FIXED INCOME STRATEGIES

Don’t jeopardize your own retirement savings. Here’s how teach your kids to be financially independent

PUBLISHED MON, MAR 18 2019·3:47 PM EDT | UPDATED MON, MAR 18 2019·6:25 PM EDT

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KEY POINTS

- Many parents may be endangering their retirement by spending too much on their adult kids and not enough for their own later years.
- To help children become independent, lessons should start when they are young, experts say.
- Parents also need to take a hard look at their own habits.

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It’s only natural that parents want to help their children succeed in life, but many may be jeopardizing retirement in doing so.

In fact, parents are spending twice as much on their adult children than they are putting away to live out their golden years, according to a recent study by Merrill Lynch and Age Wave.

So what’s a parent to do? Experts believe kids should start learning about finances when they are young. Parents also need to take a hard look at their own habits.

The Merrill Lynch study found that 79 percent of parents continued to give money to their adult children, age 18 to 34. That includes things like college and weddings, as well as everyday expenses such as cellphone services and groceries. They spent a total of $500 billion annually, compared with the $250 billion they contributed to retirement accounts, the survey found.

“That is really staggering,” said Lisa Margeson, who oversaw the research as head of retirement client experience and communications at Bank of America, which owns Merrill Lynch.

“There is certainly an emotional aspect to this,” she added. “You want to provide for your kids.

“At the same time you want them to become financially independent,” Margeson added. “But when you combine those emotions with money, parents really risk making financial decisions that can comprise their financial future and their children’s.”

Helping your kids

To start children down the road of financial security, it’s important to begin talking about money early and often — and also make it personal, Margeson said.

For example, teach young kids about saving their allowance. They can even have three piggy banks — labeled “fun,” “future” and “donate” — that they split their money between.

Also, keep the conversation flowing, she said. Don't shy away from talking about finances with your kids, just as you talk about the day's activities around the dinner table.

"Having those conversations early will start a dialogue that will be meaningful and allow for tougher conversations as they age," said Margeson.

Finally, making it personal will get kids to pay more attention to it, she contends. When her kids turned 16, she took them to a bank and opened checking and savings accounts so they would start to understand financials.

But what about older offspring who have already been dependent on their parents for more than 20 years? **Len Hayduchok, president of Dedicated Financial Services,** said for those young adults, behavioral patterns may have to be relearned.

"The problem I see more often than a physical need to support children is the lack of responsibility," he said. "Responsibility is much broader than finances. It's a character trait.

"It's a way of life," **Hayduchok** added. "So if children have not learned to be responsible, then that's going to be a problem."

However, he pointed out that a disruption in retirement savings is understandable if parents are helping pay for their children's college education.

"Those could be temporary costs and they're just staggering," said Hayduchok, who is based in Hamilton, New Jersey. He is also president of Dedicated Senior Advisors, a retirement advisory and insurance agency.

To help older children become financially independent, the first thing to do is make a financial plan — which starts with coming up with a budget and then sticking to it, he said. If it isn't working, there are two options: get more income or reduce the spending.

"If the child is not able to get more income, we have to figure out how to reduce the spending," he said. "If we can't do that, then we are going to have a lifetime of dependence.

"It's plain and simple."

Taking stock of your finances

Parents also need to focus on their own finances to make sure they have enough to currently live on and to ensure they are putting away enough for retirement.

"A lot of it is around understanding their own money status and making good decisions for themselves so they are preparing for their own future," Margeson said

For one, she recommends sticking to a budget in order to manage expenses, as well as putting away money for emergencies.

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When it comes to saving, it's important for parents to start saving early and plan ahead.

That means keeping up with and contributing as much as they can to their 401(k) plan or individual retirement account. It can also mean considering a 529 college savings plan to save for the soaring cost of higher education and contributing to a health savings account, which allows you to put away pretax money toward qualified health expenses.

In doing so, parents are not only securing their own future, they also become a "strong financial role model" for their children, Margeson pointed out.

In the end, taking care of your own finances ultimately benefits your children in other ways.

"The greatest gift a parent can give their children is not to be a financial burden to them," **Hayduchok** said.

How to teach your kids financial independence and save your retirement (cnbc.com)