April 2019 – The Perils of Parental Assistance for Adult Children

We all can help our children financially, but remember the advice you get when flying with children: "they will say 'put the oxygen mask on yourself before helping your child'. There's a reason for that. If you are unconscious (or broke) you can't help your child".

- ***attributed to Robert Farrington, contributor to Forbes Magazine, February 7, 2019***

The Parent Trap

Many have seen the recent headlines about the college admissions cheating scandal involving wealthy parents engaging in unethical behavior with a corrupt counseling firm to assist their children in gaining admittance into elite universities. Parents allegedly paid large amounts of money for activities that ranged from boosting scores on standardized tests to bribing coaches to accept children as athletic recruits. While most parents want to help set their children up for success, there are clearly moral and ethical limits to the extent which they should assist.

Recently, *Barron's* published two articles – "How Your Kids Can Ruin Your Retirement – and How to Make Sure They Don't" and "When to Bankroll Your Kids" – both of which resonated with us. We have summarized the key points in this letter. These articles were published in the March 25, 2019 print edition. If you would like a copy, please call us or email us and we will be happy to provide one.

For a variety of reasons, parents are providing financial assistance to their adult children at higher dollar amounts and for longer periods of time than seen in the past. The articles state that "U.S. parents now spend $500 billion a year on their 18- to 34-year old children, or twice their annual contributions to retirement accounts". While it is natural for parents to want to finance their children's college education or help them when facing serious personal circumstances like a health issue, problems can arise when the parent's own financial position is compromised. Often we find that support for their children is the largest unplanned expenditure for parents.

Life expectancies are increasing as are health care costs. And more and more people are paying down debt later in life. In planning for retirement, we all must ensure that our investment portfolio can cover our expenses and last for the rest of our lives. Providing substantial assistance to adult children can increase the risk of the parent running out of money and jeopardizing their own financial resources.

People struggle with what the right level of financial assistance is when helping family. "Parental help often starts small, covering expenses such as cellphone bills, car payments, groceries, or health insurance. But temporary assistance can quickly turn permanent and pricey, financing rent and down payments, grandchildren's college educations, and support for offspring going through divorce or battling drug addiction". More and more, parents are financing business ventures and purchasing housing for children in exclusive neighborhoods. While these gestures can be wonderful, they can instill poor financial habits and enable a lifestyle that is unsustainable, setting children up for difficult circumstances once the parent is gone.

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Everyone's situation is unique and these are very personal issues to address within individual families. While we don't claim to know all the answers, we believe a parent's first responsibility is to take care of themselves and their spouse. Once on stable footing, help for adult children or other family members can be done in more productive ways than simply gifting money or paying off debt. Here are some of our suggestions for consideration:

- Structure gifts to adult children as a loan with interest. As payments are made, a portion of the loan can be forgiven as a gift each year. Parents can use their will to "true up" differences among children.
- For young adults just starting out, help make a contribution to their IRA or Roth IRA. Encourage them to contribute to their workplace retirement plan and help offset living expenses if needed. Offer to help them set up their investments in their retirement accounts.
- If charitable giving is important to you, encourage this mindset in your children. Offer to match or add to donations they make to a particular cause.
- Once adult children have reached appropriate levels of maturity, be transparent about your financial situation and your intentions. Most children want their parents to be taken care of and do not necessarily realize that accepting assistance might be putting them at risk. Parents and their children should be proactive in starting conversations about these topics.
- Avoid surprises when discussing your plans for your estate. Engage children in conversations about your desires not only for your financial assets but also for your personal items that might have sentimental value.
- For parents of young children, work to instill good financial habits early. At an age-appropriate level, hold conversations about budgeting and the importance of saving. Consider the use of UTMA/UGMA accounts and 529 plans to save for college expenses. Consider the use of a trust to protect children's financial assets.

Parents generally want to be generous to their children if they are able. However, generosity with set limits tends to generate better outcomes. If needed, we are happy to meet with you and your family members (of any age) to facilitate conversations about financial planning and investments. As always, we thank you for your trust in us and welcome any questions you have.

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