How to Keep Your Grown Children From Endangering Your Retirement | Baby Boomers

Your retirement finances can be a lot more fragile than you might think. A budget can be disrupted by many things, and some parents have a hard time dealing with one expense in particular: They can't say no to their grown children.

Helping your children isn't necessarily a problem if you have the financial resources to do so. But some parents continue to bail out their children, even if it puts their retirement savings and lifestyle in jeopardy. "Unfortunately, adult children are one of the most dangerous [threats] to a successful financial plan," says Cary Guffey, a certified financial planner at PNC Investments in Birmingham, Alabama.

[Read: Kids Headed to College? Don't Let Them Delay Your Retirement Plans.]

Many Americans have not saved enough for a comfortable retirement. For example, a survey by the Employee Benefit Research Institute found that the majority of Americans have saved less than $100,000 for retirement and about a quarter have saved less than $1,000. "Unfortunately, far too many people will be living almost exclusively on Social Security or working longer than they anticipated because Social Security payments will not be enough to make ends meet," says Lynnette Khalfani-Cox, a personal finance coach and author. "The problem is compounded not only because people are failing to save, but a lot are helping their kids and grandkids."

Baby boomers with financially independent adult children who don't support anyone else are twice as likely to be retired, according a survey of 5,500 U.S. households by the market research firm Hearts & Wallets. Only 21 percent of boomers who support adult children are fully retired, compared to 50 percent of boomers who don't support children or other extended family members. Boomers who support adult children are also more likely to report financial anxiety.

For parents in a never-ending cycle of providing financial assistance to their children or grandchildren, here's how to avoid shouldering that burden.

Just say no. You don't have to provide assistance to your adult children every time they ask for it. "The first and hardest lesson and the obvious thing is you have to learn to say no," Khalfani-Cox says. "At the very least, if you cannot say no, establish the proper financial boundaries."

There's nothing wrong with parents wanting to sacrifice for their children, but when they continue that mindset after the kids reach 25, 35 or even 45, it can impose a significant burden on your ability to retire. You are "enabling your adult children to turn to you as a financial plan B or backup plan. That's a huge problem," Khalfani-Cox says.

Too much financial support could even be preventing your grown children from becoming self-sufficient. "Often there has been a pattern of financial entitlement, where adult children or grandchildren have not learned to live responsibly and stand on their own two feet," Khalfani-Cox says. "The parent is helping and enabling just as much as the kid is asking."

[See: 10 Ways to Repair Your Retirement Finances.]

Make a legal agreement. Elijah Kovar, co-founder of Great Waters Financial in Richfield, Minnesota, had a client who wanted to buy a home for her son because his credit history prevented him from renting an apartment. "I told her if you do this, you are taking a risk and it has to be one that will not ruin your relationship with your son if he defaults and you have to kick him out," Kovar says. "His credit shows he doesn't hold up his end of the bargain."

Kovar says people might be less likely to repay family members than they are a bank. One option is to act like a bank and have a lawyer draw up official paperwork. You can put dates when payments are due in the contract.

Consider the gift tax exclusion. Up to $15,000 can be given away in 2018 that's free from any federal gift tax consequences. But don't pass along that much cash if you think your child will squander it. "Just because it's there doesn't mean you have to use it," Guffey says. "Don't deny your children their scars. They need to fall down and scrape their knee." Gifting cash can make sense, but how you give the money can make a difference. "We don't want our children or grandchildren to be dependent," Guffey says. "It's using that gift as a tool for education rather than bailing them out."

Make your financial advisor the bad guy. Many planners and advisors say they don't mind if their clients lay the blame on them. Kovar says he's had serious conversations with clients to warn them that continuing to give their children money will jeopardize their financial future. "One client's son has mooched off her for years," Kovar says. "I told her to tell her son that your financial advisor says you can't do that anymore, or you will run out of money. Using your financial advisor is a good out."

[Read: What if Your 10-Year-Old Started Saving for Retirement?]

Before you lend to your child's new business, get a second opinion. Some children ask for money from parents to help start a business. "You want to help your children and see them grow and develop, but most of us get into facts as our children tell them. It's a half-baked vetting process," says Jeff Speight, a certified financial planner and wealth advisor at Tanglewood Total Wealth Management in Houston. "If you give money to your child, you have to assume you are not going to get it back."

Get an opinion from someone not involved in the business. If you still want to loan your child money, set expectations. Agree to a certain dollar amount and set a sunset provision. "The child knows its [repayable in] 18 months, and when it's over you might consider an extension, but you've got to have guardrails," Speight says. You don't want a $20,000 investment to turn into $30,000 and then more. "You can end up bleeding the [retirement] account dry," Speight says. Don't give tens of thousands of dollars to your children when you barely have enough money to get to retirement.

"When people are on the plane, the flight attendant will always tell you that, in the event of an emergency, put on your own oxygen mask first, then help the person next to you. The idea is if you pass out or are physically incapable of breathing or staying alert, you will not be any good to anybody else," Khalfani-Cox says. "The same is true of retirement. If you don't properly plan for your post-working years, you will not be good to anybody else. If you deplete your resources, who will help you?"

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9 Easy Ways to Save $500 More Per Year for Retirement

Dollar bills in glass jar on wooden background. Saving money concept.

(Getty Images)

Boost your balance.

A small increase in your savings rate can result in a big boost in your retirement nest egg. If you save an extra $500 per year between ages 30 and 65 and earn a 7 percent annual return, you will have an extra $70,000 upon retirement. Most people can save an extra $500 for retirement, or just $10 per week, without making any significant sacrifices. Consider these painless ways to boost your retirement account balance.

Increase your 401(k) withholding by 1 percent.
American hundred dollar bills.

(Getty Images)

Increase your 401(k) withholding by 1 percent.

The contribution limit for 401(k) plans increased by $500 to $18,500 in 2018. So, now is a good time to reset your 401(k) withholding to put an extra $500 in your retirement account before the end of the year. A worker with a $50,000 annual salary would only have to increase his withholding by 1 percent to get an extra $500 in the account within a year. Some 401(k) plans have an automatic escalation feature that will increase your savings rate over time unless you opt out.

Put $10 per week in an IRA.
Closeup of a $10 bill

(Getty Images)

Put $10 per week in an IRA.

You only need to save $10 per week to end up with an extra $500 by the end of the year. Consider setting up an automatic transfer from your checking account to an IRA. Saving $500 in a tax-deferred IRA will also reduce your tax bill. For workers in the 24 percent tax bracket, IRA contributions totaling $500 will save you $120 at tax time. Alternatively, you could put the money in an after-tax Roth IRA and set yourself up with tax-free investment growth and tax-free withdrawals in retirement.

Get a 401(k) match.
Portrait of young businesswoman looking out of office window

(Getty Images)

Get a 401(k) match.

A 401(k) match is one of the fastest and easiest ways to increase your retirement account balance. If your employer provides 50 cents for each dollar you contribute to the 401(k) plan, saving $1,000 will get you a $500 401(k) match. However, pay attention to your company's vesting schedule to make sure you will be able to keep the match if you leave your job.

Take advantage of tax deductions.
Happy young woman checking bills at home sitting on sofa

(Getty Images)

Take advantage of tax deductions.

You can defer paying income tax on the money you save in a traditional 401(k) or IRA. For a worker in the 24 percent tax bracket, a $2,000 401(k) or IRA deposit will save you $480 in taxes. That lower tax bill can help you set more money aside for retirement. Income tax won't be due on your retirement account contributions until the money is withdrawn from the account.

Claim the saver's credit.
Chinese woman paying bills on laptop

(Getty Images)

Claim the saver's credit.

Retirement savers who earn up to $31,500 as an individual, $47,250 as a head of household or $63,000 as part of a married couple are eligible for the saver's credit. This tax credit is worth between 10 and 50 percent of the amount you contribute to a retirement account up to $2,000 for individuals and $4,000 for couples. For example, a married couple earning $30,000 who saves $1,000 in a 401(k) account could earn a 50 percent tax credit worth $500, and that's in addition to the tax deduction for the 401(k) contribution.

Save your tax refund.
Closeup of a tax refund check from the IRS

(iStockPhoto)

Save your tax refund.

If you're expecting a large tax refund, consider putting a portion of it aside for retirement. You can directly deposit part or all of your tax refund in a traditional IRA or Roth IRA using IRS form 8888. A direct deposit to a retirement or investment account reduces the temptation to spend your refund because the money never hits your checking account. An added bonus: Depositing your tax refund in a traditional IRA could boost next year's tax refund.

Redirect your raise.
Person holding two paychecks

(iStockPhoto)

Redirect your raise.

Some employers plan to give workers raises and bonuses in 2018. Consider putting a portion of your newfound income aside for retirement. If you redirect half of your raise to a retirement account you will see an increase in your paychecks while also building a nest egg for the future.

Save your cash back.
Woman sliding swiping credit card at store

(Getty Images)

Save your cash back.

Some credit cards provide cash back on all or certain types of purchases, which can help responsible credit users to earn extra cash. You may also be able to earn cash back through online shopping portals or cash back smartphone apps. Instead of using the cash back to fuel current purchases, put some of the money aside for your future self.

Switch to lower cost investments.
Shot of a young businesswoman working late in her office

(Getty Images)

Switch to lower cost investments.

Moving your money into lower cost investments will allow you to keep more of your investment returns. For example, if you have $40,000 in an expensive fund with a 1.5 percent expense ratio, your investment is costing you $600 per year. If you shifted your account balance into a low cost index fund with an expense ratio of 0.25 percent, your annual investment costs would drop to $100 per year and allow you to keep an extra $500 in investment growth.

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