Childproof Your Retirement

Although parents are so used to aiding their children financially, it's important for them to realize how they can minimize their children ruining their retirement savings. We'll look at some tips from a recent article from The Motley Fool, "How to Childproof Your Retirement." It's available online at Fool.com and from other syndicated sources.

The article looks at several different issues that parents encounter when it comes to their personal finances and their children. The first issue deals with the fact that many parents are choosing to help their children with college instead of saving for their own retirement. A recent Merrill Lynch survey cited in the article showed that nearly 75% of parents put their children's financial needs ahead of their own retirement. One way that parents can do this is by paying for their children's college tuition and education-related expenses. Some parents even take out student loans in their own names to help cover some of the costs!

The irony here is that when parents take on debt, they are often simply delaying a financial burden that will eventually fall to their children. By not preparing for retirement, or by incurring debt they can't pay off before they pass away, they're simply passing that debt onto their children later. There are other funding options available for college like scholarships and financial aid. You can also open a 529 Plan to help your child save for college.

If you're not familiar with these type of plans, Investopedia.com defines 529 plans as tax-advantaged plans that are specifically designed to help with education expenses. There are two types of 529 plans: savings plans and prepaid tuition plans. The prepaid tuition plan allows an investor to pay for fees and tuition at the specific institution. The other type of plan, the savings plan, is like an individual retirement account or IRA and has tax advantages as well. The name for these types of plans comes from Section 529 of the Internal Revenue Code. They may also be referred to as "Qualified Tuition Programs" or "Section 529 plans."

On the other hand, there aren't as many funding options if you find yourself retired with too much debt or are unable to repay the student loans taken out in your name. I highly recommend parents consider working with a financial services professional to examine all options.

Another issue when it comes to parents, children and finances is setting limits on the amount of financial support provided. Retirees often live on a fixed income. Many utilize a monthly budget to keep track of expenses and cash flow. Financial support to your children should fit within that budget. Just as it is useful to set a limit on what you'll spend on entertainment, utilities, travel or groceries, it's important to limit your financial support to a reasonable amount for your budget.

In addition, working with your children to understand personal finance can be extremely valuable and help you avoid potential financial issues in the future. One resource that's available for advocates of teaching personal finance and financial literacy is the Council for Economic Education, or CEE. The CEE provides an Advocacy Tool Kit for individuals who are interested in promoting personal finance and financial literacy education. The tool kit includes useful information on general advocacy.

Another resource is the JumpStart Coalition for Personal Financial Literacy. This organization and affiliated state coalitions work together to advance the financial literacy of children. Programs are available from preschool through college.

They also provide a resource called CheckYourSchool.org. This website provides parents with a way to find out whether their children's school is actively teaching money management. If it's not, the Coalition provides resources to advocate for new programs and requirements.

Again, these are valuable resources, but nothing will be as powerful as the example you set for your children. You can work with a financial services professional to solidify and define your personal financial plan. By creating that financial strategy, empowering your children with personal finance skills and setting appropriate limits on financial support for their personal and education expenses, you can begin to "childproof" your retirement

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Sources:

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https://checkyourschool.org/

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