

LIFE STAGE SERIES:

PARENTING

# The Financial Journey of Modern Parenting: Joy, Complexity and Sacrifice

 **Merrill Lynch**  
Bank of America Corporation



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## Background

### **ABOUT MERRILL LYNCH**

Merrill Lynch Wealth Management is a leading provider of comprehensive wealth management and investment services for individuals and businesses globally. With 14,820 financial advisors and \$2.3 trillion in client balances as of June 30, 2018, it is among the largest businesses of its kind in the world.

Merrill Lynch Wealth Management specializes in goals-based wealth management, including planning for retirement, education, legacy and other life goals through investment, cash and credit management.

Within Merrill Lynch Wealth Management, the Private Banking and Investment Group focuses on the unique and personalized needs of wealthy individuals, their families and their businesses. These clients are served by approximately 200 highly specialized private wealth advisor teams, along with experts in areas such as investment management, concentrated stock management and intergenerational wealth transfer strategies. Merrill Lynch Wealth Management is part of Bank of America Corporation.

### **ABOUT AGE WAVE**

Age Wave is the nation's foremost thought leader on population aging and its profound business, social, financial, healthcare, workforce and cultural implications. Under the leadership of Dr. Ken Dychtwald, Age Wave has developed a unique understanding of new generations of maturing consumers and workers and their expectations, attitudes, hopes and fears regarding their longer lives.

Since its inception in 1986, the firm has provided breakthrough research, compelling presentations, award-winning communications, education and training systems, and results-driven marketing and consulting initiatives to more than half the Fortune 500.

Age Wave is not affiliated with Bank of America Corporation.



## METHODOLOGY

This research is based on a survey fielded in June 2018, conducted by Merrill Lynch in partnership with Age Wave and executed by Kantar TNS utilizing the Kantar Lightspeed Panel, along with selected panel participants. The survey includes more than 2,500 respondents in the U.S. who are over age 18 and who are parents—biological, adopted or step—to children of any age, including those under and over 18. An additional survey of 500+ teenagers was fielded by ORC International in June 2018 for comparison data.

Some findings are drawn from a similarly structured survey fielded in December 2016 by Kantar TNS via an online data collection methodology. Additionally, two focus groups of parents were conducted in June 2016, where qualitative information was gathered about parents' emotions, preferences, experiences and needs as they navigate this complex life stage.



## Introduction

**Parenting is among the most profoundly fulfilling and constantly challenging human experiences. For most parents, it is a life-changing, identity-shifting, unpredictable and expensive journey.**

One-hundred-seventy-three million Americans are parents, 76 million with children under 18.<sup>1</sup> Their circumstances and experiences vary widely, in large part because there are many different parenting dynamics: single-parenting, dual-parenting, stepparenting, parents with adopted children, intergenerational households with grandparents or other relatives sharing the parenting responsibilities, LGBTQ parents, and parents caring for children with special needs. As 89% of parents agree, “There’s no normal when it comes to parenting.”

Along with the many challenges of parenting come enormous rewards—personal, emotional and practical. The overwhelming majority of parents (93%) describe it as the most rewarding aspect of their lives, and 92% say that their best memories are with their children. What do children provide in return? Love and affection, entertainment, cheer and, later in life, potentially mutual support.

The financial journey of parenting can be complex and challenging. Nearly two-thirds of parents (63%) report encountering financial difficulties associated with parenting, and a majority (58%) experience stress about their

finances. New parents are surprised by how much more they spend—paying for childcare and other new expenses or saving for children’s education while also trying to build retirement savings. And the spending doesn’t end when children leave the nest.

Parents continue to serve as the “family bank,” with 79% providing financial support to their adult children. This support ranges from big-ticket items, such as higher education and weddings, to everyday expenses, such as groceries and cell phone service. How much do parents of adult children contribute? A total of \$500 billion annually, or twice what they put into their own retirement accounts (Fig. 1).

<sup>1</sup> Census Bureau, 2017; Age Wave estimate, 2017

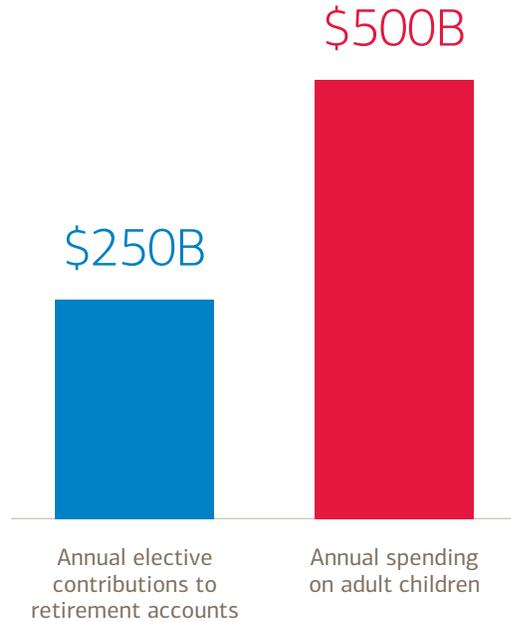


Fig. 1: PARENT SPENDING ON ADULT CHILDREN (18-34)

Each year,

2x

as much is spent on adult children by parents than they elect to contribute to their retirement accounts.



Source:  
Age Wave calculation (See endnote on page 25)

While parenting is expensive, 94% say it's worth every penny. But are they correct? Seventy-two percent say they have put their children's interests ahead of their own need to save for retirement, and 63% report having sacrificed their financial security for the sake of their children. When emotions and money become intertwined, parents risk making financial decisions that can compromise their financial futures.

**72%**  
of parents say they have put their children's interests ahead of their own need to save for retirement.

**63%**  
of parents report having sacrificed their financial security for the sake of their children.



Overview of the  
Parenting Journey



## The Parenting Journey

Parenting journeys are shaped by a variety of factors including household composition, financial situation and prior experience. No two are the same. However, there are common patterns as the journey and the parent-child relationship unfold.

### PURPOSE

Parents of young children are focused on fostering their children's happiness. As children move toward adulthood, parents' primary purpose gradually shifts to cultivating their children's independence and ability to take care of themselves.

### ROLES

With infants and toddlers, parents say they are primarily teachers and nurturers. During school-age years, parents play a variety of roles, including cheerleader, enforcer and "ATM." As children become adults, parents' role as teacher steadily declines, while their roles as advisor and friend grow.

### REWARDS

Half of experienced parents, those who have raised children to age 35 or beyond, look back on the newborn and toddler years as the most rewarding (Fig. 2). Children in those years are constantly evolving, mostly in ways that entertain and delight their parents. As they age, children give back in other ways. Elementary to high school children start handling chores and responsibilities around the house, and adult children often give as well as receive support from their parents. Across all ages, however, parents find the greatest reward is the love and affection they receive from their children.



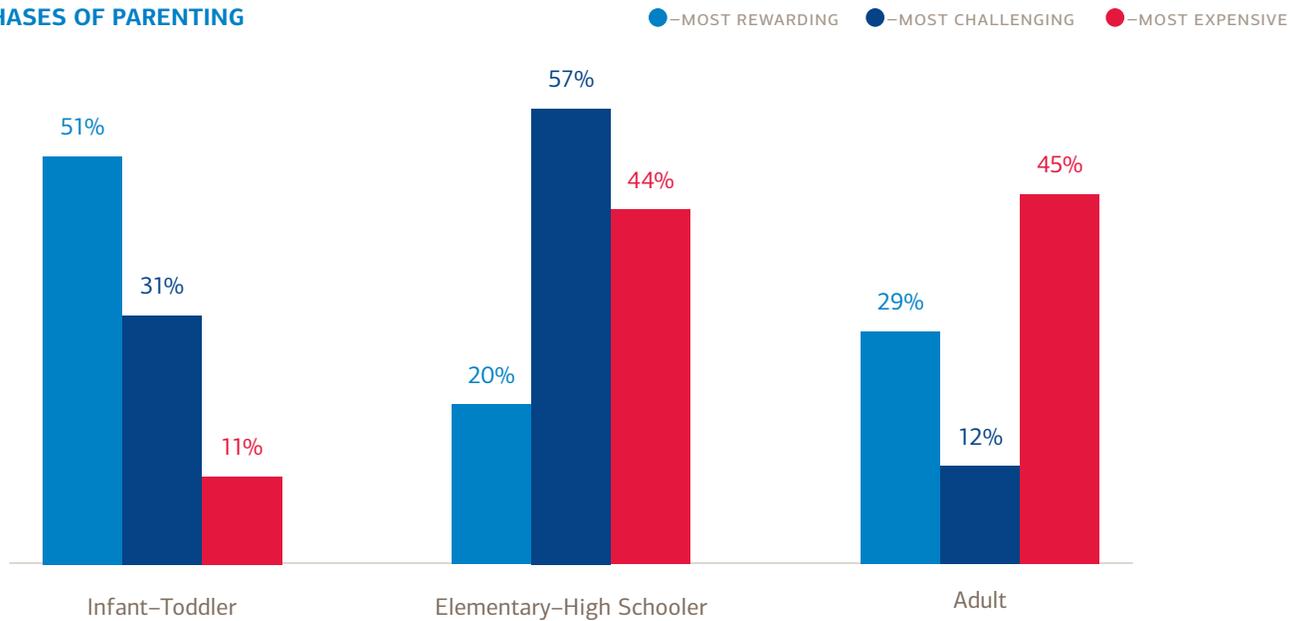
**OVER HALF OF AMERICAN FAMILIES ARE** remarried or recoupled, and 1,300 new stepfamilies are forming every day.<sup>2</sup> Thirty-one percent of American households with children under 18 are headed by a single parent, more than 80% of them women.<sup>3</sup> There are approximately 900,000 American same-sex-couple households, more than half of them married, and 16.5% have children.<sup>4</sup>

<sup>2</sup> U.S. Census Bureau, reported by The Stepfamily Foundation, "Stepfamily Statistics"

<sup>3</sup> U.S. Census Bureau, 2016, Current Population Survey

<sup>4</sup> U.S. Census Bureau, 2016, Characteristics of Same-Sex Couple Households

Fig. 2: THE PHASES OF PARENTING



Base: Parents with oldest child 35+ excluding those who responded "they are all equal"

### CHALLENGES

With young children, the biggest practical challenge can be balancing work and childcare responsibilities. More than half (58%) of experienced parents call the elementary to high school years the most challenging. As children grow and begin to assert their independence, maintaining close relationships becomes a challenge, often compounded by outside pressures from the children's peers as well as social media. With adult children, parents need to adjust to the emptynest, perhaps readjust if a child returns home, and establish new adult-to-adult relationships.

### FINANCES

Parenting can begin with the financial shocks of additional expenses and lower income if a parent curtails or leaves work to raise the child. Nine in 10 new parents are surprised by how much more they spend. However, experienced parents find the later stages of parenting even more expensive, especially if they contribute to the child's college education. The average cost of raising a child today to age 18 is estimated to be over \$230,000.<sup>5</sup> For college-bound children, it's wise to plan five years of college, which currently could amount to \$127,000 for in-state public school or \$255,000 for a private school for parents planning to pay in full for tuition and living expenses.<sup>6</sup>

**9/10**  
new parents  
are surprised  
by how  
much more  
they spend.

<sup>5</sup> U.S. Department of Agriculture, Expenditures on Children by Families, 2017

<sup>6</sup> College Board, estimate includes tuition, fees, housing, meals, supplies, transportation and personal expenses, 2017



Parents of Young Children:  
Infant and toddler years

**AGES 0-6**



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“With the birth of my kids, it wasn’t about just me anymore. It was about them—caring, nurturing, teaching and loving.”

—Focus group participant

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## IDENTITY TRANSFORMATION

Each year, about 1.5 million women in America give birth as first-time mothers,<sup>7</sup> with roughly the same number of men becoming first-time fathers. Many others become parents through adoption or marriage to a partner with children. The lifestyle changes that first-time parents face can be dramatic. About one-third of new parents say they changed employment or moved to a new home. Similar numbers say they let go of certain people in their lives but made new friends through their children.

However, the most fundamental change is to the parent’s *identity* (Fig. 3). More people say they are transformed by the role and responsibilities of parenting than by marriage, divorce, retirement or becoming a grandparent. And the shift is permanent. Four in five parents say their children are a *major* part of their identity.

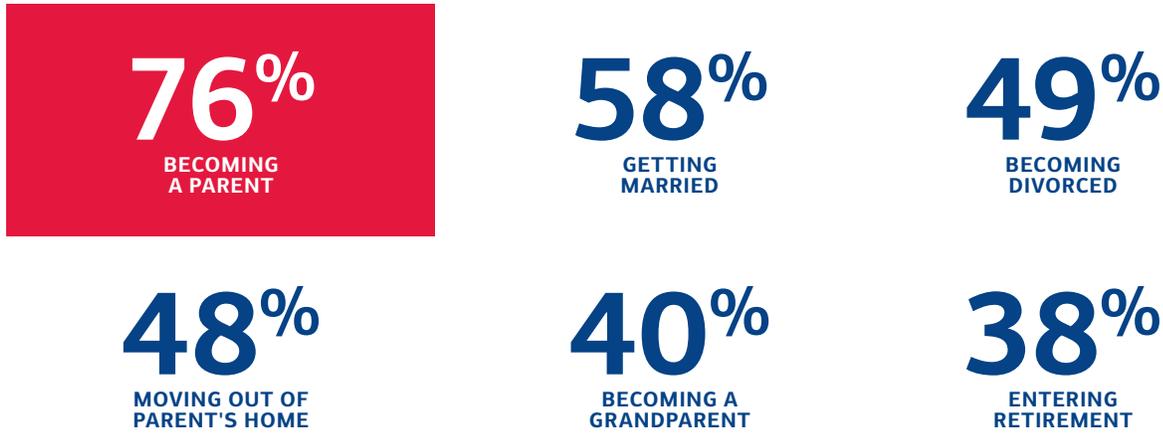
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<sup>7</sup> National Center for Health Statistics, 2016



## Parents of Young Children

Fig. 3: LIFE'S BIGGEST IDENTITY SHIFT



Base:  
Varies—Respondents who have experienced each event

### MANAGING IT ALL

Parenting also brings new challenges. Beyond the basic responsibility of nurturing and safeguarding the child, the top challenges cited by new parents include balancing childcare and work, paying for the child's expenses and having insufficient time for themselves. Childcare can be especially complicated for working single parents, who naturally rely more on both paid and unpaid childcare.

An immediate issue, especially in two-parent households where both are employed, is establishing a new distribution of labor. Seventy-one percent of Americans now say it's equally important for babies to bond with mother and father, and the Pew Research Center finds that the majority of today's parents split responsibilities for household chores and childcare. However, if one parent bears more of the load, especially in managing children's schedules or caring for them when they are sick, it's eight times more likely to be the mother.<sup>8</sup>

While both mothers and fathers are likely to make shifts in their work life, new parents' employment changes vary significantly by gender. Mothers are more likely to take a leave from work, switch to a job with more flexible hours or start working from home. Fathers are more likely to change jobs for better pay or benefits or to spend more time working, including taking a second job (Fig. 4). When parents take temporary leave, women take 10 times as much time away from work as men do.<sup>9</sup> Many fathers, however, wish they had done things differently; two-thirds of male respondents wish they had taken more time off upon the arrival of their children.

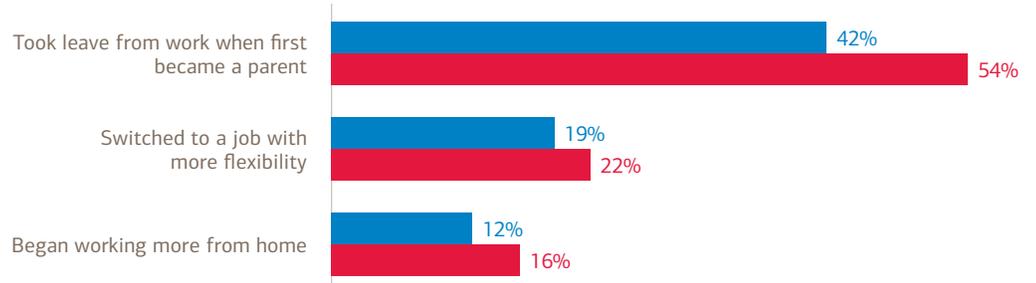
<sup>8</sup> Pew Research Center, 2015

<sup>9</sup> Pew Research Center, 2018

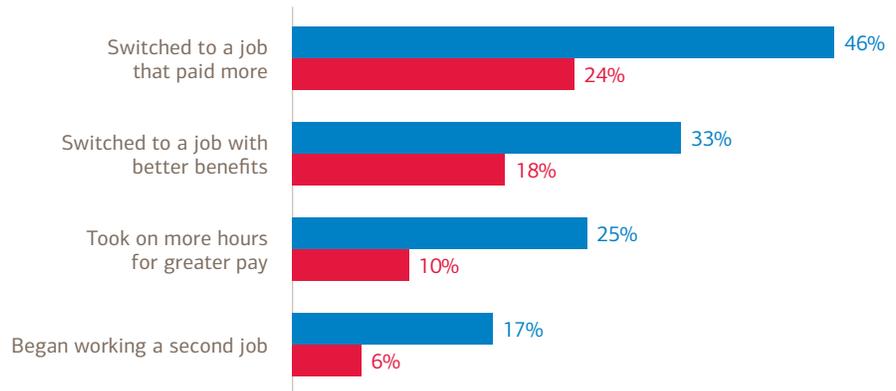
Fig. 4: **WORKPLACE CHANGES VARY BY GENDER**

● —MEN ● —WOMEN

### Mother-oriented employment changes



### Father-oriented employment changes



Base:  
Parents of children of any age

### INITIAL FINANCIAL SHIFTS

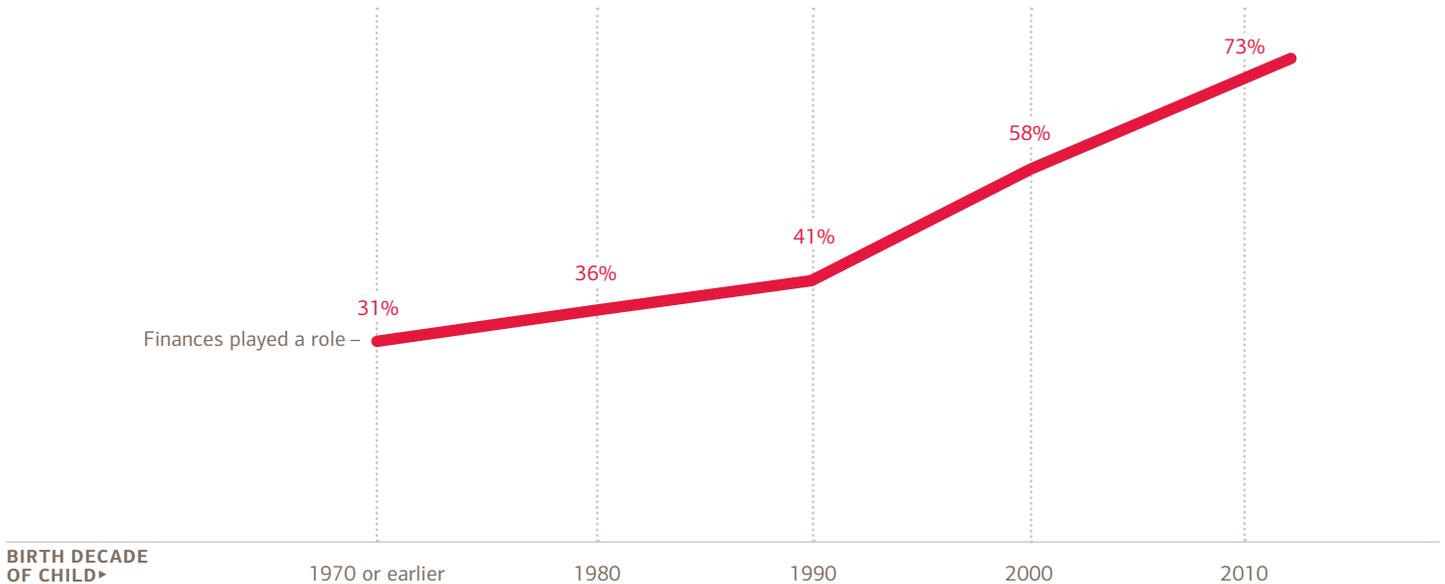
Many factors influence when parents decide to have children—completing educations, establishing careers, solidifying relationships. Finances, however, have recently become an increasingly influential factor.<sup>10</sup> Among parents whose oldest child was born in the 1970s or earlier, only about one-third say their finances factored in the decision to become a parent. Today, it's up to 73% (Fig. 5).

<sup>10</sup> New York Times, July 5, 2018



## Parents of Young Children

Fig. 5: THE GROWING ROLE OF FINANCES IN DECIDING WHEN TO HAVE A CHILD

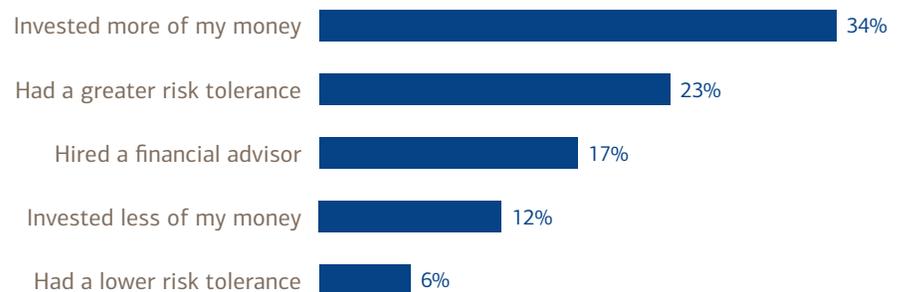


Base:  
Total parents by birth decade of oldest child

Family spending patterns can shift quickly with a new child. Grocery and health expenses rise, money goes to children's toys, and childcare can suddenly be a major expenditure. Spending drops in categories around the parents' entertainment, including dining out, automobile expenses and vacations.

Investment patterns can shift as well. Six in 10 parents say they made some adjustment, most commonly investing more or adopting a greater tolerance for risk (Fig. 6).

Fig. 6: PARENTING CAN TRIGGER INVESTMENT CHANGES

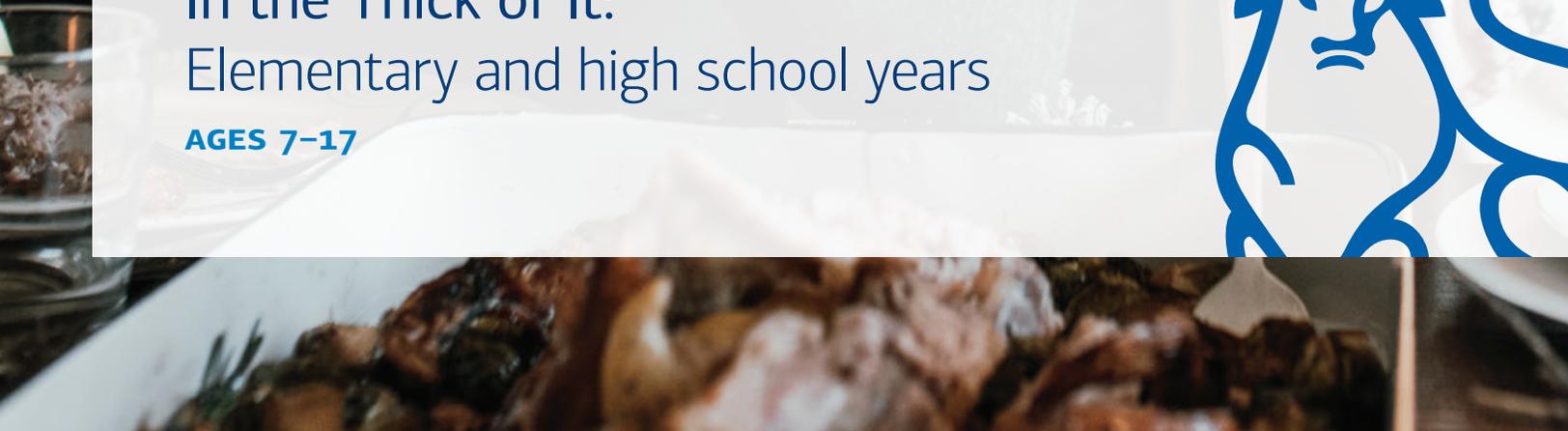


Base:  
Parents with oldest child 0-6 who have investments



In the Thick of It:  
Elementary and high school years

**AGES 7-17**



## In the Thick of it

### OVERJOYED AND OVERWHELMED

Most parents find the preteen to teen years to be the most challenging stage of parenting as children progressively assert their independence while parents try to maintain a positive influence and set reasonable boundaries. Sixty-two percent of parents whose oldest child is age 7 to 17 say they feel both overjoyed and overwhelmed by parenting.

At this stage of parenting, everything can seem challenging: maintaining strong relationships with children, dealing with outside pressures from children's peers and the media, keeping children healthy and safe, and paying for child-related expenses.

Technology has been a parenting game changer. On one hand, mobile devices make it easier to stay in constant touch with children. On the other, technology provides channels for nonstop gaming and consumption of social media. Some of the most delicate and frustrating negotiations between parents and children age 7 to 17 are around screen time and parents' access to the child's social media accounts. Sixty-five percent of parents to teens have digitally grounded their children by taking their smartphones away.<sup>11</sup> And 79% of parents with school-age children agree that today's access to technology makes parenting more complicated and challenging.

<sup>11</sup> Pew Research Center, 2016

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*"I love being a parent, but at times it can be overwhelming. Some days feel like chaos, while others are truly bliss."*

—Focus group participant

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## FINANCIAL PARENTING

The costs associated with raising children—food, clothing, technology, entertainment, school, transportation, sports and other activities—grow as they get older. Adding to the expense is the pressure that 69% of parents say they feel to provide their children with the things the children's friends have.

These school-age years are also the stage when children start to learn about and gain experience with money. More than half (53%) of the parents of children 7 to 17 give them allowances, in median amounts of \$40 per month for children under 14 and \$65 per month for those 14 to 17. In most cases, the allowance money is earned in some way, such as by completing household chores (72%), doing well in school (67%) or behaving according to family rules (53%). When parents make allowances too transactional, however, they may miss the opportunity to instill in their children a sense of financial responsibility by incorporating the practices of save, spend, share and invest.<sup>12</sup>

Most parents say they try to teach their children about finances and serve as good financial role models, but with varied results (Fig. 7). A majority say they have taught the basics to their children age 13 to 17, including about debt, credit, budgeting and the benefits of investing. Fathers report feeling more confident than mothers when it comes to teaching children about investing, and African American parents more often say they teach their children to budget. However, when we asked teenagers what they had been taught about finances, percentages were lower, especially regarding investing.

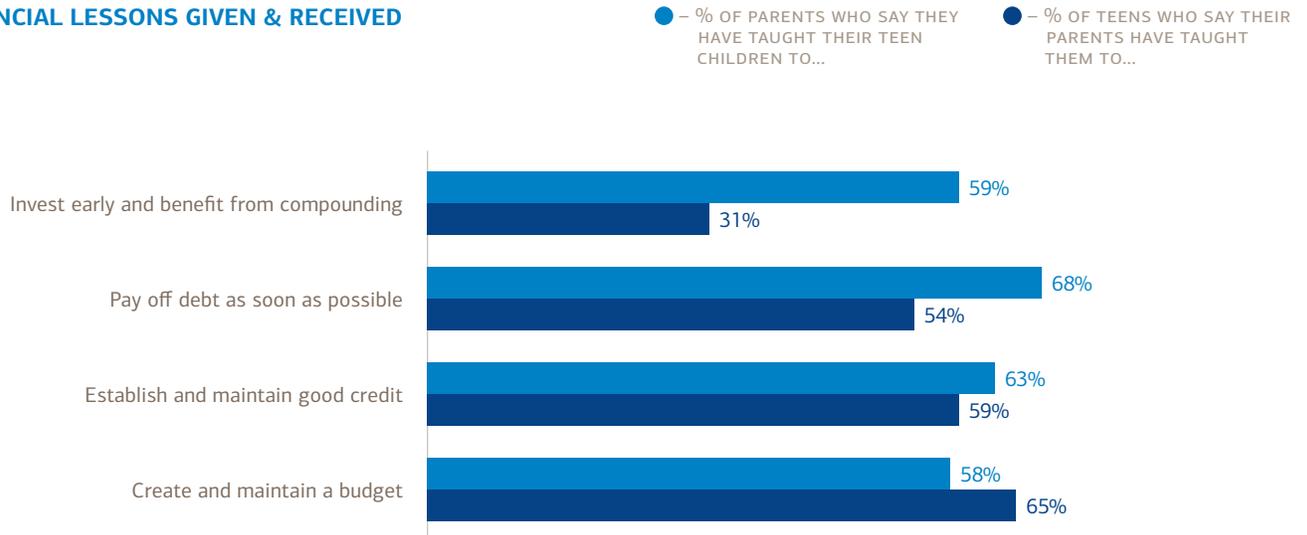
<sup>12</sup> *Is There Love in Money: How Families Put Wealth into Perspective*, Merrill Lynch, 2017



**PARENTS OF CHILDREN WITH SPECIAL NEEDS** find parenting to be significantly more expensive than they anticipated and are more likely to say they struggle financially. They report higher levels of stress around family and living situations as well as finances. They'd like more guidance on managing expenses and choosing insurance products, especially health insurance. They also provide more financial support to adult children.

## In the Thick of it

Fig. 7: FINANCIAL LESSONS GIVEN & RECEIVED



Base:  
Parents of children 13–17; children 13–17

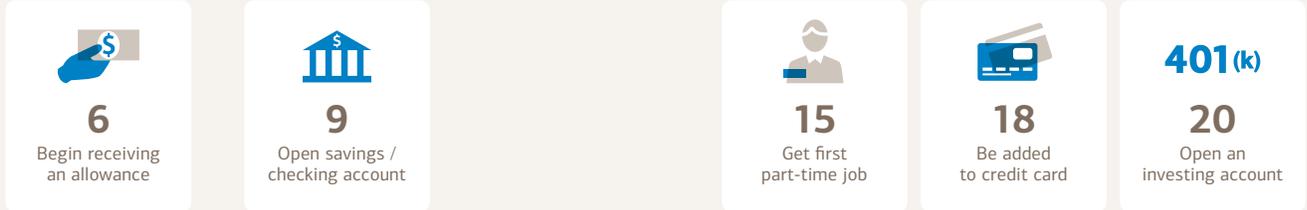
Parents admit that it is difficult to educate their children about financial matters. They give themselves better grades for teaching good values than for teaching financial responsibility. Nearly three-fourths (72%) say they wish they had some help teaching their children about investing, and 90% agree that personal finances should be taught in school. Parents of blended families more often say they need additional financial guidance, including help educating their children in financial matters.

**72%**  
say they wish they had some help teaching their children about investing.

We asked parents how a child's basic financial upbringing should unfold. They told us it starts with an allowance, followed by the basics of planning—saving, budgeting and setting goals (Fig. 8). At high school age, the allowance may stop in favor of a part-time or summer job. At college age, children often start to establish credit by obtaining credit cards, and they may start investing.

Fig. 8: CHILDREN'S FINANCIAL ACTIONS AND LESSONS TIMELINE

Actions:



AGE ▶

Lessons:



Base:  
Total parents of any age  
U.S. News & World Report, 2013, Should You Give Your Child an Allowance?  
U.S. News & World Report, 2014, Smart Summer Jobs for Kids





Parenting Is a Lifelong Commitment:  
Adult children

**AGES 18+**



## EMPTYNESTS AND BOOMERANGS

When their children have left home, parents join the 48 million emptynest households in America.<sup>13</sup> The day-to-day work of parenting may be over, but emotional, functional and financial ties to children remain strong. The greatest challenge for parents at this stage is maintaining strong relationships with their children—remaining connected with them, involved in their lives and close to any grandchildren. There are financial ramifications to this desire to stay connected.

At first, some parents may experience “emptynest syndrome,” feelings of deep sadness or loss when the last child leaves home.<sup>14</sup> But those feelings typically subside over time, and parents enjoy the benefits of an emptynest, including more time for oneself and with a spouse or partner, spending less on day-to-day expenses and enjoying a new kind of relationship with the child. Mothers are much more likely to say they lack personal time at all stages of parenthood, but when they become emptynesters, they gain back more personal time than fathers do.

However, in many families, emptynesting is interrupted as children boomerang back home. Thirty-one percent of early adults ages 18–34 live with their parents. That’s 50% higher than in 1960 and more than the percentage who currently live with a spouse.<sup>15</sup>

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*“My kids are out of the house, but I want to stay close to them and support them in any way I can. I even feel a responsibility to help them sustain the lifestyle that we’ve had together.”*

—Focus group participant

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Over time, parents begin to develop greater interdependence with their adult children. Seventy-four percent of parents receive advice from their adult children, and 61% rely on their children emotionally to cheer them up. Large majorities of parents agree that it’s a parent’s responsibility to provide financial help or a home to a child in need and that it’s a child’s responsibility to do the same for a parent (Fig. 9). Millions of parents find themselves in both roles when they become “sandwiched” between supporting their children and supporting or acting as caregivers to their aging parents.

<sup>13</sup> Census Bureau, America’s Families and Living Arrangements, 2017

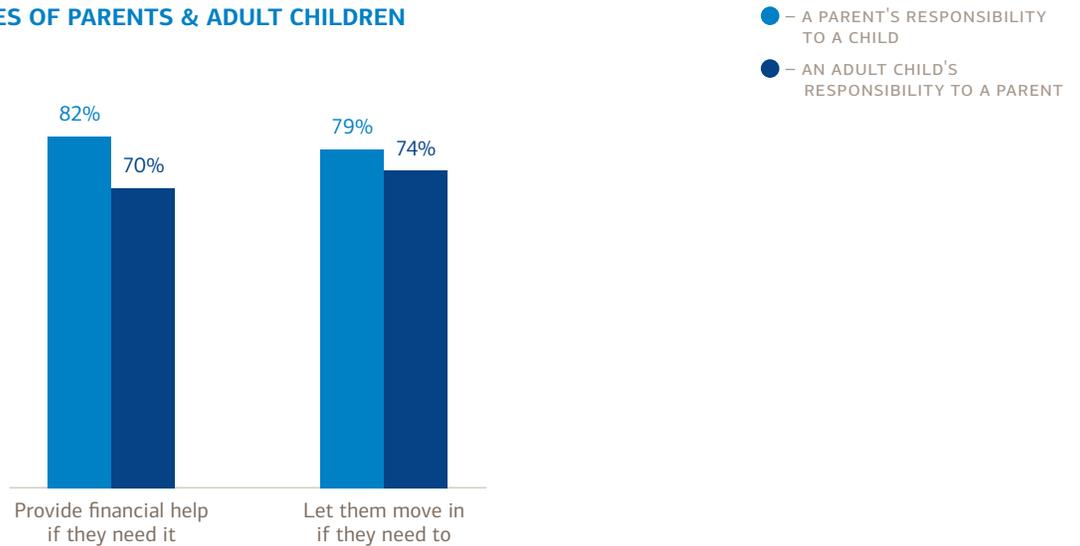
<sup>14</sup> Mayo Clinic, 2018

<sup>15</sup> Census Bureau, Historical Living Arrangements of Adults: 1960 to Present, 2017



## Parenting Is a Lifelong Commitment

Fig. 9: MUTUAL RESPONSIBILITIES OF PARENTS & ADULT CHILDREN



Base:  
Parents of children of any age

### IS THE FAMILY BANK OVERDRAWN?

Emptynesting offers the chance to reduce expenses, spend more on leisure and save more toward retirement. However, those plans can get sidetracked when parents continue to serve as the “family bank” for adult children. Having adult children can complicate finances, resulting in what many deem the most expensive stage of parenting.

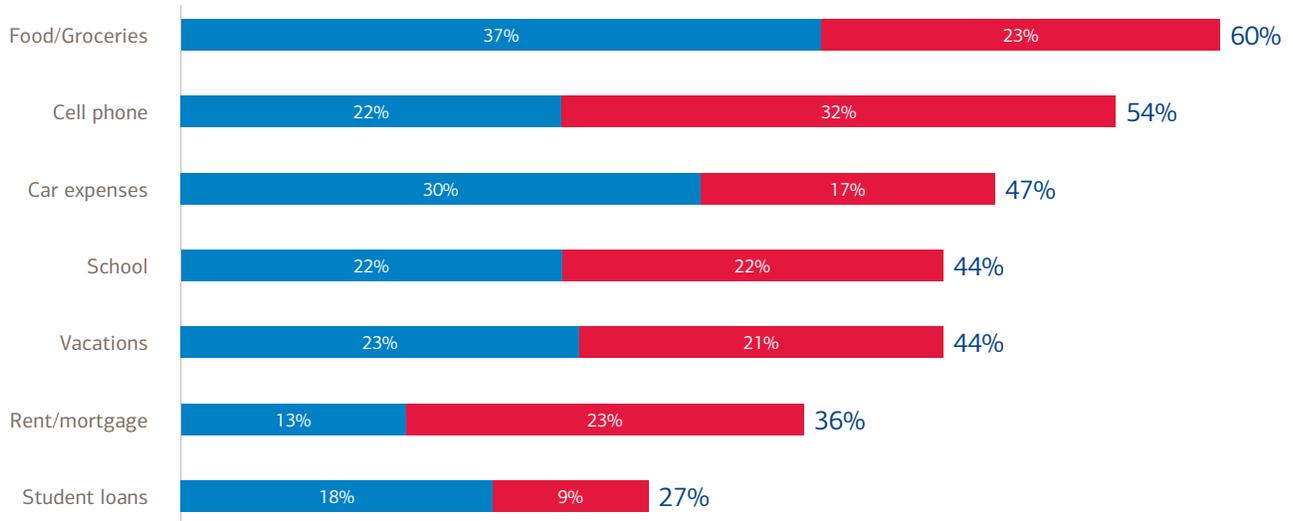
How expensive? We estimate that parents of adult children annually spend \$500 billion on them—twice what they contribute to their own retirement accounts. These expenditures are naturally concentrated in the early years of children’s adulthood, when they are attending college or entering the workforce for the first time. Parents’ financial contribution to children’s education accounts for about one-fourth of the total.

Parents contribute toward a variety of other expenses as well, and these contributions can continue long after college graduation. The most common are for groceries/food (\$54 billion annually) and cell phone service (\$18 billion), often paying for the latter in full (Fig. 10). Today’s parents also regularly contribute toward adult children’s housing, car and even vacation expenses. Altogether, 79% of parents of early adults provide them with some type of financial support. Asian parents more often provide financial support to adult children, particularly for education expenses.

**79%**  
of parents of early adults provide them with some type of financial support.

Fig. 10: HOW PARENTS SUPPORT THEIR ADULT CHILDREN (18-34)

● — SOME SUPPORT ● — PAID IN FULL



Base:  
Parents to any child age 18-34

*“Compared to all I’m spending on my two adult children’s upkeep, having them boomerang back and live at home would be relatively inexpensive.”*

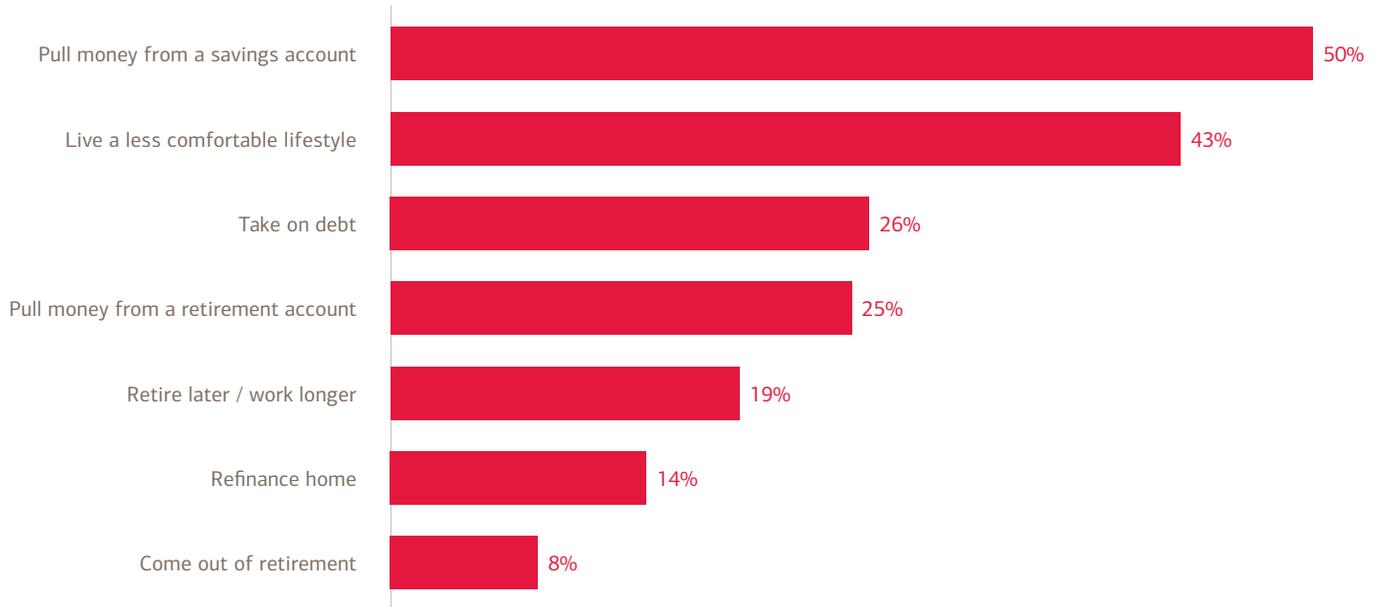
—Focus group participant

The \$500 billion that parents spend annually on their adult children doesn’t even include the occasional big-ticket items. About 6 in 10 parents help pay for their adult children’s weddings, and one-quarter help fund a child’s first home purchase. The bottom line is that these financial contributions add up, and many parents aren’t aware of how much they’re spending on their adult children.

Most parents make these financial contributions knowing that there’s long-term sacrifice involved. Eighty-two percent of parents say they are willing to make a major financial sacrifice for their adult child. Half are willing to draw down savings, while 43% are willing to curtail their lifestyles. One-quarter of parents say they are willing to take on debt and pull money from retirement accounts (Fig. 11). Asian, African American and Latino parents are all more likely to report sacrificing their own financial security for the sake of their children.

# Parenting Is a Lifelong Commitment

Fig. 11: FINANCIAL SACRIFICES PARENTS WOULD MAKE FOR ADULT CHILDREN



Base:  
Parents with oldest child 18+

## SACRIFICING THEIR FUTURES?

But does this make financial sense? The retirement accounts of many Americans are severely underfunded. Is that in part because they are spending too much on their adult children? Are they sacrificing their futures—and thereby increasing the likelihood that they'll become financially reliant on their children down the road?

Parents' hearts may urge them to be generous and supportive, while their heads may tell them to secure their own financial futures and unburden their children from having to support them in their later years. Nearly half say they wish they had established clearer boundaries with their children about what financial support they are willing to provide, and many say they have nobody to turn to for advice specific to fostering financial independence in adult children.

## Parenting Financial Action Plan

We've explored the many challenges on the financial side of parenting, from dealing with the expenses of a new child to educating children about money and financial responsibility to managing outlays to adult children. Parents should pay close attention to financial matters and planning from the start of the parenting journey.

Here is a checklist of actions for parents to consider:

- 
- ✓ Expect potential career interruptions and plan accordingly
  - ✓ Ensure adequate health, life and disability insurance coverage
  - ✓ Designate guardians for minor children
  - ✓ Create a will, power of attorney, healthcare proxy and medical directives
  - ✓ Work with a financial advisor to reexamine your goals, update financial plans and adjust investments accordingly
  - ✓ Plan ahead for children's education—consider a tax-efficient 529 savings plan
  - ✓ Create and stick to a budget to manage expenses, maintain an emergency fund and save for long-term goals
  - ✓ Continue to contribute to your Health Savings Account (HSA), 401(k) and/or IRA
  - ✓ Inventory the family's important health and financial documents, and utilize inventory tools and checklists
  - ✓ Be a financial role model to your children and instill strong financial values
-

## Summary

Parenting is a lifelong journey with many twists and turns, as objectives, roles, rewards, challenges and finances evolve as children grow. On one hand, there are many costs and sacrifices, both personal and financial, which can take parents by surprise. But on the other, parenting offers emotional rewards that may far outweigh the costs. Most parents find the journey of parenting to be the most fulfilling and rewarding facet of their lives.

Parents who traverse the journey well informed, with eyes wide open, anticipating the practical and financial twists and turns, can make the experience even more rewarding for themselves and their children.



**ENDNOTES**

The calculation of parents’ contributions, as reported by adult children ages 18-34, drew upon a variety of pricing and cost-of-living sources covering 14 categories: cell phone/ phone, Internet/Cable TV/Netflix, health insurance, out-of-pocket health care expenses, car purchase/payment, car expenses, transit expenses, and miscellaneous (including meals out and entertainment).

The calculation of how much parents electively contribute to their retirement accounts drew upon IRS data and Pew Research and includes estimates of contributions by employees with adult children to traditional and Roth 401(k), 403(b) and 457(b) plans; 501(c)(18) plans; Federal Thrift Savings plans; employer and employee contributions to SEP plans and SIMPLE plans; and personal contributions to traditional and Roth IRAs, excluding rollovers and conversions.

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