Kevin O'Leary: This is when to cut off your adult kids financially

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At what age should you cut off your kids financially? Shark Tank star and entrepreneur Kevin O'Leary says to make the call on the day they graduate.

"My mother was very influential in my career because she supported me from birth to last day of college," O'Leary told CNBC. "And then she said to me, 'After this, I'm done. My work is over. You got to make it on your own.'"

"She said to me, 'The dead bird under the nest never learned how to fly,'" O'Leary recounted.

It might sound harsh, but there's a real benefit to communicating to your kids when the money will stop flowing — and the earlier you set those boundaries, the better.

In my own work as a financial adviser I see this problem all the time. Far too many adults are caught in a money squeeze. They're at the height of their income-earning power in their 40s and 50s, yet they spend money even faster.

The problem is not just kids but aging parents. The "sandwich generation" of today's adults often find themselves bankrolling both their elders and their college-bound young.

As a result, many don't save because they simply can't save. The average balance in a Generation X-owned 401(k) account held for 10 years hit $268,900 in the first quarter of 2019, reports Fidelity Investments. Generation X is the group between the baby boomers and the millennials.

Doing more by doing less

That sounds like a comfortable number, but Fidelity is counting only people who actually have a 401(k) plan and have contributed to it for a decade. Another study points out that the average Generation X-er has far less set aside, just $66,000.

The reality for millions of middle-aged Americans looking to retire is somewhere in between, a muddling-through of Social Security, part-time work in retirement, savings and inheritances. But they could be doing more for themselves — by doing less for others.

O'Leary later saw great success as an investor and eventually came to appreciate his mom's stern financial policy toward adult kids.

It was not easy at first, O'Leary recalled: "I said, 'Mom, that's a great poem, but I need some cash here.' She said, 'No, no, no, no. I've done my work. Now you do yours.'

"And that was very important to me."

In fact, O'Leary repeats his mom's money mantra about the bird that never flew to his own kids.

“And [my kids] said the same thing to me: ‘That sucks,’” O’Leary said. “But now they’re off on their own, and they’re figuring it out. And I’m so proud of what my mother taught me.”

How you approach this with your own children is a highly personal topic. You might have toddlers, teens just beginning work, or adult kids who still rely on the Bank of Mom and Dad for “special expenses.”

Even now, millennials are becoming parents — turning into “perennials” — and find themselves headed toward inevitable money conversations with growing offspring.

Learning by doing

You might have the resources to make your kids’ lives easier. Here’s my advice: Don’t do it. They really do need to fly on their own.

If you have young ones, it’s a good idea to set them up for success by attaching any monetary support to a timetable. Don’t just open your wallet. Make them wait until payday like anyone else. Then talk about saving.

If your kids are old enough to work, set up a custodial bank account and offer to match their savings, just like a 401(k) plan would. In time, consider opening a tax-free Roth IRA for them.

If they’re older it’s probably past time to have “the talk.” It’s OK to be blunt about your needs, and to point out that cash management and investing are skills best learned by doing.

Remember, the typical kid coming right out of college has never had to make the rent. Never had to come up with a car payment or deal with the real cost of grocery shopping. Keep them tethered to your largesse and they never will.

If it helps, remind them that forgone cash today will compound in your hands until eventually becoming theirs to oversee and steward. Above all, make sure your spouse is on board with the plan.

In time, your kids will be in the throes of parenting on their own and will more fully understand the importance of prudent investment management — for themselves and the generations that follow.

Until then, tough love is still love.