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Millennials Love Sabbaticals--Here's How To Save For Yours

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Natalie and Mike Diller are currently on their second extended leave from a life of employment. PHOTO COURTESY OF NATALIE AND MIKE DILLER

In mid-August, Natalie Williams Diller, 30, and husband Mike Diller, 37, quit their job in the U.S. for a new life in the Italian countryside. The pair, with nothing but two suitcases and a few duffel bags, headed to Europe to live and work underneath a chef fo 73 days. After that, they will exhaust the remaining 17 days of their European Union tourist visas in Croatia, or maybe Spain — they haven't decided yet.

Jealous? To some, quitting comfortable jobs and living off savings to travel or to learn a new skill might seem risky. And to be sure, the Dillers are an atypical couple, more focused on boundless travel than conventional careers. (This is their second big sabbatical abroad—read more on their adventures at the end of this story.)

Yet even those who (unlike the Dillers) are determined to climb the corporate ladder, can turn the dream of extended time off into a reality.

Sabbaticals: An Old Idea That's Getting New Life

The notion of taking an extended period of time away from a career, commonly referre to as a sabbatical, is an old and respected one. In the late 1800s, Harvard University began offering extended paid-leave to professors, and by the 1920s, as many as 50 universities offered similar programs. These extended leaves were seen as investments in not only the professors, but in the universities themselves, since an academic might return to his regular teaching duties with new ideas and energy.

The first U.S. corporation known to have instituted a formal sabbatical program was—perhaps surprisingly—
McDonald's, which set one up in 1977

. Today, 16% of companies offer sabbaticals (in addition to legally mandated family leave) as an employee benefit, with 5% offering some or full pay for the period, according to an annual survey by
the Society for Human Resource Management

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But these days, even workers who aren't lucky enough to qualify for employer paid (or even sanctioned) sabbaticals, are intrigued with the notion of taking an extended perio off—before retirement, that is. In 2017,

a survey by eDreams

found three-quarters of employed Americans would like to take an extended break fro work, even though only 22% of those surveyed said they were offered a sabbatical by their employer.

Millennials, in particular, are embracing the notion of

taking periodic, shorter breaks from work

, rather than working nonstop for 40 or 45 years just to afford a 20 or 30-year-long retirement. When American University's Kogood School of Business

asked Washington, D.C. area Millennials to rank 19 employee benefits

, the chance to take a paid two month sabbatical every five years came in third—behind only a 401(k) with an employer match and health insurance.

Indeed, taking periodic sabbaticals is arguably a more practical expression of the urge behind the

FIRE (Financial Independence, Retire Early) movement

. Instead of needing to scrimp and save enough to stop working entirely at 35 or 40, those looking to take sabbaticals only need to save enough to finance six months or a year of time off.

Of course there are a variety of reasons for taking a break from a career job—from exploring a personal interest or a new career, to going back to school for an extra degre to spending more time with children, to experiencing the world more deeply than a standard two week vacation allows. Whatever your goal, it helps to do some planning.

Places to Put Your Money While Saving for Time Off

If you think an unpaid sabbatical might be in your future, that's a good reason not to stash all your savings in a 401(k). Remember, withdrawals from that account before retirement are generally subject to not only ordinary income taxes, but also a 10% penalty.

The Roth IRA Option

One alternative: put enough in your 401(k) to snag your full employer match, and then save in a

Roth IRA

. You put after tax dollars into a Roth, but your initial contributions can be withdrawn a any time, and under any circumstances, tax free.

The beauty of using a Roth IRA is that if you don't end up taking a sabbatical—or don't need to use the Roth to fund your work break—you can leave your contributions in the Roth, growing tax free for retirement. Note that earnings in the account (as opposed to your original contributions) are generally subject to taxes and a 10% penalty if they are withdrawn before the account is five years old and you're 59 ½. (But

there are some exceptions

.).

Stocks For Your Sabbatical? It Depends

Whether you're saving for a sabbatical in a Roth or a regular taxable account, you may be wondering the best way to invest your kitty. Is putting the money in the stock marke a good idea or too risky? How much will a high-yield savings account really help?

"It really depends on each individual situation," answers Jill Fopiano, CEO of O-Brien Wealth Partners. For example, how soon will you need your funds to be liquid? Are you saving for a mid-career sabbatical in 10 years, or a break next year?

Here are a few investing options to consider while saving for a sabbatical:

The Stock Market

The stock market is probably the most intimidating place to put short term savings. Fo someone with a longer time horizon—say five years or more away—investing in stocks can be a smart move.

Robo-advisors like Ellevest and Betterment can be low-maintenance ways to invest you sabbatical fund in the market. These fintech companies have software that factor in bot your time horizon and tolerance for risk while building a recommended portfolio.

But even with the help of technology, individuals should exercise their own caution while investing in the stock market. Fopiano advises potential market investors to save enough to weather an economic downturn, should it happen just before, or while you'r on, a sabbatical.

"You have to have enough cash or enough income off your investment to withstand a temporary decline in the market," Fopiano says. "You don't want to be caught in the tra of having to liquidate investments at the wrong time."

High-yield Savings Accounts

If the idea of your savings fluctuating with the market turns you off, or your savings horizon is too short, consider stashing money in a savings account. That doesn't mean heading to your local bank; the national average for a savings account is a microscopic 0.09%, based on the

most recent data from the FDIC

. Instead, consider parking your money at a high-yield savings account.

With the rise of online-only banks, choosing the best high-yield savings account can require work.

In Forbes' own analysis

of the best online savings accounts, it identified the best ones by taking into consideration things like minimum monthly deposit requirements, monthly maintenance fees and annual percentage yield. (The Dillers, for example, have their savings sitting in a high-yield savings account at

Ally Bank

, a popular digital-only bank currently offering a 1.90% APY, or 21 times the national average.)

One thing to keep in mind, though, is that interest rates on these high-yield savings accounts are subject to the Federal Reserve's actions to raise or lower rates to help stabilize the economy. After the Fed's most recent decision to cut rates, some online savings banks lowered their own APY offers to follow suit.

Aside from offering higher interest rates than traditional savings accounts, these savin vehicles keep funds more liquid than they would be in a certificate of deposit (CD), which might offer higher rates. And, most CDs have high minimums — Sallie Mae is currently offering a 2.55% APY, but requires an initial $2,500 deposit and a one-year commitment.

Here are Forbes' picks for the best online savings accounts of the year .

No-Penalty CD

If you want the advantage of a higher APY, but less of a commitment than a regular CD consider a no-penalty CD to maximize your savings. This form of a certificate of deposi won't incur fees should you decide to withdraw the money before the term is up. With a traditional CD, early withdrawal fees are often calculated as how much interest was earned in a certain number of months.

Though alluring for their flexibility, no-penalty CDs won't allow multiple deposits. The savings vehicles can be best utilized for a portion of savings you might have already bui but maybe don't want to invest in the stock market.

529 Savings Plan

Qualified state college savings plans, also known as 529 plans, are tax-favored account that can be used by workers planning to take a sabbatical to further their educations. A with a Roth IRA, contributions to a 529 plan are made with after-tax funds. But some states offer income tax deductions or tax credits for contributions made each year and the money in a 529 grows tax-free so long as it's used for tuition, fees, books, supplies, equipment, computers and sometimes room and board costs.

If someone chooses not to go back to school, the 529 plan isn't for naught; beneficiarie: can be changed to other qualified family members, including children, spouses, cousin: nieces, and nephews. The money still has to be used for qualified educational expenses though; if it isn't, earnings withdrawn from the account will be subject to taxes and penalty fees.

(See The Best And Worst 529 Plans here.)

Risks That Come With Taking Extended Time Off

Taking an extended period of time away from working, especially if you're not given the opportunity to return to your job, means you'll have to spend time looking for new wor Job hunting can be quick, depending on your industry or the overall state of the economy, or it can be painstakingly slow; there's never a guarantee you'll find work as quickly as you're hoping to or be able to return to a job that pays as much as your last one.

There's also the question of health insurance. Even if your company allows you a sabbatical, it might reduce your benefits during your hiatus, leaving you to pay for you own health insurance. And even if you buy insurance in the U.S.
it may not cover you if you're traveling out of the country and receive medical care

. It's wise to build in an emergency medical fund into your sabbatical planning to account for this risk and/or investigate medical insurance for those traveling or living abroad.

Finally, even if your plan is to take sabbaticals in return for retiring later (or not at all), you can't ignore the reality that you
may not be able to work as long as you want

. So think about how your sabbatical fits into your overall retirement saving. If you're taking a company paid sabbatical, be sure to discuss details like what will happen to your 401(k) matches during your time off.

The Dillers And Their Sabbatical Lifestyle

Back to the fun part. I first met the Dillers in 2016 while living in St. Petersburg, Florid They had returned eight weeks earlier from a 10-month stretch of backpacking throughout Central and South America, where they worked on a remote Ecuadorian island with monkeys and lounged on the beaches of Costa Rica.

Since they lived across the street from me, we got to know each other through cookouts in their backyard or walking our dogs together. Our conversations almost always centered around travel. Although they had just returned, they were already thinking about their next adventure.

When the Dillers returned from their first sabbatical, money was scarce. After finding a apartment and paying to move-in, their bank account was running on the fumes of thei last couple hundred dollars. They didn't panic — they had learned how to live off as litt as $50 a day in South America — and Natalie quickly found a job as a bookkeeper while Mike bounced around in hospitality jobs.

But as a result of what they learned from that lean, post-travel period, the Dillers resolved to save $30,000 before going on their next sabbatical. During their time working for the Italian chef, the couple will only make 500€ per month for both of ther Of the $30,000, they have budgeted $12,000 for costs while they're on their trip and $18,000 for when they return to the States and need cash to tide them over while they figure out what to do next.

The Dillers, who both previously worked in the hospitality business, are using this sabbatical for a dual reason: to experience other cultures and to scope out where they might want to establish a hospitality business of their own. Plus, they know the traditional idea of work isn't for them

"We like the idea of creating something different and wanting something different," Natalie says. "We like meeting new people and trying new things. It's nice to have stability sometimes, but we haven't found a routine we truly enjoy. We'd rather do this instead."

What's particularly impressive is the Dillers saved their $30,000 sabbatical stake in jus two years, while also paying $15,000 for a wedding in February of 2019. They were able to do this because of the way they live, day to day. They've never bought new furniture phones; everything is used. They don’t eat out at fancy, expensive restaurants. They spl the rent of a $900 one-bedroom apartment — a small space for them, their two cats an dog. Natalie also did her own makeup for their wedding, whereas many brides pay hundreds of dollars to get their makeup done by a pro.

The couple is also extremely strategic about large purchases. While living in St. Pete, a city that lacked an efficient public transportation system, they bought a used sand-colored Suburban for $7,000, which they shared. The couple financed the car to build credit and then paid it off in the months leading up to their trip. While they travel, it’s being housed at a friend’s house.

For some, these might seem like major lifestyle compromises — but the Dillers conside them small sacrifices to hit their savings goals. “We really don’t mind it, we’re pretty chill people anyways,” Natalie says. “So living like this, it’s easy for us.”

“We can make good livings, but there’s always a thought that there’s got to be more to i than this,” Mike says. “We don’t want to wake up in 30 years and be stuck in a daily routine we don’t like.”

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I'm a personal finance writer on the Money and Markets team at Forbes. Previously, I covered personal finance at other national web publications including Bankrate and T... **Read More**