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A helping handout

The smart way to give your kids money.

By Rob Gerlsbeck



If you're like most parents, you want to do everything you can to help your kids succeed in life. For many moms and dads that includes giving your progeny a helping hand with some of life's major expenses, such as university and a home. Assuming you have only a limited amount to give, how can you ensure your cash makes the biggest possible difference?

Many parents think the best answer is to pay for a chunk of university expenses. The theory here is that with a degree to their name, little David and wee Sally should be able to take care of themselves for the rest of their lives.

But let's face it. Some kids drop out of school. Others don't do much with the BA you paid so much to help them get. You can spend thousands on tuition only to have your kids stock shelves at Wal-Mart. Talk about a lousy investment.

So maybe it's best to wait and see how your kids turn out as grown-ups. Let them struggle through school and the early part of their career. Then, when they're married, expecting a baby, and trying to scrape up enough money for their first house, you can swoop in with a fat down payment. But that strategy, too, can have its drawbacks, especially if your child's marriage isn't as solid as you might like.

The one sure thing is that it pays to think through your options early. "At one point or another every parent has to deal with this question, because children are going to go through periods where they have financial needs," says Tim Cestnick, an accountant and financial expert in Burlington, Ont., and author of *Winning the Education Savings Game*.

A good starting point is acknowledging that each one of your children is different. Since nobody knows your kids as well as you do, consider these three strategies for three different types of children:

- The A student. If Junior is a superior student, your choice is simple — help him out with university

fees. “Paying for your kids’ education gives you a bigger bang for your buck” than any other option, says Vera Adamovich, a certified financial planner in Ottawa, because when you contribute to an RESP, the government puts in money as well. Plus, “if I help my kids with an education, they’re going to more easily be able to afford a home of their own,” she says.

A bit of parental assistance during university can make a huge difference. Students who graduate with debt owe a median \$24,000 in government loans. That debt can hang over their heads for a decade or longer, especially if they’re not making much money at their first jobs or if they’re heading off to medical school or graduate school after finishing their first degrees.

If you think your children are bright but unmotivated, your best plan may be to pay only part of their school bill, says Frank Wiginton, a certified financial planner at TriDelta Financial Partners in Toronto. “If some of their own money is at stake, they’ll try harder,” he says. Better yet, use a carrot-and-stick approach, as Wiginton’s parents did. He had to pay for his university fees up front, but each time he passed a course, his parents reimbursed him for the cost.

- The college kid. For kids going to college, consider a different approach. Why? Because college tuition is cheaper than university tuition and kids often end up living at home if they go to a local school. There’s no reason they shouldn’t pay for a big chunk of their education. Unfortunately, college grads tend to earn less throughout their career, so instead of underwriting their education, you may want to wait until they need help with the down payment on their first home. Over time, your assistance will probably help them as much financially as a university degree. For instance, putting up \$50,000 for their down payment on a \$250,000 home will lower their monthly mortgage payments by about \$440.

But giving kids money for a down payment can get tricky. If their marriages fail, their ex-husbands or ex-wives will get half of that down payment’s value, assuming the house is sold. “I’ve seen situations where the parents were very resentful when that happened,” says Adamovich. The solution is to loan — not give — your son or daughter the money. You never have to collect on the loan if your child stays married, but you can always call in the loan if your son or daughter get divorced.

- The stay-at-home son. No matter what level of school your kids reach, they will probably hang around your house a lot longer than you think. About a third of 25-year-olds still live with their parents, according to Statistics Canada, compared to only 16% in the early 1970s. The good news is if you’re still sharing the rec room with your thirtysomething son, you can give him a motivation to move out and a helping hand in life at no cost to yourself.

All that’s required is the ability to talk tough. When Wiginton got his first job after university, he was still living at home. His parents insisted on charging him \$400 rent a month. Two years later, he got a different job in a different city. But before he moved his parents surprised him by giving him back every cent he had paid in rent. “They didn’t need the money. They put it in a savings account for me,” he says. “And that money came in really handy because there are a lot of costs you have when you’re first out on your own. It was a getting-started-in-life account.”