September 2011 *MoneyMinute* – Are Your Adult Kids Mosquitoes, Leeches or Vampires?

What do your grown kids have in common with mosquitoes, leeches and vampires? They all can be draining. While one may want your blood, the other may want your bank account.

As evidence, consider this astonishing statistic: Nearly 60% of parents provide financial support to their adult children when they are no longer in school, according to a recent survey commissioned by the National Endowment for Financial Education (NEFE).

For the blood suckers, it's the *amount* of blood that each one draws that determines whether we just itch or die. Losing some blood to these voracious creatures is survivable, but being drained of too much could be fatal. That goes the same for your bank account. A little here and there may result in an "itch," but too much money sucked out of your account could be financially lethal.

The timing couldn't be worse. Just as the largest demographic group in the United States – the Baby Boomers – started heading toward retirement, the recent worldwide financial meltdown came along. While capitalism has survived, the patient is still in a fragile state. Meanwhile, tens of millions of hard-working Americans are facing a considerably different retirement than they dreamed of.

This is the plight of the some 70 million Americans in their early 50s to their mid-60s. What's more, the current economic turmoil is causing tremendous financial pressure on the Baby Boomers' children. So what do children do, regardless of age, when they are in need? They turn to their parents, who help with a variety of expenses, including housing, food, transportation and medical bills.

When asked why they offer support to their adult kids, some of the answers were astonishing. While 43% were legitimately concerned with their child's financial well-being, 37% stated they didn't want to see their children struggle like they once did.

Wait, what? Think of all the butterflies that would be unable to fly if we "helped" them out of their chrysalis. Struggle, at some level, brings about important life lessons that can't be taught in the classroom.

This is where balance, fortitude and the need to financially survive come in to play. Most retirees have a spending plan. They understand the importance of balancing income with expenditures. And with historically low interest rates, volatile stock markets and weak home prices, Baby Boomers are feeling more pressure than ever to keep expenditures in check. This plan works well until unexpected expenses creep into the picture, especially when the unexpected involves their children.

When interest rates are high and stock markets soar, an investment portfolio can heal itself relatively quickly. But today's Baby Boomers have a limited ability to recover financially. Put that on top of a weak job market and throw in inflation pressures for good measure, it's no wonder people are less optimistic today.

So what can you do to ensure that the "itch" does not turn into something fatal? Here are simple suggestions for both parties:

1. **Have a candid conversation about your child's current financial situation.** Are you being asked to support a lifestyle or truly keep them out of harm's way? Without full disclosure of their spending and debt, you will only be guessing as to the magnitude of the situation.
2. **Is it bad habits or circumstance?** Is your child good at handling their finances, or are they in need of a life lesson? There are circumstances that may not have been planned for like job loss, health issues, etc. But if their lifestyle spending kept them at the edge of the financial abyss, any small setback would have set things in a downward spiral. Your monthly support check won't fix this.
3. **Family or business.** If you just give your money to your adult child, this is a family matter. Get it in writing and it's more about business. Make it more formal. Create a simple note that outlines the terms of the loan: nominal interest rate, payments and expected payoff date.
4. **Home is where the heart is.** If your adult child (and maybe their entire family) is living at home, ensure that they help out either with their wallet, their backs or both. Charge them nominal rent, have them buy groceries and cook meals, help with the utilities payment or do the chores they so desperately hated during their first go around in the house.
5. **Establish a plan and stick with it.** Before making any major financial assistance to your child, set the rules and stick by them. Determine the amount of support, its frequency and how long it will be needed. Consider setting a clear deadline for the support to end.

It is hard to see anyone suffer financially, much less your own children. Emotions run deep, and this is where decision-making becomes difficult. Clarity surrounding expectations and financial conditions are imperative in order to help maintain the relationships we cherish. It is important for Baby Boomers to recognize the point when a simple itch may be heading toward something more dangerous.

This article was adapted from a post by Edward W. Gjertsen II, CFP®, to the Financial Planning Association's blog at http://blog.fpaforfinancialplanning.org.

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Member of the National Association of Personal Financial Advisors (NAPFA)
Phone: 866-966-9291
Fax: 650-472-8924
info@feesonly.com http://www.feesonly.com