

Financially Dependent Adult Children

What do you do when your adult child is struggling financially? This can be a very difficult question to answer for most parents as there are so many variables that need to be weighed. Making good, well thought out decisions could lead to a successful, financially responsible child. Making a not so great decision could adversely alter family dynamics for years to come.

Life can be challenging for those folks just starting out (not that it gets any easier as time goes by!). They have to pay rent and probably have car payments and student loans as well. Once the fixed expenses are paid each month, there might not be much leftover for groceries, clothing and entertainment. If they are lucky enough to have avoided unemployment in the past few years, their salary may be low and it could be challenging to stay out of debt. Certainly, no one wants to see their child struggle. Therefore, frequently, parents have thought about helping out in some way.

Before assisting a child though, you will want to think through how best you can help them as just giving them cash may not be in anyone's best interest. You should first take a step back and consider your own needs and whether you can afford to help them. If you are considering gifting cash or paying some of their bills, how will that impact your own cash flow? Can you still manage to pay all your own bills and save for retirement? If not, are you willing to reduce or forgo some of your own expenses such as vacations and dining out in order to help your adult child? If you decide you can afford to help your child, then the next question is whether you want to help or not.

For example, I have a client with an unemployed thirty year old son. She has no problem paying his health insurance premium for him each month as she feels this is important. She does however struggle with whether she should help pay down his credit card debt as she suspects that most of the debt was discretionary spending, not necessities. Why should she pay his restaurant charges when he knew cash was tight and he couldn't really afford to dine out? Is she rewarding poor decision making? Is he going to learn from this experience and change his ways or will he continue to make extravagant purchases he can't afford? If she doesn't help him get out from under the debt, will he continue to struggle financially for years and put himself in an even deeper hole? How would she feel if she gives him the money and he doesn't learn and grow from the experience? She thinks she would probably feel resentful that he "wasted" her hard earned cash and that could put a strain on their relationship. If she doesn't help him out though, what could be the long term impact on their relationship? As you can see, this is not a simple decision. But, she has been taking the time to think through the different possibilities and potential long term ramifications which is good.

You also want to consider whether this will be a gift or a loan to your child. Currently, anyone may gift any one person \$13,000 a year without having to file a gift tax return. If you and your spouse each gift your child \$13,000, the child could receive \$26,000 a year. Again, can you afford to give your child the cash outright? How does it impact your own finances long term? Perhaps a loan would be more appropriate. Loans can be an attractive option at the moment with money market and CD rates at all time lows. The agreed upon interest rate can to be a win-win for both parent and child with the parent receiving a better yield than they would have with the cash in a money market account and the child receiving a lower rate than they would obtained otherwise. If you do set up a loan though, be sure that it meets all IRS requirements as there can be special rules for loans between family members.

With a loan, you will want to think about what happens if the loan payment is late one month. What happens if the child stops paying it back altogether? How do you think you will feel? Are you okay with that? How might the family dynamics change if the loan isn't repaid? Think about how best to structure the loan so it works for everyone and the risks are minimized.

Unfortunately, our need to help our children financially frequently extends well beyond age eighteen. Taking the time to think through how best to help them and fully understanding the possible long term ramifications of your decision can only help ensure that you make a sound financial decision for both you and your child.