ROAD TO RETIREMENT

Should you financially support your adult children?

By Charlie Farrell Special to The Denver Post

While every family has different values around supporting adult children, if the support is restricting your ability to adequately save and prepare for your own retirement, then supporting your adult kids is a problem. And if recent research is any indication, this is becoming a serious issue for many families.

A survey by Bank of America and Age Wave indicated that 80% of parents are giving some financial support to their adult kids totaling about $500 billion a year. Moreover, this financial support adds up to twice the amount that parents are saving in their 401(k) plans.

Much of this support is for lifestyle decisions, like rent support so the kids can live in the "right" city, or loans to go to the "right" college, or co-signing on auto loans, buying groceries, paying mobile phone bills, and paying credit card bills. While these are all nice things to do if you can comfortably afford them, they are poor financial decisions if you can't.

Before you spend money to subsidize your adult children, you should be saving at least 12% to 15% of pay each year, be on track to accumulate retirement assets worth at least 10 times your household income, and be on track to pay off your mortgage by the time you intend to retire. If you aren't hitting these three primary goals, then you need to focus your efforts on your own financial independence. Is this selfish? No, it's prudent. But culturally we've lost sight of what's prudent in terms of our financial lives.

Consider the generation of people who grew up during the Great Depression. The money culture of that generation was focused on savings and thrift. The shared experience of the Depression shaped their attitudes toward finance and money. But without that shared experience of the Great Depression, it's hard to say what their attitudes toward money would have been. While each of us is responsible for our own financial decisions, it does help to understand how the money culture of your times may be influencing your decisions, sometimes positively and sometimes negatively.

Today, our shared experience is one of spending, not saving, and increasing debt to support lifestyles we have not yet earned. You'll see this reflected at the government, corporate and personal financial level. Everywhere you turn, you see spending and borrowing to the max, while putting off hard decisions until sometime down the road.

If that's the culture you're in, then it's no surprise that the solutions presented to you are in line with that culture. Today, you can finance just about anything: your home, car, carpet, a cruise, or braces for your dog. Signs reading "0% for 48 months" are everywhere. This is a money culture that makes financing your dog's braces look reasonable, while you fail to put money in your 401(k).

So when your kids are faced with a financial issue and request your help, it's tempting to just borrow. I mean, you borrowed for the dog's braces, so this is clearly more important. Thus, it's a cultural double whammy: you're being pushed to spend more and given "painless" financial tools to do so. But at some point, the chickens will come home to roost and the well will run dry. If you aren't financially prepared for retirement, you're likely setting yourself up for 20 or more years of stress and anxiety over whether you're going to run out of money.

If you want to do something about this, you'll need to consciously recognize the money culture you are in and push back against it. Instead of feeling guilty about not providing every possible opportunity for your kids, you have to feel good about securing your own financial future, and allowing your kids to figure out theirs. By doing this, you're creating a sound money culture within your family. Your kids will learn from this, and it will help your kids push back against the poor money culture that surrounds them.

In addition to setting a good example, there are three other benefits to the "tough money" approach. First, if you can fully support yourself in retirement, you won't become a financial or "administrative" burden to your kids. While the kids may not realize it now, that alone is a pretty good gift. Second, you can always make gifts to your kids later in life, once you're financially secure. The kids can use those funds to pay down school loans or mortgages. And third, if you're in financially good shape, it's also likely your kids will inherit some funds from your retirement accounts and the value of your home. This will also help your kids with their retirement, and if they follow your example, it will help their kids.

The compounding effect of being prudent today is significant, but it's countercultural. If you go where the culture is pushing you, both you and your kids are likely to end up in worse shape financially.

Charlie Farrell is a CEO of Northstar Investment Advisors LLC. This article is for information and education purposes only. Past performance is no guarantee of future returns, and all investing involves the permanent risk of loss. Consult your individual financial adviser for guidance specific to your circumstances.