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Boomers as Grandparents: Building a Secure Future for Both Generations

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It's fashionable to be a grandparent these days. Hollywood grandmas and grandpas like Goldie Hawn and Billy Crystal become sentimental and almost soppy when they speak of their grandchildren. Web sites and magazines on grandparents and grandparenting are springing up to give boomers advice on their new rite of passage, providing information on everything from "hot new kids' toys" to "great places for family reunions" to "tips on talking to your grandkids."¹ We might wonder how grandparents 50 years ago managed to relate to their grandchildren without the plethora of trips, gifts, tools, and information available today.

Demographics, Grandparents, and Dollars

The reason for this newfound attention to grandchildren relates once again to changing demographics. The leading-edge boomers—and there are many of them—are now getting older, and their adult children are having children. In 2003, 30% of grandparents in the United States—just under 20 million—were boomers. Next year, in 2007, it is estimated that about 32 million boomers will be grandparents.² And many boomers have more discretionary money than ever before. They

are at their peak earning years, and the money once reserved for paying off the mortgage, making home improvements, and paying for their children's college tuition is now available to spend on their grandchildren.

As a result, it is not surprising to find that about 25% of all spending on toys was by grandparents.³ While their adult children are focusing—or should be focusing—on covering basic household "bread and butter" expenses, grandparents can provide the "dessert," the discretionary items that will enrich their grandchildren's lives. Larger ticket items like computers or two weeks at summer camp are gifts that grandparents might be inclined to give, which in turn help their adult children direct their money into necessities.

Grandparents Raising Grandchildren

This stage of life is not only about affluence, however. There is another side to the story. Growing numbers of grandparents are supporting and/or raising their grandchildren. They may be experiencing something they never imagined—the return home of their daughter or son (the boomerang kids) with a baby in tow. Or the illness, incapacity, or death of an adult child may result in the need to provide 24-hour care for a grandchild. And this comes at a time of life when they themselves may be experiencing health problems and financial shortfalls.

According to the U.S. Census Bureau, 5.8 million grandparents—most maintaining their own household—have grandchildren under the age of 18 living with them. And 2.4 million grandparents are responsible

for most of the basic needs of the grandchildren who live with them.⁴ These grandparents in particular, by spending their money to clothe, feed, and provide for their grandchildren, often must dip into their retirement savings or forgo putting money aside for their own future, leaving themselves vulnerable as they move into old age.

A Special Relationship

No matter what the income level, however, most grandparents have always valued their relationships with their grandchildren and have provided some help to their children and grandchildren. A main motivation, of course, is love, and over the years, there has been reciprocity between aging parents and adult children. I was fortunate that my grandmother lived with my family when I was growing up; both my mother and my father worked, and Grandma was home during the day to take care of me and to help my parents with cooking and household chores. Years later, when she got older, my parents, by then retired, cared for her into her old age. We all benefited from this relationship.

While grandparents today may not be living in the same household as their children, the desire to develop a relationship with their grandchildren has not waned and still remains important. My boomer friends are very involved with their grandchildren, whether through babysitting a day or two a week, staying with their grandchildren while their children go away on vacation, providing some financial assistance, or keeping in touch by phone and email.

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Some say there is a natural alliance between grandchildren and grandparents because both groups (the very young and those moving into older age) are not in the economic mainstream and therefore can enjoy life more. Others point to adult development theories made popular by psychologists such as Abraham Maslow and Erik Erikson who theorize that leaving a legacy (not just a financial legacy) is critical to successful aging and to being “self-actualized” in the last years of life.

In the best of all worlds, grandparenting becomes a joy for grandpa and grandma, who, free from the economic responsibilities of raising a family and with more spare time available, can develop quality relationships with their offspring. They have a willing young audience to listen to their stories and to teach about family history, and in doing so, can impart their values and wisdom. They can also have fun, instill creativity, and just be there as a sounding board for their grandchildren as they begin their life journey.

Implications for Financial Service Professionals

When clients become grandparents, financial service professionals can be there to share the joy and to help them reassess their financial needs. They can advise them on how they can help both their adult children and grandchildren financially, while at the same time not neglecting their own future retirement security.

College Savings Accounts and Estate Issues

Toys, of course, are always welcome, but grandparents can play a

much more important role by assuring that their grandchildren will get an education. On the birth of grandchildren, grandparents might consider setting up college savings accounts for the new members of their family. With tuition rising faster than inflation, contributing to a college savings account regularly will help assure that the money will be there to fund four years of college or other educational endeavors. The college savings account also will help their adult children, who will be freer to save for their own retirement and have more money available to meet their day-to-day expenses. The grandparent event also triggers a need to review and update life insurance policies and to discuss other estate issues with a professional.

Instilling Good Savings Habits

Grandparents can play an important role in instilling good savings habits in their grandchildren. When I was growing up, my grandmother set up a Christmas Club for me and I would go to the bank every other week with her to make my deposit of a dollar or two. At Christmas, I had accumulated enough money to buy gifts for my parents, grandmother, and friends. Helping children understand how to save has always been important, but it becomes even more critical now that the demographics of a graying society have altered the social contract with the next generations. With cutbacks in government entitlement programs, the elimination of employer-based retiree health benefits, and the switch from defined-benefit to defined-contribution plans, younger people will have to take on the responsibility of

planning for their financial future as never before. We can start early with young grandchildren, teaching them about the power of compounded interest and of establishing a savings plan early in life and instilling values such as developing a good work ethic and being aware of how much things cost.

Retirement Planning

But while thinking about their grandchildren's future, grandparents cannot neglect their own retirement needs. Particularly for those parents of adult children who are strapped financially—or for those grandparents who have financial responsibility for grandchildren—care must be taken to assure that they are not putting their own retirement in jeopardy by providing financial assistance to their offspring. With longevity rates increasing and the possibility of living well into our 80s and 90s, retirement planning for the grandparent—not just the grandchild—becomes important.

A Healthy Balance

Baby boomers—who now may be boomer grandparents—are often known for their free spending habits and denying the fact that they may someday become frail and need long-term care. Designer baby clothes or a family cruise for all the children and grandchildren may be a “nice to have,” but as boomer grandparents reach the end of their peak earning years, they might be better off putting their money into retirement savings accounts, income annuities, and long-term care insurance.

We forget sometimes that quality time with our grandchildren is more

important than lots of toys or an expensive vacation with them. In the end, the relationship that is developed between grandparent and grandchild—whether through e-mail, telephone, letters or extended visits—is what counts the most. Our goal should be to achieve a healthy balance between giving our grandchildren the toys and treats that make them happy now and at the same time setting money aside for their financial futures as well as for our own retirement. ■

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The viewpoints represented in this column belong to the author and are not necessarily those of MetLife.

- (1) www.grandmagazine.com.
- (2) Andrew C. Schneider, "Boomer Grandparents: A Booming Market," The Kiplinger Report, 2002.
- (3) www.maturemarketing.com.
- (4) Generations United Fact Sheet: Grandparents and Other Relatives Raising Children: Challenges of Caring for a Second Family, 2002 (www.gu.org).