THE Wealth REPORT

CAN YOUR BOOMERANG KID AFFECT YOUR RETIREMENT?

Overview

When facing mounting student loan debt and the high cost of living in some areas, young adults often find that moving back home makes the best financial sense. However, it may not be the best situation for mom and dad, especially if they are ramping up their savings plan in anticipation of retirement.

Today, 48% of young college graduates move back home with their parents.[1] Known as "boomerang kids," these millennials create additional retirement planning challenges for parents.

Loss of Savings

A boomerang child can throw a wrench into parents' retirement planning by generating more expenses, particularly if he doesn't have a job. In addition to higher household bills, parents may need to pay for his cell phone, health insurance, and car and/or student loan payments. For parents who are already retired and living on a fixed income, these additional expenses may exceed their monthly income.

For example, the cost of additional groceries for a millennial male is about $315 a month, or $3,780 a year. If he's under age 25, his auto insurance likely would run at least $100 a month, or $1,200 a year.[2]

Just those two expenses would reduce annual retirement savings by nearly $5,000 — right about the time pre-retirees are trying to sock away as much as possible into investment and retirement accounts. However, the greatest detriment may not be lost savings, but lost interest pre-retirees could have earned had they invested that money in the years leading up to and during retirement.

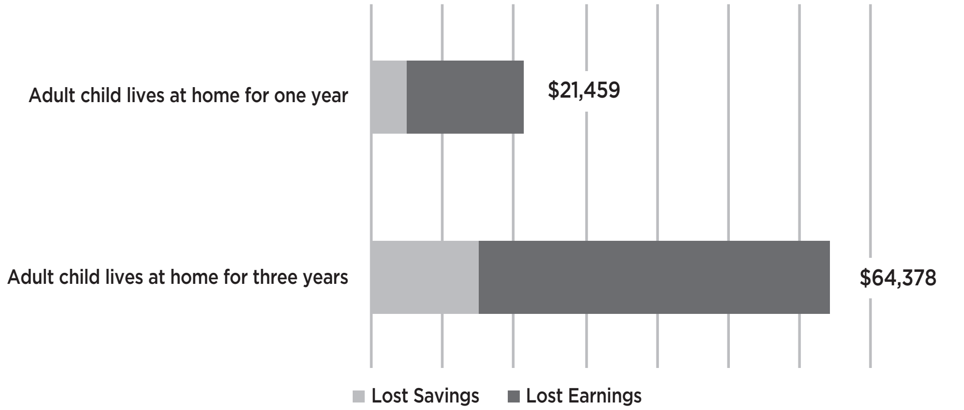
Loss of Investment Gains

When you factor in additional costs for groceries and utilities, cell phone service, car payments, and auto and health insurance premiums, the extra expense could creep up much higher. But for the sake of discussion, let's say it costs a 50-year-old couple lost savings of $5,000 a year to provide for a boomerang child.

As illustrated in the accompanying chart, over a 25-year investment period, that couple could have accumulated more than $21,000 with that money, given a 6% average annual return. If the child was to continue living at home for three years (for a savings loss of $15,000), the loss of investment earnings would total more than $64,000.

LEONARD WEALTH MANAGEMENT

Potential Impact on Retirement Savings: Lost Compounded Earnings Over 25 Years



This hypothetical example is for illustrative purposes only, should not be deemed a representation of past or future results and is no guarantee of return or future performance. This example does not represent any specific product and/or service. A 6% annual rate of return is for illustrative purposes only.

Financial Tips

Determine what to absorb and what to charge

When it comes to getting your child to help out with his expenses, you have two issues to consider: Can he contribute and, if so, how much? This situation may evolve over time, so it's important not only to set up expectations early on, but also to re-evaluate his contribution level once you get a feel for how much his living at home costs you. At some point, he may start earning enough to contribute more or even pay his way.

It is not out of bounds for parents to expect adult children to chip in to help defray expenses from living at home. To help determine an adequate amount, consider the difference between what costs you additional money and what does not.

For example, your housing expense is likely to remain static whether your child lives at home or not. Utility and grocery expenses are likely to go up, so consider charging your child whatever extra amount those increase by. Determine whether you can defray the extra cost of cell phone service by adding your child to a family plan. Auto insurance, on the other hand, is definitely an added cost.

If your child doesn't earn enough to cover certain expenses, consider trading household chores in exchange for paying things like auto and health insurance. For example, if your child will clean the house or take care of the lawn, you can divert money you might normally pay out for those services to pay his expenses.

"They are to contribute to household expenses. There is to be no freeloading. Yes, they are your kid. But they are also an adult. And adults need to carry their weight. Or at least some of their weight." [3] ***– Suze Orman***

Set up a savings habit
Instead of charging your child, you may consider mandating a savings habit. After all, if he's living at home so he can save money, you have the right to monitor that goal. However, it's also important that you don't nickel-and-dime your child's spending habits — he needs to learn how to budget money on his own.

Instead, agree on a reasonable fixed amount that he can save every month. If he is working for an employer that offers a retirement plan, he can automatically defer a portion of his income to that account. If not, consider helping him open a traditional or Roth IRA to set aside money each month. One advantage of a Roth IRA is that he can withdraw contributions he has made, penalty and tax-free, for emergencies or for use down the road when he's out on his own. However, earnings withdrawn prior to age 59 ½ and before the account is 5 years old may be subject to taxes and penalties. In the meantime, the account can be earning interest.

Should you set deadlines?
Some boomerang kids find it comfortable to ease back into their old bedroom and teenage lifestyle while living under your roof. For this reason, it may be important to set up key benchmarks to get your chickadee used to the idea that, at some point, he'll have to leave the nest.

You can do this in stages, such as full support for the first three months while he looks for a job, half support for the next three months and then no support, but set up another deadline for him to move out. Of course, you should define "support" up front in terms of what expenses you will and will not pay for.

When might a contract be worthwhile?
If you believe your child is taking advantage of your goodwill longer than necessary, you may find it useful to draw up a "contract." The contract sets up boundaries for how much parents will pitch in and for how long, as well as define who pays for what. By identifying "hidden expenses," such as the increase in utility bills and groceries, you can help your child understand how much you are truly contributing. This kind of detail also can help him plan for the amount he'll need to budget for when he moves out on his own.

Be wary of lending money
While having an adult child live at home can be inconvenient, it may be preferable to lending him money to live on his own. First of all, if he doesn't repay the loan, that can create an issue that rears its ugly head for years. If you co-sign a loan he can't repay, you can put your own savings at risk. And finally, you may come to realize that the initial loan is just the first in a series of requests for money. From a financial perspective, letting him live at home may be the more prudent choice.

Final Thoughts

One reason some young adults "fail to launch" is they fear failure. The weight of expectations — societal, parental and even their own — can crush their spirit, undermine their confidence and create a series of actions too noncommittal to facilitate success. Parents who want to see their children become financially independent need to be supportive and let their kids know they are on their side. Even when you offer advice your child may not want to hear, let him know that you've got his back and that your goal is for him to succeed.

An adult child who feels that even his parents don't believe in him may find it much more difficult to flourish. Try, as much as you can, to take that additional weight off his shoulders. Offering emotional support won't cost you a penny or threaten your financial goals.

Despite this difficult transition for your child, it is important for you to remain abundantly aware that a boomerang child living back at home can have a long-term impact on your own financial goals and retirement.

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[1] Rebecca Lake. The Balance. Feb. 11, 2019. "How to Keep Boomerang Kids From Ruining Your Retirement." https://www.thebalance.com/keeping-boomerang-kids-from-ruining-retirement-4154835. Accessed May 13, 2019.
[2] Ibid.
[3] Suze Orman. SuzeOrman.com. Aug. 25, 2016. "My House Rules for Boomerang Kids." https://www.suzeorman.com/blog/my-house-rules-for-boomerang-kids. Accessed May 13, 2019.