Having Kids Late Can Tangle Up Your Finances

MAY 7, 2015 • BLOOMBERG NEWS

There's more and more gray hair at parent-teacher night. In the past 20 years, fewer Americans have been having kids in their teens and 20s and far more are becoming parents in their late 30s and 40s.

Since 1995, the birth rate for mothers in their late 30s is up 45 percent, and moms are 58 percent more likely to give birth in their early 40s. Giving birth in your late 40s is still rare but a lot less so: In the past two decades, the birth rate per 1,000 women age 45 to 49 has almost tripled, from 0.3 percent to 0.8 percent.

There are great reasons to wait to have kids. Older parents are often wealthier, more mature, and further along in their careers. But becoming a parent late in life can also really complicate your finances.

Bloomberg Business asked financial planners what issues parents should prepare for when they're caring for children well into their 40s, 50s, and 60s. Here's their advice:

• **Don't expect to live forever.** All parents need to think about what happens after they're gone. But for older parents, wills, estate planning and life insurance become crucial. The 55- to 64-year-old parent of a college student is almost five times as likely to die in a given year as one in his or her late 30s or early 40s.

Bryan Beatty is a 47-year-old financial planner who just had his first child in March. When a baby is born, his or her parents are focused on feeding schedules and fighting sleep deprivation, not on wills and trusts. Still, "they should do it right away," says Beatty, a partner at Egan, Berger & Weiner.

Particularly important is choosing a guardian in case anything happens to you. Many young couples choose the baby's grandparents, but that might not be an option for older parents whose own parents are in their 70s or 80s.

• **Buy enough insurance.** The older you are, the more expensive life insurance is. And you may need more coverage than you expect, says Jane Nowak of Wealth & Pension Services Group outside Atlanta. Her rough guideline for how much you need: Start with five years of your current living expenses—enough to replace your income for a while, though not forever. Then add up all the expenses you'd like to cover for your children after that, from private school and college to weddings.

Employees can often buy some insurance through their jobs. Qualification is usually automatic, but healthy employees may find better prices elsewhere, planners say. Another advantage of life insurance outside work is that it can follow you from job to job. Nowak suggests locking in a 30-year term life insurance policy.

• **Keep updating your paperwork.** The will and the insurance policies that you set up as a 40-year-old mother of a baby aren't going to work when you're the 58-year-old mother of three teenagers. Planners notice their clients have a scary tendency not to update paperwork.

For example, the beneficiaries on insurance policies and investment accounts need to be kept current. One of Nowak's clients forgot to add a second son to their life insurance policy. They didn't notice until he was 15. If his parents had died in the meantime, his older brother would have gotten the entire death benefit. Guardians also need updating; they get older or die. Wills may need to be rewritten if you move to a new state.

• **Put retirement savings ahead of college.** It's tough under the best of circumstances for people to max out contributions to their 401(k)s and individual retirement accounts (IRAs). It gets a lot tougher if you're also raising kids and saving for college, says Mitchell Kraus of Capital Intelligence Associates in Santa Monica, Calif.

Younger parents may not be able to save as much for retirement in their 20s and 30s, when savings would have had decades to compound. But these parents can make up for lost time after the kids are out of the house, a period that often corresponds with the parents' peak earning years.

Older parents, meanwhile, have no room for error. Their children may be heading for college just as they're readying for retirement. Unless they saved a lot when they were younger, they may need to make tough choices between tuition and catch-up contributions to IRAs and 401(k)s. Working further into your 60s is one strategy for older parents, but it's not a reliable one. Many end up retiring before they'd planned.

They aren't without options for saving for college, though.

For example, the child of a parent receiving Social Security benefits may also be able to collect a check, if the child is under 18.

Older parents can also use the tax advantages of 401(k)s and IRAs for college expenses, though the strategy has risks. All parents can use 529 college savings plans, which offer tax benefits as long as the money is used for education. Some parents may be old enough to tap 401(k)s and IRAs penalty-free while their kids are in school. Retirement accounts have flexibility that 529s don't have. They're also rarely counted in financial aid decisions, while 529 plans sometimes are.

But strategies that blur the distinction between college savings and retirement are dangerous, planners say. Your retirement needs should always come first.

"There are a lot of ways your child can go to college," Beatty says. "There are not a lot of ways you can retire."

Your child can take out loans, get scholarships, or pay her way through school. You can't borrow to fund your retirement. And unless you save enough, you risk becoming a burden on your children just as they're having children of their own.