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Rich at heart

They're young, they're hip, and they're living the good life -- on \$35,000 a year. Meet the Debt Generation.

CATHY GULLI | Feb 13, 2006

When Richard Lor turned 24 on Feb. 24 last year, birthday celebrations were the last of his priorities. Rather, he was coming up with ways to annul "easy death" omens. "In Chinese culture the number 24 is bad luck," explains Lor. "But I think I've used it to my advantage." His method to un-jinx the double curse: make 2005 "the year to buy almost everything, because I just thought there is not a better time." With that guiding fiscal policy, Lor, a graphic designer, has spent \$30,000 of the \$38,000 he earned in 2005. Among his purchases: a brand-new Mini Cooper("pepper white with black bonnet stripes"); an iPod and matching iMac(PCs are "just not the same!"); and a shopping trip to Hong Kong("There are many brands that you can't find here yet!"). He's now \$10,000 in debt, but unconcerned. "For now, all the money I make is just to live out my youth," he says.

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Lor is one of a growing group of twenty- and thirtysomethings who spend much or all of the money they make -- often more -- on travel, clothes, food, drink and hot spots, particularly of the high-end sort. "It seems our generation, we want it all," says Michelle Czyzewski, 24, who works for a marketing company. "We have really high expectations." Her peers don't let debt or low incomes stop them from spending enthusiastically. They want to enjoy life now, and aren't worried about saving for the future, despite foreboding speculations about economic downturns.

Time, they say, is on their side. They have years to start saving for marriage, kids and mortgages, let alone retirement. They have low inflation and interest rates to enjoy, and the federal surplus means that even if they aren't saving, the government is -- which economists say gives them a sense of security. They are better educated than previous generations and will earn more at a younger age than their parents did. Maybe most importantly, they can take advantage of easy access to credit. "Today, it's not the Gretzky model -- work hard as a child, play hard as an adult," surmises Pedro Antunes, director of national forecasting at the Conference Board of Canada. The "celebutante" lifestyle of Paris Hilton prevails: live like a young heir, whether or not you are one.

For Jennifer(who asked for her last name to be withheld), enjoying six months of last year sunning and sightseeing in such exotic spots as Fiji, Thailand and New Zealand was an opportunity she couldn't pass up for tedious financial reasons. She took a leave from her job in marketing, and with \$5,000 in cash and a \$14,000 line of credit left for what was sure to be a once-in-a-lifetime experience. Now she finds herself in a place that's less unique: deep in debt. "When I was away," says Jennifer, now 25 and making \$37,000 annually working in human resources, "the whole mentality was, 'This is the only time I'm ever going to be here, and I'm going to do everything I want to do and deal with it later.' And I don't regret it."

While all Canadians are feeling the pinch of rising debt levels, young people are being squeezed hardest. A recent report by the Vanier Institute for the Family shows that average net worth(assets minus debt)for those under the age of 25 dropped by an astonishing 95 per cent between 1984 and 1999. And consumer borrowing has only accelerated since. "You look to your friends, and you're like 'Oh, they have it, that's the norm,'" Jennifer says. Lisa(real name withheld), who is in her mid-20s and works at a communications company earning \$38,000 a year, admits she used to lose sleep worrying about the \$16,000 she owes. "But now, I've started to realize that everyone has debt and I'm not the only one, it's a bit more normal," she says. Of course, the psychology of debt is a slippery slope. As Jennifer puts it, "Oh well, you're already \$5,000 in debt, what's another \$1,000? It's just so easy to accumulate."

Travel is a common temptation, with many young adults touring the world before settling into a work routine. The Youth Tourism Consortium of Canada reports that travel among the under-30 crowd accounts for almost a quarter of the country's tourism market. Already a \$12-billion industry, it's growing steadily. "A lot of my money goes toward [travel]," says Czyzewski, who went to the Pacific Rim last year. She now has thousands of dollars of debt, which she's paying back on an annual income of \$35,000. But she's glad she did it. "My

perspective is that eventually I'm going to have a lot of commitments and expenses where I might not be able to do those sorts of things."

Among those responsibilities are the predictable grown-up fare: families, homes, mutual funds, all of which are being put off until later and later in life anyway. What it means economically and socially to be 25 today is dramatically different compared with a generation or two ago. "We have extended adolescence into the 30s," says Greg Fouts, professor emeritus of child psychology at the University of Calgary. One reason for this shift is a longer school career, a trend that picked up during the recession of the 1990s, which kept youth out of the labour market and in academia. "It also plays into the idea that people are living longer," suggests Vanessa Grant, 25, an editorial assistant at a women's magazine. "So I can wait an extra 10 years to be a real grown-up, whatever that is." Grant makes roughly \$30,000 a year, half of which she spends on trips, entertainment, gizmos and clothes.

Here's another sign of changed expectations: people leave home later in life. Statistics Canada data going back to 1996 reveal that roughly half of all unmarried men and women between the ages of 20 and 34 still live with their parents. Lor, who doesn't plan on getting married until he is 40, happily fits into that category. He lives rent-free, though he does offer money to his parents periodically to pitch in financially. "It enables me to spend, so I feel more liberated," he says. "To me, work is, in a way, just disposable income." Last fall, he started collecting rare Japanese Blythe dolls, which cost between \$100 and \$1,000 or more each. That's just one of the perks of living large at home, and he isn't giving those up any time soon. "I have a feeling when I move out the money I make is going to go directly to living expenses." That's probably true: money does tend to get soaked up by mortgages or -- in many cases -- other, less essential, home expenditures. To a generation used to condo advertisements and disposable everything, hand-me-down furniture is not an option. "I want to move in and have it as my place, decorated how I want," says Jennifer, who has just bought a sofa, plates and paintings for her new apartment. "I haven't been keeping track because I don't want to scare myself."

The "insta-house" phenomenon, as writer Sarah Deveau calls it, is indicative of how powerful consumer culture is today. "They say people aren't watching ads, and that you can't market to them the same way," says Deveau, who wrote *Sink or Swim: Get Your Degree Without Drowning in Debt* and is 27 herself. "They're buying more than ever." Youth do appear to be influenced by marketing messages. "I like to have new things," admits Jesse Ahlan, 28, an equity research associate at one of the big banks. Ahlan is in a slightly different category, in that he earns \$100,000 annually -- but still finds himself \$110,000 in debt. That includes the \$50,000 he paid for his 2005 black Infiniti G35, "with tan leather inside," which he bought according to his economic understanding that people should drive cars worth half a year's salary. Ahlan qualifies his philosophy on spending versus saving as "easy come, easy go. We really don't work that hard for the money we make. My parents had to do a lot for themselves." His debt load will have to come down, he concedes, but he's not worried at this point.

Like Ahlan, many young adults look to their parents as financial examples. "We often think of models to emulate," says Fouts. "But we also use models to diverge from, and I think that's [happening] there." Instead of making family and work top priorities early on, Lisa hypothesizes that young adults are looking to their parents, who "never had fun, and now wish they did, learning from those experiences." They also desire the same comforts they enjoyed at home, says Fouts, but forget that it took their parents years to assemble that life.

The easiest way to accomplish this is with credit. As Fouts notes, "This is the first generation that's had easy access to credit -- not just student loans, but credit cards." According to research by the U.S. Senate in 2003, new college students are offered approximately eight credit cards during the first week of school. Jennifer, who received her first card at a GM Visa booth on campus during her first week of university, now muses, "The only piece of mail I still get from the university is the same alumni credit card application every two months."

The borrowing habit dies hard, says Frank Wiginton, a certified financial planner. "I've met people who live beyond their means and they're constantly looking for more credit to pay off their debt." It's not just youth who are living this way; Canadians as a society spend more than they earn, and the national savings rate dropped to -0.2 per cent in the last quarter of 2005. The nightmare scenario, according to Antunes of the Conference Board, would involve three elements: "Higher inflation rates, higher interest rates, weaker wage growth." But, he quickly adds, "we don't expect that at all," not within the next decade. He predicts that by 2010, so many baby boomers will have retired that there will be a strong demand for skilled labour -- exactly the kind of work university-educated young adults will be in a position to deliver. And that demand "will pay off in terms of higher wages."

For Lor, this is all too far in the future. He's young and suggests that "spending, no matter how much or how extravagant, is just a part of the learning process. As materialistic as it sounds, spending does help you grow. Because it makes you think, 'Hey, do I really need this anymore?'" When Lor turns 25 later this month, he'll happily give up the death omen of 24, but not his fiscal habits. Not yet.

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