Money and You: Caught in the middle - What to do when everyone needs your support

by Carrie_Schwab_Pomerantz

Recently, on a long flight, I was chatting about the normal stuff - kids and family and work - with the 50-something woman sitting next to me. When she found out I was in the financial world, she asked my advice on a particularly thorny issue. Turns out she was supporting her aging parents, who lived on Social Security and not much else, and helping out her grown children. Not surprisingly, she was worried about her financial health: "I make a good income," she told me, "and I know I need to stock a lot more away for my own retirement. But my extra money is going to my family, and I don't know what to do."

No doubt she was in a very tough situation, caught in the middle of two generations with financial needs. But her own financial health was at risk. Even though I was impressed by her generosity and her clear sense of responsibility, my advice was unambiguous: "You've got to make your own future a priority," I told her. "If you don't create the wealth you're going to need to retire comfortably, you could someday end up as a burden on your children. And they may not be in a position to help you in the way you're helping your folks now."

How to proceed? If her parents were truly in financial straits, it would be almost unthinkable not to help them. Still, I urged her to help them live within their means and, if possible, to recruit other siblings to bear part of the burden. I also advised her to review their insurance coverage.

Adequate health and long-term care insurance is a necessity, but whole life or other policies might not be worthwhile. In addition, they could tap some of the equity from their home in the form of a reverse mortgage.

But her toughest choice, in my view, was how much to give her children. Since they were adults, healthy and working, I suggested she significantly cut back there and focus on what should be her paramount objective: her own financially comfortable retirement.

My advice may sound callous or even selfish to some, but part of being an adult is learning to manage money effectively, which means living on a budget and saving for the future. In my view, her biggest contribution to her grown kids might be to help them take financial responsibility for themselves. And she should explain to them that she is focusing on her retirement savings because she doesn't want to be a burden on them (or anyone else) in the future.

The truth is that retirement is the biggest financial challenge most people will ever face - bigger even than buying a home or sending kids to college. People are living longer, few jobs offer traditional pensions, and our government pension - Social Security - can't be expected to cover everything. And, of course, the soaring cost of health care is adding a lot of financial pressure to retirement.

Try this: Figure out a realistic retirement budget and recognize that most people need, or at least want, about the same income they enjoy during their working lives. Now compare that figure with your known sources of retirement income Social Security benefits and, if you have one, a pension. Many people will discover a gap between their financial needs and their retirement income. Where will that money come from?

For most of us, it will have to come from our own savings and investments. Here's a good rule of thumb: Multiply the amount you'll need in your first year of retirement by 25. Then you can spend about 4 percent of this each year (with that amount increasing with inflation each year). For example, if you expect to live 30 years in retirement and you want an annual income of $50,000, you'll need approximately $1,250,000 on the day you retire in order to be confident that you won't outlive your money.

I believe investing for retirement should be a priority for every adult, but if you're in your 40s or 50s and have neglected your retirement plan, it's time to put it in high gear:

- Contribute the maximum to your employer-sponsored 401(k) plan. At the very least, contribute enough to garner any employer match.

- Max out your contributions to a traditional tax-deductible Individual Retirement Account, a Roth IRA, if you're eligible, or a small-business retirement plan if you're self-employed.

- Invest your long-term retirement assets in a diversified portfolio that includes exposure to the equity markets. I recommend at least one visit with an investment adviser to make sure you're on the right track.

- Consider working longer, which gives you more years to save and invest, and potentially increases your Social Security benefit.

- Finally, if you're age 50 or older, you can make annual "catch-up" contributions of up to $5,000 to a 401(k) plan and up to $1,000 to an IRA.

As my travel companion was discovering, retirement planning requires you to make choices. Most of us make the choice between saving and spending, but her decision was a lot more difficult: between saving for herself and helping her loved ones. I hope most of you don't have to face that choice, but if you do, don't neglect yourself. After all, you don't want your children to someday be caught in the middle themselves.

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