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Give adult child tips on finances

Teaching responsible handling of money will help retirement goals

By Leslie Mann Special to Tribune Newspapers

5:37 PM CDT, April 30, 2014

She is only 27 years old. But she has a list of "somedays" to check off her list. "Someday, I hope to be married and have kids," said Shekinah Monee, a model and publicist in New York City. "And, someday I want to retire and be able to play."

To reach the first goal, she dates men "with the intention of finding someone for a long-term relationship." To achieve her retirement goal, she contributes monthly to a SEP 401(k) and a Roth individual retirement account.

Unfortunately, financial planners say, not every young adult has such foresight. "In fact, according to Hollywood, it's cool to be irresponsible and in debt," said Judy McNary, a Broomfield, Colo.-based certified financial planner and author of "Coin: The Irreverent Yet Practical Guide to Money Management for Recent College Graduates."

Despite the recession and the high college costs that drowned so many with debt, 20-somethings can retire comfortably if they plan ahead, planners say. Experts suggest taking these steps, for 20-somethings and the parents they may be living with:

Bunk with Mom and Dad. Monee said she is fortunate that she lives rent-free with her mother and stepfather. "I couldn't find a place near my work for less than $1,200 a month," she said. For young people like Monee, the easiest way to save money is to delay leaving the nest.

"Let your kid keep living at home," said Beth Kobliner, author of "Get a Financial Life: Personal Finance in Your Twenties and Thirties."

"But that doesn't mean a free ride."

Acknowledge that jobs are hard to find, she added, but do not tolerate the grown child "sitting on the couch watching Netflix reruns of 'Scandal' while waiting for the ideal position to come along." Your young adult should at least pay his or her credit card, cellphone and car insurance bills, she said, and help cover groceries.

"Talk about financial priorities with your kid," Kobliner said. "If she has lots of credit card debt, talk about the fact that living … rent-free offers an opportunity to pay it off."

Ditch the debt. It's tough to make retirement contributions when loan payments eat your expendable income, especially when they include a complicated tangle of auto, college and credit card debt.

"First, add up your debts," said Jana Castanon, outreach manager with Apprisen, a national credit counseling agency. "This might give you an 'Oh, my gosh' moment. Then, make a plan."

For help, call one of the National Foundation for Credit Counseling member agencies such as Apprisen. They offer free, 90-minute counseling sessions online, in person or by phone.

If you have federal student loans, you may qualify for programs that allow you to make payments based on your income, not your loan balance. (See studentaid.ed.gov.) You can even have your loan forgiven if you follow the government's criteria.

"If it's a private loan through a bank, though, you're at the mercy of the bank's terms," Castanon said.

Note to parents with children in college: "Do not be tempted to co-sign a college loan," Castanon said. "If the student is late on his payments, it may affect your credit score."

Make a budget. Sounds simple? Not to many 20-somethings, McNary said.

"It's not only their fault," she said.

"We parents are partially to blame. Growing up, we had three pairs of shoes — sneakers, school and church. Now, kids have shoes for every outfit."

Seeing expenses on paper helps a person understand the difference between "wants" and "needs," McNary said. "If you can use public transportation, for example, a car is a 'want.' You don't have to spend money on a car and car insurance," she said.

Parents, instead of a frivolous birthday gift, give your 20-something a session with a "fee only" financial planner, who does not sell products on commission. The planner will help your young adult make a financial road map.

If your employer deducts your retirement contribution from your paycheck, you will not be tempted to spend it, the advisers said. If you are self-employed, arrange for automatic payments from your checking account.

If your employer offers a 401(k) match, consider it icing on the cake. A 50 percent match, for example, elevates your $5,500 contribution to $8,250.

Stay on budget. McNary encourages her young clients, "Make a sport of spending less. You can still have fun with your friends." Brown-bag your lunches. Shop thrift stores. Get a roommate. Trade your sporty car for one that costs less to insure. Live rent-free as a property manager. Decline the invitation to be a bridesmaid at the pricey destination wedding.

"Write down your retirement goal and put it in your wallet," Castanon said. "The next time you go to buy something you don't really need, it will be there."

Monee's trick: "I tell myself I'm splurging when I buy something I need anyway, like some new black shoes for work."

Enjoy the miracle of compounding. The sooner saving for retirement starts, the more time money has to snowball. The money tucked away and the interest it earns both earn interest. Tape a compounding chart, like the one in "Coin," to your wall. It shows that if you put $5,500 a year in an IRA that makes 5 percent, starting at age 22, you have $1,003,325 at age 60. If you wait until 40 to start, you will only have $222,978.

"It's all about forming the savings habit early," McNary said. "Then, when you're in your 30s and want a bigger house, you're not tempted to quit making those retirement payments. By then it's a habit you won't break."

McNary helped accelerate the growth of her kids' retirement funds by matching their contributions by 50 percent until they were on their own. "That helped them see how quickly the money adds up," she said.

She looks forward to the day when "it is cool again to be financially OK," McNary said. "I do have hope."

In the meantime, young adults like Monee surround themselves with others who "get it," Monee said.

"When I date a guy, he has to be financially savvy. If he has to have all the latest clothes and gadgets, he's not for me."