PERSONAL FINANCE

How to Help Your Kids With Finances When They Move Back Home

For millions of older parents, the nest is as crowded as ever.

(Image credit: Getty Images)

One in three adults between the ages of 18 and 34 are living with their parents, according to the U.S. Census Bureau. Several economic factors are leading adult children back home, and student loan debt is a major contributor. The average Generation Z borrower (born between 1997 and 2012) had an outstanding student loan balance of $24,473 as of 2023, and the average millennial borrower (born between 1981 and 1996) had a balance of $42,637, according to credit reporting company TransUnion.

Many young adults are deep in credit card debt, too. In the second quarter of 2023, Gen Z credit card users between the ages of 18 and 26 were carrying an average credit card balance of $3,148, a 17% increase from a year earlier, according to credit reporting company Experian. Millennial credit card users were carrying an average balance of $6,274, an increase of 18%.

Rising rents keep adult children at home as well. Although rents decreased slightly in 2023, the national median rent was $1,379 in December, almost $250 per month higher than it was three years earlier, according to Apartment List, an apartment-search website. And the rent is much higher than that in many major cities. The average rent in New York City, for example, is $3,867, according to the real estate website Redfin.

Rents are also high in college towns and other cities that are popular with young adults. According to Apartment List, the average rent in Cambridge, Mass., is $2,303 for a one-bedroom apartment. Rents for a one-bedroom in Boulder, Colo., home of the University of Colorado-Boulder, start at $1,595. Average rent for a one-bedroom in Seattle is $1,618.

Work out a game plan

Bobbi Rebell, 54, a certified financial planner and chief executive officer of Financial Wellness Strategies, knows about the financial challenges multigenerational households face. She briefly lived with her parents as a young adult, and her adult children, Ashley, 27, and Bradley, 24, each lived with her and her husband, Neil, in New York City for two years after they graduated from college. Rebell says that establishing boundaries was tough at first because she paid for most of her children's living expenses. Worse, they didn't follow her financial advice.

"It was hard, and I had setbacks," she says. "I was telling them to set up a Roth IRA as they were walking out the door."

Rebell eventually realized that she had to treat the young adults more like roommates than children and let them manage their own money.

"My daughter, Ashley, didn't want to open an IRA," Rebell says. "She wanted to save to rent an apartment in New York. I had to learn to sit down and listen to my kids and to let them make their own financial decisions."

Though you can't tell your adult children how to spend their money, using technology they're familiar with can provide a way to open up communications. Rebell found that her children used online tools to track their spending and were more comfortable text messaging with her about money than talking about it in person. Once she began communicating with them in ways that they preferred, they were more open to discussion with her.

She also collaborated with her children to achieve their financial goals by using financial institutions' websites and apps. For example, she assisted Bradley in setting up a Roth IRA online, and he keeps track of it on an app.

How much will they contribute?

Rebell notes that once your adult offspring move back home, you and your kids will need to decide how much they'll chip in for household expenses. They can contribute a percentage of their wages to cover the mortgage or rent, for example, or agree to pay a set amount — say, $200 to $300 a month. However, Rebell stresses that the amount your kids should pay depends on their financial situation and how much they want to save to eventually move out.

If your children can't help with the mortgage or rent, consider having them pay a portion of utility, phone or insurance bills. If you're giving your child funds to help with their personal expenses, such as car payments or health insurance premiums, establish up front whether the money is a loan or a gift. To make sure the terms are clear, you may want to put your financial arrangements with your children in writing.

Parents should also talk openly with their children about setting a deadline for how long they will live at home. Although you may want to support your child through their financial difficulties, you don't want them to be dependent on you for too long. Rebell checked in with her children often to make sure they were meeting their goals to find jobs, save money and move out of the house.

“Tell your kids you’re not a bottomless pit of money,” she says. “You have to build their confidence so they can eventually make it on their own.”

While Rebell disagreed with her daughter’s decision to put off opening a retirement account, it ultimately paid off for Ashley.

“She has that $2,000-a-month apartment in New York she wanted and is busy with her cybersecurity job,” Rebell says.

Consider asking your children to set a target date for saving enough for a security deposit and several months’ rent, or a down payment on a home. If your children have credit card debt, they can also set a goal to pay it off by a certain date. The more quickly they pay down their debt, the less they’ll owe in interest. And by lowering their card balances, they could improve their credit scores, making it easier to lease an apartment or buy a home.

Take care of your own finances

More than three-fourths of parents who support adult children financially say it affects their own finances, according to a survey by Intuit Credit Karma. Thirty percent say it has limited the amount they save for retirement.

Although you may want to help your children get back on their feet, you shouldn’t neglect your own financial health.

To avoid the temptation to give money to your kids that you should be saving for retirement, have a set percentage of your salary invested in retirement accounts. Automate contributions to your 401(k) or IRA “so you can set it and forget it,” Rebell says.

If you’re 50 or older, you can contribute up to $30,500 to your 401(k) or other employer-provided retirement plan this year.

Individuals 50 and older can contribute up to $8,000 to a Roth IRA if they’re single and have a modified adjusted gross income below $146,000, or $230,000 for married couples who file jointly.

NYSUT NOTE: Did you know that NYSUT members’ children can receive financial counseling, with the member present, from a Certified Financial Planner through the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program? The program provides access to a team of planners who offer objective financial advice for members and their families.