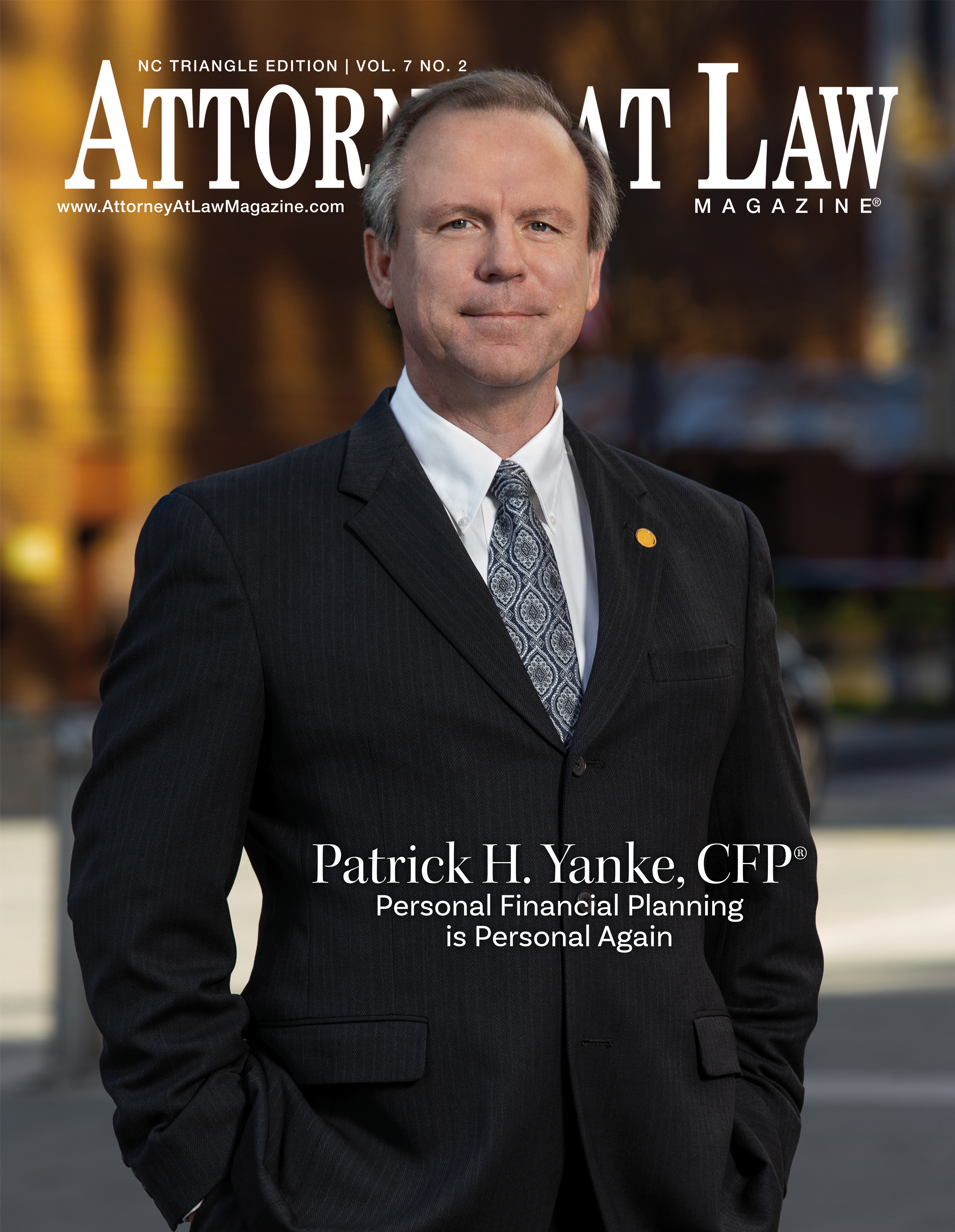
NC TRIANGLE EDITION | VOL. 7 NO. 2

ATTORNEY AT LAW MAGAZINE®

www.AttorneyAtLawMagazine.com



Patrick H. Yanke, CFP®

Personal Financial Planning is Personal Again

Dependent Adult Children Can Hurt Their Parents Retirement

As parents, raising our children to be productive members of society is our first responsibility. Knowing when and how to kick them out of the nest can be a challenge, though. Ongoing financial support can stunt their growth and significantly impact our own plans. A Bankrate.com study shows that half of American parents have cut back on their retirement savings to help pay their children's bills. Cutting the cord can be beneficial for both generations.

The Fiscal Crisis of 2008-2009 and the resultant Great Recession left a lasting impact on the economy. Wage growth stagnated for the last 10 years and only recently climbed to historical rates. Much of this impact has been felt by those entering the workforce. In an age of iPhones and other luxury-necessities, it has been difficult for millennials to maintain the standard of living to which they've grown accustomed.

Millennials have also opted to pursue higher education at greater rates. This has delayed their entry into the workforce and increased their debts. Last year's average graduate has to budget for about $400/mo. in loan payments! This reflects a changing society where the bachelor's degree is considered basic education. A recent survey of hiring managers shows that 61% of applicants aren't even considered for placement due to lack of a college degree.

SUPPORT FOR ADULT CHILDREN

There are good reasons why parents are supporting their adult children. What's troubling is that this support comes at the expense of their own retirement planning. When the savings rate slows, savers feel pressure to take greater risks with their investments. The results of the dot.com bust and Fiscal Crisis show the difficulty of relying on high-risk assets. Money that could have been used for a second home or future retirement location may have to be used to support an expanded household. In many cases, parents supporting adult children have to delay their own retirements or, in the worst cases, pull funds from retirement accounts to provide the support. Pre-retirement withdrawals from retirement accounts may result in additional taxes and penalties… and loss of tax-deferred growth going forward.

Compassion comes at a price for the dependent adult children as well. Part of development into adulthood is building self-esteem through overcoming obstacles and solving problems. Taking responsibility for our adult children often results in their inability to take responsibility for themselves. "When parents or anybody step in to save kids from all pain, they deprive them of this valuable experience—this self-esteem builder—and they start to get the impression that they can't solve problems on their own," said Dr Laura Dabney, a relationship psychiatrist. They regress to "child-mode" where they turn to their parents to solve their problems.

The problems for parents don't end at retirement. If adult children never learn independence, they will remain dependent on retired parents as well … and that can have a negative result on the "golden years." Our desire to save our children from the pains of life can result in sacrificing our own financial well-being.

LEARN FROM THE BIRDS

There's no question that modern society has increased the expectation and necessity of mutual support between generations. What must be included in that support is financial training for eventual independence. We can learn a lot from nature. When a baby bird is afraid to leave the nest, its parents don't take responsibility for it. They literally kick it out of the nest. They know that trying to protect that late-bloomer will be dangerous to their own well-being and won't benefit the baby bird, either. Take practical steps at "tough love." Don't allow adult children to be a drain on the family finances. If they're going to live under your roof, they should follow your rules.

Get a Job and Save. They should save at least 10% of every paycheck to build an emergency fund as a foundation for their financial plan.

Learn. If their degree won't help them fund their lives, they should take classes for certification in fields that will.

Pay Rent. Why should you have to pull their cart in addition to your own? Feeling the sting of financial responsibility may be the push they need to get on with their lives. If you don't need the rent money, consider returning it to them when they move out as a foundation to their financial plans.

The best approach is to make a plan to educate young adults and give them responsibility as they mature through school. Allow them to make mistakes and experience "lean years" as they grow. Doing so will benefit them and allow you to build your own dreams. Neither generation should be a financial burden on the other if they have a sound financial plan.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are mine and not necessarily those of RJFS. The information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy selected. www.yankefinancial.com.