Failure to Launch: Get your kids out of your 401(k)!

Mary Stewart and her husband refer to themselves as "under protective" parents. They taught their kids to be financially independent but their daughter Abbie landed back home after finishing school. After a month of watching TV all day, Mary gave Abbie an ultimatum to "get a job, go to school or find a new place to live." A month later, her daughter was employed.

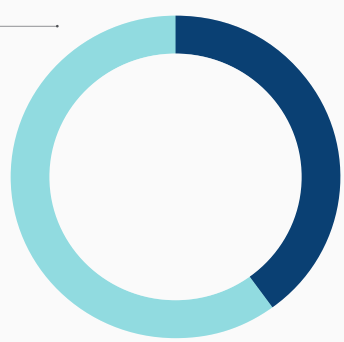
The Stewarts' mix of support and tough love isn't the norm. When grown kids struggle to launch, some anxious, middle-aged mothers and fathers may fall into the parent trap—overextending themselves and ravaging their 401(k)s.

The recession upped the number of boomerang children returning home because they either lost their jobs or couldn't find one after graduating, said the U.S. Department of Education in a January 2014 study. An online survey by the National Endowment for Financial Education in 2011 found that almost 60 percent of parents provided some form of financial support to their children once they finished school. The price can be high. About 25 percent—one in four parents—said they'd taken on additional debt, 13 percent put off a major life events such as buying a house or taking a vacation and 7 percent were forced to delay their retirement.

How can you avoid the parent trap? Here are five ways to help the kids without depleting your savings.

60%

of parents provide financial support to their grown children



Source: National Endowment for Financial Education survey

1 Determine your own retirement needs—then calculate how much is left for college or kick-starting a child's launch

In her legal practice, Mary Stewart has witnessed what happens when parents ignore this financial planning fundamental, observing in some cases, "When they retire, they're destitute, and their kids don't help."

2 Avoid overextending yourself

Students can take out loans if you're unable to pay for all or part of college. They'll have skin in the game and start establishing credit.

3 Set clear limits

When an adult child moves back in, spell out how long they can stay and what's expected such as paying rent or chipping in for groceries and utilities.

4 Provide a set amount of money

It's one way for kids to learn budgeting while covering necessities such as health and car insurance.

5 Foster the habit of saving

When kids start working, encourage them to contribute to a Roth IRA and, if you can afford it, consider matching their contributions.

This approach allowed the Stewarts' children to land on their feet. But their mother admits she would have done one thing differently: no free room and board. "Once they get a job, they ramp up their lifestyle since they're not paying for things and don't feel they can move out," she says. Instead, charge some rent and consider surprising them by returning it in the end. Even better—subsidize rent elsewhere, phasing it out as they become financially independent. Once kids learn to live within a budget, parents will be better positioned to ramp up their retirement savings.

It's never too early to get financial advice.
Contact your financial advisor to help you and your children get back on track.

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