HELP DESK

Helping your adult child achieve financial independence

With the new year almost here, many of us will make resolutions to change our bodies, minds or daily routines in 2020. But given the significant number of my clients and friends who are still contributing to their adult children's finances, I am encouraging anyone doing the same to consider a valuable financial resolution: taking steps to help your children achieve financial independence.

As a financial adviser and a mother of two adult children, I'd like to share a multi-pronged approach that I've found to be quite successful in reaching this resolution. It stresses four key financial values.

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Saving

Instill good habits early by requiring that a portion of financial gifts go into a savings account and by matching savings contributions from a first job's paycheck.

If financially feasible, reward your children when they save for retirement through "parent matching," or matching any amount your child puts toward loan repayment and/or their Roth IRA. This helps them to prioritize savings and debt payoff, and realize the value of "free money" from employers for 401(k) plans.

Budgeting

A straightforward budgeting framework for take-home pay is 50-20-30: 50% goes to "needs" (rent, transportation, utilities, etc.), 20% to savings (retirement and debt repayment) and 30% for "wants" (cable, eating out, vacations, gym, etc.).

If 50% doesn't cover all needs, then the wants category must first be sacrificed. And if your child is living at home, the 50% category should cover debt repayment or savings for that first car or a security deposit for moving out.

Teamwork

Require contributions to any shared family expenses, like health insurance, car insurance and cell phone plans, to help your child appreciate these benefits and better understand how to budget for them.

Encourage them to enlist friends on their own financial team. Once a few start making smart financial decisions, they begin to encourage each other to make better choices – for example, organizing Saturday night potlucks together instead of going out for expensive dinners.

Goal setting

Encourage your child to set his or her own financial goals. For example, by age 30 it is recommended an individual have a least one times their annual salary saved for retirement in a 401(k) or Roth IRA.

Since young adults often resist listening to their parents, consider having them meet with a financial professional to help them set attainable goals and learn what their peers are or should be doing.

As parents, one of the greatest gifts we can give our children is passing down our values. Sharing your financial principles and practices – those that have enabled you to financially support your own family – can instill good habits that will set them up for a lifetime of financial independence. It's a gift that will keep on giving, and a resolution that I promise is worth making.