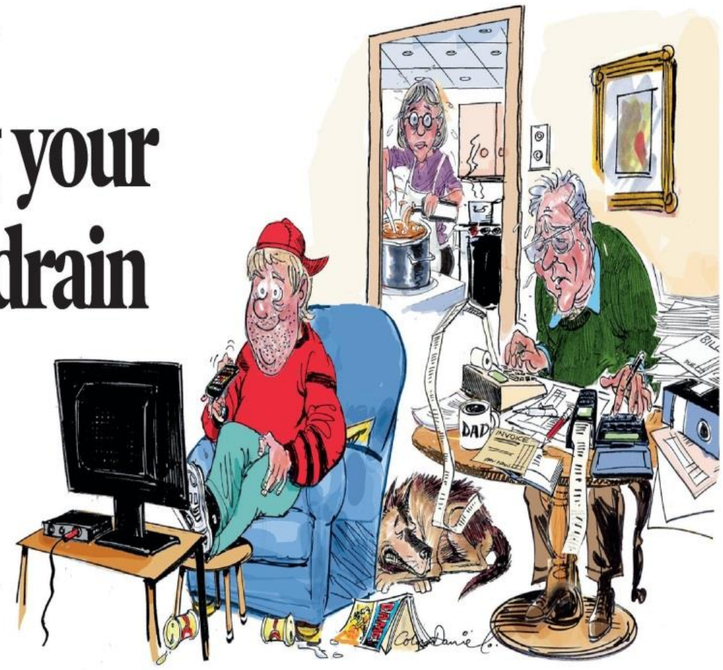
Publication: Personal Finance (Saturday Weekend Argus)
Date: 28 May 2016
Page: 1

■ 'YOU NEED TO BE CRUEL TO BE KIND'

Are you letting your adult children drain your finances?



You are not doing your grown-up children any favours by letting them rely on you for financial support, and you are putting your own future at risk, writes **Lorraine Kearney**.

The trend of parents having to support financially dependent adult children is a growing challenge in our society, financial advisers who regularly deal with such cases say.

"Parents are becoming rescuers of their offspring," Kim Potgieter, the director and head of life planning at Chartered Wealth Solutions, says. "We see it daily."

At present, low entry-level salaries, tightening credit extension and high property prices all make it difficult for adults in their late 20s and early 30s to set out on their own, Mark MacSymon, wealth manager at Private Client Holdings, says.

"Fear of the dreaded empty nest syndrome and a desire in some instances to be closer to grandchildren are some reasons that justify in some minds the cost of having the kids around for longer," he says.

Supporting children who should be supporting themselves can burn through your retirement savings and leave you short of money when you need it most. It can force you to return to work after retirement, cut medical care and living expenses, and it can devastate families, emotionally and financially.

Potgieter has a scary example: Mr A had always seen his role as the provider for his family. When his daughters reached adulthood, he continued to pay their expenses, among them car insurance and medical scheme cover, using his credit card. He did not tell his wife or financial planner. It led him almost to financial ruin and he had to sell his house.

"Most parents have this mentality that they are the providers. They need to change that," Potgieter says.

Alec Riddle, of Old Mutual Private Wealth Management, says that although children who have had special challenges, such as retrenchment, need assistance, there is a culture of parents over-indulging their children.

"This is a very sensitive issue for parents," Debbie Netto, founder and director of Netto Invest, says. "There is defensiveness and a level of guilt felt by people who feel they had failed as parents and then make 'guilt payments'.

"Counselling can help. You may engage a life coach to plot a course and brainstorm ideas to find a solution to the lack of financial means or discipline."

Parents need to teach children the value of money from an early age, and how a household budget works, particularly the need to put money away for retirement, Riddle says.

Bruce Fleming, an advisory partner at Citadel Wealth Management, believes children should start saving young – from the age of eight, at least. And by the time they are teenagers, they should be looking for odd jobs to earn money.

"The problem is that children are not taught the importance of money, so they get to their 20s and don't understand why their parents are no longer willing to continue supporting them," he says.

He suggests that they start being paid to do something, even around the house, when they are young. This prevents a culture of entitlement: of asking a parent for cash and then just getting it.

"For example, in my family, my child gets a sum for vacuuming the lounge. Then he starts to negotiate, asking how much he will get for vacuuming the whole house. He is learning negotiation and understanding reward for hard work."

Riddle speaks of his daughter at university. "She has a budget she has to stick to. You also need to explain to your children that once they [get a qualification], they must stand on their own two feet, that you are no longer responsible for them.

"The old saying goes that you have to be cruel to be kind. Perhaps we are not cruel enough to our children today. Perhaps we are trying to help them *too* much," he says.

This culture of dependence is as much the parents' fault as it is the children's, Fleming says. When children flit from degree to degree or interest to interest and their parents keep paying, it is the parents who are at fault.

Netto points out that if your adult child is staying in your home, for whatever reason, it is important not to overindulge them by fostering habits that will result in long-term financial dependence on you.

"Parents who pay for 'hidden' costs, such as extra food, cleaning, water and electricity, may need to quantify the impact of their generosity on their own retirement. As an example, the opportunity cost of spending R3 000 a month over 10 years is close to half-a-million rand."

Many adult children ask their parents for a one-off payment towards a deposit on a house, for example, and this may not strictly be classed as financially dependent behaviour. But Netto has another take. "There is arguably no difference between a cash advance to a child and on-going financial support over a period of time. The latter may simply be more difficult to identify and quantify," she says.

Should parents decide to sell an investment to help a child financially, it is important to remember that it may trigger capital gains tax of up to an effective 16.4 percent.

Potgieter says that sometimes financial planners ask to meet the children. "We call them in and have a discussion with the whole family and explain the finances and financial planning. Sometimes the children see it and sometimes they don't, because they are so far into the dependency.

"We're not talking to our children about money; it's one of those things we keep quiet about.

"[And] we must also teach our children that they don't need everything; sometimes they can do without," Potgieter says.

Although there are no blanket solutions to the challenges a financially dependent adult child may present, Netto says, awareness and open and honest communication between all parties is a starting point in addressing them.

"It is important that it is done in such a way as not to reinforce the feeling of learned helplessness, but rather involves a formal strategy to assist your child to become financially independent," she says.

Fleming says: "Financial dependence in adult children is like an addiction, and parents need to do some sort of tough love; you are never going to wean them off. But every case will be situation-specific and there is no one solution."

Children are very perceptive and much of their learning occurs through watching the world around them, Netto says. It is therefore important that, as parents, we lead by example and teach our children sound financial habits from a young age, thus setting them on the path to a secure financial future.

Riddle has a different take on financial dependence. "When I ask my clients what kind of legacy they want to leave for their children, they say a decent inheritance. But when you are doing your financial planning, you must think about how much you will need for retirement so that you don't have to knock on your children's door.

"The best legacy you can give your children is to be financially independent yourself and not depend on them when you are elderly and they are starting out as adults in the world," he says.

◆ *All the financial planners quoted are Certified Financial Planner professionals who have either won or been finalists in the Financial Planner of the Year competition held each year by the Financial Planning Institute in association with Personal Finance.*

WHAT IF THIS IS YOU?

For every financially dependent child, there is an equally responsible, financially enabling parent, Bradley T Klontz and Anthony Canale wrote in an article in the United States Financial Planning Association's *Journal of Financial Planning* article in March.

"Financially enabling behaviour can have a significant negative impact on a financial plan," they say. "It can threaten the financial health of families and creates dependence on the part of the individual being enabled.

"Financial dependence can be a debilitating psychological condition that can sap the motivation, creativity, drive and passion of the dependant."

Klontz and Canale offer five tips if you're in this situation:

1. Recognise that financial help can hurt: like giving drugs to an addict, it just makes the problem worse.

2. Understand the curse of too many options: having unlimited choices can paralyse you; the dependant flits from job to job, from degree to degree, looking for the perfect position. Give the dependant fewer options, not more, to recover.

3. Acknowledge the curse of unstructured free time: too much free time can be bad for your health. We have too much time to dwell on our issues so, instead, we do easy things that take our minds off our difficulties. Financial enabling is associated with a desire to help, but it can backfire and entrench a dependant.

4. Rip off the financial band aid: set a deadline and stick to it. Making too many threats and not following through is like crying wolf, and the dependant will not take you seriously. So have a plan: set a date when the financial aid will be stopped; find other ways of giving support; write a script for announcing the change and make sure you stick to the plan, with help if necessary.

5. When advice and help from your financial planner are not enough, assistance from a mental health professional may be warranted.

THE EFFECT ON YOUR SAVINGS

Couples who support dependent adult children need to carefully consider the effect on their retirement plans, Mark MacSymon, wealth manager at Private Client Holdings, says.

"For example, a retired couple with investible assets of roughly R9.3 million to start, can comfortably withdraw R35 000 a month, increasing at inflation, over a 35-year retirement-planning period.

"However, a financially dependent adult increasing household expenditure by R10 000 a month for the first 10 years of his parents' retirement is likely to have the effect of accelerating a complete drawdown of retirement capital by a full six years.

"Over the longer term, the permanent loss of both capital and compounding from a drawdown spike, even if for just one year, can severely diminish the longevity of retirement savings.

"In most instances, it is necessary to meet with dependent children and explain to them, using similar disclosures and cash-flow models, what affect their dependency is having on their parents' golden years," MacSymon says.

Unemployment rate a big factor

There are several factors that need to be considered when looking at the issue of parents supporting adult children, Gerald Mwandiambira, the chief executive of the Savings Institute of South Africa, says.

First is the unemployment situation in the country. "Parents are almost obliged to support their children," Mwandiambira says.

He says problems are acute in the black middle class, where parents have sacrificed beyond their means to educate their children so that their children will, in turn, be able to look after them. But the children qualify and are then unable to find jobs.

"If they do get employed, you hear that they complain about being expected to look after their parents and extended families with their salaries, and so they end in a cycle of debt themselves."

At some point, these children must take control of their finances, "but there is also a cultural element to this. In black and Asian communities, looking after your elders is almost a cultural imperative. Western cultures do not have this weight."

There is also the issue of adult children who lose their jobs and move back home. And if the parents die, there are fights over the estate. "It is common in black families to fight over the house, as it is the only asset. This must often be sold to distribute the estate between the heirs, but then they are left homeless."

The issue is not about saving, because there have not been opportunities for savings to be created. "The wealth-creation cycle has not had time to begin. Wealth generation takes time, and you have parents living beyond their means to get their children educated, which often ends up perpetuating the debt cycle, rather than ending it as they had hoped," Mwandiambira says.

TEACH YOUR CHILDREN WELL …

Teaching children money management is an essential part of parenting, but in many families finance is still a taboo topic and personal financial details are kept under wraps.

Financial planners urge people to start teaching their children financial literacy from before they are 10 years old.

"To prevent financially ignorant, unprepared, vulnerable children being sent out in the world on their own, parents must be willing to invest time in their children to teach them how to become wise stewards of their resources," Philip Nortje, author of *Your Key to Become Debt Free*, says.

Important issues that need to be addressed are:

◆ **Delayed gratification.** If children can master this concept early, it will benefit them for the rest of their lives, and is the foundation of saving for something they want.

◆ **Difference between needs and wants.** Parents supply children's needs, but they should not give in to their children's every want, or they will become over-indulged and spoiled. Instead, encourage them to save for a want, and earn extra income by doing chores.

"It is an important life lesson to learn that you don't get to fulfil all your wants," Nortje says. "Children need to experience some disappointments, because that is part of life. When children are pleading with you to buy something, rather than saying 'we can't afford that', respond with 'that is not good use of our money right now'. This statement shifts the mindset from 'living in lack' to 'living with choices'."

◆ **Pocket money.** "Children cannot learn money management unless they first have some money of their own to manage. An allowance can be an effective teaching tool," Nortje says.

◆ **Budgeting.** Once children have a regular income, introduce them to a budget: a plan for how they are going to use their money. Explain why it is important to live within their means and to save and be charitable.

"This is also the right time to get them to participate in the family budget so that they can get a better perspective of where the money is coming from and what necessary expenses have to be paid every month," Nortje says.

◆ **Creating income.** Help your children find ways of earning their own income.

◆ **Parents as role models.** As with most things, children learn about money management by watching what their parents do. "Children won't be careful with their money if you are careless with money, even if you tell them to do otherwise."

◆ **Co-invest in their dreams.** Debbie Netto of Netto Invest says that by helping your children to fund their dreams themselves, they will feel empowered and will very often value the realisation of the dream more than if they had just had it handed to them. For example, instead of buying your child a car, pay a portion of the car, while they pay the rest, or pay for the car, but agree that they repay you on an interest-free loan.