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Should You Provide Financial Help to Adult Children?
Consider these compelling factors

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Traditionally, many parents feel an obligation to help their children with college costs. Today, increasing numbers of parents face another challenge: More than half of all parents—53% surveyed in April and May by Consolidated Credit Counseling Services1—expected that their son or daughter would need financial assistance following college graduation.

How much, if any, financial help should you provide to your adult children? The answer depends upon a number of factors, ranging from your own financial circumstances to your child's short- and long-term career goals. For some families, it might make sense to let grown kids make their own way from the start. Others might decide to provide modest or even significant financial help.

If you do decide to help out, you can find ways to make your assistance do the most good. For starters, it's important to create very clear goals, and provide financial help that's designed to meet those specific objectives. It's also important to set clear limits, and enforce them. Finally, you can find ways to encourage your child to begin taking on more responsibility for both current bills and his or her long-term financial future.

"Parents can provide financial assistance that helps children help themselves," says Boyce Watkins, a Syracuse University finance professor who specializes in family issues.

The high cost of the real world
Some parents figure they shouldn't help their kids at all—especially if their own parents didn't help them once they finished school. That attitude may be right for some families, but it's worth noting that times have changed. These days, it's tougher for a college graduate and those with a few years of work experience to make ends meet.

One reason: housing is more expensive. "Housing costs have skyrocketed, while starting salaries haven't climbed accordingly," says Mindy Bingham, co-author of Career Choices: A Guide for Teens and Young Adults (Academic Innovations, 1990).

According to Harvard University's Joint Center for Housing Studies, gross rents—rents plus utilities—climbed from $611 in 1996 to $711 in 2004.2 The recent jump in energy costs may push housing costs even higher.

Medical insurance also has become a major burden for many young people who no longer qualify for coverage under parents' policies. Some young people are forced to go without medical insurance—which could create major financial liabilities for them, and their parents, later.

In addition, many new grads face significant credit card debt coming out of college, reflecting either poor choices or heavy financial pressures during their school years. The average outstanding balance on undergraduate credit cards is more than $2,100.3

Then, of course, there are college loans. The average 2004 graduate with loans carried more than $19,000 in college debt, according to A June 2006 Project on Student Debt study, High Hopes, Big Debts.

Burdens like these can create a quandary for many graduates—especially those who want to pursue further educational opportunities, or take work that pays little in the short run. They might be forced to take on jobs that won't offer much long-term promise. "Kids who do what they love in the beginning often end up making more money in the long run," says Mindy Bingham.

Set goals

It's crucial to understand the purpose of any financial help you might offer a child. Sit down with your son or daughter and talk about his or her financial goals. Some young people may want help getting out from under college or other debt, an excellent idea. High debt payments can wreak havoc on your child's finances for years to come, with huge stress potential and serious financial consequences, perhaps even including bankruptcy. A modest financial boost from Mom and Dad could open up a world of opportunity.

Finally, you and your adult child should think long-term. Some parents choose to help their grown children fund savings accounts that may provide a down payment on a home while others help set up retirement accounts.

"It's important to think about retirement as early as possible. The sooner you save, the greater your potential for growth," says John Ragnoni, senior vice president of Individual Retirement Products at Fidelity Investments.

Choose a strategy

Once you and your child establish appropriate goals, decide on the smartest way to meet them. Many parents help out by letting their kids move back home for a while. A 2006 survey by Monster.com4 found that 48 percent of the 6,000 graduates surveyed planned to move home for a time.

Meanwhile, 44 percent of 2005 graduates were still living with their folks. Bear in mind that welcoming home your boomerang kid could increase your own costs, disrupting your own budgeting and saving plans. "Most parents plan for the expense of sending their children to college," notes David Latko, author of Everybody Wants Your Money (HarperCollins, 2006). "Almost nobody plans for the cost of having them come back after graduation."

Another strategy is to help with specific costs, such as medical insurance premiums or college loan payments. Alternatively, some parents provide a monthly stipend to help defray living expenses to allow a child to spend a summer or a year seeking training or working at a low-salary position.

Still another option: make occasional gifts to cover big-ticket items such as a used car or appliance. If cash is tight, you might also be able to make a difference by handing over furniture or other items you store in the attic—an old couch or table can be a big help.

Set limits

Whatever your strategy, define it very clearly, and set limits. A child who considers moving home should have a clear plan of action for moving back out into the world within a reasonable period. For example, your child might plan on saving a fixed amount per month to pay off debt, with an eye toward moving out within a year. You should also decide in advance whether the child will make a financial contribution to the household.

Similarly, parents paying a stipend or helping grown children with medical insurance premiums or other costs should set a time limit. Otherwise, your child may simply build that extra income into his or her financial plans, and spend accordingly. The bottom line: Sooner or later, your child will need to carry his or her own financial weight—and without a deadline, it's likely to be later.

"You want to provide a safety net, but not a featherbed," sums up Janet Bodnar, author of Raising Money Smart Kids (Kaplan Publishing, 2005).

Whatever you do, don't give more than you can afford. "Once you're in your late 40s or your 50s, you have less time to make up for financial detours," says Bodnar. "Your kids have a lifetime of earnings ahead of them."

Teach Your Children Well

When your child comes to you for financial help, throw in a little financial advice. This is a great time to encourage them to begin saving for long-term goals, including their own retirement—with or without help from you.

"An early start can create a snowball effect that can greatly increase your child's long-term prospects," says Ragnoni. "It can also set them on the road to becoming dedicated savers."

Consider helping your college grad set up an automatic investment plan, which will shift a fixed sum from his or her bank or other account into an IRA. Fidelity's SimpleStart IRA combines an Individual Retirement Account with an Automatic Account Builder, which can automatically transfer money from a bank account to the Fidelity Freedom Fund of choice. A 22-year-old investor today might consider the Fidelity Freedom 2050 Fund, which maintains a diversified portfolio suitable for investors who plan to retire between 2048 and 2052. "You set it and forget it," sums up Ragnoni.

Another idea: Offer to match your child's savings or debt payments, rather than simply making the whole payment for them. That will help your child learn to live more responsibly, even as they establish a more secure foundation for their financial future.

Ultimately, the best thing you can do for your children is to teach them to take responsibility for their financial future. Then you can heave a sigh of relief, and turn your attention back to the pursuit of other goals—such as your own retirement.

(Clint Willis is a frequent contributor to Fidelity publications. E-mail any questions or comments to Investor's Weekly at Investors.Weekly@fmr.com.)

1 The 2006 There Is No Place Like Home Survey: The Impact of Adult Children Moving Home to Their Parents; Consolidated Credit Counseling Services.

2 America's Rental Housing: Homes for a Diverse Nation, Harvard University's Joint Center for Housing Studies, 2004.

3 Understanding Students and Credit Cards, a 2005 study by Nellie Mae.

4 MonsterTRAK 2006 Entry-Level Job Outlook.