



Our House

How can financial planners help those with three generations living at home? **By Michael J. McDermott**

FACING A TOUGH ECONOMIC environment and job market, more kids are living at home, and staying longer, after college, and more grandparents, facing budgeting woes in their retirement years, are coming back to live with their adult children. That has led to more households with three generations (or more) under one roof.

While the number of these multi-generation households grew only slowly between 2000 and 2008, the number spiked from 2008 to 2010, jumping to

7.1 million, or 6.1% of all households, up from 5.3% in 2008 and 4.8% in 2000, according to an AARP Public Policy Institute population analysis.

It's not hard to lay blame for the trend on the economy. Two-thirds of adults living in households with extended family members named the economy as one of the reasons, and 21% of them said it was the only factor, at least according to a survey conducted by Harris Interactive for Generations United.

The good news is that almost three-quarters of those surveyed said these ar-

rangements had actually improved their financial situation, or at least that of one family member. The Pew Research Center found that poverty rates are significantly lower in these households (even though they take in a slightly lower amount of median income after the number is adjusted for household size).

Serving such households can be tough for financial advisors. Samuel R. Scott, a fee-only advisor and the president of Sunrise Advisors Inc. in Leawood, Kan., says there are painful economic realities confronting many of these families.

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“Many of them are not there by choice,” he says. “Whether it be a younger generation supporting an elderly parent or a family supporting a recent college graduate looking for work, the incentives for developing a long-term plan for saving or retirement are often offset by short-term necessity.”

Joel Redmond, a vice president and senior financial planner at Key Private Bank, says two main challenges often arise with more than two generations living under one roof: “First, dependents have less money; they would be able to maintain their own households if that were not the case. Second, the wealth of those supporting these individuals depletes more rapidly.”

This depletion means that there is more of a strain on the home owners, hampering them when they are trying to both develop and protect their wealth. It “poses an immediate threat to their financial position, cash flows and goals,” Redmond says.

Advisors working with these households must also deal with many different personalities, says Stacy Francis, the president of Francis Financial in New York.

Opportunity?

But there’s a flip side to this discussion: These families also create opportunities for financial advisors.

“A big one from a business standpoint is the opportunity to serve multiple family members living in the same household, which provides business continuity,” says Diane M. Pearson, an advisor and shareholder at Legend Financial Advisors in Pittsburgh. “When a family member passes away, the relationship with our firm has already been established.”

Pearson and her associates encourage their existing clients to bring family members to meetings or have them sit in on conference calls. The firm also wants household members to have their own separate meetings with Legend to discuss their own financial goals and objectives. “We also have changed our contracts with current clients to incorporate management of other family members’ investment portfolios in order to be billed at a reduced rate,” she adds.

Susan S. Spraker, the founder and

president of Maitland, Fla.-based Spraker Wealth Management Inc., says financial advisors are necessary here because they provide transition when older family members die. “The assets then have management continuity,” she says, so the family can avoid “unnecessary wholesale liquidation of securities, unnecessary taxes, etc., assuming the same advisor will continue to handle the accounts.”

In those cases, the assets can simply be retitled and moved in kind, pro rata, to the beneficiaries. The second generation, rather than being caught off guard, knows what the assets are and what needs to be managed, having participated in the transition planning with the parents, Spraker says. “This also creates opportunities for ensuring estate plan documents are in order, that the children have the necessary [power of attorney], that they are aware of the wishes stated in the parents’ living will, and that they are prepared to become successor trustees, if that’s part of the plan. The advisor can also train the children to fulfill these roles.”

Chris Bixby, a financial planning manager and senior vice president at Key Private Bank, sees family financial literacy education as the primary opportunity for his practice, noting that families have a poor track record of talking about their personal financial situation. “Parents don’t communicate their financial status with their children, even adult children, and children hide their financial problems from their parents,” Bixby says. “This new environment allows families to begin to educate themselves together and start working as a unit to promote fiscal health.”

Acting as a holistic planner means Bixby must be able to talk about family dynamics. “Since families are looking for advice that spans multiple generations, they are looking for holistic advice as opposed to specific technical advice,” he explains.

Pradeep Tempalli, a financial planner at Umpqua Private Bank in Portland, Ore., is also targeting complex family dynamics in his practice. With multigenerational homes, there is greater need for more financial planning and retirement planning services, he says. As the households become



more complex, it's harder for people to prepare for and anticipate their future needs.

For example, "We see more clients looking for long-term-care insurance as older generations move closer or [move] in with younger ones," Tempalli says. "Even our high-net-worth clients are getting this insurance as life expectancy rates increase." He admits that health care and estate-planning issues are topics that people are uncomfortable talking about, "but we gently open up the discussion because it's important and impacts the quality of their retirement."

In some respects, the emergence of mul-

tigenerational households as a more prominent feature in the financial landscape has been a boon to Farmers & Merchants Trust Company, a 90-year-old firm with offices in Long Beach and Laguna Hills, Calif., that specializes in intergenerational wealth transfer. "As a trust company, one of our strengths is in multigenerational planning," says Kevin M. Tiber, senior vice president at the firm. "This trend has given us an opportunity to engage those multigenerational issues proactively."

Often, families find themselves in these situations unexpectedly; an elderly parent might have to come live with his

child after suffering failing health or an adult child might lose a job or otherwise lack financial resources. Tiber says his firm helps families make the adjustment. "We often work as a mediator or buffer for the primary generation who are shouldering the majority of the support for the household. We are often asked to speak independently to a child to provide guidance and, in some cases, to offer career advice, etc."

Still, financial advisors dealing with these families must be prepared to deal with the cultural and generation-specific issues that are almost sure to arise. Many of Tiber's clients in these situations were "a bit shocked and/or dismayed" when they found family members moving in, and were particularly worried about how it might harm their retirement plans.

The real estate collapse has been a hot-button issue for some of Tempalli's clients. "Even though most of them have prepared for their retirement, the housing crisis has also affected them," he explains. "In some cases, our clients have loaned their children the down payment on a house, but the value of that house is now under water, and their children are no longer able to pay back the loan. For those with more means, this is not an issue, but for some clients who were depending upon repayment as part of their retirement finances, this is an unpleasant surprise."

And there is no getting around the fact that there often are strong generational differences in attitudes toward money. The baby boomers, Generation X and Generation Y all grew up in different economic conditions, with different expectations. As Bixby puts it, "This is probably more the realm of psychologists, but as planners, we are many times faced with the psychology of money and family dynamics. A multigenerational household certainly has financial complexities that need to be addressed. However, most of the issues that will be faced are emotional in nature. The sense of entitlement, shame, fear, depression, dependency and other negative emotions must be dealt with in order to approach fiscal health as a family unit." ■