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Millennials Choose Cash – And Why That's Not So Great

Some two out of five Millennials—39%—prefer cash as the long-term investment for money they don't need for at least 10 years, according to a new Bankrate.com report, roughly three times the number who chose the stock market. That's a perilous pick, considering that cash will actually lose value over time due to inflation, while the S&P 500 has gained 17% in the last 12 months.

"What we are seeing is that Millennials actually get the importance of saving," says Greg McBride, senior vice president and chief analyst at Bankrate. "They're just not willing to take risks with it, particularly with regard to long-term savings."

One thing that may explain the lean toward greenbacks is that Millennials came of age during tumultuous financial times. "When you look at the events of the last 10 to 15 years, with the financial crisis and the tech bust, young adults had a front row seat for one or both of those events," McBride says. "Even if it didn't impact them directly, they saw the impact it had on their parents and other family members and friends."

That's certainly the case for Alisha Nicole Washington, 22, who recently graduated from Vanderbilt University and started work for an advertising firm in Atlanta. "I prefer to keep my savings in cash," she says. "Growing up, it seemed like that was the forefront of every media outlet—how poorly the market was doing. The images and reports definitely left a lasting impression."

Watching the stock market tank and their parents struggle has left many Millennials with a poor appetite for risk—which is ironic, since they're the age group with the most ability to be risky. Since Millennials have decades to go until retirement, they have plenty of time to recover from market dips. "Even with something as severe as the financial crisis, if you just hung in there and continued contributing throughout, you not only recovered your losses, but you came out well ahead," McBride says. "That's not a perspective that someone who's only been investing for a couple of years necessarily has."

Among other things, student loan debt may be hampering Millennials' ability to think long-term. The average student loan debt now tops $29,000 per student, according to the Project on Student Debt, and many are borrowing two and three times that amount. Jenna Kusmierek, 30, manages to fund her Roth IRA in full each year, but the rest of her cash goes to her student loans. "I plan to proceed this way for the next 10 years until my $140,000 student loan bill is paid off," says Kusmierek, who lives in Denver.

Then there's convenience. For Jason Fisher, the 27-year-old co-founder of Waterway Financial Group in Myrtle Beach, SC, having quick access to his funds trumps saving money in a retirement account. "The reduced accessibility to cash is not attractive," says Fisher. "Often, an investment for our age group tends to be much shorter term anyway. I think children, first homes, and other bigger purchases make having cash on hand more feasible."

Unfortunately, Millennials are the generation that most needs to get aggressive with savings. "Today's young adults have the biggest retirement savings burden of all time," McBride says. "Their life expectancies are longer, their healthcare costs are going to be higher, they don't have the pensions their parents did, and the future of Social Security is more uncertain than it's been for any of their predecessors."

In other words, Millennials need a bigger nest egg, and they're not going to get there with cash in a savings account. "A key part of this is getting people to think long term, getting them to see the power of compounding over those longer periods of time," McBride says.

Thankfully, not all Millennials are sticking to cash-only savings. "I keep a small emergency fund in cash, but beyond that, I invest everything I can," says Kali Hawlk, 24, who runs the blog Com-