Helping Your Adult Children Without Hurting Your Retirement

Presented by Michael R. Kalas, CFP®, AIF®, President

A large portion of the millennial generation has come of age during complex and challenging economic conditions. The older end of the generation entered the workforce just in time for the biggest market downturn and scariest job market in decades, while being saddled with more student loan debt than any previous generation.

While the economy and job market have since turned around, the headwinds that millennials have faced in starting their careers and making long-term financial plans have led to a few trends that are affecting their parents' generation as well. Many parents of adult millennial children find themselves wondering how much they should help their kids. For baby boomers in or near retirement, this is a big consideration, as providing financial support to a family member can affect their own retirement plans.

Staying in the nest longer

One way young adults are staying afloat is by staying in their parents' homes. By providing fledgling workers or entrepreneurs with free or cheap housing, parents arguably are preventing their young adult children from falling into greater debt—particularly in their early earning years when their incomes might not be enough to cover school loans and regular living expenses, let alone savings for the future. The expectation, of course, is that these young adults will progress in their careers and eventually have enough earning power to achieve financial independence. But can you really count on this happening? More important, what's the exit strategy?

Who's paying the bills?

Even if your kids have left your nest, are you feathering their new one? If you're still on the hook for financial support for your young (or not-so-young) adult child, you're not alone. According to a 2014 American Consumer Credit Counseling survey, more than one-third of U.S. households provide regular financial assistance to adult children, including:

- Paying rent
- Repaying student loan debt
- Covering car payments and cell phone bills

Even if you haven't dipped into your IRA to pay for your daughter's wedding (and, please, don't do that), these smaller amounts—a couple of thousand or even a few hundred dollars at a time—can have a detrimental effect on your retirement savings if they continue over the long term.

Is it a loan or a gift?

Another element to consider when providing substantial financial support to your child is the annual IRS gifting limit. At what point does your monetary support become taxable? For 2016, couples can gift up to $28,000 before having to report the amount to the IRS. In some instances, the same limit can be applied if you loan the money to your child (e.g., as a down payment on a house) but either consider it interest-free or charge below-market interest. For any amounts over these limits, you'll be on the hook for taxes.

It's important to note that gift and estate tax rules differ from state to state, and each situation is different. So it's crucial to consult with a qualified tax professional about the impact to your tax bill.

Does financial support now lead to financial independence later?
As parents, your goals are noble and well intentioned. "I want to give my kids more than I had," or "I want to give them a head start to keep them out of debt," seem like great reasons to help out if you have the means to do so—but do your actions foster the habits that will lead to financial success and independence? Or are they possibly setting the expectation that you'll continue to fund a lifestyle that your children may never be able to afford on their own?

Learning to live within our means can be a challenge at any income bracket, and cutting your kids off financially or enabling bad habits is a tough line to tread. Here are some compromises you might consider:

- **Charge rent.** This seems like an easy place to start, but it can be difficult to determine an amount and stand firm on collecting it; if they can't afford it and end up months behind, your kids won't perceive any impact if they feel like they can owe you indefinitely. Don't necessarily expect market value for the room, but you have the right to set boundaries that keep both parties feeling comfortable with the arrangement.
- **If not rent, pick an expense and be consistent.** Between utilities, groceries, and other expenses, there are many different ways your millennial can be accountable for at least some household needs.
- **Set boundaries.** Separate the wants from the needs. It's okay to want to help your kids relieve the stress from crushing student loan debt, but you don't need to finance their vacation or spa visits.
- **Live within your *own* means.** Lest you want to end up on their doorstep someday when your retirement funds run out, be disciplined about sticking to your budget and savings plan.

Above all, make sure you discuss your actual spending needs both as a family and with your financial and tax professionals. You've put time and effort into building a sustainable retirement plan. Don't derail your hard work by giving away more than you can afford.

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Michael R. Kalas, CFP®, AIF®, President is a financial advisor located at Potomac Financial Private Client Group. . He offers securities and advisory services as an Investment Adviser Representative of Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. He can be reached at mike@potomacfinancialpcg.com