lives than they used to, and financial experts say retirement funds now need to last up to 40 years and beyond. Lots of temptations encourage people to withdraw from retirement accounts early, and sometimes unemployment or other squeezes make it difficult to contribute.

The difficulties can be compounded by lifestyle creep. People in their 50s often develop lifestyles they cannot maintain in retirement and struggle to pay for them in retirement, says Alicia Munnell, director of the Center for Retirement Research at Boston College. "People tend to kick up their heels in their 50s when the kids are gone and you've paid for college, and up their standards of living," she says.

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A different temptation for those who feel ill prepared for retirement is entrepreneurship. Be it a lifelong dream or perceived necessity, more baby boomers than previous generations are trying to start their own businesses, according to a 2016 paper by Annamaria Lusardi, a professor at George Washington University School of Business. This can bring rewards, such as an easier transition into retirement, she says. But it is often a very dangerous bet.

"You're putting all of your eggs in your human capital, and often your savings, too," she says. Sometimes human capital—the skills we have developed throughout our careers—may not be as valuable in the market as we think, she says. And most research shows that as people near retirement, they should take more a conservative approach to their finances.

Those feeling the retirement-account crunch have “a really, really important lever,” says Dr. Munnell: waiting to withdraw from Social Security. Waiting until age 70 instead of age 62 will result in monthly benefits that are 76% higher. “That’s a really big deal,” she says.

60s and beyond: not delegating

PHOTO: ISTOCK PHOTO

As we get older, our personal balance sheets grow more complicated. But numerous recent studies on aging reveal an unpleasant truth: Our analytical abilities can’t keep up with the complexity. And since we’re living longer, that makes it even more likely that we’ll have to deal with cognitive impairment.

“We are living in an aging society across the developed world, and up till now, we didn’t really care about these issues,” says Sumit Agarwal, a professor of finance at the McDonough School of Business at Georgetown University. Mr. Agarwal’s 2009 study “The Age of Reason” found that our peak financial decision-making age is 53, based on how people at different age groups made a handful of financial choices.

Yet most people overestimate their capabilities, and fail to delegate important tasks as their capacities diminish—potentially leading to mistakes like not reading the fine print on investments. So, Prof. Agarwal suggests that people should delegate financial responsibilities before cognitive degeneration sets in—in the 50s or 60s instead of 70s or 80s.

And he suggests the creation of something like a “financial driving license” that would require adequate mental capacities to enter the market for some financial products.

“Why are we allowing them to gamble with their entire life savings?” he asks. “If we act paternalistic with older adults in many areas of their lives anyway, why aren’t we acting like that with bigger financial decisions?”

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