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# 9 MONEY MISTAKES PARENTS MAKE

## Avoid common financial pitfalls and teach your kids smart financial lessons early on.

By: Maryalene LaPonsie - November 9, 2018

Dodge these blunders to help youngsters adopt smart financial habits.

From working overtime to allowing screen time, modern parents can easily feel as though they are failing on many fronts. As if they don't already have enough to feel guilty about, parents may be making some seriousfinancial mistakes, too. There are universal errors that parents with children of all ages make, says Rafael Rubio, partner at financial firm Oray King Wealth Advisors in Troy, Michigan. "The only difference is the older the child gets, the less time you have to correct it." With that in mind, from failing to save for retirement or overspending on holiday presents, here are nine common missteps to avoid.

### Setting a Poor Example

One mistake parents make is not realizing their current actions could dictate their child's future financial success. "Children end up doing exactly what their parents did," says Mark Henry, CEO of financial firm Alloy Wealth Management in Charlotte, North Carolina, and host of "Living Large Radio." Kids who see mom and dad living paycheck to paycheck and buying whatever they want on a credit card may be destined for a lifetime of repeating the same pitfalls. Instead, let youngsters watch you create a budget, save for a purchase and wait to score the best prices.

### Neglecting to Make a Budget

Afinancial planis important for everyone, but parents in particular can benefit from having a written budget. New clothes, gifts for parties and sports equipment can eat a hole in a budget unless parents plan carefully. Dan Routh, certified financial planner with Exencial Wealth Advisors in Oklahoma City, says he often sees parents squander extra income because they don't have that money in abudget."More often than not, we see bonuses going toward gifts and travel," he says, rather than being used for retirement, emergency savings or other more substantial financial goals.

### Failing to Save Strategically

Because money can be tight and children have a seemingly endless supply of wants, parents often put savings on the back burner. However, parents need anemergency fund, precisely because of the unpredictable nature of children and their many needs. "Bad times are going to happen to everyone," Henry says. It's a mistake for parents not to have a supply of cash to pay for unexpected medical bills, a surprise class trip or car repairs for a family vehicle.

### Spoiling Kids

John B. Burke, CEO of advisory firm Burke Financial Strategies in Iselin, New Jersey, is sympathetic to parents wholavish their children with clothes, gadgets and toys. "All of us want our kids to have the best," he says. Burke doesn't see it as a generational failing of current parents either. He says previous generations probably would have spoiled their kids, too, if they had the level of affluence found in many families today. While parents may want to be generous with their kids, it's not smart to grant their every whim. Delayed gratification is animportant lessonfor children to learn if they are to be financially self-sufficient as adults.

### Needing to Keep Up With the Joneses

Parents may feel as though they need to maintain a certain lifestyle so their children don't feel out of place with their peers. "They want to keep the kids happy," Rubio says and so they take luxurious vacations or enroll children in expensive traveling sports teams rather than cheaper community leagues. Creatingspending prioritiesbased on what other parents are doing is bound to backfire. Not only could it result in spending on things a family doesn't value, it could overextend a budget and lead tocredit card debtor even bankruptcy.

### Prioritizing College Over Retirement

Saving for college before setting aside money in retirement accounts is another common money mistake parents make. Parents should be putting money into a401(k)or IRA plan before saving for a child's college fund. While students can use scholarships, loans or a job to pay for college, there will be nothing to fund a parent's retirement if they haven't saved enough themselves.

### Assuming a 529 Plan Is Best

When it comes to college funds, a529 planis often considered the go-to savings vehicle. Money in these plans grows tax-free and can be withdrawn without penalty for qualified education expenses. Many states also give a state income tax deduction for contributions. However, they're not the only college savings option. Burke advises splitting money among accounts. In addition to a 529 plan, it may make sense to put money in a custodial account as allowed under the Uniform Gifts to Minors Act. There may be tax advantages for parents to use these accounts, but there is also a potential drawback. "Once (children) turn the age of majority, they can just take the money and you can't stop them," Burke says. A financial professional can help you determine if a custodial account makes sense for your situation.

### Misunderstanding Future Life Insurance Needs

When it comes tolife insurance, parents may make two different mistakes. The first is underinsuring themselves. Working parents may think the life insurance benefits they receive through their employer are sufficient. However, these may only pay one to three times a person's salary. For many families, a policy with a death benefit equal to 10 times someone's annual income may be needed to replace income,pay off debtand fund a college education for kids. The other mistake parents make is trying to use life insurance for purposes other than insurance. Routh says his firm hears from many parents who buy life insurance for their child believing it would grow in cash value to pay for college. "We have yet to see a case where it has worked," Routh says. "The fees on these permanent insurance policies eat away at the growth."

### Supporting Children Indefinitely

The biggest mistake parents make is not having a plan about when to cut off a child, Burke says. "We see it all the time where the parents are paying for the cell phone bill, the car insurance, the rent," he says. As a result, parents drain their finances and prevent their child from becomingfinanciallyindependent. Burke says there is no right or wrong time to stop supporting an adult child, but it's vital for parents to agree well in advance, preferably before a child reaches adulthood. What's more, parents who are paying for college tuition or living expenses for an adult child shouldn't hesitate to attach strings to their support, such as a minimum GPA or ongoing employment.