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3 common money missteps grandparents make

By David Pitt

It's so tempting to want to give the grandchildren everything and put their wants and needs first.

However, one of the common money mistakes grandparents make is to put spending on grandkids ahead of their own retirement security.

Here are three money missteps grandparents make and ways to avoid them:

1. Excessively spoiling grandchildren

Financial advisers and estate planners have all kinds of stories about retirees who insist on spending significant amounts of their savings on grandchildren. Too often they fail to recognize the severity of the risk it poses for their own retirement security.

"You really cannot reason with people not to do it," said Jean A. Dorrell, an estate planner in Summerfield, Fla. "They know they shouldn't be doing it, but they will continue until they don't want to do it anymore."

Another temptation is for grandparents to set up Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) accounts for children as a way to pay private school expenses or for college costs such as tuition, books or room and board.

However, many don't realize that when their grandchild becomes an adult (age 18 or 21 depending on the state where the account was established) the money can be spent on anything the child wants, said Casey Weade, a financial planner with Fort Wayne, Ind.-based Howard Bailey Financial Inc. The child owns the assets in these accounts. That also means the account can affect the amount of financial aid a college student may receive.

Weade said it makes more sense to set up a 529 college-savings plan which offers tax benefits when used for qualified college expenses including tuition, books and housing.

2. Failing to establish an estate plan

Estate planning is essential. The smooth transfer of wealth between generations is an important part of a family's financial well-being, yet most families don't have the proper documentation in place. That would include a will, a power of attorney for finances or a trust. In a 2009 survey of more than 1,000 people aged 18 and older by Lawyers.com, just 39 percent of respondents reported having a will. Even fewer had a power of attorney and fewer still had set up a trust.

While it may seem daunting to think about all the aspects of estate planning, it's not impossible to pull together the basics so that last wishes are fulfilled when the time comes.

3. Leaving retirement funds on autopilot

It's very common to have multiple accounts, said Chuck Cornelio, president of defined contribution for Lincoln Financial Group, which provides retirement and other financial services. It's not unusual to see workers with as many as six or seven. Frequently workers fail to consolidate accounts in a way that would enable them to manage their money effectively.

Consolidating accounts into an IRA, for example, helps ensure the money is adequately diversified across investment options and can help in developing an overall retirement plan.

"That's actually a good idea because then you can get a holistic picture of all your investment opportunities and where you can get your money from in retirement," Cornelio said.

Workers frequently leave 401(k) money with a previous employer or sometimes roll it over to an IRA and keep it invested in the stock market, said Dorrell. She advises them to evaluate the risk of keeping too much exposed to the volatility of stocks when at or near retirement age.

Having both a traditional IRA and a Roth IRA account to pull money from can help a retiree control taxable income. With a Roth IRA, deposits are taxed when made to the account, but money can be pulled out in retirement tax-free.

For many it would make sense to consider converting to a Roth. Anyone who expects to be in a higher tax bracket at retirement would benefit by paying the taxes on those savings now. And with tax rates widely expected to rise in the future, many retirees may end up in higher brackets than they are currently.