

>Plan

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For Mike and Kerri Miller, the list of kid-related expenses never seems to end.



REAL LIFE

Help! Our Kids Are Driving Us Broke

How to master the fine art of saying no to your little darlings BY KATE ASHFORD

PHOTOGRAPHS BY ERIC KIEL

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KERRI AND MIKE MILLER HAVE A spending problem. Three of them, in fact. There's 12-year-old Kate, a seventh-grader who covets a pair of \$160 boots, prefers clothes from American Eagle rather than Target and recently got a \$300 cell phone. There's nine-year-old Landon, who has a voracious appetite for video games. And their youngest, four-year-old Claire, will soon start taking ski lessons (cost: \$224, not including equipment). All three kids attend summer camps that run about \$60 a day for each child. And then there's the cost of babysitting (\$200 a month), preschool (\$4,000 a year) and braces (\$3,000). Even with Mike's six-figure salary in commercial finance, the Park City, Utah couple's ends are nowhere close to meeting. "I look at how much money we spend and I think, 'Where is it going?'" says Kerri, 44, who is a stay-at-home mom.

It's not all going to the kids, of course: Mike and Kerri have their own indulgences, like the hot tub they put in last year. The home-equity line of credit they opened two years ago to pay for home improvements now often serves as a safety net when they come up short at the

end of the month. The balance is almost \$50,000. "We've seen that go up and up and up," admits Mike, 48. Meanwhile, aside from the \$300,000 in Mike's 401(k), the couple have almost no savings. And that means no emergency fund and not a dime set aside for the children's college.

Learning to say no to the kids won't solve the Millers' financial issues, but it is a good place to start. Certainly they are by no means alone when it comes to facing big bills for their offspring or overwhelming pressure to say yes to every request. A study by Robert Manning, a professor of consumer finance at the Rochester Institute of Technology, found that parents are more willing to whip out the plastic to pay for kids' purchases than for their own, even when they're on a tight budget. Study participants said that a desire to keep up with the Joneses led them to splurge on their children. No wonder the average upper-income family will spend \$182,000 on each child by the time he or she turns 17, according to a survey by the U.S. Department of Agriculture.

Of course, all kids need stuff, and there's no reason to completely deprive them of things that they'll enjoy and even show off

to their peers. But if other financial goals, like retirement or college savings, are getting short shrift—or if you're feeling weary of the never-ending stream of "I wants"—it's time to get your spending under control. Here's how.

EXAMINE YOUR MOTIVES

To hear your kids talk, everyone has an iPhone and a new car except them. But perhaps you too believe you'd be depriving them by refusing. When it comes to expensive activities like skiing or an over-the-top Sweet 16, consider: Are you paying for this because your kids will really enjoy it or because the neighbors do? "There's nothing that says you have to have a party as big as everyone else's," says Plantation, Fla. financial planner Ben Tobias. Or maybe you buy because you feel bad that you didn't make it to the school play or that you worked the past two weekends. "I call that guilty giving, and it's a recipe for financial disaster," says psychotherapist Denise Cuthbertson.

While you're at it, take a look at your own purchasing habits. If you're buying a new SUV just because your best friend bought one, you're sending a message

3 fast fixes > A BETTER SPENDING PLAN

Kerri and Mike Miller are in a downward spending spiral, says Manhattan Beach, Calif. planner Eileen Freiburger, who has this advice for getting the couple back on track.

1 Refi the HELOC. The Millers' home-equity line currently has a 7.5% interest rate. If they shop around, they should be able to knock down that rate by a half to three-quarters of a percentage point. And they should get a HELOC without a credit card, which makes it all too easy for them to tap it for nonessential purchases.

2 Let Kate choose her splurges. If Kerri and Mike want to teach their 12-year-old daughter about the value of money, they should give her more responsibility over purchases. They might consider putting her in charge of her entire clothing budget, in which case she'll have to make the name-brand buying decisions herself.

3 Set saving priorities. The Millers must cut back spending and put several hundred dollars a month toward an emergency fund. Once they've got three to six months of living expenses saved, they should direct that money first toward Roth IRAs, then college savings. For extra money, Kerri should consider going back to work part time.



Twelve-year-old Kate wanted a \$300 cell phone.

that you'll hear reflected in your children's demands.

STOP THE WHINING

Say no to a kid? Easier said than done. But they might grasp the limitations of your budget if they see where your money really goes. "All kids ever see you do with money is spend it," says Neale S.

Godfrey, author of *Money Doesn't Grow on Trees*.

"They don't see you save, and they don't see you pay the bills." At the end of the month, have your children watch you write the checks for the mortgage, electricity and car insurance, and even the credit card, so they see that plastic isn't free money.

If your teen is desperate for a pricey item, strike a bargain. You might offer to match her savings dollar for dollar or pay for a portion of the purchase. If she's jockeying for an iPod, you could buy the gadget but have her pay for the music downloads. In some cases, by the time they save up the money, they may not want the item anymore—a great lesson in impulse shopping. "Sometimes delayed gratification will help them realize it's not as cool as they thought it was," says Charlotte, N.C. financial planner Cheryl Sherrard.

TEACH MONEY MANAGEMENT

Teens and 'tweens with a clothing budget quickly learn that it's easy to blow \$80 on a designer item, but they'll have a lot less left over for other things. Tell your kids you'll pay for the basics and give them an allowance they can use for everything else. That's what Robin and Chris Korines of Nanuet, N.Y. do for their 12-year-old daughter Brittany. Robin buys \$25 jeans for her younger children from Old Navy, but Brittany wants jeans that cost twice as much. "I put in the normal amount I pay for the other kids, and she pays the difference," says Robin.

When it comes to holidays and birthdays, set a wish-list budget, says Godfrey. That way, if they want a really big-ticket item, they realize that they'll get fewer additional presents—and that's their call.

SAVE ON THE MUST-HAVES

There are expenses you can't avoid, but you don't have to pay full price. "Everything's negotiable," says Mary Hunt, author of *Debt-Proof Your Kids*. You can often get a better deal if you pay all at once or entirely in cash. Your son needs braces? Ask the orthodontist

if he'll knock 10% off his price if you pay in cash or if he'd be willing to offer you an interest-free payment plan. Your daughter wants to go to summer camp? Ask if there's a counselor-in-training program she can join that will lower her fees. And don't forget that you can use your flexible spending account from work to pay for orthodontics, optometry bills or

child care with pretax funds.

You don't want to discourage your kids from pursuing hobbies, of course, but that doesn't mean you have to pony up for an \$800 violin or a \$1,000 camera right away. Rent musical instruments, and buy a cheap digital camera until your kid shows real interest and dedication.

NIP SURPRISES IN THE BUD

The Millers recently opened their cell-phone bill to find that Kate had racked up \$150 in text-messaging charges. Sound familiar? Teenagers can find endless creative ways to spend money, so take advantage of products that can help rein them in. Call your cable service and request a block on videos on demand, for example, or give Junior a gift card instead of a credit card to take to the mall. But be realistic; no kid is going to give up text messaging altogether, so you're better off going with a cell-phone plan that lets him do it free of charge.

The Millers, for their part, have started to cut back, asking the kids to pay for half of items like video games, and refusing their request for computers in their rooms. "One day I hope Mike will do his *Quicken* work and say, 'Oh my God, we didn't go over this month,'" says Kerri. "When that happens, he'll be doing backflips." \$

\$182,000

The amount that the average upper-middle-class family spends on each child by age 17

SOURCE: U.S. Department of Agriculture, Expenditures on Children by Families survey, 2006.



Question of the Month

Can I Unroll My Rollover IRA?

Q. I rolled my 401(k) into an IRA when I left my job. Now I have a new job. Can I transfer the IRA funds back into a new 401(k)?

A. Not always. If you rolled your original 401(k) into an existing IRA or if you made contributions to the IRA after the rollover, you're stuck. IRS rules prohibit you from moving an IRA with commingled funds back into a 401(k). Moreover, the IRS doesn't require 401(k)s to accept rollovers even if you didn't commingle it (though just over half of employers will oblige, according to Hewitt Associates), so your new employer may not take your money. But what's so bad about an IRA? You can keep it with any fund company, brokerage or bank, so you can have access to, say, a favorite stock fund that your 401(k) doesn't offer. "Getting your money into an IRA is a major accomplishment," says Ed Slott, author of *Your Complete Retirement Planning Road Map*. The only major disadvantage: You can't borrow against an IRA, as you can with most 401(k)s. So as long as you don't need a loan anytime soon, stay put.

—ASA FITCH