Sandwiched: Balancing Financial Priorities

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As if trying to meet day-to-day expenses while saving for retirement and paying for college isn't enough, many people find themselves increasingly responsible for the physical, emotional, and even financial challenges of caring for aging or disabled parents. Welcome to the sandwich generation—a growing part of the population feeling a financial tug from kids on one side and parents on the other.

If this sounds familiar, you have plenty of company. According to the Pew Research Center, 1 in 7 middle-aged adults (15%) is providing financial support to both an aging parent and a child.

Why are so many feeling this financial squeeze? People are living longer. They are having children later. Meanwhile, many young adults are finding it too expensive to live on their own. Hence, the "boomerang kids" phenomenon. Add in rising health care expenses for older Americans, and you have the makings of today's sandwich generation.

Pump up your planning

If you're one of the millions of Americans facing this challenge, a good way to cope is to "plan, plan, and plan some more," says Ann Dowd, a vice president at Fidelity. "Caring for kids and aging parents comes with many imponderables—there's no telling how much help they'll need or for how long. But don't let that paralyze you. Instead, embrace the uncertainty, think long term, and pump up your planning."

How can you get started? "Begin by funding your emergency cash reserves, avoiding or paying down high interest debt, and, above all, doing all you can to make your own retirement saving a top priority," says Dowd. "Though your heart may put your loved ones first, they're not responsible for your retirement security—you are."

Here are some strategies to take control of your sandwich finances:

Know more

Even though it can be difficult to talk with your parents and kids about financial realities, try to do so early on. If you wait until a financial or medical crisis forces you to act, you may not have the time or flexibility you want or need.

Over time, try to get a clear view of your parents' total financial picture, from expenses to sources of income and insurance, says Dowd. That way you can better understand what they can afford and if you need to fill in any gaps.

For expenses, talk with them about their essential living costs (housing, food, transportation, insurance) as well as their discretionary costs (lifestyle choices like where they live and how much they travel). Help them match essential expenses to steady sources of income, such as Social Security, pensions, or annuity income, if they have any.

Finally, check into their health care plans. To better manage their care, make sure they have a health care proxy and a living will in place. To see if they can pay for health care expenses, get details on their health and long-term care insurance, as well as any other available resources.

"When you're caring for aging parents," says Dowd, "the boundaries between your financial plans and theirs can quickly blur."

Save more

If you're in the sandwich generation, it's even more important to save as much as possible. This is especially true if you have to take time off from work—and lose income—to care for parents. So be sure to take advantage of any and all tax-advantaged saving vehicles.

Put your retirement first. "Pay yourself first by contributing as much as possible to your workplace retirement plan," advises Dowd. "At least contribute up to any company match so you're not leaving ‘free money' on the table."

If at all possible, don't use your retirement savings—whether through loans or early withdrawals—to support your kids or parents. Dipping into your nest egg sacrifices the potential for tax-deferred growth. That could eventually force you to depend on your children for financial support in retirement.

Prep for college costs. If you aren't already saving for college, you may want to consider starting. The College Board puts the average cost (tuition, fees, and room and board) for a 4-year, in-state public college at $20,770 for the 2017–2018 tuition year, $46,950 for a 4-year private college.

There are several tax-advantaged college savings accounts to consider. One is a 529 college savings plan account, which offers tax-deferred growth and federal income tax-free withdrawals for qualified higher education expenses. To help your savings efforts, you could ask family and friends to contribute to a 529 plan on birthdays and holidays.

Also keep an open mind about college choices. "Look for colleges that offer competitive programs that meet your child's needs with a price tag that works for your sandwich finances," says Dowd.

Save on health care. If you are enrolled in a high-deductible health plan and meet eligibility requirements, you can contribute to a health savings account (HSA). HSAs let you save pre-tax, and withdraw principal and earnings free from federal taxes for qualified medical expenses. In addition, any money you don't use, you can save and invest for the future, including for health care in retirement. Limits for 2019 are $3,500 for individuals, $7,000 for families, plus another $1,000 for individuals 55 or older.

Your employer may also offer a health care flexible spending account (FSA), which is another tax-advantaged account that lets you pay for eligible out-of-pocket health expenses with pre-tax dollars. The 2019 annual contribution limit for FSAs is $2,700. But beware: If you don't use all the money in the year it was contributed, you lose it. Also consider dependent care FSAs, which can help you pay for qualified child, elder, and other dependent care when you (and your spouse) are working. You can generally contribute $2,700 pre-tax for individuals, up to $5,000 per family for a dependent care FSA. But again, if you don't use the money in the year you contribute, you lose it.

Protect more

Don't choose care in crisis

Find out your parents' long-term care preferences now, in case the day comes when they won't be able to participate in the discussion. Doing so can help you estimate costs and understand your options. Having your parents live with you might be a way to defray these expenses.

Make sure you and your parents have adequate health care insurance now, and for your retirement. Remember, Medicare does not cover everything. A 65-year-old couple retiring in 2017 needed an average of $275,000 after taxes (in today's dollars) to cover medical expenses throughout retirement, according to Fidelity Benefits Consulting.

For example, long-term care is not covered by Medicare, and can be pricey. The average annual costs for nursing home or assisted living are $85,776 and $45,000, respectively. Do you and your parents need long-term care insurance? The answer depends on your age, the cost of coverage, how long you might need coverage, and the types of benefits you want. So carve out the time to weigh your options.

Finally, with the needs of multiple generations on your shoulders, protecting your family from the risk of your disability or death may be more important than ever. Disability and life insurance can help make sure that your loved ones are cared for in the event that you are unable to work.

Stay flexible

There is no escaping the reality that managing the competing financial priorities of children, parents, and yourself can be stressful. So take control by planning more diligently, saving more carefully, and keeping your retirement saving a top priority.

For all concerned, that may mean adjusting expectations—from when you retire to where your kids go to college to how your aging parents spend their golden years. But that's what families do. You're all in this "sandwich" together.