Helping your adult children with their finances

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Legal Briefs

The United States economy is slowly recovering in the wake of the most significant financial crisis since the Great Depression. Still, the economic foundation of many families remains in grave condition. While the housing industry is gradually bouncing back, the decline in home values combined with risky mortgages and significant borrowing from equity resulted in negative housing equity for many homeowners and foreclosures for others.

Poor market performance negatively impacted retirement funds and general savings. A number of people lost jobs and remain unemployed. Many households were forced to deplete emergency reserves and incur credit card debt.

Recent surveys suggest that a significant percentage of parents provide financial support to their adult children. When asked why, parents cite concerns about the financial hardships their children are facing. Additionally, they feel compelled to leave an inheritance because their children's retirement savings are limited and their debt is, in many situations, extensive.

Common forms of financial assistance parents provide include:

- Paying off mortgages and credit card debt.
- Gifts of cash to cover monthly expenses.
- Purchases of assets, such as a car, for a child's family.
- Co-signing on a mortgage or other loan for a child.
- Sharing homes and household expenses.
- Helping pay for grandchildren's college educations or weddings.

An unfortunate effect of parental assistance is that many aging parents have jeopardized their own financial and legal futures in an effort to help their families. Additionally, children who rely on their older parents for assistance may find themselves in a perilous situation if the parent becomes ill and needs long-term care. Consider the following scenarios:

Mary, age 72, paid off her son's credit card debt because he was struggling to meet the monthly payments. She also paid for her granddaughter's last year of college so her son wouldn't have to dip into his savings.

Two years later, Mary had a series of strokes and required nursing home care. When she applied for Medicaid, her financial assistance to her family was characterized as gifts subject to the five-year look back period, disqualifying her for Medicaid and leaving her without a source of payment for the nursing home.

After Bill, age 69, lost his wife, he moved in with his daughter and son-in-law. Because his daughter-in-law had recently become unemployed, Bill co-signed to refinance his son's mortgage and contributed his Social Security income towards monthly household expenses. Later, when Bill was admitted to a nursing home and had to use his Social Security for healthcare costs, his son and daughter-in-law could not meet their monthly mortgage payment.

There is no perfect solution for families facing financial challenges. However, families should seek professional help so they can make informed decisions with a clear understanding of the rules and consequences.

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