

Taking Time Off? Here's Some Food for Thought Before You Do

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I've heard about fellow millennials taking an extended leave of absence from the workforce or a sabbatical to travel and take time to gain experience outside the workplace and/or reenergize themselves. I, like any other hard-working millennial can understand how appealing this may seem. If you are considering taking a sabbatical or taking an extended time off to retune your career/life path, I'd recommend knowing all the risks associated with doing so.

First off, the most obvious risk is the loss of income in the face of continued expenses. Even if you live frugally during your time off or travel to a country/region that proves to be a cheap travel destination, you will continue to incur expenses. Those expenses won't be offset with an income and even if you have budgeted properly, we all know unexpected expenses can arise at any time (and often the most inopportune one!). So, while I normally suggest having at least 3-6 months of your salary in a savings account for those unexpected type of costs – the fact that you have no immediate income to replenish that 'emergency fund' would make me caution anyone that they should have a larger amount set aside as an extra cushion in any type of scenario where they are preparing to leave the workforce.

Another big factor one should think about is the loss of compounding interest and potential savings. Loss of contributions to a qualified account such as a 401(k) can be pretty significant, even though it may seem trivial at first. For example, if a millennial has a 6-month window where they aren't working and would have contributed roughly \$1,500 to their 401(k) (\$250 a month), they will lose the immense benefits of compounding interest and time on that investment; at a hypothetical 7% compounding rate, \$1,500 can grow to over \$22,000 in 40 years. You can see that the amount of initial lost savings in the scenario above isn't actually that great and the assumed time off isn't that long either – further illuminating how powerful compounding interest and qualified savings can be. This fact should not be taken lightly.

It also goes without saying that one needs to consider your financial burdens in making such a decision. In today's world, the financial burdens (student loans, debt, etc.) are great and the cost of living continues to increase. As millennials, we need to diligently think through every decision we make when it comes to our careers. While we are young and we do have a long-time span to make career changes and risky decisions, it is important to understand all of the potential downsides that come along with those decisions.

One should also keep in mind that taking time off is time you aren't building your career to advance in position or achieve professional goals. Also, there are no guarantees of employment when you decide to come back into the workforce. The risk of not being able to find a job when one decides to re-enter the workforce is always something young people should think about. As an advisor, I'd make sure my clients or any of my peers who take an extended leave from the workforce strongly consider these risks.

In closing, I'd say that generally, millennials are working hard. In my experience, with both clients and millennials I know (generally, these people would be considered affluent), I have not seen anyone taking a long time off between jobs. To me, it seems that with all the financial burdens and competition to get ahead in today's workplace environment, millennials are working hard to advance their careers and personal situations. I have also seen a lot of supporting data that shows millennials are just as hard working as Baby Boomers. So, whatever you ultimately decide to do, from taking a break or continuing to hustle, it is important to know how your decisions will impact both your life and your professional path.

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