

# Were your adult children prepared for the new economic reality?

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The Great Recession changed the global economic landscape in many ways, but some of the most significant effects are still being felt by American baby boomers. While many are still rebuilding their own plans for retirement, their adult children are coming back home, looking for financial support. A survey conducted by the Pew Research Center near the end of 2009 found that 13% of parents with grown children saw one of their adult sons or daughters move home that year.<sup>1</sup> And the “Boomerang Kids” are still coming back.

As the nation observes Financial Literacy Month, Baird takes a look at this recent phenomenon and offers some advice on preparing your children – whatever their ages – for the new economic reality we all face.

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## What You Should Know:

### 1. Why are they coming back?

The United States’ recovery from the recent recession has been slower than many expected, due in large part to high unemployment. This and other dynamics have been particularly hard on young adults:

- According to the Bureau of Labor Statistics, in October 2009, 15.6% of 20 – 24-year-olds were unemployed vs. 8.7% for people over 25. While

unemployment rates fluctuate by state and in general have come down over the past year, the disparity persists.

- Many young adults purchased homes for little or no money down during the housing boom. When that bubble burst and their home values suddenly decreased, many lost equity even as their monthly payments ballooned, and some were caught up in the groundswell of foreclosures still plaguing the nation. ▶

## 2. Helping too much can hurt.

While there are completely unforeseeable circumstances that can lead to an adult child's financial dependence on you, such as a medical emergency, it is important for you to know how much you can actually help without hurting your own situation or your child's development as a financially responsible individual.

- Don't take away from your own retirement savings to address what may be a temporary financial setback for an adult child, or you increase the risk that you may end up relying on them for support one day.
- While it is recommended that you contribute toward some sort of college savings investment plan throughout your child's life, there is nothing wrong with expecting your child to contribute to his or her own education, either by taking a part-time job or applying for student loans. In fact, these experiences are often educational.
- If a job loss results in an adult child temporarily moving home, be sure to set clear expectations and reasonable timelines for them.

## 3. It's never too late to learn the fundamentals.

It's natural to want to shield children from life's harsher realities. Because of this, however, it is not uncommon for a child's perspective regarding money to be skewed. Before they take jobs of their own, most only experience the spending of money on a discretionary basis rather than taking part in the accumulation, budgeting

and essential spending of it. While they are still living with you as children – or after they have experienced a significant financial setback that brings them home – take advantage of teachable moments:

- Make sure your child understands the basics of cash flow and debt, particularly that credit cards or mortgages with low introductory rates are not “free money.”
- Help them identify near- and long-term financial goals, set tangible savings targets, then work with your child to make a budget and balance it.
- Emphasize that decisions to spend, save or invest carry real consequences. For instance, if an adult child is living with you, make “rent” the primary line item on their monthly budget.

### What You Should Do Now:

The fact that you are still reading means you appreciate the value of expert insight. This is perhaps the most important thing you can give your children – showing them that for many important matters, seeking professional advice is the wisest course. We recommend you introduce your child to your Financial Advisor. This can help him or her to understand not only their current situation but the dynamics of wealth preservation and long-term financial planning. This is especially important if your estate plans eventually involve a significant transfer of assets to your child or the establishment of a charitable legacy in which he or she will be expected to play a role. ■

<sup>1</sup>Pew Research Center, November 24, 2009.