Millionaires become the 'family bank'

December 17, 2013
By: Robert Frank | CNBC Reporter and Editor

The wealthy are handing out so much money to needy family members that they've earned a new nickname: "the family bank."

Nearly half of the multimillionaires in a new study gave money to family members, with an average contribution of $313,200 over the past five years, according to Merrill Lynch and Age Wave.

The assistance includes money to adult children, grandchildren, parents and siblings—not to mention the proverbial feckless cousin and mercenary brother-in-law.

Fully 81 percent have provided support to adult children and 39 percent to grandchildren over the past five years, the study found.

Because of the tough economy, today's multimillionaires are doling out so much to family that they are now acting as "the family bank," said the study, which looked at individuals with $5 million or more in investible assets.

"They are the unsung financial heroes" for many families, said Ken Dychtwald, president and CEO of Age Wave, a research firm. "They're going far beyond what we might expect."

It also means that today's wealthy need to consider the needs of their broader family when planning their own retirement, the report said.

Despite the generosity, the money often comes with strings attached. "Family banks" also provide financial guidance and rules.

Three quarters of the multimillionaires said they will stop giving financial help to a family member if they feel the money isn't being used wisely. More than a third will stop if they feel their money is not appreciated. And more than a third said they would reduce the inheritance planned for a family member if they feel the receiver is not financially responsible.

Funding family members also can create issues of "co-dependency," where family members may come to rely on the generosity of a rich relative, Dychtwald said. And the rich relative may come to enjoy the influence of his or her giving.

"These good intentions may be creating generations that are disabled when it comes to financial responsibility," he said.

The solution, he said, is to establish clear terms, conditions and timelines with any contribution to a family member.

Michael Liersch, head of behavioral finance for Merrill Lynch's Private Banking & Investment Group, said generous family members also risk "modeling" bad behavior to their children. If the children see their mom or dad constantly donating money to family members, they may think that is a path to financial success.

"They model behavior that is not sustainable either in terms of distribution or spending," Liersch said. "And that could put the financial future of the next generation at risk."

Original URL: http://www.cnbc.com/id/101279552