

The Family Bank – a source of comfort for everyone

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

The perception of wealth influences how families use their financial resources to achieve personal and family goals. The Family Bank is seen as an important factor in helping meet these goals. These days, many parents feel they are on track to being financially comfortable but worry that their children are not going to attain the same level of comfort just on their own resources.

When asked what it takes to be considered wealthy, many families' self-portraits have changed dramatically over the last few years. Rather than just considering accumulated assets, families are also focusing on their lifestyles as an indicator of family wealth.¹ The emergence of the concept of the [bucket list](#) in popular culture and the sharing of these experiences through social media are examples of this change in focus.

Most families relate to the idea of being part of the middle class, and do not consider themselves wealthy. This view is supported by studies that show that as earnings increase, the amount of accumulated wealth required for families to consider themselves wealthy rises proportionately.² This desire to either understate or overstate wealth is also highlighted in a recent OECD survey report on comparative income that noted [if we're rich, we think we're poorer than we are; if we're poor, we think we're richer](#).³ This perception of wealth influences how families use their financial resources, including the so-called [Family Bank](#), to achieve their personal and family goals.

Wealth that used to be simply thought of as assets in the Family Bank is now being seen as an important resource that allows people to be [comfortable](#). How comfort is defined is unique to each person and family. A general definition of comfort is the freedom from financial worries and having the flexibility to do what you want, whenever you want or need to. For most, achieving comfort is seen as the result of hard work. Getting a good education, seeking financial independence, having strong values, and a little bit of luck along the way are all seen as important factors in achieving the desired level of comfort in life.⁴

Our children aren't as comfortable as we are

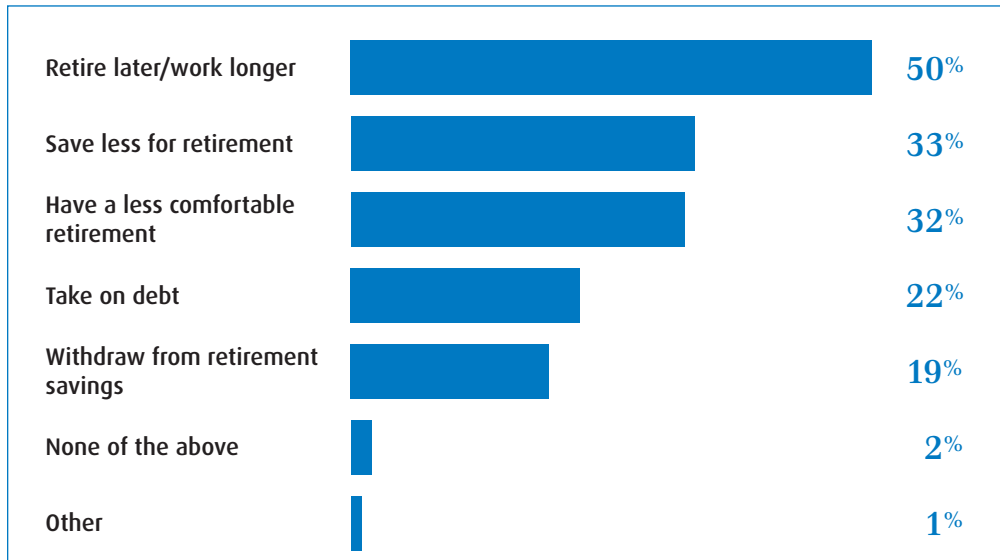
While many parents of young adults feel that they have either achieved or are on track to achieve their desired level of comfort, they worry that their children are not going to attain the same level just on their own resources. A survey was conducted for the BMO Wealth Institute to explore some of the differences between today's young adults and their parents. The survey discovered that both today's young adults and parents that have children that are 18 years or older found that being a young adult was a fun-filled and exciting part of their lives, even though it was full of changes. Where the two groups differed was in how much they worried. Fewer parents of young adults felt they were anxious, stressed or depressed (19%) at that stage compared to today's young adults (43%). Today's young adults are also more likely to feel that life is full of uncertainty (50%) as compared to their parent's generation (34%).⁵

Much of this fear is driven by the economic environment young adults face today, which includes relatively high unemployment rates, high housing costs, large student debt burdens, and underemployment due to being unable to find meaningful employment in fields related to their education.⁶

Both today's young adults and their parents found that **being a young adult was a fun-filled and exciting part of their lives**, even though it was full of changes.

Many parents realize that they got ahead partly because of the sacrifices their parents made for them. These parents often believe it is their obligation to **pay it forward** by helping their adult children to also become successful. The survey found that a majority of the parents had received financial support during their young adult years, most notably by living at home (34%) and for their post-secondary education (33%). These parents are now prepared to make many financial sacrifices for their adult children, such as the 50% who will retire later or work longer, the 33% who will save less for their own retirement, and the 32% who will help their adult children despite knowing it will result in a less comfortable retirement.

Retirement sacrifices parents would make to financially support their adult children.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

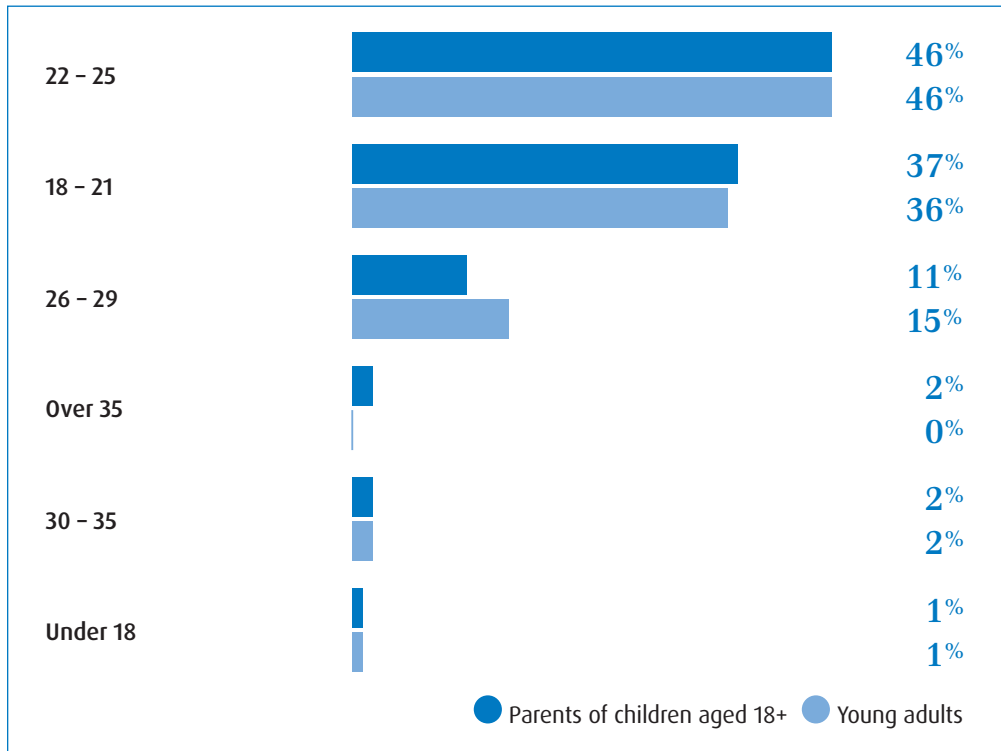
Parents face a growing concern however, that there is a limit to the support they can provide. What effect will the financial decisions parents make today mean for their own financial future, and their own desire to achieve and maintain financial comfort? Just how much money is available in the Family Bank to support the financial needs of every family member, as well as allowing the parents to pursue items on their own bucket list?

Parents will make sacrifices for their own retirement to financially support their adult children.

When do children become adults?

Jeffrey Jensen Arnett, an experienced researcher on the topic of emerging adulthood, describes the journey towards adulthood as long and sometimes perilous.⁷ When asked at what age someone reaches adulthood, most parents and young adults agreed it began between the ages of 22 and 25. However, a large proportion felt that adulthood starts earlier, between the ages of 18 and 21.

At what age does adulthood start?

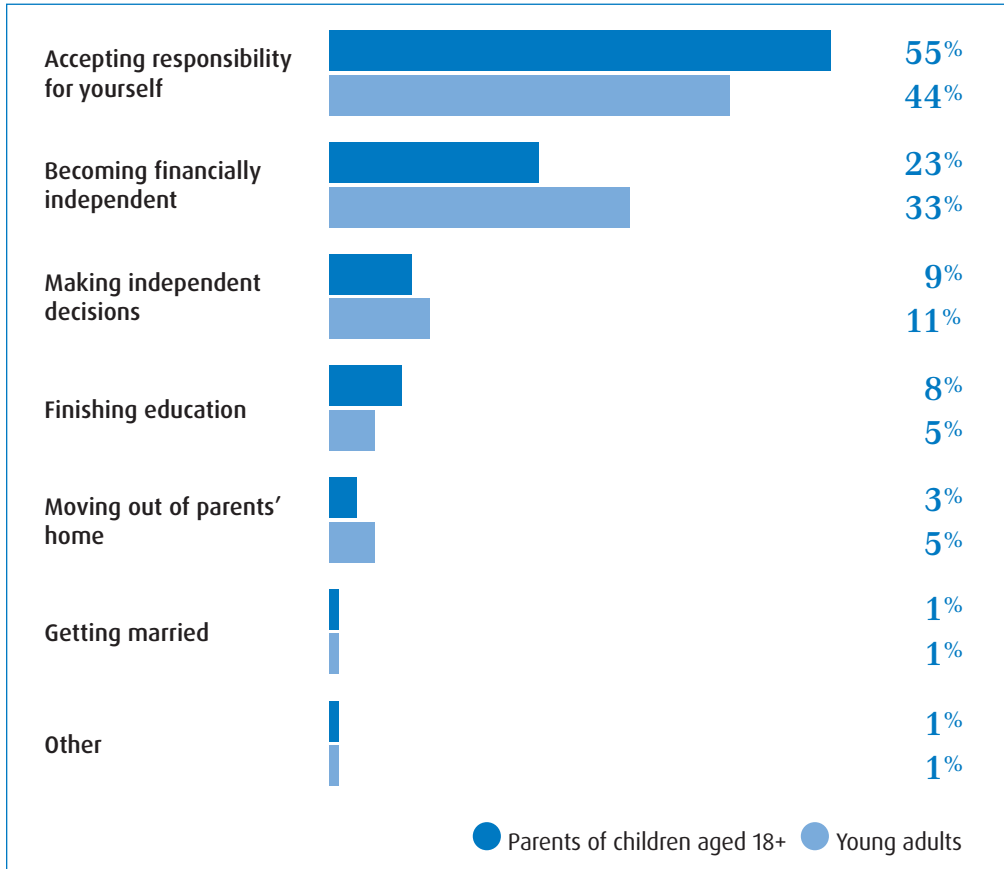


Source: BMO Wealth Institute survey by Validatelt Technologies Inc., October 2015

Both parents and young adults agree that **adulthood starts between the ages of 22 and 25.**

Parents and their children both agree on the behaviours that signify adulthood. Accepting responsibility for oneself was highlighted most often by parents (55%) and by adult children (44%), with becoming financially independent the next most selected behaviour (23%) by parents and by adult children (33%).

Which behaviours signify adulthood?



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

While these characteristics are important for every generation, both generations (76% of parents and 73% of young adults) believe that it takes longer to reach adulthood today than it did 30 years ago. This belief seems inconsistent with the fact that mothers and fathers of all income levels now spend more time engaged with and nurturing their children than parents did in prior generations.⁸ However, this high level of parental involvement can extend well into adulthood, and is seen as lowering their children’s degree of self-sufficiency.⁹

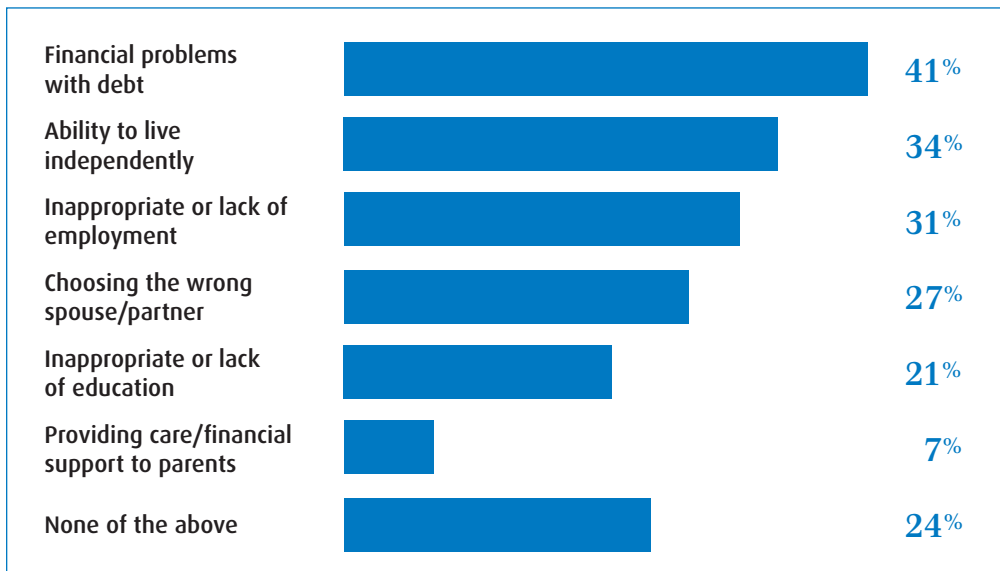
Accepting responsibility for yourself the most important behaviour signifying adulthood.

Majority agree that it **takes longer to reach adulthood today** than it did 30 years ago.

Despite concerns over the negative aspects of over-parenting – being helicopter parents – the frequency of contact between parents and their adult children is very high. Over half of the parents in the survey reported having contact with their adult child every day or almost every day (57%). Even for children that did not live with their parents, 42% of parents reported contact every day or almost every day, and 81% reported at least weekly contact with their children.

When asked what concerns them most about their adult children, parents listed financial problems such as debts (41%), their children's ability to live independently (34%), and inappropriate or lack of employment (31%) as their top three answers.

Main concerns that parents have about their adult children.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

Considering all of this parental concern, their adult children were asked if they felt their parents had too much involvement in their lives. Surprisingly, only 23% suggested that their parents were too involved. Giving their adult children more latitude may be difficult, as parents strongly value the relationship with their adult children, with 69% reporting that it was a source of enjoyment. The ability of parents and adult children to achieve the levels of financial comfort they each aspire to depends in part on being on the same page when it comes to their goals and how they interact.

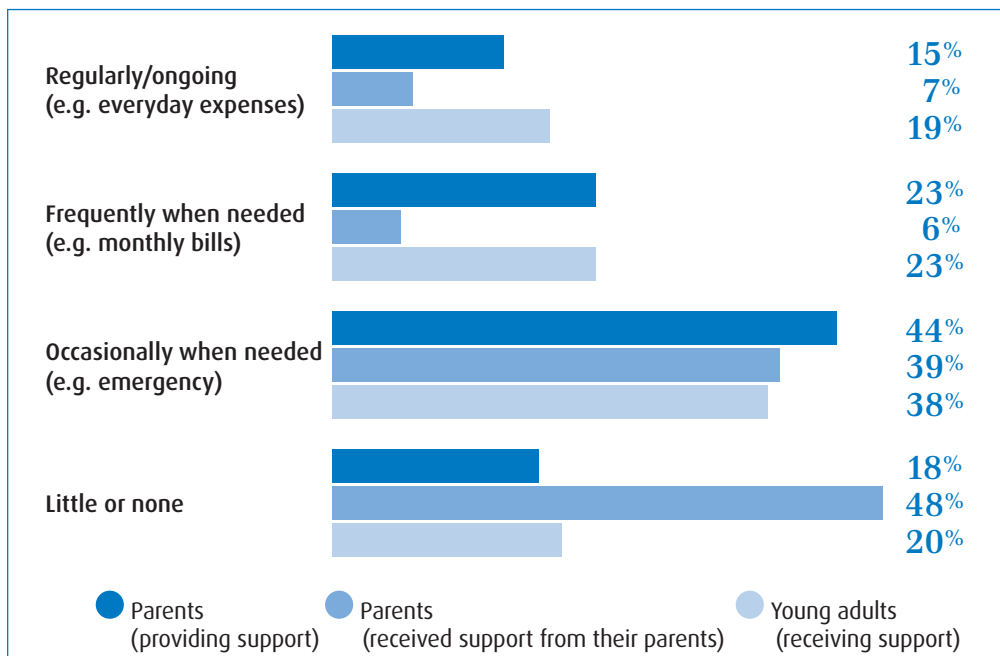
57%

of parents are in contact with their adult children every day or almost every day.

Helping our children

Many parents who pay it forward are providing more frequent and ongoing support for their children than they themselves received growing up. According to the survey, half of the parents reported receiving financial support as a young adult. Yet, 80% of current young adults reported receiving financial support. A similar percentage (82%) of parents surveyed report providing financial support for their adult children.

How much financial support is being provided?



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

Drawing from years of research, as well as clinical and field experience, therapist, international speaker and parenting consultant [Alyson Schafer](#) suggests that it may be well-intentioned to offer help – financial and otherwise – but our grown children may come to expect their parents' support. Rather than seeing these financial contributions as generous but finite, they may feel they are simply their parents' responsibility. Frequently, relationships are strained when parents cut off support if attitudes of entitlement have developed over time.

While regular small amounts of financial support may not seem that much to parents still in their prime working years, consider the financial impact of providing a child \$500 per month to help pay for their cell phone, internet and credit card bills. This adds up to \$6,000 per year, an amount that could have a significant impact on the accumulation of retirement savings. For a parent aged 50, contributing \$6,000 instead to a Registered Retirement Savings Plan (RRSP) each year could result in almost \$140,000 of additional RRSP savings by age 65, assuming an annual growth rate of 6%, for purposes of this illustration. Put another way, this could result in about \$260,000 in additional pre-tax income in retirement from a Registered Retirement Income Fund (RRIF).

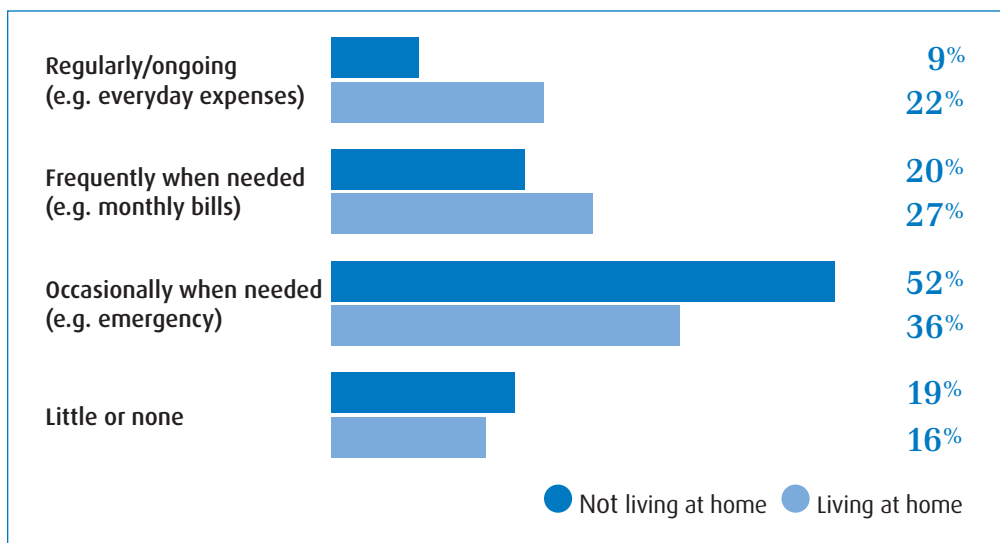
82%
of parents **have provided financial support** to their adult children.

While helping our children is something we expect to do as parents, at least until they are financially independent, it is important to realize the long-term cost this can have. This is especially important as the Family Bank is a limited resource that depends on the ability of parents to continue earning income to replenish any amounts that are withdrawn during their working years.

The amount of support provided

Parents today provide a significant amount of support for their adult children. According to the survey, almost 30% of parents with adult children that no longer live at home still provide frequent or ongoing financial support. A further 52% of parents reported also providing occasional financial support to their adult children.

Percentage of young adults who received financial support based on where they live.

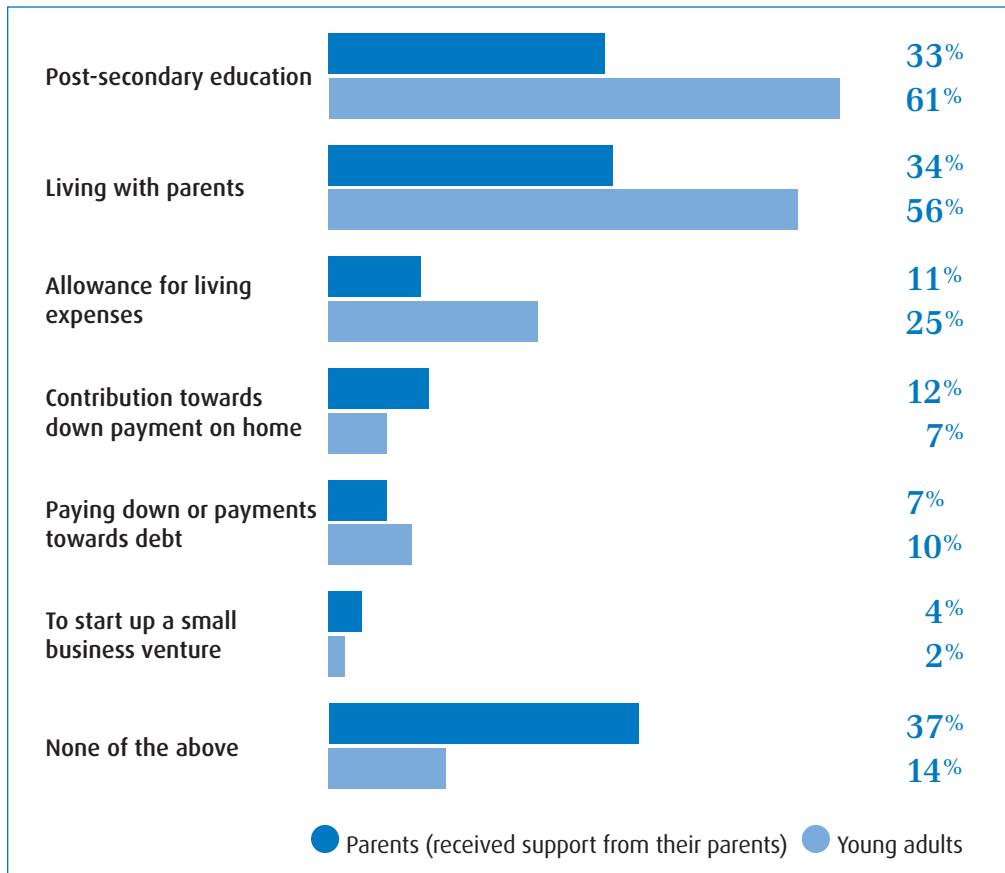


Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

Similarly to their parents years earlier, today's young adult children most commonly receive financial support for post-secondary education and by continuing to live at home. Interestingly, the proportion of young adults receiving financial support for post-secondary education (61%) and living with their parents (56%) was almost double the levels of support reported by their parent's generation.

The **Family Bank is a limited resource** that depends upon parents continuing to earn income to replenish any amounts that are withdrawn during their working years.

Reasons for receiving financial support.



Source: BMO Wealth Institute survey by ValidateIt Technologies Inc., October 2015

Parents worry about their children finding appropriate employment, yet the majority of parents (71%) believe that their children have the same or greater opportunities than they did as young adults. This is despite the fact that youth unemployment is nearly double the national headline rate.¹⁰

With all of these factors at play, it is hardly surprising that many adult children today are reluctant to leave behind the comfort their parents provide and move on with their own independent lives.

A better way to give to our children

The long-term financial implications of the ongoing support of adult children on the Family Bank, and the challenges of helping adult children to achieve financial independence are concerns that have to be addressed.

According to Alyson Schafer, removing too many of the hurdles a child faces as they mature causes greater dependency in the long term. It would be better to provide children the opportunity to overcome some of the struggles they face, allowing them to emerge stronger.

71% of parents believe that **their children have the same or more opportunities** than they did as young adults.

Help children build the mental muscle of resiliency to help equip them with the skills and strategies necessary to handle life's inevitable frustrations, challenges and setbacks.

Alyson Schafer

Further, she suggests that providing experiences from which a child can learn – both from their successes and from their failures – will build the emotional intelligence and the resiliency needed to adapt in this ever-changing world. It is far more valuable in the long run to provide learning experiences rather than ongoing financial support.

Discussions around financial planning

For adult children that have become accustomed to a level of financial support it is important not to cut them off all at once. Open communication is required, and may involve many conversations to set expectations for the future. It is important for all family members to understand that the Family Bank is a limited resource that was planned to be used primarily to support the parents and their financial goals.

Determining how much of the assets of the Family Bank is necessary for financial goals such as retirement will require a comprehensive wealth plan. The preparation of a financial plan that incorporates all available financial resources and includes all financial goals (including the bucket list) is an important first step that a financial professional can help with.

Once retirement needs have been met, then the competing interests of other family members, including adult children and aging parents, can be considered. Family members that have expectations of support need to understand the impact of these handouts on retirement plans if financial resources are tight; open discussions will provide a new perspective. A mutual understanding between young adults and their parents can help reduce expectations of ongoing financial support. This discussion is especially important if prolonged financial support will deplete retirement savings to the extent that parents will need financial support from their adult children in the future.

The advantage of starting early

A reliance on the Family Bank may arise simply because the kids have not learned enough about money from their parents. An understanding of personal finances involves learning how to budget, and establishing a **saving and investing before spending** habit. This will help children learn to live within their means, rather than always looking for a financial top-up to support an extravagant lifestyle. Parents who model good financial behaviours may have more success teaching their kids about finances because they will be practising what they preach.

When today's parents of young adults were young adults themselves, the household savings rate was more than 10%.¹¹ This has fallen to just 4% currently.¹² Today's young adults are not seeing their parents saving for the future at anywhere near the same rate that their parents saw at the same stage in life.

Putting money aside for specific purposes, such as for post-secondary education with a Registered Education Savings Plan (RESP), is a good way to reinforce the message of budgeting for the future. The fact that the RESP contributions are supplemented by contributions from the government also helps funds grow more quickly.

A comprehensive wealth plan is required to determine how much of the Family Bank is necessary for financial goals.

Parents who model good financial behaviours will have more success teaching their kids about finances.

As paper money has become less and less prevalent, the idea of having only so many dollars in your pocket to spend at a time has largely disappeared. To reinforce this concept, give younger children gift cards with set pre-loaded balances for special occasions that they can use at their favourite retailers. As long as the value is small and the parents ensure that the card is not forgotten, this can help to reinforce the message of budgeting and spending only up to an available limit (including sales taxes) from an early age.

The advantages of a Tax-Free Savings Account

Tax-Free Savings Accounts (TFSA) are a way to make savings more tax efficient and extend the parent's ability to use the resources in the Family Bank to meet financial goals. Although the amount that can be contributed annually to a TFSA is limited, income earned in the account is generally not subject to any Canadian taxation.

Income-splitting opportunities

If the Family Bank does have the financial resources to provide for the goals of the whole family, income-splitting strategies can help to increase the benefit available for children and dependent parents. Through the use of a family trust, or a carefully documented prescribed-rate loan strategy, the tax cost on income can be legitimately allocated to family members in a lower income tax bracket. Strategies such as these can make more funds available on an after-tax basis to meet family needs.

Leaving a legacy of financial comfort

Some parents don't realize how much their children depend on them financially, and consequently don't provide adequately for them in their wills. This makes it difficult for a surviving spouse to manage their own needs and also provide support for their children (or children from a previous relationship). Wills can be planned to provide support for dependents. One way to make additional funds available to help the Family Bank provide for both a surviving spouse and adult children is an insurance policy. A joint insurance policy on both spouses that pays out a lump sum tax-free to the surviving spouse to supplement income or to support children who may be struggling financially is a good option.

Now or later

Even if the Family Bank is well funded and can afford to provide ongoing support for adult children, it is important to realize that this will reduce the amount available for undetermined but likely expenses such as health care and long-term care as one ages.

As an example, in cities with high housing costs, many parents choose to help their adult children by providing large lump sum amounts to help with the down payment on a home purchase. These transfers often represent a form of early inheritance that has helped many young adults enter the competitive urban real estate market.¹³ A word of caution, though; any financial transfers to children may become property that has to be shared with a child's spouse in the event of a breakdown of their relationship.

Some parents **don't realize how much their children depend on them financially, and consequently don't provide adequately for them in their wills.**

Moving forward to achieving financial comfort

It is important to discuss your unique situation with your financial professional, who will be able to work with you and other professionals to develop a personalized financial plan. By working together with your BMO financial professional it will be possible to achieve greater peace of mind as you work toward building the financial comfort that you desire for yourself and your family.

Footnotes

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- ⁴ Comfortably plum: Ignoring the cultural noise to connect with affluent consumers. CEB Iconoculture webcast, September 9, 2015.
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- ⁶ Growing generational divisions are a worrying millennial shift. Anderssen, E. The Globe and Mail, April 23, 2015. <http://www.theglobeandmail.com/life/parenting/growing-generational-divisions-are-a-worrying-millennial-shift/article24083323/>
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