InvestmentNews

Help clients before they become the family bank

Develop a strategy to navigate family financial dynamics and protect retirement savings

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By **David Baxter**

It is a difficult situation familiar to many advisers. Their client has taken all the right steps to prepare for retirement, saved and invested responsibly, and considered longevity, inflation, market, health care and other risks.

Yet just as it seems the client is on the path to a financially secure retirement, they receive an unexpected call. Perhaps a mother's health has begun to fail and she requires extended and expensive long term care, or a sibling lost his job and needs a helping hand to pay the mortgage.

These clients find themselves taking on the role of the "family bank," providing financial support to members of their extended family. They may be helping to meet one-time needs or providing ongoing assistance over the course of many years. And over time, the financial help they offer to parents, siblings, adult children and grandchildren can begin to deplete their once-secure nest eggs.

A recent national study by **Merrill Lynch** and Age Wave found that roughly six in 10 people (62%) age 50 and over are providing financial support to family members. The amount of support can be substantial — averaging $15,000 over five years. But among clients with assets over $5 million, the average level of support climbs to over $300,000.

In fact, the more financially responsible your clients are, the more likely they are to become the family bank.

UNFORESEEN, UNPREPARED

Even though your clients may be very likely to provide at least some financial support to family members, nine in 10 pre-retirees and retirees say they have never budgeted and prepared for this financial risk in their retirement planning.

The impact of helping family members financially can be both unexpected and substantial. One retiree in our focus groups confided, “I thought I would be supplementing my grandchildren's college funds. It turns out I was the college fund.” Half of pre-retirees age 50 and over say they would make major sacrifices to help family members such as delaying retirement, returning to work after retirement, and accepting a less comfortable retirement lifestyle.

FIRST RULE OF RESCUING

Among lifeguards, the first rule when rescuing someone at risk of drowning is “Don't be the second victim.” In the same way, when family members need money, clients should have a thoughtful strategy in place for their own retirement security before lending a helping hand.

As an adviser, you can play an important role in helping your clients anticipate and prepare for providing help to family members. For example, creating a "family helping-hand fund," a fund or bucket separate from retirement savings, to help responsibly limit how much clients give to family members and ensure they don't compromise their own retirement needs.

Open communication and responsible boundaries are also critical. Almost four in 10 pre-retirees and retirees say they give money to their adult children without even knowing what it was for. For some clients, giving with no strings attached is the preferred choice. Others may want some say over how the money is spent. Some clients will expect to be paid back; others have no expectations of repayment.

The important thing is that all family members are on the same page. The best way to avoid family and financial strains is to both responsibly prepare for family needs and clearly communicate plans, expectations and ground rules up front.

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