Are Your Kids Delaying Your Retirement?

Some baby boomers are supporting their "boomerang" children

Are you providing some financial support to your adult children? Has that hurt your retirement prospects?

It seems that the wealthier you are, the greater your chances of lending a helping hand to your kids. Pew Research Center data compiled in late 2014 revealed that 38% of American parents had given financial assistance to their grown children in the past 12 months, including 73% of higher-income parents.[1]

The latest Bank of America/USA Today Better Money Habits Millennial Report shows that 22% of 30- to 34-year-olds get financial help from their moms and dads. Twenty percent of married or cohabiting millennials receive such help as well.[2]

Do these households feel burdened? According to the Pew survey, no: 89% of parents who had helped their grown children financially said it was emotionally rewarding to do so. Just 30% said it was stressful.[1]

Other surveys paint a different picture. Earlier this year, the financial research firm Hearts & Wallets presented a poll of 5,500 U.S. households headed by baby boomers. The major finding: boomers who were not supporting their adult children were nearly 2½ times more likely to be fully retired than their peers (52% versus 21%).[3]

In TD Ameritrade's 2015 Financial Disruptions Survey, 66% of Americans said their long-term saving and retirement plans had been disrupted by external circumstances; 24% cited "supporting others" as the reason. In addition, the Hearts & Wallets researchers told MarketWatch that boomers who lent financial assistance to their grown children were 25% more likely to report "heightened financial anxiety" than other boomers; 52% were ill at ease about assuming investment risk.[3,4]

Economic factors pressure young adults to turn to the bank of Mom & Dad. Thirty or forty years ago, it was entirely possible in many areas of the U.S. for a young couple to buy a home, raise a couple of kids and save 5-10% percent of their incomes. For millennials, that is sheer fantasy. In fact, the savings rate for Americans younger than 35 now stands at -1.8%.[5]

Housing costs are impossibly high; so are tuition costs. The jobs they accept frequently pay too little and lack the kind of employee benefits preceding generations could count on. The Bank of America/USA Today survey found that 20% of millennials carrying education debt had put off starting a family because of it; 20% had taken jobs for which they were overqualified. The average monthly student loan payment for a millennial was 201 dollars.[2]

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Since 2007, the inflation-adjusted median wage for Americans aged 25-34 has declined in nearly every major industry (health care being the exception). Wage growth for younger workers is 60% of what it is for older workers. The real shocker, according to Federal Reserve Bank of San Francisco data: while overall U.S. wages rose 15% between 2007-14, wages for entry-level business and finance jobs only rose 2.6% in that period. [5,6]

It is wonderful to help, but not if it hurts your retirement. When a couple in their fifties or sixties assumes additional household expenses, the risk to their retirement savings increases. Additionally, their retirement vision risks being amended and compromised.

The bottom line is that a couple should not offer long-run financial help. That will not do a young college graduate any favors. Setting expectations is only reasonable: establishing a deadline when the support ends is another step toward instilling financial responsibility in your son or daughter. A contract, a rental agreement, an encouragement to find a place with a good friend – these are not harsh measures, just rational ones.

With no ground rules and the bank of Mom and Dad providing financial assistance without end, a "boomerang" son or daughter may stay in the bedroom or basement for years and a boomer couple may end up retiring years later than they previously imagined. Putting a foot down is not mean – younger and older adults face economic challenges alike, and couples in their fifties and sixties need to stand up for their retirement dreams.

Citations.

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