May 2023

BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY notes

Risks, rewards and potential pitfalls

For many members of the Millennial and Gen Z generations, massive student loan debt burdens in conjunction with difficult economic conditions, including persistently high inflation, increased borrowing costs, and soaring rents, have wreaked havoc on their ability to establish steady financial footing in early to mid-adulthood. A 2023 survey found nearly half (45%) of all parents in the U.S. with adult children continue to provide them at least some level of monthly financial support—from paying mobile phone and car insurance bills to helping with rent, health insurance, childcare costs, and/or mortgage payments.[1] Many parents have also reported having to provide even more financial support to their adult children since the start of the pandemic.[2] Without this parental support, some young adults simply can't make ends meet each month. As you would expect, there is another cohort of young adults who purposefully choose not to exercise smart financial behavior and continue to rely on the generosity of their parents simply because they can and are allowed to do so.

These unfortunate situations present several unique challenges to parents. On the one hand, you probably want to provide your children and grandchildren with every possible advantage in hopes of protecting them from struggles—both personal and financial. However, you most likely also want to ensure they are financially independent and responsible members of society who are well prepared for the inevitable challenges of growing, managing, and eventually transitioning wealth.

How do you balance these competing demands? And, more importantly, how can you avoid damaging your own financial security and short-changing your retirement savings needs. The very same survey referenced above also noted that working parents who are supporting adult children are funneling 23% more of their monthly income to their kids' expenses than they are to their own retirement savings.[1] For many families, this is a dangerous precedent that could result in a delayed or financially insecure retirement.

Just how much financial support should you be willing to extend? When should it end? And how can you best go about weaning your children off your support and guide them towards financial independence—without creating excessive family tension and/or hurt feelings?

Incentivize

Much in the same way employers try to encourage workers to participate in company-sponsored retirement plans by offering a 'company match,' you could consider incentivizing your financial assistance to your adult children. This should help encourage them to develop more positive money management behaviors, make smarter financial decisions, and exercise more fiscal prudence. Keep in mind, however, that any financial assistance you provide should not jeopardize your own financial security. For example, and within the bounds of your own financial circumstances, you could offer to match a certain percentage of:

- Any IRA contributions your child makes when they first start working;
- Any funds they set aside for a down payment on their first home or to build an emergency fund; and/or
- Any amounts in excess of the minimum monthly payment they make towards outstanding student loan debt.

Of course, in certain instances it may make better financial sense to simply cover some of your adult child's expenses. Depending on the comparative quality of coverage and costs, you may want to keep them on your health insurance family plan until they reach age 26 (even if they are eligible for a workplace plan). It also may be considerably cheaper to maintain their line on your current cell phone plan rather than having them sign up separately. Keep in mind, though, that you can (and probably should) still ask your adult children to contribute a set monthly amount to offset the cost of their participation in your family cell phone plan. And, more importantly, your financial assistance should be within your own financial means and time-limited. For example, you may be willing and financially able to help your newly-minted college graduate with a portion of their rent on their first apartment but will only be willing to do this for their first 6 months out of college.

The key here is to seek out temporary ways of offering support that will empower the next generation to become savvier and more disciplined wealth accumulators and money managers.

Intrafamily loans

Of course, the easiest way of all to financially help your adult children is through a gift. But tax-free gifts are limited to $17,000 annually ($34,000 per married couple) which may not be enough if you are helping with a large expense like a home purchase or student loan payoff. More importantly, gifts are irrevocable. You cannot just take them back should you unexpectedly need those funds returned because of some unanticipated financial need such as a healthcare crisis.

One alternative you might want to consider is an *intrafamily loan*. While these loans do require you to charge interest, keep written documentation, and maintain a record of payments, you have a tremendous amount of flexibility in structuring the particular loan terms.

The loan can be for almost any purpose and any duration. There are no mandatory fees you need to charge. There are no credit checks or collateral requirements. And, although you must charge annual interest, the minimum required rate set by the IRS (the Applicable Federal Rate) is usually well below the rates charged by most banks and other traditional lenders.

[continued]

Getting started

Providing help to adult children as they start their working lives (especially given the current economic climate) is a noble and beneficial gesture that can provide them with a leg up on their debt-laden peers. Just make sure that the help you provide is measured, finite, clearly defined, and well within your own financial means.

Your BLBB Financial Advisor, in conjunction with our financial planning team, can help you assess your current liquidity and explore these and other creative ways to lend a hand without tying your own—including gifting strategies that could benefit your adult children while at the same time removing taxable assets from your estate that you do not expect to need for retirement. Do not hesitate to reach out to us if you could use some assistance in this area (215-643-9100).

---

[1] "45% of Parents Still Cover Costs for Their Adult Children," Spending.com, March 2023

[2] https://blog.massmutual.com/post/parents-supporting-adult-children-the-good-and-bad

L to R: Robb Parlanti, Ed Barnes, Clif Haugen, John Lawton, John Armstrong, Laura Brewer, Dean Karrash, Brian Gallagher, Brianna Barnes March, Nick Bucci, Bob Flood, Chris Perry

BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

www.BLBB.com
215.643.9100

Mailing address
P.O. Box 1010, Montgomeryville, PA 18936

Street address
103 Montgomery Avenue, Montgomeryville, PA 18936

Investment advisory services provided by BLB&B Advisors, LLC. BLB&B Advisors, LLC is a Pennsylvania-based investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.