# How Financial Support for an Adult Child Can Undermine a Parent's Financial Security

*Parents who prioritize their child's financial desires over their own financial security run the risk of being dependent on their adult children in the future.*

Any experienced parent will tell you that you're never done "raising" your kids. Moms and dads are predisposed to prioritize their child's needs over their own, and research shows that this behavior doesn't stop at age 18. According to Pew Research, six in 10 parents are still helping their adult children financially, on either a recurring or one-time basis.[1] Giving your son or daughter a few hundred dollars semi-regularly might not seem like a big deal to you right now. But keep in mind that **when** you are providing this support is just as important as **how much** you are giving.

Consider that many parents of adult children are pre-retirees or retirees in their 50s, early 60s or older. With one in four 65-year-old Americans predicted to surpass age 90, Americans' retirement savings need to last longer than ever before.[2] According to data from Voya's Retire Ready Index, **six in 10 working adults surveyed say that they are extremely or very concerned about outliving their savings**.[3] So what does this mean for the "Bank of Mom and Dad?"

Among U.S. parents with adult children,

**61%**

have helped financially support an adult child.[1]

## The Hard Truth of What Supporting an Adult Child May Mean for Parents' Financial Futures

Parents should consider making the decision to subsidize their child's lifestyle only after reviewing all available data — including the potential retirement savings they could be forfeiting. Some financial experts estimate that a parent's retirement savings could be more than $200,000 higher if they choose to save the money that would otherwise go to their child's living expenses and big-ticket costs like college tuition.[4]

Sitting down with a financial professional can help parents decide to what extent they can afford to pay for their child's college education, based on their current budget and long-term savings goals. Doing this early on can often afford parents the opportunity to better prepare for these costs, which may include investing in a 529 plan. But even if parents are able to help their child with expenses like college tuition, it's important to remember that a son or daughter may not be financially independent until well into their 20s. One study reported that 30% of parents who give or loan money to an adult child for expenses give an average of $5,000 per year.[5] As the window to save for retirement closes, parents may want to be selective about spending and make sure they are doing everything they can to meet their own savings goals.

**30%**

of parents who give or loan money to an adult child give an average of

**$5,000**

per year.[5]

For example, parents who are still working could consider taking advantage of their employer-sponsored **401(k)** plan. If they've already retired, or are not offered a 401(k) through their employer, they can consider investing in an Individual Retirement Account (**IRA**). Both 401(k)s and IRAs provide tax features that allow savers to potentially grow their money faster. These savings and investment vehicles also allow an additional "catch-up" contribution of $1,000 per year (over the $5,500 annual limit) for individuals who are age 50 or older.

Parents who start planning early could also consider investing and saving for their family's current health care expenses, as well as their health care expenses in retirement, through contributions to a health savings account (**HSA**). HSAs are available to eligible individuals with high-deductible health plans and who are not enrolled in Medicare.

They offer tax-free contributions and tax-deferred growth, as well as tax-free withdrawals in retirement if used for qualified health care costs. They also have a "catch-up" provision, which allows an additional $1,000 contribution beyond the annual $5,000 maximum for people ages 55 to 65 who are not enrolled in Medicare.

Even so, saving and planning shouldn't all be on the parents. There's a lot that adult children can do as well. No matter how and what you save, **the longer that the money is invested, the more it has the potential to grow.** While the burden of student loan debt is real, younger adults may still be in a position to take advantage of the most lucrative stage of their retirement planning lives. The money that they put away now will have decades to grow. Their parents, however, are nearing retirement and can't get that time back.

## Parents supporting adult children may also be sacrificing protection

Parents could also be exposing themselves and their families to greater financial challenges by forgoing sufficient life and disability income insurance coverage. This is also true for their adult children. By encouraging their children to also consider these types of coverage, parents are not only protecting themselves from unforeseen expenses in their children's lives, but they are also helping their children make sound financial decisions that can help them to become — and remain — financially independent.

**Disability Income Insurance**, which may be available through an employer, provides an employee with benefits to replace a part of their paycheck if they can't work because of a sickness or injury. A covered parent can use this money however they choose. This can create comfort in knowing they may not have to dip into savings to cover daily expenses. Having this insurance protection should not be forgone to support an adult child; this is especially true given that Council for Disability Awareness data shows that long-term disability claims peak for those age 50–59.[6]

If parents fail to put safeguards in place to protect their own financial security, roles could end up reversed with their children supporting them in retirement. In fact, research shows one in five middle-aged adults (21%) have provided financial support to a parent age 65 or older.[7]

### Life Insurance

can also be an important tool to help parents protect their assets and offer opportunities to supplement their retirement income — two key priorities for parents of adult children who are financially dependent. Both cash-value life insurance and term life insurance will provide a lump-sum payment or "death benefit" to beneficiaries should a family breadwinner pass away prematurely.

Additionally, with cash-value life insurance, a portion of the premium accrues interest over time. As the cash value of the policy grows, it can be accessed for any purpose, including for use in an emergency or as a cushion for retirement.

Similarly,

### Critical Illness Insurance

can help both parents and their families breathe easier knowing that it can help pay for out-of-pocket expenses and allow them to focus on their health should the need arise.

## The end goal of long-term financial security for both parents and children

Whether or not parents are able to provide monetary support, they can take the opportunity to provide another valuable tool: financial education. If parents can teach their children to start planning for their own futures, they may be less likely to need assistance down the road. Taking time to discuss topics, such as the importance of establishing a budget, living within one's means and reviewing expenses at the end of each month, can be even more valuable to adult children in the long run than simply giving them money along the way. This includes making sure that when their child lands that first job, they understand the value of contributing to an employee-sponsored 401(k) plan and having an emergency fund.

The earlier parents start talking with their children about financial independence and setting expectations for how much they are willing and able to help them, the better. These conversations can start early in life, whether teaching them to save a portion of their allowance or encouraging a high-schooler to save part of what they earn at a summer job. It may also include establishing an "independence fund" when they're in college to set the expectation of financial independence upon graduation or shortly thereafter. But it's never too late — those conversations can also start later in life through the gift of a financial plan with the parent's preferred financial advisor.

## Some considerations for parents providing financial support to their adult child

1. **Have a clear understanding of finances and retirement savings goals.** Before engaging in a conversation about what kind of support parents are able and willing to provide, they need a clear understanding of their retirement savings goals, income and assets, and whether they can meet those goals while also providing monetary support to their child.

2. **Be transparent and honest.** Parents must be direct with their child about what they can do, and for how long. Clarity from the beginning can reduce the likelihood of parents overextending themselves and minimize the potential negative long-term impacts on their retirement readiness.

3. **Bring a third party into the equation.** This provides objectivity. It also gives the adult child the opportunity to reflect on whether or not he or she wants to put the parent in a potentially uncomfortable financial position.

4. **Put it in writing.** Putting the plan in writing is essential. This will help both the parent and adult child keep track of the agreed-upon timelines and provisions attached to the support.

5. **Check in.** Even the most methodical plan can go awry. This will enable the parent to reevaluate what level of financial support they can offer due to a medical emergency, or, if despite his or her best efforts, their adult child cannot fulfill their end of the bargain. If working with a financial advisor, the parent should consult that person about any potential changes to the plan, to make sure everyone has a clear understanding of how those choices could impact the parent's retirement plans.

[1] Pew Research (2015), available at: www.pewsocialtrends.org/2015/05/21/5-helping-adult-children/.

[2] Social Security Administration (current), available at: www.ssa.gov/planners/lifeexpectancy.html.

[3] Based on findings from two online consumer surveys of workers and retirees completed in July 2014 with Greenwald & Associates, Inc. Each index category was constructed to have a maximum possible score of 10 (responses were weighted based on factors selected by Voya, and weighting responses using alternative factors would yield different results). The three index category scores were then averaged to determine a final average score for workers and retirees, respectively. Index scores do not reflect any single respondent's experience. Voya Financial Retire Ready Index (published 2015), available at: corporate.voya.com/newsroom/news-releases/voya-financial-study-reveals-how-americansscore-their-retirement-readiness.

[4] NerdWallet (2015), available at: www.nerdwallet.com/blog/study-lifetime-cost-supporting-adult-children/.

[5] Money Magazine (2014), available at: time.com/money/page/parents-adult-children-financial-support/.

[6] Council for Disability Awareness Long Term Disability Claims Review (2014), available at www.disabilitycanhappen.org/research/charts_graphs.asp.

[7] Pew Research (2013), available at: www.pewsocialtrends.org/2013/01/30/the-sandwich-generation/.