RICHARDSON Wealth | ALEXANDRA HORWOOD & PARTNERS

I would like to share with you my recent article on supporting adult children to find independence published by The Globe and Mail.

For many years we have been supporting families as they navigate through a new phenomenon — adult children moving back in with their parents. This seems to be a result of several factors, including the ever-rising cost of housing. A recent survey showed that 33% of Canadians say their adult children are causing them a financial strain. Ensuring that parents are instilling good financial habits in their children and not mortgaging their own retirement plans is vital. In this feature I address the best ways to support adult children while preserving your long-term financial plans and establishing ground rules to ensure children become financially independent sooner rather than later.

How advisors can support clients with adult children coming back home

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ALEXANDRA HORWOOD
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See the column on The Globe and Mail's website here. (Subscription required)

The script for phases of life used to be straightforward: Go to school. Get a job. Get married. Buy a home. Start a family. Save for retirement.

Financial advisors support their clients through these life phases. However, they're now increasingly navigating clients through a new phenomenon – adult children moving back in with their parents. That's a result of several factors, including the ever-rising cost of housing.

In fact, many parents are also making significant contributions to their children's down payments, often interest-free.

Almost a third of first-time home buyers (30 per cent) received help from family members in the past year, according to a report CIBC Capital Markets released in October. The average gift size in Toronto for first-time home buyers was estimated at more than $130,000, while home buyers looking to upgrade received $200,000. Similarly in Vancouver, buyers were gifted an average of $180,000 and 340,000, respectively.

Parents often want to support their children, both emotionally and financially, but how can they do that without jeopardizing their own financial well-being?

Ensuring that clients are instilling good financial habits in their children and not mortgaging their own retirement plans is vital. These cases are often fueled by emotion, and for advisors, there's a responsibility to navigate clients through what can be a tricky situation.

Evaluate from a long-term perspective

Many parents are giving sizable gifts to their children. The first thing advisors should do in the decision-making process is to help clients understand whether the gift will help their children in the long run to establish good financial habits.

It's important to ensure clients are keeping their retirement plans in mind to determine to which extent they can support their adult children financially.

FP Canada recently conducted a survey that showed a third (33 per cent) of Canadians say their adult children are causing a financial strain.

When clients are examining the best ways to support their children while preserving their long-term financial plans, they need to have a clear picture of the impact that any financial contribution may have.

They also need to establish ground rules to ensure their children become financially independent soon.

In doing so, clients want to teach sound financial values such as the importance of hard work, paying bills, living within your means, balancing your budget, and saving money from a young age to benefit from the power of compounding interest.

Advisors want to avoid scenarios in which clients become ATM machines for their children.

Set clear parameters from the get-go

Establishing parameters from the beginning if a client's children are about to move back home is important.

Typically, children that move back home as adults are not students anymore. They have likely begun careers and are on the path toward independence. They should not be void of financial or other responsibilities in the home, which means setting expectations on what they're going to pay for and how they will contribute to the home.

For example, will clients charge their children rent? How much will they contribute to groceries or gas? What are the expectations for cooking, cleaning, and chores?

Having a clear sense of how long the children will be living with their parents will play a role in financial planning. Some of the issues that need to be addressed include whether the move will be a short-term arrangement to help them get back on their feet, or if the children can save money by moving back in, which allows them to save for a down payment for a home.

Another consideration is whether giving them money is a loan or a gift. Making it a loan can be a good strategy because the Ontario Family Law Act, for example, treats gifts and loans differently in the event of a future marital breakdown. Gifts show up on the couple’s list of matrimonial assets to be divided whereas a loan may not.

While clients may have an urge to jump in and rescue their adult children, they also need to recognize that letting their children establish themselves will be character building, and should accelerate their independence, financial or otherwise.

Encourage regular family financial planning sessions

Recognizing and acknowledging the emotional toll this situation can have on your clients is key.

Navigating and managing their children’s needs and expectations can be challenging because clients want to support their children and set them up for future success and independence. For that reason, it can often be beneficial to bring in an expert to facilitate family discussions to talk about financial plans and goals.

Some wealth management firms have support staff in place that facilitate family meetings to navigate challenges and mediate productive conversations. During these discussions, advisors can have open and clear conversations to ensure that everyone understands how money and other assets and resources are being distributed. This will be different for every family, and it’s important to remember that fair doesn’t always mean equal. Some family members may require more support than others depending on their needs and life situations.

Ultimately, it can boil down to a tug of war between clients wanting to take care of kids, but also recognizing that they should ensure they’re preparing their children to be independent without jeopardizing their own livelihood.

The key to striking a good balance in these arrangements is to ensure that clients don’t make it too punitive for their children, while also ensuring it’s not too comfortable either. Or, as Warren Buffett famously said, give your children “enough money so that they would feel they could do anything, but not so much that they could do nothing.” .