An empty nest could mean a fuller wallet

When children leave home, you may find extra resources to invest in yourself

"Pomp and Circumstance" is streaming throughout the auditorium. You beam with pride as a dean confers a degree upon your child, and you watch her move the tassel from one side of the mortar board to the other. Your baby just graduated college. With any luck, she already will have lined up a promising job in her chosen field and an apartment near her new office. To prove her independence, she's taking on her phone bills, utilities, rent, insurance and car payments, and your financial obligations have moved on with her. Now what?

Well, you just got a raise, so to speak. The money once reserved for your child's needs and wants is available again to fulfill your own. You may be tempted to splurge on a pricey vacation, but consider other uses first.

Think about the future

Chances are you're in your 50s and you now have the opportunity to make catch-up contributions to your retirement savings. The amounts vary depending on the type of account, so it's best to check irs.gov or consult your tax advisor for the current allowable contributions. If you maximize your contributions each year for the next 15 years, you could add thousands more to your retirement funds. That could have a significant impact on how comfortable your lifestyle is in your later years.

Be realistic

You'll never stop caring for your kids, at least emotionally, and perhaps financially. Many parents want to continue to offer their children extra support, be it for a down payment on their first house or to help fund a college education for future grandchildren. If you can see yourself continuing to bestow monetary gifts to your children, ask how you can incorporate this wish into your overall financial plan. Your advisor may have ideas on how to accomplish that in the most tax-efficient way possible, while still keeping you on track to achieve your financial goals.

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Protect your legacy

Use this time of transition to update your will, as well. Chances are the previous iteration named guardians for your minor children, which may not be necessary now that your kids are young adults. If you're so inclined, you could also take another look at your charitable giving. The extra money that once went toward college tuition might have a virtuous impact on behalf of a cause near and dear to your heart.

You might also consider making one of your children the executor of your estate. If you haven't already, you should also designate someone who has powers of attorney for your healthcare and finances in case of incapacitation. Spouses usually fulfill this role, but you can name your grown children as successors. Of course, any time you experience a change in circumstances, you should also review your beneficiaries on your retirement, savings and brokerage accounts, as well as your insurance policies.

Think about insurance

Speaking of insurance, you may be over-covered as an empty nester. Take the time to review your policies now that your children are no longer financially dependent on you. If you're overpaying for life insurance premiums, you may want to cut the coverage a little and pocket the savings. You'll need some professional guidance here to make sure you maintain adequate coverage.

If your child doesn't have employer-sponsored healthcare coverage, laws allow you to keep him or her on your policy until age 26. However, if your child is eligible for his or her own health insurance, you might be able to save some money by removing your child from your healthcare plan. Many insurance companies allow changes to policies in this case, even if you're outside the open enrollment period. The same holds true for auto insurance. Removing your child from your policy could lower the cost as much as 50%, according to the Insurance Information Institute.

This is also the time you'll want to be thinking about long-term care insurance, if you haven't already discussed this with your planner or purchased a policy. Studies show that long-term care, which generally is not covered by Medicare, could deplete your retirement savings, and the need for care increases as you age. Buying a policy in your 50s and 60s when you're in good health will be easier than trying to purchase one as you get older, especially if a physical is required to qualify.

Treat yourself

Let's not kid ourselves. It's human nature to want to splurge a little when there's new-found wiggle room in your finances. Boston College's Center for Retirement Research found that spending on nondurable goods, the fun things, jumped more than 50% per person for empty nesters. Understandable after years of ponying up for dance lessons and soccer dues. If you have extra room in your budget, go ahead and indulge: Travel, learn a new language, go back to school, start a business, whatever it is you've been dreaming of. You can ask your advisor to help you set aside a certain percentage, say 10% a year, for the fun stuff. That way you'll also have your financial future covered.

Is an empty nest a happy nest?

This time of your life, when your children officially leave home, may bring on a flurry of emotions for you and your spouse. Many parents feel a little depressed, as if they're lacking purpose as they transition to new roles. But just as many feel a sense of elation, freedom and less responsibility. Of course, you'll miss your children when they leave for new jobs or marriage, but you now have time to refocus on yourselves and your relationships, to pursue new hobbies or new careers.

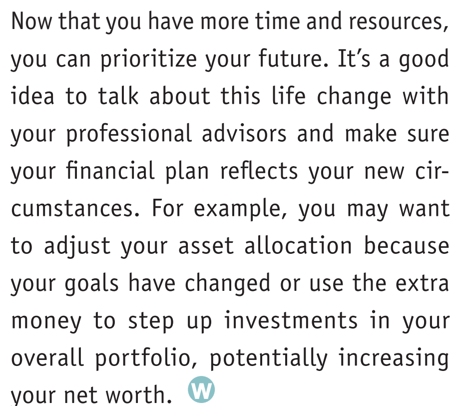
Many couples also find themselves more satisfied with their relationships after their children move out because the pressures and worries that come with raising children tend to fade, according to research published in the journal *Psychological Science*. This isn't to say couples were unhappy before, just that this new phase of life can be just as joyous and fulfilling, especially since some of the time and financial constraints have been alleviated.

Move on

Next, consider where you want to live. Would you prefer a smaller house or a beachfront condo? Would you rather move to a less expensive home and invest the difference in the markets or some other option? When you're ready to downsize, you may be able to free up equity already built up in your existing home. Why not consider reallocating that equity toward other goals like starting a new career, funding retirement or investing in your business?

Selling your home and moving to a smaller one may mean even more resources available in your later years and could help you make up for a less-than-stellar savings track record. Many middle-aged Americans have considerable home equity that can be tapped to bolster retirement coffers. Plus, you'll likely benefit from lower costs of living, maintenance costs, property taxes and insurance premiums.

Focus on you



Now that you have more time and resources, you can prioritize your future. It's a good idea to talk about this life change with your professional advisors and make sure your financial plan reflects your new circumstances. For example, you may want to adjust your asset allocation because your goals have changed or use the extra money to step up investments in your overall portfolio, potentially increasing your net worth.

Asset allocation does not guarantee a profit nor protect against loss.

Fill in the gaps in your child's financial education

Four or more years of higher education may have given your child a great career start, but your graduate might still need some real-life skills on how to responsibly handle money. As young adults, your children will need to know how to:

- **Budget and pay bills on time**. Explain how to budget for utilities, food, gas, insurance, rent and cellphone service before spending on discretionary items. In addition, reinforce the idea of paying bills on time so your children will know what's left for saving and how much they can spend on other expenses.
- **Save for a rainy day or a large goal**. Help your children establish good saving habits and set them up for a successful future. Encourage them to set aside a percentage of each paycheck toward large goals – maybe funding a 401(k) or saving for a down payment on a house – and save three to six months of expenses in an emergency fund.
- **Manage debt.** Many college students graduate with student loan and/or credit card debt. Show your children how quickly credit card debt, fees and interest can accumulate and get out of hand. Help them be smart about using credit wisely. Be sure to also discuss fees involved with some banking accounts.
- **Build credit**. A debit card won't help build credit. So talk to your kids about ways to build credit, including paying any bills in full, on time, every time. Building a good credit history could help increase their chances of borrowing at lower rates later on, say for a mortgage.
- **Manage money**. Explain the basics of investing, including the benefits, risks, costs and tax implications. A strong foundation here can help your children make smarter financial decisions later.

For more guidance, visit moneyasyougrow.org and consult your financial and tax professionals.

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