InvestmentNews

Retirement planning is now a family affair

Advisers need to factor intergenerational support into financial plans.

By **Mary Beth Franklin** | Nov 24, 2013 @ 12:01 am EST

In the years before the Great Recession, it wasn't unusual to see a happy couple tooling down the highway in a luxury recreational vehicle with a bumper sticker that joyfully proclaimed: “We're spending our kids' inheritance.”

Fast forward to today. The RV is probably parked in the couple's backyard, and their adult kids — and possibly grandkids — may be living in it.

Retirement planning is now a family affair.

The Great Recession took a tremendous toll on many American families. Some baby boomers, once dubbed “the sandwich generation” because they were squeezed between the caregiving needs of their young children and aging parents, now find themselves in a new role: the family bank.

A new **study** by **Merrill Lynch**, conducted in partnership with Age Wave, explored modern family interdependencies and the challenges that boomers face in balancing their extended family's financial needs with their own retirement plans.

Based on a nationally representative survey of more than 5,400 respondents, the study found that 62% of Americans 50 and older have provided financial assistance over the past five years to members of their family, including adult children, parents, grandchildren, siblings or other relatives.

The average handout was nearly $15,000 and significantly more among the nation's wealthiest families, according to the study, “Family & Retirement: The Elephant in the Room.”

START THE CONVERSATION

But few people have factored such gifts into their financial planning, and many don't even mention it to their financial adviser. That means advisers may need to initiate the conversation and explain to their clients how that financial support could compromise their retirement plans.

“Given the challenging economic climate during the past several years, it is not surprising that so many Americans have extended financial support to their loved ones,” said Andy Sieg, head of the Global Wealth and Retirement Solutions unit at Bank of America **Merrill Lynch**. “However, such admirable willingness to assist family members should not place one's own long-term financial security in jeopardy.”

The study found that one in five parents 50 and older have at least one “boomerang” adult child who has moved back home.

More than 26 million young adults now live with their parents, the highest level in more than 40 years, according to the Pew Research Center.

And more than two-thirds of parents admitted to providing some form of financial support to their adult children during the past five years.

In a separate survey, Securian Financial Group Inc. asked 700 young adults who were living with their parents whether they paid rent or otherwise helped out with household expenses. Just 10% said they paid rent.

“Most of these young adults are in the dark about the effect they have on their parents' finances,” said Michelle Hall, market research manager for Securian. “Nearly 45% said their living at home had no financial impact, but a small number said their parents delayed retirement to help cover the cost of their children living at home.”

"NEEDS AND HOPES'

Ken Dychtwald, founder and chief executive of Age Wave, joined Mr. Sieg during a webcast last week to discuss the **Merrill Lynch** study.

“In this new era of extended longevity and increased family interdependencies, retirement planning is no longer about just an individual or couple but also about the needs and hopes of our loved ones,” Mr. Dychtwald said.

But like airline passengers are reminded by flight attendants, people should secure their own oxygen masks before assisting others, he said.

In other words, clients need to ensure that their family bank is well-capitalized before they hand out gifts or loans.

The Merrill Lynch survey also showed that 60% of people 50 or older prefer to begin passing on assets during retirement rather than waiting until the end of life. Women are more likely to feel this way, with 65% expressing an interest in lifetime giving, compared with 53% of men.

ADDED CHALLENGE

That presents an added challenge to advisers. Not only do they need to protect their clients from outliving their money, they need to explain to them the implications of lifetime gifting.

For example, if a client decides to leave a house to an adult child in a will, the child's tax basis is based on the value of the home at the time of death. But if it is transferred during the client's lifetime, the child assumes the parent's much lower cost basis, which could result in a hefty tax bill if he or she sells it at a later date.

“This is a new era,” Mr. Sieg said. “Any financial adviser who is not asking their clients if they are lending money to a family member is not paying attention and not grounding their clients in reality.”

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