July 12, 2019

Grown Children May Hurt Your Retirement

Baby boomers redefined parenthood over the past few decades, often serving as friend and confidant as well as banker to their adult children. A good friend of mine once remarked that the kids were still “on the dole”. Many parents continue to subsidize their children’s living expenses well into early adulthood, even at the expenses of their own retirement savings, according to a new study.

As a result of mounting debt, higher costs of living and higher standards of living, 80% of early adults 18 to 34 say it is harder to become financially independent now than it was for previous generations. Nearly 75% of early adults said they had received financial support from their parents in the past year and 58% said they would not be able to afford their current LIFESTYLE without ongoing support.

To the extent that parents subsidize their children, they may be foregoing having enough wealth and resulting income to finance their own retirement and as a result, will have to work longer than intended. Hopefully, the grown children will be around to change their parents’ diapers. *Investment News 5/13/19 p. 24*.

Help a Working Child or Grandchild

this summer by contributing to a Roth IRA for him or her …. up to $6,000 for 2019, but not more than the child’s 2019 earnings. Inside the Roth, earnings grow tax-free. If you decide to do this, you have until April 15, 2020 to make the contribution. The payin counts towards your $15,000 gift tax exclusion. ($30,000 if married).

This can provide a nice nest egg. There are key tax advantages to Roths: all distributions made after age 59½ are nontaxable. And when the child is ready to buy his or her first home, $10,000 of earnings can be taken out tax-free. *IRS Publication 590-B.*

If you like the idea you can contact us in order to set up the Roth IRA.

Fed Up With Long IRS Telephone Wait Time

The agency has a pilot program under which it is testing callback technology. Rather than waiting on hold, some callers can leave their names and telephone numbers for an operator to call them back. Right now, only a RANDOM selection of callers who experience call wait times longer than 15 minutes may be given the OPTION. IRS wants to expand the system and EVENTUALLY make it available to everyone. The goal is to offer the capability on MOST of its toll free lines by 2024! *The Kiplinger Tax Letter 5/17/19.*

Help The Kids or Save For Retirement

Parents spent TWICE as much on their adult children than what they contributed to their nest egg. $500 billion vs. $250 billion according to a 2018 survey by Bank of America Merrill Lynch.

68% of parents said they would be willing to DELAY retirement to pay for college.

72% of parents say they have put their children's interests ahead of their own need to save for retirement.

Retirees, Beware Of These Errors

There are almost as many paths to retirement as there are retirees. But, when it comes to financial mistakes that can derail their retirement, familiar patterns often emerge. Retirees could ensure their nest egg lasts longer by avoiding these common mistakes.

Mistake No. 1
Investing Too Conservatively

A number of retirees try to eliminate risk by stashing their savings in cash, certificates of deposit or municipal bonds of very short duration. Taking a more conservative approach in retirement can be prudent; playing it TOO safe can severely limit retirees' earnings, potentially increasing the chances they WILL run out of money.

It is important to build a portfolio that incorporates an appropriate allocation of income producing assets and equities based upon their other income, including Social Security, rental income, their spending requirements and their life expectancy.

Mistake No. 2
Spending Mishaps

Some retirees spend significant sums early in their retirement, often to pay off debt, or enjoy leisure activities but very often to do significant renovations to their home that they could not do while working. The problem with spending so much in the beginning is that it can be detrimental to a retiree's long-term financial security. We suggest spreading out such spending so more of it can come out of cash flow and not reduce assets.

Mistake No. 3
Underestimating Expenses

It is typical for retirees to underestimate their expenses in retirement, particularly healthcare.

Mistake No. 4
Lacking Skepticism

Many retirees are swayed by the prospect of finding high returning investments that have little or no risk; chasing yield can derail the savings they worked hard to build. Particular skepticism should be reserved for indexed annuities because many people do not understand the products and think they are getting something they are not.

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We're Here For You!