Boomerang Burdens: Back to the Nest

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Article:

Many Americans are having difficulty saving money. But baby boomers, who are often perceived as being self-centered, self-seeking, self-interested, self-absorbed, and self-indulgent, may actually have been too generous to their families at the expense of ignoring their own retirement interests.

Personal savings increased through the mid-1980s but began to decline in the era of the great bull market in U.S. equities and soaring housing values. As savings decreased, housing values have increased. Some conclude that the home has become the piggy bank of the future. Home ownership as a form of personal savings provides solvency only when the home equity remains.

While older retired adults may find home ownership a reassuring component of their retirement portfolio, many individuals who are not yet retired have been using home equity to make ends meet. Lines of credit based on home equity are being used to pay for healthcare or children's college expenses. The result for many is a decline not only in personal and retirement savings but also in home equity.

Impediments to Retirement Savings

Many Americans fail to grasp the importance of planning for retirement needs. "The 2007 Ameriprise Workplace Financial Planning Benefit Decision Study" found that four of every five workers make important retirement planning decisions without consulting professionals, with potentially significant detriment. Moreover, many find themselves under considerable financial stress.

Examining sources of financial stress, the study found that the highest stressors were saving for retirement (61%) and paying for healthcare in retirement (35%). Comparing results of the 2007 study with the 2005 Ameriprise study showed that 50% more employees reported stress about saving enough for retirement. Other areas of employee stress include saving for an emergency (52%) and saving for big ticket items (50%). Paying regular bills, budgeting, and debt likewise create high stress levels. In all financial areas, more employees reported stress than had two years earlier.

Both the number of children and the length of time that children rely on parental resources profoundly influence retirement savings. One recent trend that's influencing savings is the unprecedented number of so-called boomerang children who return to live with their parents, severely constraining boomer parents' household budgets. Fifty-something boomers who planned to make up savings lost in child-related consumption years now find their 20-something young adult children returning to the nest.

Census data from 1990 compared with that of 2000 confirm that the proportion of young adult children aged 18 to 24 living with their parents increased from 25% in 1990 to 56% of young adult sons and 47% of young adult daughters in 2000. Nearly 12% of adult children aged 25 to 34 lived in their parents' homes in 2000. Sociologists examining the later age at which children are leaving the proverbial nest attribute the delay to extended education, economic conditions, and even longevity. Whatever the reason, this extended "adultescence" is catching boomer parents by surprise. Many young adult children find returning to their parents' homes to be fiscally responsible and an acceptable means of paying off student loans, car payments, or consumer debts.

Financial Assistance to Aging Parents

The Pew Research Center has concluded that baby boomers are more likely than any other generation to give money to both adult children and aging parents and are less likely to receive financial assistance. The center's 2006 report published revealed that nearly 40% of boomers had helped their aging parents financially in the past year. Increased longevity among Americans has resulted in the proportion of boomers who reach middle age with living parents being larger than that of previous generations and has lengthened the time over which those boomers may have to help parents financially. About 71% of boomers in 2005 had at least one living parent compared with 60% of adults aged 41 to 59 in 1989. With nearly 60% of boomers sandwiched between living parents and their own children, there is an increased likelihood of being pulled down financially by parents' or children's needs, decreasing retirement savings and increasing financial stress.

Impediments to Personal Savings

The Ameriprise Money Across Generations study examined affluent boomers (those with $100,000 or more of investable assets, money available to invest, or money currently invested) saving for retirement while continuing to financially support their adult children. Nearly all affluent boomer parents (92%) financially helped their adult children. This assistance encompassed 70% who helped with college loans, 52% who helped with a car purchase, 41% paying for car insurance, and 35% who made car payments. Many paid their kids' credit cards, mortgage payments, rent, or utility payments, and 50% of kids moved home to live rent free. Few of these affluent boomers (6%) reported using their retirement savings for their adult children's expenses. About one half use day-to-day spending money, although 41% said they had tapped regular savings.

How do the less affluent 60% to 70% of boomer parents compare in retirement savings and financial assistance to adult children? In the Pew Research Center study, it was found that 68% of boomers had supported their adult children financially in the past 12 months. Of boomers with incomes below $30,000, 23% had financially helped their adult children. Frequently these less affluent boomers reported using retirement savings to help adult children with college costs and loans, housing, or consumer debt.

Implications to Retirement Savings

Parents are becoming increasingly responsible for their adult children's financial choices. Two thirds of boomers in the Pew Research Center study believed parents should be responsible for their children's college education, as does the government. For example, emancipated students up to the age of 24 applying for federal student aid for college must report parents' income. Unfortunately, the cost of a college education has outpaced inflation, pushing parental retirement savings down the priority ladder.

The financial burden is becoming more stressful. Of those surveyed for the 2007 Ameriprise study, 41% admitted to stress over their children's college expenses. Worry about aging parents' finances (reported by 19%) adds to the financial and emotional burden on the middle generation.

The Family Retirement

Few families openly discuss finances and financial literacy is seldom taught to young adults. Many young adults have no experience budgeting or saving, and even if they have work experience, many use parents as their financial safety net. According to the article "Family Support During the Transition to Adulthood," a significant proportion of boomer parents continues to serve as their adult children's primary source of financial support, from 25% of boomers with incomes less than $30,000 to 46% of boomers with incomes greater than $75,000. In 2004, the estimated average annual parental contribution per child aged 18 to 34 was $2,200.

Boomer parents need to evaluate their generosity and have open discussions with their young adult children about modifying financial expectations and assumptions. Examining spending behavior is an excellent lesson in fiscal literacy for both young adult children and boomer parents. For example, it's helpful to require students to track their daily spending down to the penny. They quickly discover why they never seem to have money—it goes to vending machines, fast food, and lattés. This simple lesson leads to some great discussions on personal responsibility, budgets, and compound interest.

It’s equally important that boomer parents track their own financial generosity. In doing so, they may grasp how significantly adultescence redirects their retirement savings. Since most boomer parents don’t realize the total amounts of money redirected to young adult children, they overestimate their ability to save in later years. Waiting to save until children leave the nest is poor retirement saving behavior, especially if the nest is full longer than expected. Reducing consumption and increasing savings while children are young continue to be the optimal retirement saving behaviors, especially through the power of compounding interest.

Understanding the changing family life cycle and its direct implications on the saving life cycle may help parents, boomers, and others prepare for retirement. Those who don’t grapple with the family issues related to retirement soon understand the wisdom of this observation: “Anyone who digs a hole is bound to fall into it.”