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Close the Bank of Mom & Dad

"Spending too much on your kids now could mean they'll end up having to support you later."

Recently, I ran across a copy of an e-mail my husband and I wrote eight years ago to our then 24-year-old son. It delivered a stern message, with sentences such as "Adulthood means being able to meet your financial obligations" and "We expect to be paid back." Our struggling artist had asked us to cover the rent—again—and we were furious. Still, we forked over the money.

Acting as the Bank of Mom and Dad is not a new phenomenon. But, over time, it could be a dangerous one. A recent study, "Family & Retirement: The Elephant in the Room," by Merrill Lynch Wealth Management, shows that nearly two-thirds of people age 50 and older are helping family members (mostly adult children) without considering the impact on their own retirement. Another recent study, by Ameriprise, found that providing financial support to adult children was one of the top four retirement derailers among those surveyed.

Why are parents giving so generously to their grown kids? For some families, the recent recession is still taking a toll, says Andy Sieg, head of global wealth and retirement solutions for Bank of America Merrill Lynch. "Adult children may be having a hard time getting out on their own, so parents are stepping up to fill the need." Other parents are responding to their children's personal crises—maybe a divorce or an illness. Still others want to give the kids a leg up now, not through an inheritance.

But a surprising number provide financial support to family members—and are willing to make sacrifices to do so—without asking questions, setting restrictions or factoring the outlay into their own budget. "They're saying, You can spend money any way you wish and give it back whenever you want. That's a pretty generous bank," says Ken Dychtwald, president and CEO of Age Wave, a partner in the Merrill Lynch study. Such openhandedness, taken too far, "stunts people's growth," he says. "We could be creating a generation of financially disabled young people."

And here's an irony: Spending too much on your kids now could mean they'll end up having to support you later. Almost half of people age 50 and up have not saved adequately for retirement and can hardly afford to siphon off a few thousand dollars a year (the average amount extended to family members, according to the Merrill Lynch study) that would otherwise build a bigger stash for their old age.

Set some guidelines. I'm not one to second-guess other people's parenting decisions, but I'd say a few guidelines might be helpful. The first, says Sieg, is to get a handle on how much you've been giving and put it into the context of your own retirement plans. Discussing the matter with a financial planner can help you decide what's doable and let you earmark funds for that purpose.

Even then, don't let a so-called emergency make for an automatic response. Before you shell out, ask about the alternatives—say, finding a cheaper apartment. "This should be a moment to consider the options," says Dychtwald, "not, I'm the family bank, I'm open all the time."

If you agree to provide ongoing support, have a conversation with your child about how much and how long you're prepared to give, says Suzanna de Baca, vice-president of wealth strategies at Ameriprise Financial. "You might say, 'My expectation is to help you for six months.' " De Baca says allowing your child to assume that help is open-ended can harm not only your finances but also your relationship.

If necessary, have the conversation after the fact. In our case, we paid the rent and then sent the e-mail. Within a week, our artist had gotten a day job, and he was soon able to cover his own bills. We all felt a lot better.

LISE METZGER

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