Episode 129: My Child Has Become Independent – Now What?

Patti Brennan: Hi, everybody, welcome to The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today is an interesting topic. If for no other reason that I have a little bit of experience with this as a mother of four. I kind of understand what you might be thinking as your children become independent. What are the things that you need, and you both might want to consider as you go through this next season of life?

First, let's talk about the kids going to college. Are they going to college out of state? What are the implications of that? They're 18 years old or older. They're adults now. You've heard me say this before and I'm going to harp on the subject. Make sure that the kids have health care and financial powers of attorney because if something happened to them, they are adults and hospitals are subject to HIPPA.

They're not going to be able to give you information and you're not going to be able to authorize brain surgery, as was the case in my situation, so financial powers of attorney, probably not as important because they may not have significant assets yet, but the healthcare power of attorney is really important.

Back to the financial, remember that financial powers of attorney are relevant for our college kids once they're launched, they've got these great jobs, and they accumulate 401(k)s. If they are single, you can't help because they're over the age of 18. Those are a couple of tidbits to consider, even before they are graduating from college.

The health insurance issue is also going to be there for them, and for you. If they're under the age of 26, does it make sense to keep them on yours if you have healthcare insurance? Or, if they've got a job, do you want to make them independent and start having them pay for their own healthcare insurance? There may be pros and cons to both.

Usually, pros for you because it's going to cost you less money, and it also might be a pro for the kids because, again, you want to empower them, you want to give them a sense of what it's like to be an adult. I remember when Kelly graduated from Saint Joe's, she didn't really have any money, and couldn't afford to get, an apartment on her own, so she lived at home.

What she did was she took a portion of her paycheck from her first job, and she set it aside, as if she was paying rent. That gave her a great emergency fund so that when she did move out, she had money, A, for the deposit, and, B, she had that cushion so that she knew that she could pay the rent. She had her boundaries. She knew what she could and couldn't afford, so that would be an important consideration.

Also, as the kids begin to be launched and leave the house, what does that do in terms of your decision making? Does it make sense for you to consider downsizing? I don't know where you might be, so does it make sense for you?

Depending on where you live in this country, downsizing is often not really a viable option because the house that you would move into may be smaller, but it costs just as much or more, especially with the rise in interest rates and mortgage rates. Those are considerations.

Also, I think that what I've learned is that a lot of parents don't always anticipate that even though the kids may be in their first job, chances are they're going to need a little bit of help. Again, it depends on each child. It depends on what they're doing, etc.

A lot of times, we will have our meetings and they'll say, "We want to help our son with a car," or "We want to help them with their rent," things of that nature, and it wasn't something that they had anticipated.

I'll tell you that we had. We had already run those numbers. Again, we know that could be a possibility, so we just automatically create that scenario. When they come in with those issues, we explain, "Yeah, we were thinking about the same thing. Let me show you the implication of that."

It could be short term, we'll show it for three years, and we'll show it for a longer period so that they know that we were thinking about where they were headed, anticipating it, and already had a solution, so anticipating those one-shot deals, the car, the wedding, the down payment on the home.

Keep in mind the gift tax rules. With the gift tax rules, you're limited to $17,000 per person per year. For example, Ed and I can each give $17,000, or a total of $34,000 from a joint account, to Kelly, in this example, and we don't have to file a gift tax return. Anything over above that, we do.

Now, again, to refresh your memory, if we wanted to pay Kelly's medical bills, as long as we make the check directly to the facility or to her doctor, that's not included in that $34,000, that's not considered a gift.

If Kelly wanted to go to grad school, as long as we make the tuition payments directly to the school, it is not considered a gift in terms of the gift tax limitations. Those are some angles that you might want to keep in mind.

Also, another angle on another idea might be for those of you who own a business. If your child lives near your business and you might be inclined to give them a second job, put them on your payroll, especially if they're not working, this is an interesting angle.

During the summers, my kids would work at Key Financial and it was a win-win situation because A, we needed the help and B, I wanted them to understand what it was like to run a business. But also, maybe more importantly, to start at the bottom with a company.

I wanted my kids to be doing that groundwork. I wanted them to be filing and scanning. Let's face it, people do that for a living. When my kids get these big, fancy jobs, I want them to appreciate the people who do that work in any company.

The side benefit, FYI, was that in 2023, up to $13,850 is paid to them tax-free. It's an income shifting, neat idea. If I retain that money, call it $14,000, I'm paying taxes at my tax bracket. If through the business, my kids are contributing, again, to empower them and for them to learn, it's got to be legit.

They file their own tax returns and they're not paying taxes on it. That's pretty sweet. It's a way to give them a feel for what it's like in the real world, to use an old term and it's a great tax planning technique as well. What we did was to make sure a portion of that money automatically went into a Roth IRA. The kids would put money into Roth IRAs. It also got them into the habit of saving money, too.

Speaking of which, for those of you who may have been putting money away into your children's names in these Uniform Gift to Minors Act accounts or transfer accounts, keep in mind when they become adults, that's their money. That account must be changed and put into their name alone.

Again, not a bad idea. It's just you want to consider the implications of a child at a relatively young age getting a big, lump sum amount of money. Another thing to think about, as it relates to your taxes, is whether you keep the kids as dependents. What does that really mean? We don't get a dependent deduction anymore under the new tax law, but you can still claim the kids.

Children who are 19 years or younger can be considered dependents and anyone who continues and stays in school, 24 years old and younger, can also be claimed as dependent. You might say, "Well, Patti, what's the big deal? If I can't get a deduction, why do I care?"

Here's why you care. You may not get a deduction, but you might get tax credits. Tax credits are the best because it's not a deduction off your income, it's a deduction dollar for dollar against the tax that you owe.

The two tax credits that might apply in this situation would be the American Opportunity Tax Credit and the Lifetime Learning Tax Credit. I'm not going to get into the weeds today. Just make a note of it, look it up, see whether you would be eligible for those credits.

If you don't take them or if your CPA isn't taking them, Uncle Sam is not knocking on your door and saying, "Hey, by the way, here's $2,800. You pay too much in tax." This is why this stuff is important.

We're talking about the kids becoming independent. Another consideration will be: Are they on your car insurance? Once they become independent, you might want them to get a different policy, their own policy. Yes, it might be more, but I would ask the question, "Do you want to be liable for their mistakes?" That's a big deal.

I often tell parents of teenagers, "When they're 16 years old, 17 years old, if they are driving and texting and they get in a car accident and kill a family, who do you think is going to get sued? The 17-year-old? Nope. Mom and Dad." Guess what? They're going to lose.

Make sure that you are protecting yourselves and your assets. Make sure that you've got the right property and casualty insurance and a good umbrella. An umbrella liability policy covers your home and your cars.

You don't have to worry about your IRAs and your 401(k) because those retirement accounts are not attachable. If you don't want to get the insurance, put as much money as you can in those vaults. That's what they are. They are vaults. Nobody can open them except you. That's important, especially because sometimes we get sued for things that we didn't do but our kids might do. That's important to consider.

The other thing to think about is what are you currently paying for that you may not need anymore? For example, do you need the amount of life insurance that you got when the kids were little? A lot of people want to make sure that the kids are able to get to school, etc.

Especially people who are retired, if you're retired, then it's because you didn't need that salary anymore. If you didn't need the salary anymore, do you need to be protecting it? Do you need to be paying those premiums? Chances are the answer might be no.

You still might want to keep it for other reasons. It's one of the greatest things that a child can inherit, especially if it's owned by a trust. Life insurance owned by a trust is triple tax-free. There are no income taxes due. There's no estate tax due. There's no inheritance tax due.

That's a lot of leverage. That's a lot of money that's being saved through the insurance. Again, this isn't about insurance. It's about understanding what's important to you and what you want to have happen for your family. Speaking of which, as we think about the insurance issues, etc., as the kids get older, it might be a good idea to sit down with an estate planning attorney and think about including them in important roles.

Sure, you don't want a 16-year-old to be the executor or a trustee, but maybe a 26-year-old would be a good choice for your family. Revisit those estate planning documents in terms of the roles that are required, and also what's happening in their lives.

Do you want them to get their inheritance upfront and all at once? Do you want them to get it over time? Those are the conversations that we have on an ongoing basis with our clients. It doesn't mean that anything gets changed. It's that we've had the conversation.

Last but not least, are those 529 plans. A lot of times, we're using the last dollar in that last semester. Sometimes there's money left over. What are you going to do with that? As you hopefully know, if you have a 529 plan, that can be transferred to a sibling or a cousin completely tax free. Up to $35,000 can be transferred into a Roth IRA for that child. That's pretty sweet.

The caveat to that is the 529 plan had to be in existence for 10 years or longer. For those of you who might have young children, set up a 529 plan, put 100 bucks in it, start that clock, because that can really pay off over time.

Those are a couple of the issues that we think about. There's so many more as our children are growing and getting launched. If you have any questions on this or any other subject, go to our website at keyfinancialinc.com. There's a lot of podcasts on these different topics.

If you have a question that isn't being answered on the website, write in a question. That's what we're here for. We're here to help you and everyone in our community.

We appreciate you more than you're ever going to know. These podcasts are thanks to the feedback that we've gotten over the years, so thank you for sharing them as much as you do.

It's amazing the number of people come up to me and say, "Oh, I saw that podcast on long-term care. That really came in handy. I appreciate knowing you guys have a resource center." That's really cool. If you hadn't shared it, that person wouldn't have known about it!

Thank you for your time. Thank you for listening to me. I'm Patti Brennan, I hope you have a fantastic day.