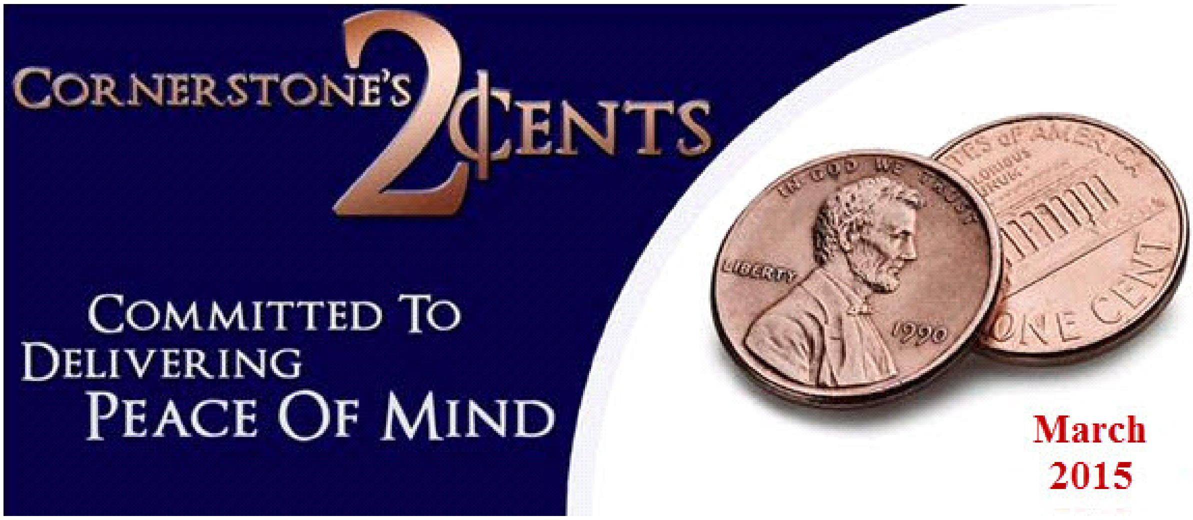


*Dear Clients & Friends of Cornerstone:*

*Every parent wants the best for their children, especially if the parents grew up with very little.  We try to over-compensate by giving our children the life we didn't have.  But, at what point do we recognize that we may be helping them but hurting ourselves when it comes to our own retirement?  The article below discusses the problems that we could face financially when we continue to support our children, instead of teaching them to live within their means.  The reality is that we could become their burden in retirement - not the best for the kids or the parents.*

*If you would like to refer back to any previous newsletters we have published, you can find them on our website. Please be sure to visit [www.ccadvisors.com](http://www.ccadvisors.com).*

*- Cornerstone Capital Advisor*

# Your Kids Are Ruining Your Retirement

Parents are risking their retirement to subsidize their kids

byCarol Hymowitz

Cathy Egan has been supporting herself since she was 18, when she worked as a waitress in Minneapolis. Her 23-year-old son lives at home and relies on his single mother for transportation, food, and other expenses. Egan, now 50, only began putting money aside for retirement five years ago, after she started working as a licensed practical nurse for the Veterans Health Administration—her first job with benefits. Although she also has a son in high school, the single mother can't bring herself to cut off her eldest, who earns $8.50 an hour plus tips delivering takeout orders part time for a restaurant in St. Paul. “Right now, I’m still the supporter,” she says.

Baby boomers are putting their retirements at risk by spending too much on their adult children. With real wages stagnant and unemployment among those age 16 to 24 running above 12 percent, large numbers of households continue to dole out cash to children no longer in school, covering rent, cell phones, cars, and vacations.

A July 2014 survey by American Consumer Credit Counseling, a Boston nonprofit, found that a higher proportion of U.S. households (1 in 3) provide financial assistance to adult children than support for elderly parents (1 in 5). “This is putting a huge wrench into retirement savings,” says Pamela Villarreal, a senior fellow with the National Center for Policy Analysis in Dallas. “The more boomers put out for adult kids, the less they can put aside for themselves, which is scary as they live longer and need savings to last them into their 80s and 90s.”

More than a third of adult millennials receive regular financial support from their parents, and 1 in 5 still live at home and don’t pay rent or expenses, according to a November 2014 survey by Bank of America. It isn’t just the unemployed or the low-paid who are needy. The poll, which had 1,000 respondents between the ages of 18 and 34, found that among those earning more than $75,000 a year, 25 percent had their parents pay for groceries at some point and 21 percent got money for clothing.

Brett Goldstein, a financial adviser in Jericho, N.Y., hasn’t had much success dissuading clients from prematurely withdrawing money from their individual retirement accounts to cover expenses for grown children. “I’ve learned it’s very hard to get between a parent and his or her children, even when the parent has very modest savings,” he says. One client in his mid-50s recently withdrew $32,000 from a $140,000 IRA account to pay for his daughter's wedding, Goldstein says. Another couple with IRA accounts totaling about $200,000 cashed out $61,000 to help pay for their daughter and son-in-law's first home.

Parental largesse doesn't have to reach such extremes to be potentially harmful. Consider that couples age 55 to 64 had just $111,000 in savings for retirement in 2013 (the median balance in 401(k) and IRA plans), according to the Federal Reserve's most recent Survey of Consumer Finances. That will amount to a little more than $4,000 a year in retirement, assuming an annual 4 percent withdrawal rate. If parents have extra money left over each month, they should be maxing out their contributions to 401(k) plans or paying down mortgages or other debt, not subsidizing their kids, financial advisers say. "You can't take out a loan for retirement," says John Sweeney, executive vice president for retirement and investing strategies at Fidelity Investments. "So the less well-off you are, the more you have to say to grown children, 'I don't have it to give.' "

Gillian Anderson, head of Anderson Wealth Management in Westport, Conn., says so many of her clients are helping their 20- and 30-something kids financially that she advises other parents who consult her to budget for the possibility that they may have to do the same. "It runs the gamut from giving regular allowances because millennials often aren't earning enough to cover rent and food, to help with legal bills if a child is going through a divorce, to occasional payments for a coat or plane ticket," she says.

Whatever the reason, this prolonged support is squeezing even affluent boomers. The executive director of a nonprofit in Seattle gave her daughter and son-in-law a total of $12,000 in 2014 to pay for child care, home repairs, and other bills—and plans to give at least as much this year. The 66-year-old woman earns $230,000 a year, while the couple are working professionals in their 30s with a combined annual income of about $115,000. The mother, who asked not to be identified because she didn't want friends and work colleagues to know about her situation, says she'd like to retire, but her financial planner has warned her that the $2.5 million she's set aside will run out by her early 80s at her current rate of spending.

"I've learned it's very hard to get between a parent and his or her children, even when the parent has very modest savings." —*Brett Goldstein, financial adviser*

A 48-year-old woman who lives in Westport, Conn., sheepishly admits that she and her husband, a finance executive, give their 22-year-old daughter tens of thousands of dollars each year to supplement the $30,000 she earns as a writer at a beauty website. The money covers her share of the rent on a Brooklyn (N.Y.) apartment, her frequent use of Uber car services, clothing purchases, and regular manicures and pedicures. "I tell my daughter, 'We're going to help you, but do you really need to buy $4 lattes every day and $14 kale salads?' " says the mother, who didn't want to be named because she doesn't want to embarrass her daughter or her husband. "When I was 22, I ate pizza every night."

The couple have a comfortable six-figure income but haven't purchased long-term care insurance for themselves or put aside all they'll need—at least $10 million—to maintain their lifestyle in retirement. They wonder if and when their daughter will become self-sufficient and whether their son will also expect continued support after he graduates from college in a few years. "We're stuck between a rock and a hard place, because we want our kids to be happy," she says.

Egan is also torn. "I wanted to give my boys more help than I got growing up," she says. She makes about $23 an hour working a 5:30 a.m.-to-2 p.m. shift at a VA hospital in Minneapolis and earned about $50,000 last year, including overtime. Egan puts 3 percent of her income into an employer-sponsored savings plan, which gets matched, and has accumulated about $15,000 so far. She'll also be eligible for a small pension if she continues working for the federal government for at least another five years. She knows she's a long way from having enough to retire comfortably. "I don't want to be a burden on my kids when I'm old," she says.

Fidelity's Sweeney says it's a bad idea even for affluent parents, to fund their adult kids. "Giving them tens of thousands of dollars a year for apartments, cars, and restaurant meals sends the message that you'll keep paying for a lifestyle they can't afford on their own—and you probably can't or don't want to fund forever," he says. "Better to teach them to burn less than they earn, and save all you need for a long old age."

Egan has began practicing a little of the tough love Sweeney preaches. She recently began charging her son $150 a month for rent, and he now pays for his cell phone and car insurance.

***The bottom line:*** *More than a third of millennials receive regular support from a parent, according to a 2014 survey.*