Real Life Has No Filter:

Preparing for the Financial Realities of Life

Protective

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Introduction

Amazing vacation photos. Delicious meals. Flawless selfies. When was the last time you logged on to social media and didn't see at least one of these things?

In a world where we see only what others want us to see, it's easy to forget that not everything is as perfect as our social media feeds would suggest.

The truth is, you can't put a filter on everything. This is especially true when it comes to the financial realities of life:

- Paying down debt
- Planning for retirement
- Saving for college
- Taking care of aging parents

These are just a few of the challenges families face today. How do you do it all at the same time? We've created this quick resource with checklists, tips and more information to help you better understand and prepare for these real-life financial hurdles.

Ready to learn more? Let's get started!

When Parents and Kids Depend on You

People are both living longer and waiting longer to have children. As a result, about half of adults in their 40s and 50s are now feeling sandwiched between raising young children or supporting a grown child, while also helping care for aging parents.

According to a Pew report, about one in seven middle-aged adults are experiencing the squeeze financially, providing support for both a child and a parent.

In addition to providing care and financial support to both aging parents and young or grown children, about 38 percent of those also feel the pressures of providing emotional support to both children and parents.

If this describes your situation, you likely feel both financially and emotionally drained at times, even as you feel grateful to be able to help. Here are five ways you can better navigate the financial and emotional challenges of being in the generational sandwich.

1. **Schedule a financial checkup**

   First things first: how are you doing with meeting your current financial obligations?

   According to that same Pew report, about 30 percent of adults who are helping to support both an aging parent and a child say they are just able to meet their basic expenses, with another 11 percent saying they don't have enough to meet even basic expenses. Even for those who are able to meet basic expenses with a little left over (another 30 percent), the financial situation can still feel tenuous.

   Consider conducting a financial checkup, where you assess everything from credit and debt to insurance coverage and retirement savings. It's also a good idea to start an emergency fund if you don't have one already, along with earmarking any savings milestones you're working towards, such as putting a child through college.

2. **Create guiding principles**

   PBS Next Avenue columnist Jeff Brown suggests that adults in this situation create guiding principles for figuring out financial implications. He notes there are several ways to do this, but a great first step is to write down on paper the financial responsibilities and expectations of each generation, tackling questions such as "How much can each generation contribute financially to the others?" and "what non-financial contributions can each generation make?" (such as mowing lawns, providing transportation, babysitting, etc.).

3. **Make saving for retirement a priority**

   It's easy to let your own retirement savings slide when you are focused on others' needs. Many Sandwich Generation adults fail to think about retirement early enough, which makes sense, because you are trying to fund your current life. Imagining the needs of your future life can feel overwhelming. At least make sure you have taken the first step toward retirement planning by establishing how much money you will need to save using a retirement calculator.

4. **Make sure your portfolio reflects your situation**

   A common portfolio allocation strategy is to go heavier on stocks for younger people (because they have time to ride out the risk), heavier on bonds for older people (who are nearing or in retirement and don't want as much risk), and balance the two accordingly for the midlife set. However, those in the financial sandwich are likely dealing with the needs of multiple generations, so talk with a trusted financial advisor about how to adapt your situation.

5. **Focus on self-care**

   Beyond the financial burdens of attending to the needs of multiple generations, there are basic caregiving burdens which shouldn't be overlooked. On average, caregiving still tends to fall more to women than men.

   According to recent research on sandwich generation women, maintaining health and well-being is one of the key ways that women with a range of responsibilities across the generations balance their roles. Some women in the study define health and well-being in different ways, but common themes were getting enough sleep, eating nutritiously and taking time to exercise to benefit both physical and mental health. Some women in the study admitted that it was hard to find time to practice self-care, but setting small daily goals was a good strategy.

   Taking care of yourself may mean you need to ask for help, whether from a financial advisor, a lawyer, or a social worker. Getting the support you need can help alleviate some of the pressures you may feel as you juggle issues ranging from homework to in-home care.

   Lessening the pressure may enable you to better appreciate the fact that you get to share your life with both your children and your parents.

5 Survival Tips for the Sandwich Generation

Members of the Sandwich Generation are responsible for bringing up their own children and for the care of their aging parents. Here are five tips to help these caregivers survive the personal, financial and emotional stress they may experience.

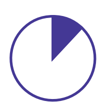
Schedule a financial checkup

- Assess everything from credit and debt to insurance coverage and retirement savings
- Start an emergency fund
- Earmark savings milestones

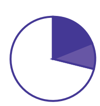
Create guiding principles

- Write down financial responsibilities and expectations of each generation
- Ask "How much can each generation contribute financially?"
- Ask "What non-financial contributions can each generation make?"

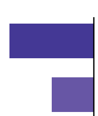
3 in 10 U.S. adults have a child younger than 18 at home.[1]



12% of these parents with children under 18 at home also provide unpaid care for an adult.[1]



Sandwich generation members are mostly between the ages of 40-59.[3]



19% are younger than **40**[3]

10% are 60 or older[3]

3

Make saving for retirement a priority

- Start early
- Calculate how much you may need in retirement

4

Make sure your portfolio reflects your situation

- Schedule an appointment with a financial advisor to discuss how to adapt your portfolio to your situation

5

Focus on self-care

- Get enough sleep
- Set small daily goals for nutrition and exercise
- Don't be afraid to ask for help

47% **47% of people in their 40s-50s** have at least one parent age 65 or older and are raising or at least financially supporting a child over 18.[2]

15% **15% of people in their middle ages** are financially supporting their parents and children.[2]

21% **21% with one parent over 65 or older** have provided financial support to their parent in the past year.[2]

30% **Among all adults with at least one parent age 65 or older**, 30% say their parent or parents need help to handle their affairs or care for themselves.[2]

Sources:

[1]https://www.pewsocialtrends.org/2013/01/30/the-sandwich-generation/

[2]https://www.pewresearch.org/fact-tank/2018/11/29/more-than-one-in-ten-u-s-parents-are-also-caring-for-an-adult/

[3]https://www.aplaceformom.com/blog/10-05-15-what-is-the-sandwich-generation/

Create a Household Budget in 5 Simple Steps

A household budget is a spending plan that helps you determine where your money should go each month. It doesn't have to be complicated, but it is the foundation to other financial goals.

By having a household budget in place, you can easily track your spending, save, and more easily monitor and reach your financial goals. Here are some simple steps to create and maintain a household budget.

1. **Determine Your Income**

   The first step toward planning your budget is to determine exactly how much money you have coming in. It's likely that most of your household income will be coming from the job(s) you and your spouse hold. Take a look at one of your pay stubs and see how much you get each month after taxes and payments for items like healthcare. If you have any other income coming in from other sources, such as investments or a rental property, be sure to include that in your monthly total as well.

2. **Subtract Your Fixed Spending**

   Once you know how much you have coming in each month, you should subtract your necessary fixed expenses from the total. These are expenses you absolutely have to pay each month and can't change for the time being. This includes bills like your mortgage or rent, utilities, car payments and insurance premiums. Remember that even items like groceries, while they need to be factored into your budget, are NOT fixed costs. These are variable items that you can adjust when you need to.

3. **Decide on a Savings Goal**

   After you've subtracted your necessary expenses, you should set a target savings goal out of what's left. This is money you're going to put aside for long-term financial goals like building your emergency fund, saving up for your college expenses, and saving for retirement.

   It's important to put your savings aside as soon as you get each paycheck because otherwise it's very easy to spend everything and not have any money left over. Once you decide on a savings target, you may want to schedule automatic transfers to your investment or savings accounts so you'll be sure to reach your monthly goals.

4. **Manage Debt**

Debt plays a bit of a mixed role in a budget allocation. If your balances require minimum payments, you should consider these as part of your necessary expenses. Missing payments damages your credit score and could lead to expensive penalties so you really need to make these payments on-time. From there, a good strategy is to consider paying down your debt as one of the financial goals to be paid out of your monthly savings.

5. **Track Variable Spending**

The final category in your budget should be variable spending. This is spending you have control over and can adjust if necessary. This includes necessities that you can delay such as buying new clothes or starting home renovations. It also includes entertainment spending such as going out to dinner or taking a vacation. Tracking variable expenses will allow you to see where you're spending the money that is "not spoken for" by fixed expenses, debt payments and savings. Begin by making a list of specific spending categories. For example: Housing, food, auto, entertainment, savings, clothing, medical, etc. It might look something like this:

- Home (mortgage, upkeep, insurance)
- Auto (loan, maintenance, insurance)
- Food (groceries, restaurant purchases)
- Utilities (Gas, electric, water)
- Health and fitness (medical, gym membership, grooming)
- Travel and vacation
- Personal (entertainment, shopping, clothes)
- Savings

Keep a journal, spreadsheet, software or online tool to track how much you spend in each of those categories. By breaking down your spending into categories, you'll know where your money goes each month and can likely find ways to trim the budget when necessary.

Creating and maintaining a household budget may take a little time and effort, but knowing where your money is going may help you make better long-term and short-term financial choices, and provide you with peace of mind.

13 Ways to Manage Money and Save in the Sandwich Generation

Once you hit middle age, you will probably face some major financial decisions, like how to save for retirement and fund college tuition. Below are some financial tips and ideas to help you make the most of this time in your life.

1. **Update your budget.**

   Take a new look at your monthly budget. Identify any frivolous or non-essential expenses. Does it make sense to redirect the money spent on those items toward your savings goals?

2. **Bolster your credit score.**

   Did you know that not using an open credit card can lower your credit score? Use credit cards strategically, striving to pay off the balances each month. If your debt to income ratio is high, work to reduce it. You are entitled to a free credit report each year from each of the three reporting agencies. Go to AnnualCreditReport.com to request your reports.

3. **Build a relationship with a financial professional.**

   If you don't have an established relationship with a financial professional, now is the time to make it a priority. You have many decisions to make in the next few years, and most of them have long-term implications. Find a financial professional who can guide and advise you.

4. **Get your paperwork in order.**

   If you haven't already done so, get your estate planning paperwork in order, by establishing a power of attorney, a will and health directives. This is particularly important if you have children.

5. **Maximize your retirement savings.**

   Retirement may only be 20 to 25 years away. Try to contribute the maximum amount allowable to your retirement plans. Also, consider establishing an IRA if you are eligible.

6. **Pay off big debts.**

   If you have financed vehicles or recreational equipment, try to pay these loans off so you have more to invest in your long-term financial goals.

7. **Maintain a stable emergency fund.**

   As your income and expenses increase, so should your emergency fund. Strive to maintain an emergency account with three to six times your monthly income. Don't have an emergency fund? Now's the time to start one.

8. **Implement a financial strategy that supports your big picture.**

   Understanding your big picture goals, and knowing how every financial choice supports those goals, is imperative at this life stage. For example, if you're trying to decide between saving for college or retirement, talk to a financial professional. While every situation is different, many financial experts advise that retirement savings should be the top priority because you can't get financial aid for retirement. By working with a financial professional, you can deploy a financial strategy that supports your long-term plan.

9. **Teach your children.**

   Preparing your children for adulthood includes teaching them the value of financial responsibility. Share the financial lessons you have learned and take every opportunity to teach them about smart money management.

10. **Help your parents plan ahead.**

    Talk to your parents about their preparations and estate planning. Have they planned for long-term care expenses? Do they have a power of attorney, wills and health directives? Have they thought about their final arrangements? A good way to start the conversation is by sharing the steps you're taking to prepare for your future.

11. **Strive to save 30% or more of your income.**

    Pay yourself first. Save 10% for retirement, 10% for your emergency fund, and 10% for large purchases or vacations.

12. **Be mindful of your housing to income ratio.**

    A common rule of thumb is to limit your housing expense to no more than 28% of your gross household income.

13. **Watch your debt to income ratio.**

    Try to limit your total debt (mortgage, car loan, credit cards, student loans) to 36% of your gross household income.

Quiz: Are You Financially Prepared to Send Your Child to College?

Whether you have small children still learning their ABCs or teenagers nearly ready to leave the nest, there's probably one question that weighs heavy on your mind: How much do we need to save for college?

The simple answer is as much as you can afford. But remember there are lots of options to help. Not sure if you're ready or don't know where to start? Answer the questions below to test your knowledge of tuition costs and options for how to pay for college.

1. **How much was the average tuition at a four-year in-state public college for the 2018-2019 academic year?**

   A. $25,890
   B. $17,000
   C. $11,140
   D. $39,890

2. **Which of the following is a type of college savings plan?**

   A. IRA
   B. The Education Forever Plan
   C. 401(k) plan
   D. 529 plan

3. **True or false? If your child is already a teenager, it's probably too late to start saving for college.**

   A. True
   B. False

4. **Family income and savings account for what percentage of the sources used to pay for college?**

   A. 13%
   B. 50%
   C. 43%
   D. 60%

5. **What was the average combined budget for full-time undergraduate on-campus room and board, books and supplies for the 2018-2019 academic year?**

   A. $21,080
   B. $12,380
   C. $5,000
   D. $7,300

6. **Yes or no? Parents should use money from a 401(k) or individual retirement account to help pay for their child's college.**

   A. Yes
   B. No

That's it! Check your answers on the next page to learn more about saving for college. Remember that the important thing is to start now by building a plan and doing what you can.

Answer Key:

1. **A.** The College Board reports that a college budget for a four-year in-state public college for the 2018-2019 academic year averaged $25,890, while a budget at a private nonprofit four-year college averaged $52,500.

2. **D.** The 529 plan, or qualified tuition plan, is a program specifically designed to help families set money aside for education expenses. Parents like the 529 because it comes with tax breaks and other benefits. You can read more about those on IRS.gov. There are two types of 529 plans – savings plans and prepaid tuition plans.

   The first type of 529 is an investment account. You add money to your account and invest it in a variety of different mutual funds. All 50 states offer these 529 plans, and they are often more flexible because you can use the money for most qualified college expenses including tuition, room and board and textbooks.

   The second option is a prepaid tuition 529 plan. With these plans, you prepay for semesters of college tuition at today's rates. This locks in the price so you don't have to worry about tuition going up in the future. These plans are more restrictive in where and how you can use the funds, and not all states offer them.

   Read more about 529 plans.

3. **B.** But keep in mind that the sooner you can contribute to your child's college savings, the longer you'll allow any returns to accrue and the more money you could have to contribute to your child's academic career. Even if you only make small contributions, it's a good idea to begin saving as much as you can.

   If you aim to cover as much of your child's college expenses with your college saving plan as you possibly can, it's important to start now. If you can't afford to set anything aside at the moment, be aware that the longer you wait to start saving, the more you'll have to save per month in the future.

4. **C.** According to the 2019 edition of Sallie Mae's annual study "How America Pays for College", family savings and income only accounted for 43 percent of the sources used to pay for college. If you are unable to help finance your child's full education in your college savings plan, it's important to be open with them about financial aid options.

5. **B.** According to the College Board, the average budget for a full-time undergraduate on-campus for room and board at a four-year in-state campus was $11,140. The average amount spent on books and other supplies was $1,240.

6. **B.** Don't sacrifice retirement for college tuition. Remember, there are no student loans or scholarships for retirement. That means sacrificing your own future security to pay for your child's college dreams may not really benefit your child, as he or she may need to support you down the road. Consider the importance of your retirement goals – ensuring that you will be able to take care of yourself as you age.

Planning for Retirement and Your Child's College Education

More than 70 percent of parents worry about paying for their children's college education, according to Gallup research. But almost as many (69 percent) 30- to 49-year-olds worry about having enough money for retirement. For many parents, both of these concerns are enough to keep them up at night.

But with careful planning, it can be possible for many families to help their children pay for college and still retire comfortably. Here are six ways to help you prepare for both of these goals.

1. **Start early.**

   If you start saving for your child's college education when he or she is very young, your savings will have more time to compound. Growth of your investment can be aided by dividend reinvestment and/or compound interest. These payments along with consistent contributions can create opportunities for significant growth.

2. **Take advantage of free and tax-advantaged savings.**

   If your employer offers a 401k matching contribution, consider contributing enough to trigger the match. In addition, consider tax-advantaged college savings accounts such as 529 savings plans, which allow you to contribute and pay no taxes on the growth of your investments upon qualified withdrawal.

3. **Set goals.**

   It's difficult to reach your goals if you never take time to establish what they are. Take time to decide when you want to retire and how much you want to save for your children's college education. Once you've established expectations, you know what you're aiming for. Then you just need to develop a plan to get there, determining how much you need to put away each month to reach your goals.

4. **Set a limit.**

   Many parents want to help their children with college tuition, but most aren't able to give them a blank check. Think about setting a limit to the amount you're willing or able to contribute to their education and allow them to choose a college within that price range or opt for student loans to cover the difference. If your student will be applying for financial aid, keep in mind that their eligibility for that aid can be affected by your Expected Family Contribution, or the amount that a college or university determines your family can afford to pay.

   By setting a limit to the amount you're willing to pay toward college tuition, you can set the stage for some important discussions with your child about the value of his or her college education. For instance, if he or she plans to major in a field that usually nets an annual salary of $50,000, it may not be worth going into debt for an out-of-state dream school if a local university offers the same degree for a price within your budget.

5. **Seek scholarships.**

   If your child is especially talented in academics, athletics, leadership or a number of other areas, he or she may be able to earn scholarships that could help pay for college. Your child's high school guidance counselor and online scholarship search services can help you locate offers that may be a good match.

6. **Don't sacrifice retirement for college tuition.**

   Remember, there are no student loans or scholarships for retirement. That means sacrificing your own future security to pay for your child's college dreams may not really benefit your child, as he or she may need to support you down the road. Consider the importance of your retirement goals – ensuring that you will be able to take care of yourself as you age.

Financial Checklist for Aging Parents

Are you one of the one in seven adults in the U.S. helping take care of an aging parent? If so, in addition to emotional and physical support, you may be responsible for helping your parents with their finances as they get older.

Even if your parents are retired and not as active as they once were, there are still plenty of reasons to keep a close eye on their financial well-being, from monitoring credit to managing retirement account distributions.

Don't know where to begin? We've put together a checklist to help you better understand how you can help your parents with their finances as they age.

- ✓ **Keep an eye on their retirement savings.**

  After retirement, your parents will be responsible for managing their retirement savings. Make sure they are keeping expenses in line with their plan so they can afford to do the things they are passionate about.

- ✓ **Monitor credit reports and beware of identity theft and fraud.**

  Everyone is entitled to a free credit report each year from each of the three reporting agencies. Go to AnnualCreditReport.com to request reports. Make sure each agency has accurate information; there may be differences from one agency to another.

- ✓ **Be prepared for required minimum distributions (RMD) at 70 1/2.**

  The IRS requires a minimum distribution from employer-sponsored retirement plans such as 401(k), 403(b), 457(b), and IRAs. Mandatory distribution involves tax implications and decisions regarding which assets to designate. Work with an accountant and financial advisor to learn the rules that apply to your parent's specific situation

- ✓ **Consider delaying Social Security distributions for as long as possible.**

  When should your parents apply for Social Security? Taking early withdrawals at age 62 could decrease the benefit amount by as much as 25 percent. For this reason, financial experts often recommend postponing benefits if at all possible. That said, each situation is different and deserves careful evaluation. Don't expect the Social Security Administration to be an advocate for your parents. Seek the counsel of a knowledgeable advisor.

- ✓ **Keep an emergency fund current.**

  Your parents should continue to maintain a healthy balance in a savings account emergency fund to offset unexpected expenses. This may allow them to avoid tapping into the less liquid investments held in retirement accounts.

- ✓ **Stay in close contact with a financial advisor and accountant.**

  Work closely with a financial professional to maintain a comfortable balance of investment risk. Now's the time to get savvy about the rules and tax implications associated with withdrawals in retirement. Before your parents consider taking retirement fund distributions, they should consult with an accountant or financial advisor.

- ✓ **Discuss their living situation.**
  Do your parents own a home that they plan to stay in for the long term? If so, make sure they consider any remaining mortgage payments as well as the costs that come with maintaining a home. They may want to consider other options, such as moving to a less expensive area or downsizing to a smaller home or senior living community. Also keep in mind that even if your parents are active and healthy now, they may need a home that can accommodate changing physical needs as they get older. Now's the time to start thinking about other options such as assisted living or long-term care facilities.

- ✓ **Assess the most advantageous tax deduction strategy.**

  When your parents pay off their mortgage, they may significantly reduce their itemized expenses. Taxpayers 65 and older have a higher standard deduction. Using the standard deduction may be more beneficial than itemizing deductions. An accountant will know the rules about what deductions apply.

- ✓ **Consult with an estate planner and/or eldercare attorney.**

  Many financial professionals specialize in estate planning and ways to protect the value of your parents' estate and minimize the tax burden of those who may inherit from the estate. If your parents haven't already planned for the distribution of their assets, this may be a good time to do so. An attorney can help them protect the rights of a surviving spouse; deal with Medicare issues; draft trusts and wills; and prepare other needed legal documents.

- ✓ **Create a master information document.**

  Although it has no legal effect, a master document can be an important tool for the person responsible for cleaning up an estate after someone passes away. It's basically a document that explains what and where all the assets and debts are and how to handle accounts, including information on what needs to be done to close them out and get the assets to the people who should have them.

Helping Your Parents Through All Three Phases of Retirement

Forty years ago, retirement was expected to be short. Today, it's not uncommon for people to spend 20 years or more in retirement.

Attitudes about retirement planning haven't caught up to this new reality, and this has the potential to create challenges for adult children helping their aging parents. It's important for your parents to realize that planning doesn't stop once they retire – retirement savings and budget needs will continue to change as they age and move from one phase of retirement to another.

1. **The honeymoon phase**

   After years of working hard and diligently adding to retirement savings, this is the time for your parents to start enjoying everything they've been putting off for decades. This is the part of retirement where they may still be feeling spry, and the idea of a Caribbean cruise or a European vacation sounds perfect. While it's a great time to embrace the freedom they have to travel more or take up new hobbies, they need to keep an eye on spending.

   Remind them that they've got years ahead of them. It's critical to create a retirement budget so they're not spending a disproportionate amount of savings too soon. The key here is working their budget in a way that is going to account for a higher cost of living in those first few years, but still maximize retirement savings over the long run.

   And while they may be feeling pretty carefree during this time, they also have to be financially prepared for the unexpected.

2. **The comfort phase**

   For many, this phase marks the second decade of retirement. At this stage, your parents may have a pretty good handle on retired life. They might have slowed down a bit and don't need to travel as much.

   It's also common for some health issues to arise at this phase. During retirement planning, they'll need to account for increased costs and doctor visits in this part of retirement. They might need to revisit their Medicare plan and consider supplemental health insurance to help defray a potential increase in medical and care costs.

   This is also the time to think about your parents' living situation. Downsizing or moving into a senior living community are common options. At this stage, it's also a good idea to start thinking about assisted living or long-term care facilities so you can explore the best options before your parents need them.

3. **The wind-down phase**

The final stage of retirement is often the most predictable. In most cases, after 20 years in retirement, people are into their late 80s or even 90s. That usually involves less mobility and potentially another change in living situation: at this stage, many retirees are in assisted living or long-term care facilities.

Estate planning is something that you and your parents can start long before retirement by making sure they have a will. As they enter retirement, they should think about naming a power of attorney and updating any advance directives in the event that they are unable to make medical decisions themselves.

Much of the retirement savings they have set aside at this point will typically go toward healthcare and living costs. Whatever they want to preserve for the future, can be designated in a will for heirs to enjoy.

As you become more involved in helping your parents with their finances, consider planning for these three phases of retirement. Learning how to plan for each retirement phase now may make it easier for you and your parents to be more prepared for the future.

5 Personal Finance Tips Everyone Should Know

We hope you've enjoyed this resource and will use the checklists, tips and other information to manage the present and plan for what's to come.

As you work toward your financial goals, consider these five personal finance tips everyone should know:

1. The earlier you start saving for retirement, the better off you are.
2. Plan for some form of long-term care as you get older.
3. It's generally cheaper to buy life insurance when you're young.
4. Create a budget and stick to it.
5. Keep your debt under control.

Keep these tips in mind and you could be better prepared for the financial challenges real life throws your way. Remember, you've got this!

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