The BANK of Mom and Dad

Money, parents, and Grown Children

Derrick Penner

Self-Counsel Press
(a division of)
International Self-Counsel Press Ltd.
USA Canada

Self-Counsel Press acknowledges the financial support of the Government of Canada through the Canada Book Fund (CBF) for our publishing activities.

Printed in Canada.

First edition: 2014

Library and Archives Canada Cataloguing in Publication

Penner, Derrick, author
The bank of mom and dad : money, parents and grown children / Derrick Penner.

(Personal finance series)
Issued in print and electronic formats.
ISBN 978-1-77040-213-3 (pbk.).—ISBN 978-1-77040-968-2 (epub).—ISBN 978-1-77040-969-9 (kindle)

1. Parents—Finance, Personal. 2. Adult children—Finance, Personal. 3. Parent and adult child. I. Title. II. Series: Self-Counsel personal finance series

HG179.P45 2014 332.0240085 C2014-905622-2
C2014-905623-0

Interview quotes by Richard Bell, Real Estate Lawyer, Bell Alliance Lawyers & Notaries Public, used with permission.

Self-Counsel Press
(a division of)
International Self-Counsel Press Ltd.

Bellingham, WA
USA

North Vancouver, BC
Canada

Contents

Notice to Readers

Laws are constantly changing. Every effort is made to keep this publication as current as possible. However, the author, the publisher, and the vendor of this book make no representations or warranties regarding the outcome or the use to which the information in this book is put and are not assuming any liability for any claims, losses, or damages arising out of the use of this book. The reader should not rely on the author or the publisher of this book for any professional advice. Please be sure that you have the most recent edition.

Note: The fees quoted in this book are correct at the date of publication. However, fees are subject to change without notice. For current fees, please check with the court registry or appropriate government office nearest you.

Prices, commissions, fees, and other costs mentioned in the text or shown in samples in this book probably do not reflect real costs where you live. Inflation and other factors, including geography, can cause the costs you might encounter to be much higher or even much lower than those we show. The dollar amounts shown are simply intended as representative examples.

Acknowledgments

Sometimes opportunities surprise you. I would like to thank Self-Counsel Press and Kirk LaPointe, Publisher and Editor-in-Chief, for bringing me into this project as well as Richard Bell of Bell Alliance Lawyers & Notaries Public and Lorne Goldman of MacDonald Realty, Lorne Goldman for their counsel and assistance.

Introduction

It's tough for young adults in North America these days — tougher than they thought, tougher than they were led to believe it would be growing up in the relatively affluent cocoon afforded to them by their parents during the 1990s and the 2000s (also known as the "oughts").

On the bright side, these young adults are educated — more of them have received college and university educations than ever before, traditionally the primary means of achieving social mobility. However, education is becoming increasingly expensive and they are earning those degrees and diplomas while racking up higher levels of debt than previous generations. As they graduate, they are entering a job market that is particularly unkind to the young. In both the United States and Canada, youth unemployment runs about double that for older workers. The young are presented with fewer full-time, well-paying jobs and more temporary contracts, part-time work, and frequent job changes.

Just as they are starting out with bigger debts and shakier career prospects, soaring property prices over the last 20 years have made it more difficult for the young to step onto the first rung of home ownership too. It's no wonder then that the young are remaining in the familial nest longer too. In the United States an estimated 36 percent of young adults between the ages of 18 and 31, the so-called millennials, live with their parents.[1] In Canada, it's a whopping 42 percent of those between the ages of 20 and 29 who either haven't left the nest, or have boomeranged back after completing a degree.[2]

Demographics and broader societal trends that have been developing over the last 50 years are likely driving many of the expectations now being placed on parents to keep extending financial assistance to their kids. At the heart of the parent and adult-child dynamic is the baby boom, the massive surge of population that emerged between 1946 and 1964 in a wave of optimism and incredible economic growth.[3] Across North America, there are 86 million so-called boomers — 76.4 million in the United States,[4] 9.6 million in Canada[5] — one-quarter of the continent's population.

The leading edge of the baby boom has begun hitting retirement age, but the bulk of the demographic is still well entrenched in the workforce and in their prime earning years. On aggregate, the wealth of baby boom has been a transformative force at all stages of their lives. That picture of wealth, however, might not be so apparent for a lot of individual families at the same time there is an increasing, broad-brush expectation that boomers will be able to come to the rescue of their kids.

On the other side of the generational divide includes the children of baby boomers — the echo, which comes out to be even larger. There are 91.4 million North Americans linked more or less with their boomer parents, those born between 1972 and 1992 — 82.2 million in the US, 9.1 million in Canada — a bit more than one quarter of the population.

1 "A Rising Share of Young Adults Live in Their Parents' Home," Pew Research: Social & Demographic Trends, accessed October 2014. http://www.pewsocialtrends.org/2013/08/01/a-rising-share-of-young-adults-live-in-their-parents-home/

2 "Family Life — Young Adults Living with Their Parent(s)," Employment and Social Development Canada, accessed October 2014. http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=77#M_1

3 "The Baby Boom Cohort in the United States: 2012 to 2016," United States Census Bureau, accessed November 2014. http://www.census.gov/prod/2014pubs/p25-1141.pdf

4 "Age and Sex Composition in the United States: 2012," United States Census Bureau, accessed November 2014. http://www.census.gov/population/age/data/2012comp.html

5 "Generations in Canada: Age and sex, 2011 Census," Census in Brief, Statistics Canada, accessed November 2014. http://www.google.ca/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CCMQFjAB&url=http%3A%2F%2Fwww12.statcan.gc.ca%2Fcensus-recensement%2F2011%2Fas-sa%2F98-311-x%2F98-311-x2011003_2-eng.pdf&ei=VKFiVLXQJMz20AT1s4KoDQ&usg=AFQjCNGKelFjwjReFL_cGOMZiM6tv7Hiow&bvm=bv.79400599,d.cGU

Call them Generation Y, or millennials, they can be forgiven if they have a jaded view of the world in front of them, considering that when they look back, they see parents, particularly baby boomers, who have managed to build up considerable wealth. It is the parents who have been the main beneficiaries of those skyrocketing property prices that have turned family homes into tidy nest eggs.

While Generation Y benefited growing up in households where family wealth and social mobility was rising, it is their parents who have hung onto the benefits while many of the younger generation struggle to find an independent foothold in society.

It can be difficult for parents too, after living through periods of unprecedented opportunity and economic growth, to think that their children might be the first generation that doesn't do better than they do. Before the kids even ask, parents might feel the pressure of guilt to offer a bit of financial assistance to help their kids take those first steps towards independence. Welcome to the Bank of Mom and Dad!

The transfer of wealth from one generation to the next has happened throughout history, but in recent years the transfer has taken different dimensions as one generation is finding it harder to get established. Instead of inheritance at the end of life, there is pressure to perhaps pass some of it along sooner, if that is possible. You may be asking yourself the following questions:

- Can you afford to give your kids some of their inheritance now?
- What is the best way to help them?
- Will the money you provide have stipulations?
- Will it be used to help build their careers with education?
- Is it to help your children acquire property at a time when they are struggling to save money?
- If your kids have managed to get through the journey from education, to career, to home ownership, but have sacrificed their own future investments along the way, should you help kick-start your children's retirement savings?

- Is your best strategy to focus on your grandchildren? If your children are having trouble building up education savings for their kids, a healthy contribution to a Registered Education Savings Plan (RESP) or college-savings plan might be the appropriate help from the Bank of Mom and Dad.

This is not to say that the older generations don't have challenges of their own. They may be wealthy on paper, but a high net worth doesn't translate directly into spare cash that they can spare for their kids. The modest family home bought a long time ago might be worth hundreds of thousands of dollars now, but that is not money that can be spent. Baby boomers in particular are also caught between the demands of two generations. Often referred to as the "sandwich generation," many boomers face the need to care for their own aging parents at the same time their kids are having a hard time getting out of the nest, which can stretch their finances at both ends.

Increasing numbers of North Americans don't have company pensions to fall back on in retirement. They might be under pressure to pay off mortgages and increase their own savings to make sure they can maintain a comfortable income in retirement, and worrying about getting their kids into a home should be the last thing they are thinking about. The cost of aging is another factor parents need to keep in mind as well. By the first decade of the 21st century, average life expectancy in the US had risen to 79 by 2010, compared with 74 in 1980; and 81 in Canada by 2009 compared with 75 three decades previously. It raises the specter of unexpected health-care costs that come with aging and longer periods of time in expensive assisted-living facilities.

The potential intermediary in all this is the expected transfer of wealth, some of which is happening now, from one generation to the next, and is forecast to continue over the next 20 years. Financial planners have attempted to stoke the excitement over this phenomenon the most, but estimates are that $8.4 trillion in inherited wealth will pass from one generation to the next in the US, and $1 trillion in Canada — seemingly enough money to repair any number of financial sins that have preceded its inheritors.

Inheritances, however, can be quickly spent before they are received and care must be taken not to build up assumptions and expectations about what inherited wealth can achieve.

Through the ages, children have always looked to their parents for help, advice, guidance, and even physical assistance in navigating life's challenges. Increasingly in the early decades of the 21st century, the expectation is that parents will help by becoming the Bank of Mom and Dad. This book is intended to guide parents in helping their children financially without going bust themselves.

Chapter 1

The Family Finances Discussion

Many parents have already inadvertently become the Bank of Mom and Dad by default with children who are still living at home, or who have returned after attending college or university. Census data in both Canada and the United States show that more young adults are cohabiting with parents for longer. Providing children with a period of free rent and food can be a welcome relief to new graduates nursing significant student debts and uncertain job prospects. However, it is an arrangement that can strain the parents' day-to-day finances and is likely not a sustainable, long-term strategy.

The first step is to figure out if you can afford to continue offering financial assistance in a more formal way and for more definite goals. This is about establishing clear communications and not relying on assumptions about how well-off parents are or just how much money kids are making and spending. Adult children must decide what it is they need to get ahead, and parents need to be clear about exactly what they can and cannot do to help them.

The process can start with high and unrealistic expectations if you don't have a clear and specific understanding of each other's finances and what goals you are trying to meet. Both sides risk strained relationships if they leave room for assumptions that parents are simply wealthy enough to just pay for what the children need (and correspondingly, parents might overestimate just how much money adult kids are able to earn and save in temporary or part-time jobs). It is good to start with a definite and contained plan towards meeting clear and specific goals.

To the children, it might seem unfair that while they are struggling, they see parents who are comfortable and enjoying a better lifestyle than they are. Still lacking independence, they might feel entitled to the same kind of support they received from mom and dad while they were growing up. For the long-established parents living well within their means while also putting money away for future savings, the guilt at seeing their children struggle might make them want to offer support.

Parents shouldn't sacrifice their own financial health in the process, and children need to understand that. If parents are contributing to their children's immediate well-being, while the kids are appreciative, they may be spending money they should be saving. This is true especially the closer parents get to their own retirement and have less time to replace any savings they withdraw to help children, regardless of whether or not the kids pay back the assistance.

1. Be Open and Honest about Money Matters

Parents may know intuitively that they cannot afford to help if they are outright worried that they haven't saved enough money for retirement. They need to let their expectant kids know that and shouldn't be pressured into it. There needs to be a frank discussion about financial circumstances on both sides. Parents may appear to be well set to their kids, but they need to convey what their financial goals are and what they still need to contribute to investments and savings to get there.

Children need to do some reckoning of their own, being honest about their income and savings. This might involve creating more realistic budgets to determine what kind of resources they can contribute to whatever the goal is they decide to work towards. This may also wind up being a bit of an uncomfortable discussion about children living within their means. (See Chapter 3.)

Since this is about how to help adult children get a stronger foothold in life, it is preferable to talk about specific goals for doing so. Are you going to be contributing to the down payment for purchasing a first home? Or do the children really need assistance with the tuition for a particular educational credential that is going to advance their careers? Putting money into the purchase of a vehicle might qualify if the lack of their own transportation stands in the way of getting the jobs that they want, but might not if they just want a vehicle to get around and simply haven't put away enough money to do it themselves. Shelling out money that just winds up subsidizing the children's lifestyle isn't helpful.

Parents need to be clear about how the assistance is going to be offered. If they are able to extend financial help in the form of a gift, children need to understand that this is the case, and that it is going to be a one-time occurrence for the specific goal that you've both decided on. Parents may be tempted to offer help in the form of a loan, especially if they are worried about their own future savings. They might be more amenable to giving their children money if there is an expectation that this is just "bridge financing," and that the children will pay them back when they are on firmer financial ground. However, an educational credential might not get them into the desired jobs they want, and it might not lead to an increase in earnings they need to start paying back the loan. If a child loses employment, he or she might be at risk of not being able to pay back his or her parents for the down payment on that home they helped the child buy.

Even if both parents and the children understand that the assistance is a loan — even an interest-free loan — they should be prepared for the eventuality that the kids won't be able to pay them back. Parents should resist the temptation to use money that they cannot afford to do without later in their lives.

2. Tips for Discussing Money Matters

It is bound to be awkward, but if kids expect their parents to be forthcoming with financial assistance, the parents need to have an idea of where their children are financially. Simply laying out their student-loan totals to demonstrate how poor they are isn't enough information. You and the children need to figure out their overall financial situation. It cannot be a simple single question, "Here's how much I need for my goal, can you afford to pay it?"

If the kids were going to a bank for a loan, they would face a rigorous (some might argue privacy-testing) application process, and then wind up being denied. Just because they are turning to family for some financial help, doesn't mean they should be able to skirt past proving their need for help, versus their own income and resources. They should also be able to prove that the goals they are reaching for are pragmatic.

To get a realistic picture of what they are going to achieve, both parents and kids need to bring a certain amount of information to the table, and answer questions honestly. Documents such as the following will help illustrate an adult child's financial situation:

- Bank account statements.
- Investment statements.
- Credit card bills.
- Paycheck information.
- Tax return paperwork.

The adult children must not forget that they could be asking for a serious financial commitment that parents might want to establish in a formal, written agreement. This is not a polite conversation.

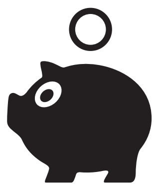
The kids should be able to answer the following questions in Worksheet 1.

WORKSHEET 1
ASSESSING THE ADULT CHILD'S FINANCIAL SITUATION

1. How much have you been able to save for yourself? For example, if you are asking for big-ticket help with the down payment for a home, you should be able to show what resources you are bringing to the transaction.
2. How much do you really earn? Your parents may understand that you are underemployed for whatever

qualifications you have, but you need to be honest about you income and how much help you really need.

3. What debts do you have? List every single debt you owe and the total amount as well as the interest. You parents might know about the student loan, and have an idea about your vehicle payments, but they need to know about credit cards and other consumer debts that are putting your financial situation at risk. You have to ask yourself whether it is really fair to seek your parents' help before you have paid off debts that are likely related to subsidizing your lifestyle.
4. What are your expenses (and are they realistic)? Your parents might look at you as a fashionably dressed adult, carrying the latest smartphone or gadgets, and wonder why they need to fork over money to look after some specific "need" while you seem to have no problem handling your "wants."
5. What is it that your parents will be paying for? If you're looking for help with tuition for education, you should be able to demonstrate how that credential or course will benefit your salary prospects.
6. Is this a loan you're asking for or a monetary gift?
7. If it is a loan, how do you plan on paying it back (e.g., monthly payments, yearly payments, whenever you can)?



As for question 7, parents should be looking for specifics such as amounts to be repaid, over what period of time, and if there will be interest added to the loan. It is important to commit this information to writing so there are no future misunderstandings.

For the adult child in this situation, he or she needs to know that the conversation is not simply a grilling from his or her parents to pry into his or her personal affairs. There are some very practical reasons to discuss the questions in Worksheet 1. For example, an adult child trying to buy a home might simply be focused on qualifying for a mortgage and hasn't thought about other expenses in the transaction, such as the closing costs and fees, renovations, and moving expenses. In talking about how much the adult child has saved, the parents might be able to give him or her tips on whether he or she has saved enough for the type of home the child is looking for or he or she is missing costs that will need to be paid for later.

Talking about the child's spending can be more about figuring what his or her attitude is towards money. It is also an opportunity for parents to gently (or perhaps more pointedly) point out where the adult child is spending money he or she doesn't need to and to have more resources than he or she thought to solve his or her own problems rather than looking for a handout from mom and dad.

Parents also need to be up front as well. If your kids are frustrated that you seem reluctant to offer them help, it could be because they really don't understand the family's financial situation. As the parents, you might be well-established in the family home that looks like it is worth a fortune (on paper at least), but the children might not be fully clued in to how much you are still paying on the mortgage, or whether you have already leveraged the home's value on a line of credit to look after needs of your own. Being able to show your kids your own financial picture — the money coming in, bills, and savings you are trying to set aside — demonstrates just how much room you do (or don't) have to offer help to your kids. They might not know and hadn't thought of it before, so it can be a lesson in both understanding and what they should be aiming to achieve themselves.

Young adult children should be able to understand that while their parents may not have batted an eye at shelling out $300 for a pair of athletic shoes their children demanded, they couldn't have justified that expense for themselves.

You may even discover that you've being shielding your children from the financial realities of the household. While it is natural to save your kids from the stress that goes along with managing personal finances during their youth, that doesn't help either party at this point. Parents have to come to grips with the knowledge that giving in to the pressure to keep giving their children handouts, it will only continue enabling — and entrenching — their kids dependence on them.

Also, armed with the knowledge of their parents' financial obligations, the kids might have a better understanding of the consequences that go along with what they are asking for. After knowing what it costs to run their parents' household, the kids might not bristle so much when they are asked to pay rent if they are still living at home in the house they grew up in, or be more willing to contribute to running that household in other ways such as through doing chores.