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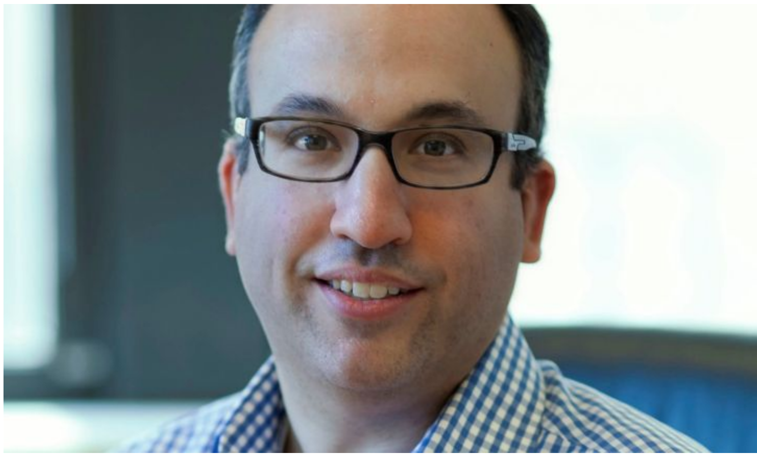
TRACKING THE CORONAVIRUS

Money Fix: Low interest rates can boost purchasing power for younger-set



Joshua Zimmelman, president of Westwood Tax & Consulting in Rockville Centre. Credit: Rachell Banez

By Sheryl Nance-Nash
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The Federal Reserve's recent announcement that it will keep interest rates near zero for the next three years was no real cause for celebration for the under-35 crowd.

Here's a look at what this low interest rate environment will mean for them.

Now is ideal for refinancing. If you're a homeowner, do the math to see if it makes sense. Also consider refinancing any remaining student loans, says Anand Talwar, deposits and consumer strategy executive for AllyBank.com.

Another plus, young folks might get more interested in investing. "They will get worn out by earning zero on their cash and become lifelong investors in the equity markets, which is where their money should be invested!" says Thanasi Panagiotakopoulos, principal with LifeManaged in Phoenix.

On the one hand, auto loan rates are often connected to the prime rate so they may be low when the Fed's interest rate is low as well. But before you rush to get a loan, "Understand that auto loans may be harder to get right now because lenders are concerned about people defaulting on their loans," points out Joshua Zimmelman, president of Westwood Tax & Consulting in Rockville Centre.

The downside

With low interest rates, it's challenging to find yield with "safe" investments. "Any savings in the bank will get eaten up by inflation over time. The bond market, historically considered to be a 'safe' market, may not be attractive for young people's portfolios," says Ivan Watanabe, managing partner

"Today, young savers earn effectively nothing in safe instruments like CDs and riskier assets like stocks trade at historically high valuations," he says. They are in an unenviable position.

Unfortunately, lower interest rates generally signal a slowing economy. "In this environment, younger workers may find it tougher to win raises or find better jobs. This means they may have to carry that debt on their shoulders much longer than they ever expected," says Paul Tyler, chief marketing officer of Nassau Financial Group in Hartford, Connecticut.

The bottom line

Says Shah, "Don't take unnecessary risks with your emergency funds to chase returns. However, you must be strategic and consistent with your financial plan with respect to the amount of money you keep subject to these low-interest rate environments."

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