REPRINTED FROM THE PAGES OF THE

Pittsburgh Post-Gazette®

FRIDAY, NOVEMBER 9, 2007

How much is too much?

Parents who provide financial help to adult children could put their own security at risk

By Tim Grant
Pittsburgh Post-Gazette

Parents will do almost anything to help their children succeed, even if it means providing them with financial support well into their adult life.

The days of sending children off to college and having them completely leave the nest are over. They might need money to start a business, buy a car or for their first home. They change careers, get laid off and get divorced. Very often they want to move back into their old room, live rent-free and receive an allowance.

But how far should parents go in providing a financial helping hand to adult children when it could result in jeopardizing their own retirement security?

"It's probably more common than people think when you consider what young people are up against," said Carrie Coghill-Kuntz, president of DB Root & Co., Downtown. "Kids are getting out of college saddled with debt. It's really hard to make a starting salary they can support themselves on.

"What do you do? Do you help your kids out or be more concerned about your retirement? The choice typically is to help your kids," she said. "Where we run into problems is when it becomes a lengthier long-term issue."

Sometimes parents have to face the painful reality that their generosity is not the solution for a grown child with a drug or alcohol addiction.

"No one wants to leave their child out in the cold and make them suffer," said Greg Womack, a certified financial planner with Womack Investment Advisors in Edmond, Okla. "At the same time you don't want to prolong a problem the child may have or bad habits they can't break.

"Every child is different. One child could be irresponsible, and you're throwing money down a hole feeding a dependency. Another child may be getting an MBA to try to move up in the world."

Stacy Innerst/Post-Gazette

People, in general, are living longer and will need to make their money last for 25 years or more during retirement. Supporting adult children who either cannot or will not take care of themselves could put a retiree in danger of running out of cash.

"It's almost creating another entitlement situation. If you have Generation X kids depending on you for longer periods of time, your [retirement] resources won't be there," said Charlie Parks, president an CEO of 21st Century Financial, which has an office in Green Tree.

According to a Pew Research Center survey completed in 2005, which explored intergenerational relationships between families, 50 percent of all baby boomers were raising one or more children and/or providing primary financial support to one or more adult children.

Another 17 percent of boomers whose only children were ages 18 and older were providing some financial assistance to at least one such child.

Steven Slon, editor of AARP the Magazine in Washington, D.C., said baby boomers have famously not saved for their own retirements and many have aging and ailing parents who need help. But families are supposed to help each other, he said, and the children who need help now may also help provide for parents when they get old.

"It's just not possible for parents to walk away from that responsibility of helping their kids even if they are adults," Mr. Sloan said.

"Some of it connects to the baby boomer's tendency to give their kids the best of everything, 'And we're not going to abandon them now.'"

The most inconvenient aspect of living on their own, said Ms. Coghill-Kuntz, is for children to accept a lower standard of living.

"We've provided great lives for our kids, and they've really become accustomed to that lifestyle and don't want to take a step back," she said. "As parents, we don't want to see that either, but gaining perspective is important."

As a wealth manager for high-net-worth individuals and celebrity clients in Los Angeles, Jeff Fishman, president of JSF Financial LLC, is familiar with the social condition known as "Affluenzia."

He has one wealthy client, a mother in her late 70s, who has for many years supported her 50-year-old son to the tune of $5,000 a month.

"She definitely has assets. But at the same time is burdened with having to continuously support an adult child," Mr. Fishman said. "This one issue puts her whole financial security in jeopardy. The kid never had to hold down a job and was given all he wanted. Now he's 50 and divorced and living off his mom.

"Intuitively we all want to do what we can to help our kids, but if we can't say 'no' and teach them to be responsible, we raise a financially handicapped child. These issues cross all socioeconomic classes."

One of the choices wealthy parents have to make when money goes out of their bank accounts is whether it's going to be a gift or a loan.

Kathleen Kuehl, an adviser at Lowry Hill Wealth Management in Minneapolis, said often when her clients' children want to buy a house or refinance an existing mortgage, the parents will refinance the mortgage for a child then take back a promissory note secured by an interest in the property.

But what happens if a child doesn't pay up?

"This is a legal obligation the child has," Ms. Kuehl said. "You would have to act as a lender would. If you have a secured interest in the mortgage, you have the option of foreclosing on the property. You could also forgive what's owed, but then that option leaves gift tax implications."

The IRS currently allows taxpayers to give as many people as they want up to $12,000 a year without paying a gift tax. Anything above that amount requires the donor to file a gift tax return. The gift tax is a flat 45 percent rate.

"The situation can get messy when you have a child either not able or willing to pay," Ms. Kuehl said. "It creates a lot of disharmony in families."

One way for parents to take themselves out of the role of having to directly handle the loan and collection process is to hire a third-party loan administrator.

Virgin Money USA, based in Waltham, Mass., is one of a handful of companies that facilitates loans between family members and friends. The company, part of billionaire Richard Branson's empire, has thousands of clients nationwide amounting to more than $200 million in managed loans.

"The key is to do it right by structuring the transaction correctly to ensure it doesn't hurt relationships," said Asheesh Advani, CEO of Virgin Money.

"It's important to document and record the loan because there are tax benefits," Mr. Advani said. "Just as you can deduct mortgage interest you pay to a bank, you can also deduct interest on loans from your parents if you document it, which results in thousands of dollars in tax savings over the life of the loan."

Third-party loan administration could be a win-win for parents and children.

The average interest rate on the loans is about 5.5 percent, which is a little more than parents would get on a bank CD and a little less than the child would pay for a bank mortgage.

Plus, all the interest is kept in the family.