Am I Empowering or Enabling My Adult Child?

Parenting can be the most rewarding and challenging job. According to finder.com, a staggering 68% of Canadian parents are helping their adult children with finances. Personally, we have had assistance early in our lifetimes from our parents. Many of our clients are confronted with situations whereby they are debating when or how to help their son or daughter financially.

Assistance can be for aspirational endeavors such as post-secondary education, home purchases, or helping invest in a business. Alternatively help is often needed when times are tough or cash flow is lacking, like now during the COVID crisis. These can include subsidizing rent, unexpected expenses, or major events such as job loss, marital break down, or credit issues including bankruptcy.

Regardless of the reason to help your children, we encourage parents to consider the following when providing financial support:

1. **Have a discussion.** Sit down with them and help review their current financials and cash flow. We understand people tend to be private about finances or there could be underlying sensitive issues. However, we believe candor is required to make an effective plan and improve your son or daughter's situation. Sometimes it is helpful to engage an independent third party like a banker or accountant.

2. **Are funds a gift, loan, or investment?** This should be clear up front. Gifts typically come with no strings attached. Loans should be in writing and have clear expectations with respect to interest rate and repayment schedules. You can be creative such as no payments for the first six months. If it is an investment, how are funds to be recovered: sale of home, after a set number of years, or upon a predetermined increase in value?

3. **Set boundaries.** If you are reaching into your wallet frequently, some suggestions include: reducing monthly support incrementally, offering assistance for 90 days, limiting help to one request every 12 months. Generally, you want to provide a <u>hand up not a hand out.</u>

4. **Where is the money coming from?** Drawing from savings, investments or taking a loan. There are pros and cons to each. For example, dipping into your RSP has tax implications. Cosigning a loan means parents are liable and do not have control. Alternatively, parents could lend against their line of credit and have the kids cover the payments often at a better rate.

5. **What is the impact on other family members?** We advocate some level of transparency here. Family members often find out and we feel it is better to lead the discussion. Parents typically strive for fairness which may not mean equal. Offsetting gifts or adjusting inheritance amounts for prior financial support can be ways to help balance or maintain harmony. Again, ensure you document and update.

A final note around helping kids with credit troubles: We strongly urge parents to be part of the process with creditors or insolvency agencies before providing assistance to confirm debts will be properly cleared out. This will help ensure creditors are satisfied and avoid further repercussions.

It can be rewarding yet stressful to find a balance when helping kids with finances. One of the key questions to ask is "**Am I empowering or enabling my child?**" Don't forget the impact on your own financial well-being and engage help along the way.

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