



ENCOURAGE INDEPENDENCE, IF HELPING YOUR ADULT CHILD FINANCIALLY

Communication and Planning Essential to Your Financial Freedom

ENGLEWOOD, COLORADO—It's no secret that many individuals in the early stages of adulthood look to their parents for a little—or a lot—of financial support. Some ask their parents to help them pay off student loans or credit card debt. Others seek their parents' support to pay monthly utility bills or insurance charges. Many move back into their childhood homes in an effort to cut their personal expenses.

Families may feel that by offering financial support to adult children, they are providing a logical answer to a young person's financial problems, but these solutions only are temporary and can be fraught with negative long-term consequences.

"Parents who help their children financially can become resentful if they feel their kids are taking advantage of them. Children, too, can become bitter if they believe help is available only because it allows their parents the ability to retain significant control over their lives," says William L. Anthes, Ph.D., president and CEO of the National Endowment for Financial Education® (NEFE®). NEFE is the only independent, nonprofit foundation wholly dedicated to educating Americans about personal finance.

These often strained relationships between parents and their adult children can be worsened if the parents suddenly stop providing support, or if children don't follow through on established repayment plans. Finally, and most perilously, adult children may begin to feel they are incapable of supporting themselves, leaving them emotionally insecure and permanently dependant on others.

However, this does not mean parents should always refuse their children's requests for some means of support. Despite the potentially negative consequences, there may be times when children genuinely require financial help to keep them on their feet. Anthes says, "If a plan is agreed upon beforehand, and it is enacted with everyone's best interests in mind, parents can help their adult children through difficult financial times without causing harm to the relationship or encouraging the child's dependence."

Anthes suggests the following steps for parents who are offering their adult child some form of financial support:

- **Understand where your child is coming from.** In deciding whether or not to help your adult child financially, you may want to consider the economic situation facing young people today. Studies show young adults are faced with more credit card and student loan debt than in the past. According to the 2002 National Student Loan Survey conducted by Nellie Mae, the average undergraduate student loan debt is \$18,900, up 66 percent from 1997.¹ The same research showed that the median balance for all undergraduate students who had access to a credit card was \$1,600. These trends indicate, it's more difficult today for many young adults to be financially secure, and may be part of the reason your child is seeking your support.

Talk to your child about what financial challenges he or she feels faced with and why. Anthes says, "By understanding the financial hardships your adult child is encountering, you can make a more informed decision about whether or not you want to help them through a rough spot."

- **Examine your own financial situation.** As much as you may want to help your adult child, you probably shouldn't do so if offering support will put your own finances in jeopardy. "Parents often are asked to help bear the financial burdens of their grown children just when they should be saving as much as possible toward their own retirement," Anthes says. "If helping your child means you won't be saving as much as you had hoped for your later years, you should reconsider." Perhaps you are able to help your child in other ways. For example, you could offer a used family car that you no longer need, or draw on your professional connections to help him or her secure a higher-paying job. You also could offer to have your child live with you for a short period of time if he or she can contribute to household expenses.
- **Pay attention to the request.** Pleas for financial support can run the gamut, from a few hundred dollars to fix a car, to \$5,000 for paying off a credit card to \$10,000 for a down payment on a house. Before you offer any money, find out why your child is asking, and consider the likelihood that he or she may seek your help again. For example, you may be more willing to help your child buy a house than pay off credit card debt, especially if you suspect he or she may accumulate new debt in the future. In addition, the reason your child is seeking money probably will affect the ground rules you set.
- **Establish a plan.** Avoid problems later by making sure everyone knows what is expected before any money changes hands. Do you want to know the details of your child's financial situation in exchange for loaning money? If he or she is moving in with you, who will pay for groceries? Will the child be expected to help around the house? Iron out as many details as possible in the beginning. When you have agreed upon a plan, draw up a written contract. The more seriously you take the situation, the more likely your child will, too.

- **If you are loaning money outright, consider charging a small interest rate.** If your child were to borrow money from a bank or credit union, the institution would charge interest. While you might choose to enforce a lower rate, it still is smart to include one in the deal. According to Anthes, "Charging a small interest rate on money loaned will encourage your child to pay the money back in a timely manner and avoid borrowing as much as possible in the future." In addition, it will teach him or her a valuable lesson about loans, necessary fees and the general value of your money.
- **If you agree to pay off your child's credit card debt, insist that this is a one-time offer.** If your son or daughter has a significant amount of credit card debt, you may feel compelled to help pay it off instead of watching him or her struggle under the weight of compounding interest. "We all occasionally make mistakes," Anthes says. "Paying off debt can help your adult child begin anew financially."

However, Anthes suggests that before parents agree to pay off their child's cards, they should stipulate that this is a one-time occurrence. "Using credit responsibly is an important part of financial planning. If adult children believe you will bail them out every time they get in over their heads, they may never learn the risks and rewards associated with credit."

- **Require adult children who live at home to help with household responsibilities, financial and otherwise.** You may find the best way to help your child financially is by allowing him or her to move home again. "Offering children a place to live so that they can pay off debt and replenish savings can be an enormous help," Anthes says. However, he advises that parents charge a small amount of rent to help pay for household expenses. "If you do not need the income to pay a mortgage or other bills, consider requesting that your child save the money you would normally charge and use it for a down payment on a house or a security deposit for an apartment rental." This tactic will encourage young adults to save and remind them that the situation is temporary.
- **Set a time limit.** Before giving your child a loan or allowing him or her to move back into your house, work together to decide exactly how long the situation will last. If you are giving him or her a set amount of money per month, elect a date by which he will be financially independent again, or if you are loaning money, establish how much time your child has to repay the loan. If he or she is moving back into the house with you, decide on a move-out date, just as would be stipulated on an apartment lease.
- **Live by the rules.** As parents, it can be relatively easy to set the ground rules; after all, you've been doing this with your kids since they were young. However, you may find it more difficult to enforce these rules now that they're adults. Anthes says,

"Try to stick to the financial agreement and guidelines you and your child established. This way, neither party can claim that the other isn't holding up its end of the deal."

- **Lead by example.** One of the best ways to help your adult children live a healthy financial lifestyle is by demonstrating the behavior you'd like them to emulate. Establish and maintain good financial habits, such as investing for your retirement, saving for emergencies and creating a spending plan.

If your son or daughter has moved back in with you, schedule weekly household financial meetings, during which each member of the family is able to talk and ask questions about the family budget. "Take the opportunity to find out what your adult child knows about personal finance. Consider learning more about healthy money management as a family."

- **Work with a professional.** If you have a financial planner, you may want to find out what he or she would charge to work with your son or daughter. "The advice of a professional can help to reinforce the healthy financial habits you are trying to teach your adult child," Anthes says.

By following these guidelines, you can help ensure that assisting your adult child financially doesn't strain the relationship or anger either party. "Remember that your goal should not be to help your child forever. Instead, it should be to assist him or her through a tough time, all the while encouraging positive financial behavior," Anthes says. "If you keep this goal in mind, you're much more likely to come through the situation with a money savvy child and an even stronger relationship."

[1http://www.nelliemae.com/library/research_10.html](http://www.nelliemae.com/library/research_10.html)

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