

HOW TO HANDLE FINANCES WITH YOUR BOOMERANG KID

by Michele Lerner Oct. 22, 2014



The surge in adults returning to live with their parents after college and beyond is taking a significant bite out of those parents' finances. According to the Pew Research Center, the number of adults ages 25 to 34 living with their parents or grandparents rose from 11 percent in 1980 to 23.6 percent in 2012.

Many recent college grads and young adults are living at home for the most obvious reason: because they are unemployed. Financial experts warn parents against derailing their retirement plans by helping their adult kids too much, but they say their clients run the gamut from being too lenient on their kids to too strict. Here are their suggestions for how to balance the desire to help your kids get started in life with concern for your own financial well-being.

ON THE JOB HUNT

The overarching rule parents should follow for college kids returning home is that they are not running a retirement home for people in their 20s, says Ric Runestad, owner of Runestad Financial in Fort Wayne, Indiana. If the kids graduated from college, they should be either working full time or looking for full-time work, he says.

"I see a lot of my clients letting their children who are just graduating college return to the household living absolutely free," says Joe Dadich, owner of Dadich & Associates in Troy, Michigan. "I understand the parents' compassion and wanting to be there to help them get on their feet; however, it is imperative that a plan is put in place."

At the opposite end of the spectrum, Dadich had a client with a son who lost his job. The father wouldn't let him move back in until he got his finances straightened out. "The son ended up having to move to another state to find a job, and since then a rift has formed between the father and son," says Dadich. "This could have been easily avoided if an arrangement would have been made for the son to contribute to the household."

SPELL IT ALL OUT

How should parents handle the financial expectations for the living arrangement? Bill Demaree, owner of Demaree Retirement Services in Indianapolis, says parents need to establish an agreement with their kids that leaves nothing to interpretation. "You need to specify a lease with an amount for rent, a percentage of the utilities and how long the child can stay in the house," says Demaree.

In addition, Runestad says he believes it's fine for parents to allow their kids to stay at home for a period even after the kids are employed to allow them time to build their savings. However, it's important for parents to collect rent. "This focuses your child's attention on the constant need to make their rent payments. A landlord doesn't care," says Runestad, about any extenuating circumstances that might arise. "They just want their rent money."

Runestad says that when he and his brothers graduated from college and returned home, his father raised their rent by a set amount per month until they moved out. "By creating leverage, our father helped instill a sense of urgency to [our moving out]," he says. "[Living at home] was a temporary privilege and not a permanent right."

CHORES AND OTHER BILLS

Dan White, a certified financial planner with Dan White and Associates in Glen Mills, Pennsylvania, says kids should at least cover their own expenses, such as their car, auto insurance, and cell phone.

Dadich tells parents to make a two-year plan that includes financial responsibilities and a chore list. He recommends a payment plan based on a percentage of their income that they can contribute for rent, their cell phone bill, student loans, and other personal expenses. Since it's a percentage based on income, the amount can rise when their income does or fall if their income declines. "I think you need to make the adult child put some skin in the game to make sure they're truly invested in their future success," he says.

Runestad agrees that allowing boomerang kids to live at home can give them breathing room to get better established in life. "However, the parents need to protect against the safety net they provide becoming a hammock for their adult children," he says.



Bill Demaree, founder of Indianapolis based Demaree Retirement Services, specializes in safeguarding and growing assets for clients in or approaching retirement, helping to meet their retirement goals. Recognized in Indianapolis as Your Retirement Guy™, Demaree has been helping individuals, couples and families transition from the accumulation phase of retirement to wealth preservation for more than 28 years.

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