



Get Your Kid to Fund a Nest Egg

Young adults may need convincing that saving for retirement is the best use of their limited dollars.

by JAYNE A. PEARL

NATURALLY, AFFORDING retirement isn't an issue that weighs heavily on the minds of young people just starting off in the workforce. So it's no surprise that only 28% of workers under age 25 contribute to employer-sponsored retirement plans, as reported by tax information service CCH. But as a parent, you don't want your child to end up behind. And with fewer workers being offered corporate pension plans, individual savings are increasingly important in determining quality of life in retirement. As for convincing your kid of this...

SHOW THE COST OF WAITING

You know that time is a powerful factor in building wealth. But does your child? Demonstrate with numbers: A 25-year-old saving \$250 a month before taxes—the equivalent of \$188 after taxes in the 25% bracket—will have \$656,000 by age 65, assuming a 7% average annual return; if he instead waits until 35 to start saving, he needs to stash more than \$500 a month to get to the same amount. Use the calculators on our website, at cnnmoney.com/tools, to run more scenarios. Share your own experiences too. If you've been a disciplined saver, explain what it means for your retirement; if not, say what the consequences might be, says Atlanta financial planner Mary Claire Allvine.

EXPLAIN THE INCENTIVES

Many young adults don't realize how much money they're leaving on the table if their company offers a savings match and they're not contributing. Show your kid: If he's making \$50,000, a match of 50¢ on the dollar up to 6% of salary is worth about \$1,500 a year. If your kid argues that he won't be at the job long enough to vest, explain the other benefits of employer retirement plans, such as pretax contributions and deferred growth. And if you can afford to, create your own match by contributing to an IRA on your child's behalf contingent on his saving, says Hadley, Mass., financial planner Allen Davis.

PLAY FINANCIAL ADVISER

Offer your wisdom in choosing investments, which can be intimidating to a beginner. Not confident in your own knowledge? Suggest a target-date mutual fund, which adjusts the mix of stocks and bonds to grow more conservative as retirement nears. Or have your kid pick stock and bond index funds in an 80/20 mix, an allocation that won't need to be changed for a decade or so. ■