Money and You: How to help young adults financially

by Carrie_Schwab_Pomerantz

Note to readers: April is financial literacy month. In keeping with that theme, my next columns will offer practical suggestions regarding what young people can do to get into better financial shape, and the crucial role parents and employers can play. This week: how parents can encourage young adults to become financially independent â€” even if they're still lending a hand.

Tough times often mean making tough decisions. This can be especially true when it comes to watching the young adults in your life struggle with economic challenges. You want to help them if you can â€” after all, that's what families are for. But at the same time, you want to make sure that your helping hand doesn't somehow diminish their independence or lessen their sense of responsibility.

Growing up, I always knew my family was there for me â€” not just my parents, but my grandparents, too. We had a strong tradition of one generation helping the next. At the same time, we were taught to stand on our own two feet. I think many families share this attitude. But it can be a balancing act, especially when there's money involved. The question I hear often is: How can I help my kids financially without weakening their motivation?

There is a way. You just have to be selective about the type of help you give. Rather than writing a blank check, consider directing your financial help toward things that promote your kids' growth and independence â€” and reflect what you feel is important in life. From my personal perspective, three areas where financial help can have a positive impact both today and down the road are health, education and housing. My thoughts may or may not mirror your own. But in any case they may spark other ideas on ways to offer financial help â€” and at the same time provide positive reinforcement.

â€” Helping with insurance and health care costs. If someone in your family doesn't have health insurance, this can be a great place to start. Say your 20-something daughter doesn't have coverage through school or a job and feels an individual policy is too expensive. You could consider paying initial premiums on a high-deductible policy. Premiums are lower for young people â€” and much lower than the potential medical costs of an accident or unexpected illness. By picking up the premiums for a while, you'll be lessening your daughter's monthly bills â€” and giving yourself some peace of mind. You'll also be emphasizing the importance of adequate coverage. Granted, with a high-deductible policy, there still may be periodic medical expenses that need to be covered. You might also offer to pick these up for a specified period of time. It's a very real way to help without just handing over extra money.

Contributing to education, both for kids and grandkids. Education costs can go beyond college tuition. As the job market shifts, many young adults need to shift gears, too, and get additional training to enhance job skills. Specialized classes may be beyond their budget. Can you help by covering these costs? If so, you may be creating both present and future opportunities.

And what about paying for daycare or pre-school for the grandkids? As we all know, in many young families both parents need to work to make ends meet and the cost of childcare can be a real burden. Your help here could have a tremendously positive cross-generation impact.

Keeping a roof over their heads. Ideally young adults should be able to budget for basic living costs, including rent and utilities. The struggle for many just getting started is coming up with move-in costs such as first and last month's rent plus deposit. This can be an excellent opportunity to help get a young person off the ground and encourage smart budgeting. Of course there may be times â€” especially now with layoffs looming everywhere â€” when you might need to help cover other expenses. But rather than just paying the bill, consider offering a loan with specific terms for paying it back. By doing so, you'll be easing a burden while still requiring accountability.

If you have the means, helping with a down payment on a first house is a positive way to offer support. Whether you make it a gift or structure it as a loan, the point is that you're giving financial help toward a concrete goal that carries with it both rewards and responsibilities.

Promoting financial responsibility. Chances are there will be other times you may need to help your grown kids financially. You may be asked to help with a car purchase, career counseling or a professional wardrobe. By all means, help if you can. The key is to make sure you're comfortable with what you're giving â€” and your kids know what's expected in return.

Making a gift. For some families, helping the next generation is part of estate planning. If you're in a position where reducing your taxable estate during your lifetime makes sense, you can gift up to $13,000 a year to an individual without incurring gift taxes ($26,000 a year if you're a married couple splitting gifts.) Also, any direct payments for tuition or medical expenses are not taxable gifts and are not included in the $13,000 annual limit or $1-million lifetime limit. You might also consider contributing to a 529 College Savings Plan â€” an excellent opportunity for grandparents to make a significant, targeted contribution.

How you give to your family and what you give is, of course, related to your own financial situation â€” and should never jeopardize your own financial stability. But it's also related to your values. If, along with financial help, you can pass on a sense of responsibility and a desire for independence, your gift will be that much greater. And you can feel comfortable that you're doing more than writing a check â€” you're enhancing a life, and quite possibly lives in generations to come.

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