Dan Mazanec

Adult Children and Money

By Jon J. Gallo and Eileen Gallo, Ph.D.

Fifteen years ago in *Probate & Property*, an article entitled *Estate Planning for the Postponed Generation* examined the then new phenomenon of estate planners counseling clients with children in their twenties and thirties who were emotionally and financially immature. Jon J. Gallo & Eileen F. Gallo, *Estate Planning for the Postponed Generation*, Prob. & Prop. 7 (Sept./Oct. 1989). The title of that article was based on Susan Littwin's sociological analysis of American youth, titled *The Postponed Generation: Why American Youth Are Growing Up Later*, in which she observed that many children born in the 1960s and 1970s took a decade longer than any prior generation to assume adult responsibilities.

Almost two decades of observing, writing, and research has taught the authors more about young adults exhibiting extended dependency—a group that some commentators now call "adultescents." This article begins by looking at some of the emotional and psychological reasons for extended dependence and then discusses the role of the estate planner working with families with adultescents. It concludes by examining financial and estate planning techniques that can be used to help adult children become financially independent.

Americans growing up during the Great Depression and World War II understood the difference between luxuries and necessities. Social psychologist Jane Adams, author of *When Our Grown Kids Disappoint Us*, observed that many of them never tired of reminding their Baby Boom children of their sacrifices and the need to be grateful for the opportunities that American society presented them. The Boomer generation (born between 1946 and 1964) had the good fortune to grow up during a period of unparalleled prosperity and often viewed these parental reminders as guilt-tripping. Determined to raise their children differently, they failed to remind them to be equally grateful and, says Adams, inadvertently managed to raise the next generation to feel entitled.

This sense of entitlement can be seen in the lengthening transition from childhood to adulthood. In 1950, children moved relatively quickly from adolescence into adult responsibilities. The average age of marriage was 20. Jobs were readily available for high school graduates at wage levels that made it normal for the wife to be a full-time, stay-at-home mother. Today, a high school graduate can expect little more

---

Jon J. Gallo is a partner in the Los Angeles law firm of Greenberg Glusker Fields Claman Machtinger & Kinsella LLP and chair of the H-2 Psychological and Emotional Issues of Estate Planning Committee. Eileen Gallo, Ph.D., is a psychotherapist in private practice in Los Angeles and vice-chair of the H-2 Psychological and Emotional Issues of Estate Planning Committee.

than a minimum wage job with few opportunities for promotion. Full-time college students often face reductions in class schedules that result in their taking five or even six years to graduate. Most entry level professional positions require post-graduate degrees. The average age of marriage is approaching 28. More young adults are remaining at home, or, if they ever left, returning home. In 1960, 43% of young adults between the ages of 18 and 24 lived at home. By 1990, the percentage rose to 52.8%. Similarly, young adults between the ages of 25 and 34 still living at home rose from 8.7% in 1960 to 11.9% in 1990. T. Berry Brazelton, M.D., is a well known educator, pediatrician, and author of numerous books exploring aspects of child development. In the late 1990s, two of Brazelton's four adult children returned home, with their children in tow. The *Los Angeles Times* quoted Brazelton in 1997: "I used to say that the hardest thing about raising kids is giving them up. I don't say that anymore. It was so wonderful, that empty nest. We look back on it and say, 'Oh Lord, where has it gone?'"

The trend is continuing, if not accelerating. A study released by the University of Chicago's National Opinion Research Center in 2003 found that most Americans currently believe that adulthood does not begin until age 26. The study said that most people do not consider a person grown up until he or she finishes school, gets a full-time job, and starts raising a family. According to those surveyed, the average age someone should marry was 25.7 and the average age for having children was 26.2. Most of those surveyed felt that parenthood was the final milestone to reach true adulthood.

Many clients view their children's continued economic dependence and resulting failure to become successfully autonomous adults as a source of major irritation and dissatisfaction. As sociologists Schnaiberg and Goldenberg have pointed out in their study, *From Empty Nest to Crowded Nest: The Dynamics of Incompletely-Launched Young Adults*, 36–3 Soc. Prob. 251 (1989), from the point of view of the adult child, postponing economic self sufficiency is not a problem—rather, it is a solution:

> They have been socialized to desire the benefits of adult roles (economic, marital, parental). But as the costs of achieving successful role performance rise, the appeal of the role-playing diminishes. Similarly, if the incremental benefits of shifting from children's to adult roles are not sufficiently high, there is less incentive to take the risks of moving from familiar childhood roles to unfamiliar adult ones. Uncertain career lines make for less enthusiasm about seeking entry-level career roles; this, in turn, makes investment in human capital through advanced education less attractive to many young adults as well. Parallel arguments can be drawn about the risks of divorce; a reticence to engage in enduring, "committed" relationships is one reasonable response to this risk . . . .

As can be seen from the following chart, derived from Schnaiberg and Goldenberg's article, in only two of six dimensions is there an immediate net gain from becoming independent of one's parents:

Dimension	Living at Home	Being Independent	Net Gain
Material Comfort	Higher	Lower	Strong Negative
Economic Security	Higher	Lower	Strong Negative
Privacy	Moderate	Higher	Weak Positive
Social Freedom	Moderate	Low to High	Negative–Positive
Sexual Freedom	Moderate	Higher	Weak Positive
Emotional Support	High	Low to High	Negative/None

Schnaiberg and Goldenberg concluded: *"Many of the social gains of adult roles can be achieved with higher benefits and generally lower costs by sharing parental resources rather than by moving out on one's own!"* (Emphasis added.)

As estate planners, what advice should we give to clients concerned by their children's continued financial dependence? What tools does an estate planner possess to assist clients when their adult children return home—or fail to leave the parental nest in the first place?

- **Help clients reorganize the way they view their adult children.** In her book, *The Myth of Maturity,* social psychologist Terri Apter points out that the lengthening transition between adolescence and adulthood creates a seeming paradox that parents must understand. To become adults, children must pull away from their parents and learn to make their own decisions. But the increased time it takes to become a truly independent adult means that adult children need their parents' emotional and psychological support more than ever. Too many parents cannot distinguish between curtailing financial support for their adult children and curtailing emotional support. Although reducing or even eliminating financial support may be appropriate, it is vital that the parents continue to provide their young adult with emotional support.
- **Help clients reorganize the way they view themselves.** Parents of adult children need to keep their own needs in mind. Clients should recognize that having their adult children living at home interferes with their ability to deal with important financial and psychological issues. The financial emphasis for many clients during the empty nest period focuses on maximizing their savings for retirement. Paying off their children's stu-

dent loans, maxed-out credit cards, or apartment rent can put a serious dent in those plans. Many marriages break up after the children reach adulthood (at least chronologically, if not emotionally). Psychologically, clients need to reconfigure and retool their marriages when their primary emphasis is no longer on raising young and adolescent children. They may also face the need to reorganize their relationships with their aging or ill parents, whom they may have to subsidize. Their children's continued financial dependence, especially if it involves continued living at home, may interfere with the clients' ability to deal with these tasks.

- **Build self-confidence in the adult child.** Counsel clients not to tell their adult child what to do automatically. Listening is more important than talking. Offer advice rather than directions; help her build self-confidence by letting her make decisions and take charge of her life. In their book, *Parenting When Your Child Is an Adult,* Dale and Renee Jacobs stress the need to choose words wisely and advocate a "zip your lips" approach. "State your concern or position once and then wait for a response. We want to invite participation and feedback from our son or daughter, which is empowering. We don't want to infantilize or diminish them by name calling, generalizations . . . or by taking over the process." Parents who do everything for their adult child and then wonder when she will grow up and do things for herself are actually co-conspirators who are making their child feel incapable of doing anything for herself.
- **Suggest that the parents share some of their own challenges.** Adult children often enter adulthood with unrealistic optimism. They expect to enjoy the comfortable lifestyle of their parents but have no comprehension of the difficulties and reverses they may encounter. Many return home when they discover that they have to start with entry level jobs and salaries that do not allow them to continue their parents' lifestyles. In many situations, parents who never share the stresses and obstacles of everyday life with their children foster this sense of unrealistic optimism. Their children reach maturity believing that success is easily achieved and roadblocks are never encountered. Although parents need not share every job-related problem, a child who learns that the workplace poses challenges and that Mom and Dad suffer occasional reverses grows more resilient and is better able to confront early career difficulties than the child who is protected from this knowledge.
- **Understand the utility of financial weaning.** Several years ago, the authors worked with a couple who were supporting a single daughter in her early thirties who was completing graduate school. With the assistance of their attorney and their financial advisor, the family developed a budget plan that phased out parental financial support over a four-year period and helped the daughter attain economic self-sufficiency. The financial advisor worked closely with both the daughter and the parents. When the plan was announced at a family meeting, it was greeted with tears and hostility. The parents expected this reaction and continued to provide emotional support for their daughter. By the end of the second year, the daughter was looking forward to her financial independence, and, by the end of the fourth year, she was completely self-supporting. In other cases, financial weaning may be a short-term process. Recently, the authors worked with a couple whose 40-year-old son had lost his job. His parents were supporting him and his family while he was supposedly looking for a new job. When it became apparent that the son was not actively looking for a job, the authors helped them develop a plan to phase out parental financial support over four months in 25% increments. By the end of the third month, the son had found a job.

The lawyer is an educator as well as an estate planner.

- **Help clients communicate their values to their adult children.** In financial matters, clients must communicate their expectations to their adult children. The greater the clarity, the less room for problems in the future. Al Wroblewski, an independent financial planner in Cambridge who tries to practice what he preaches, shared a copy of a letter entitled "Endeavors" that he had written to his adult children with the authors. In the letter, he told his children that he was willing to help them financially by "supporting worthwhile endeavors." In evaluating requests for money, he was looking at several factors:

  —Is whatever you are going to do important to you; are you really committed?
  —Does it represent something meaningful both to you and others?
  —Does it move you toward financial self-sufficiency?
  —Will money make a difference?
  —Is giving you money healthy for our relationship?

  The letter ended with this observation, which perhaps really says it all: "*The distinction, I guess, I would like to draw between giving you money for worthwhile endeavors vs. just for the hell of it is the difference between using money I give you to fuel your independence vs. using it to prolong your dependency or to take the easy way out.*"

Estate planners who work with affluent families can tell horror stories of millions of dollars in trust funds being dissipated by 25- or 30-year-old adultescents as fast as they received it. In almost every case, these children never received training in money management. As pointed out in the authors' book, *Silver Spoon Kids: How Successful Parents Raise Responsible Children* (2002), many children growing up in affluent homes have the notion that money grows on trees; that they have so much that they will never run out, and that, if they do, they can magically grow some more. As a result, they are incapable of exercising restraint when they receive money from a trust. The biggest error parents commit when creating trusts for children does not involve running afoul of the Internal Revenue Code; rather, it is failing to structure the trust in such a manner that will provide an opportunity for their children to learn money management. Estate planners can play a pivotal role in helping their clients understand that estate planning techniques can be used not only to save taxes but also to help their children become financially literate. In this process, the lawyer is an educator as well as an estate planner.

Psychologically, trusts created for children are meaningful to them in ways that other money subjects are not. After all, it is *their* money that is in trust, and an 18-year-old is likely to pay much more attention to a discussion of *his* trust than he is to an abstract discussion of family money and investments.

Quite often, the various types of irrevocable trusts focus on desired tax consequences to the exclusion of the possible educational uses of the trust. Whether the estate planner drafts an intentionally defective grantor trust to act as the purchaser in an installment sale transaction or a zeroed-out *Walton* GRAT, it may be possible to use the trust as a means of teaching financial literacy to the clients' children. A well-drafted document can help the client turn a trust for his or her children into an educational money management vehicle long before the children actually start receiving trust distributions. To take advantage of this approach, a distinction should be made between a trustee's duties to manage assets (the administrative function of the trustee) and the trustee's discretion over distributions of income and principal (the distributive function of the trustee). This distinction will permit the children to become administrative co-trustees who participate in the management of trust assets without giving them authority over distributions of income and principal, which can be vested exclusively in a distributive trustee.

- The trust agreement should provide that all children who have reached age 15 must meet periodically (at least once a year) with the administrative trustee and the trust's financial advisor. At the meeting, the trustee and advisor should explain both how and why the assets of the trust are currently invested. This provides the opportunity to introduce the children to concepts such as asset allocation and investing for growth or income.

- Suggest to the client that, at some point, each child should become a co-administrative trustee of his or her trust. The estate planner could select an age for this purpose, such as when the child reaches age 18, 21, or 25, or key it to an event, such as when the child completes two classes in investing or when she graduates from college. The child is now involved in the day-to-day management of her own trust and gets a hands-on education in her co-administrative trustee capacity.
- After several years of serving as a co-trustee, the child should "graduate" to sole administrative trustee and assume responsibility for trust management and investment. A properly drafted trust agreement will allow the trustee to hire money managers to assist in investing trust assets. Again, this will serve as a post-graduate course in money management.
- The clients may want to structure the trust so that the child becomes the sole distributive trustee at some age. If the estate planner does so, the child is now able to exercise complete control over his or her trust. In so doing, the clients essentially communicate to the child that he or she is now sufficiently responsible to handle the trust without any help or limitations. By continuing to keep the property in trust rather than distributing it outright, the estate planner provides the child with important protection from creditors, bankruptcy, and divorce.

On successful completion of the bar exam, an individual is admitted to practice in his or her respective state as an attorney and counselor at law. It should never be forgotten that the role of the estate planner as counselor involves far more than structuring tax-efficient wealth transmission strategies. As a wise counselor, the estate planner can be a guide, helping clients provide their children with opportunities to assume adult responsibilities. ■