TOUGH TIMES CALL FOR SMART MEASURES

With youth unemployment nearing 25% across the EU, now is the time to start thinking seriously about your financial future

Now might be the worst time in living memory to be a young person. But we don't get to decide when we're born – so here we are, in the wake of the 'Great Recession'; the first generation predicted to be financially worse off than their parents since the Second World War.

There is a stack of misfortunes firmly sealing our fate. For starters, the job market is crumbling around us just as we're gearing up for financial independence. Nowadays, around one in five young people in the UK are jobless, and those of us who are employed have to deal with crushing levels of competition for positions. And we can feel a dark spectre of shrinking wages creeping upon us – a seemingly inescapable trend that threatens financial security for everyone. News that the government is poised to freeze the minimum wage for 18 to 20-year-olds at £4.98 an hour, and that over 100,000 of us are now 'employed' as unpaid interns, only further serve as bad omens for the future.

When it comes to getting a foot on the property ladder our outlook is even gloomier. It would appear that many of us are doomed never to be able to afford to buy a home (unless we save like crazy), and we have acquired a nickname to suit: 'Generation Rent'. With the average UK monthly rent now £714 (according to housing charity Shelter), those of us on modest wages are struggling to save enough to buy.

And the average deposit you need to buy a first-time home has rocketed in recent years – sliding home-ownership further out of reach. In 1995 the average deposit for a London home was less than £3,000, according to the Council for Mortgage Lenders. But now the average figure is £31,000, and the average London deposit comes in at almost twice this figure.

And will the government's new 'Help to Buy' scheme really give Generation Rent the helping hand we need? If it could slash the amount we need for a deposit by around three-quarters, then yes. But if fears that house prices might rocket as a result of the scheme do crystallise, then huge deposits will remain a barrier between young people and home ownership, and after a brief whirlwind of hope, we will be dumped firmly back at square one with a thud.

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As if this wasn't depressing enough, a third of us are walking around lugging the tiresome ball and chain of student debt. A student starting university in 2011 will emerge with a debt of £26,000, on average – more than they are likely to earn in an entire year of their first job. What a great start in life.

Student loans chew off a chunky 9 per cent of our income above £15,795 (£21,000 for post 2012 loans) and for most of us, this will continue until we're well

into our 20s and early 30s as we gradually repay for the grotty accommodation, library fines and pints of Student Union snakebite we enjoyed at university without a second thought.

So, with all this in mind, how would you feel to find out that older generations are getting richer? There is a growing manifesto of evidence to suggest this. In fact, pensioner incomes grew by an estimated 50 per cent between 1995 and 2011, according to ONS figures, revealing a widening intergenerational wealth gap that further rubs salt into the wounds of the young.

Popular misconceptions about older generations getting poorer are gradually being dispelled and instead reveal their spending power and standard of living is overtaking ours. Here's a surprising example. Did you know people your grandparents' age are splashing out on more booze than you are? New research from the Intergenerational Foundation has revealed that, while under-30s have tightened their purse strings by spending 43 per cent less on alcohol over the past decade, over 65s are necking more than ever and are splashing out 20 per cent more.

These are sobering facts but desperate times call for smart measures. Sulking silently will get us nowhere. Times are tough, but they will get better – even if we have to stamp our feet and demand a better deal until we get it. The fact is the vast majority of us have the potential to dramatically improve our financial security (for now and in the future) by learning how to accumulate and grow money. Yes, it's harder for us to achieve this than it was for our parents, but

Don't be despondent about your financial future – be proactive and improve your understanding and knowledge of finance to make sure that whatever money you earn works for you

our generation is wising up to money fast, and studies back this up. Two-thirds of teenagers said their money management skills have improved during the economic crisis, according to NatWest, showing growing up in desperate times is actually making us smarter.

Most of us don't actually know that much about growing money, though – mainly because we were never taught about it at school. But aside from working hard in our jobs, if there's one thing we can do to ensure our finances don't let us down in the future – it's learning how to use the tools which, if used wisely, will grow your money: saving and investing.

Let's start off with one of the most basic yet exciting rules that applies to both saving and investing – a phenomenon that has the power to grow your money without you doing anything at all, and which inspired one of the world's smartest men.

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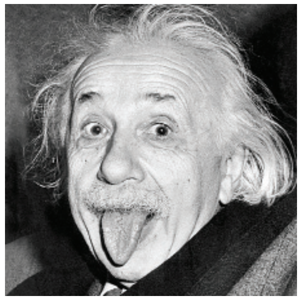
HOW TO GROW YOUR MONEY WITHOUT LIFTING A FINGER

Albert Einstein described compound interest as "the eighth the wonder of the world"



As interest rates increase from their current record lows, the magic of compound interest will increasingly work in your favour

Normally in finance (and in life), if something sounds too good to be true, it is. But compound interest is a rare exception to this rule. Basically it grows your money while you sit back and watch.

As a young saver, compound interest is your best financial friend. It is an unstoppable force that will automatically grow money you hold in any savings account (with an interest rate) over time. And the catch? You have to leave the money in the account and not spend it, because if you do, compound interest's powers stop working.

HERE'S HOW IT WORKS

If I put £100 in a bank account (and let's say it has a 3 per cent-a-year interest rate), in a year I'll still have my original £100, plus £3 interest (provided I haven't sneakily spent any of that money), so I've now got £103. Simple.

Then, at the end of year two, I'll earn another £3 interest, but I'll also get 9p interest on last year's £3 interest, which means by the end of year two, I'll have £106.09. That's because I've automatically earned interest on top of my interest.

Okay, so these extra bits of money might sound a bit naff and probably won't send you sprinting to the bank to deposit your cash. In fact you might think it'd be more economical to save your shoes getting scuffed from the trip.

But over longer periods this effect becomes rapid and creates huge amounts of money.

If I leave my £100 in that same account for 50 years – I'll have turned it into £438.39 – more than quadruple my original deposit. And that's the power of compound interest. All you need to make it happen is a bit of money to stash away and, crucially, some years to let it grow (the more the better) and an interest rate to speed up the process (the higher the better). This compound interest calculator will show you the numbers at work.

Unfortunately for us, interest rates are currently on their knees. But they've been up to two or three times higher in the past, and they'll rise again, we just don't know when. If I wanted to deposit my £100 in a savings account tomorrow I'd be doing well to bag a 3 per cent interest rate.

Most experts reckon rates will shoot up within the next 10 years. And this will enormously amplify the effect compound interest has on our money, because it rises along with normal interest rates and means when rates do rise, your money grows *way* faster. Look at this: Let's imagine my 3 per cent interest rate doubles to 6 per cent. If I left my £100 for 50 years at that rate, I'd have £1,842.02 in the bank, more than 18 times the amount I originally had.

And if the rate became 9 per cent (in the 1990s and before the credit crunch like this were common place) my £100 would have turned into £7,435.75 after 50 years, more than 74 times my original deposit.

It's worth shopping around to find savings accounts with the highest rates until you're finally ready to do something else with your money – to maximise the power of compound interest on your money.

TOP TIPS

- If you put your money under the mattress or a piggy bank at home, the only thing it will collect is dust. Put it in a savings account to gain interest or compound interest.
- Because the interest rate on savings affects the strength of the power of compound interest so much, you need to make sure you're getting a competitive rate. Check this out every year and move your money if you find a better deal elsewhere.

young MONEY

Next in the Young Money series: Can I get rich quick?