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Mother, Can You Spare a Room?

By Kirsten Grind - Updated May 3, 2013 7:13 p.m. ET

As Rachel Zahn's three children were growing up, she liked to warn them, half jokingly, not to overstay their welcome. "Checkout time at this hotel is age 18," the 56-year-old nonprofit director would tell them.

It hasn't worked out that way. A year and a half ago, Ms. Zahn's oldest son, Sam, 25, asked if he could move back to the family's home in Solana Beach, Calif.—near San Diego—with his girlfriend in tow. He wanted to save money when attending graduate school while his girlfriend worked full-time.

Ms. Zahn and her husband agreed. Sam and his girlfriend moved into his old bedroom.

"We made that decision to let him save money," Ms. Zahn says. "The cost of living in San Diego is crazy."

The Zahns are hardly alone. As an expected 1.8 million college graduates descend on the real world this month and next, many of them will move back in with their parents. The trend is keeping the graduates from assuming responsibility for their own finances.

Parents, meanwhile, are finding themselves stuck caring for children, sometimes for much longer than they planned, with no exit plan in sight—often damaging their own financial health and retirement savings.

Financial advisers say hosting an adult age child back at home can cost between $8,000 a year to $18,000 a year, depending on how much parents are shelling out for extras like travel and entertainment.

"It is one of the biggest problems affecting our clients," says Benjamin Tobias, president of Tobias Financial Advisors, a wealth-management firm in Plantation, Fla., that oversees about $200 million.

Financial advisers and industry experts say there are many ways parents can protect their finances if their kids move back home. Parents should be firm with their kids, say advisers, by making them pay for rent and other expenses if possible, setting a limit for how long they are allowed to stay, and avoiding the temptation to offer extra financial help, like loans.

According to the most-recent U.S. Census Bureau figures, 22.6 million adults between the ages of 18 and 34 were living at home with their parents in 2012, about 32% of all people in that age group. That is up from 18 million, or 27%, a decade ago.

The percentage of young adults between 18 and 24 years old living with parents has increased the most, to 56% in 2012 from 51% a decade ago.

The weak economy—and the lack of jobs available for recent graduates—is the biggest reason kids are moving back home, says Zhenchao Qian, professor and chair of the sociology department at Ohio State University, who led a 2012 research study on the subject.

All of this is weighing on parents' finances. A 2011 study by the National Endowment for Financial Education found that 26% of parents with adult-age kids living at home have taken on debt in the process, either to help their child with a loan or for their own spending needs. Thirteen percent delayed a life event like buying a house, and 7% delayed retirement.

Even parents who can afford to have their kids return home without significant financial strain should be worried about the consequences. When kids move back home with parents, it puts parents in the complicated position of wanting to support their children while trying to help them launch their own lives. The line between support and coddling can be blurry, experts say.

“The parents are frustrated by it, but they’re also embarrassed by it,” says Clarissa Hobson, a financial adviser at Carnick & Kubik, a wealth manager in Colorado Springs, Colo. “It’s really hard to say no to your kids sometimes.”

Here are ways to make a moving-back-home situation work for parents and kids alike.

Make Them Pay

When an adult child says he needs to move back home, parents should come up with a financial plan that includes a detailed budget of the child’s expenses and what the child is expected to pay. Those expenses typically include rent, utilities and food.

While parents might balk at the idea of shelling out money for their kids on top of room and board, parents are likely to have to help with some expenses such as car insurance and cellphone payments, at least initially, to help their kids find work, advisers say.

The best way to handle expenses outside of room and board is a weekly or monthly allowance, says Ms. Hobson, whose firm has $275 million of assets under management. That teaches kids how to manage their own money and sets a strict limit for how much the child will be able to spend.

“If you’re constantly being asked for $20 here and $50 there, that adds up,” she says.

Once a child has a job—or if they move home with one to begin with—they should be expected to pay for their expenses, and their rent as well, if possible, say advisers.

Most important, parents shouldn’t be paying for extras that a child can live without: new cars, trips or entertainment, for example, even if they can afford it. “Then there’s the problem of kids having this entitlement and having no ambition to get off their butts,” says Mr. Tobias.

Some advisers even say parents and children should draw up a contract and sign it, so that everything is in writing and expectations are clear.

“Children are notorious for saying, ‘We never agreed to that,’” says Ann Gugle, a principal at Alpha Financial Advisors, a wealth-management firm in Charlotte, N.C., with about $68 million in assets under management. “It makes it more of a serious thing.”
Set a Time Limit

The biggest mistake parents make is failing to establish a time frame right away for how long their child is allowed to stay, experts say.

Without any kind of parameters, kids get comfortable at home and parents can find themselves stuck.

As a rule of thumb, parents shouldn’t allow their kids to live with them longer than, say, a year and a half, unless there are extenuating circumstances, many financial advisers say. Some advisers recommend no more than six months. The longer children stay, the harder it is for them to leave, and the more the cost to parents soars.

Erik Daniels, a financial adviser at Ronald Blue & Co. in Roswell, Ga., a wealth-management firm with about $7 billion in assets, recommends his clients use what he calls a “glide path” approach to encourage their kids out of the house.

Mr. Daniels says parents should put their child on an initial allowance that will slowly decrease over time. Another way to do it: start by paying some of the child’s expenses and then gradually stop paying them—say, car insurance or a cellphone bill.

It’s a strategy he is employing with his own daughter, Kelsey, 23, who moved home late last year after graduating from the University of Georgia.

Mr. Daniels and his wife agreed to give her $400 a month for six months to cover many of her expenses, in addition to the rent, utilities, auto insurance and food they already were paying for. After six months, Mr. Daniels and his wife began reducing that allowance by about $50 a month.

“As that amount goes down, she is taking on more responsibility,” Mr. Daniels says. “She needs to understand the ultimate goal is to be independent."

Make Them Work

It's also important to establish early on the expectations for a child's job situation, advisers say.

Often children move home directly after college with no job in the field they majored in. But children should at least find a part-time job, even if it means they're underemployed, to help contribute to their expenses while they look for something more permanent. And parents should take an active role in making sure their child is searching for full-time work.

Some parents go so far as to help their child research job leads, but financial advisers say even asking regularly about the job search and discussing possible leads can be helpful. That makes children accountable and reminds them that they are working toward the goal of living on their own.

If the child is having trouble finding a job, he or she should find another way to contribute around the house by doing chores or cooking meals, says Ms. Hobson.

When Greg Zandlo's daughter, Kristen, 24, said she needed to move back home to Minneapolis two years ago after graduating with bachelor's and master's degrees in business administration from Springfield College, he and his wife sat down with her to lay out the ground rules.

The most important: While the Zandlos were happy to help, and they could afford to do so with no impact on their own finances, they wouldn't pay for Kristen to sit around the house. She had to have a job, even if it wasn't in her field. Mr. Zandlo also checked to make sure his daughter was regularly applying for career-oriented jobs.

"We wanted to make sure she was on the path toward gainful employment," Mr. Zandlo says.

Kristen wound up taking two part-time jobs, at a local coffee shop and an American Eagle store. Last year she was hired as the marketing and communications director for the People's Center Health Services, a nonprofit community clinic.

She moved out of her parents' house in January, a year and a half after she had moved in. Her parents "set expectations for how it would go at the very beginning," Kristen says. "I think it went pretty well, and the fact that they did let me live rent-free was amazing."

Think Before You Cosign

Parents, regardless of their financial situation, should resist letting a child "borrow" their credit card—or even cosign for a card for the kid. It's too easy for the child to be tempted to use it, particularly when it's in a parent's name.

Parents also should avoid taking on any debt to help out their children—no cosigning of auto loans, say advisers. That thinking should apply even if a child isn't actually living at home, but a parent is still helping with expenses.

You might be tempted to help your children establish their independence by cosigning a mortgage. That can be a drastic mistake. One of Ms. Hobson's clients, for example, cosigned for a townhouse for his adult-age child, only to have the child stop making payments after six months without telling her parents. The parents were then left on the hook for the payments.

"They were forced into a situation where they had to sell a property they should have never owned," Ms. Hobson says. "There was no remorse on the child's part."

When They Won't Leave

Many parents and children have trouble making and sticking to budget and exit goals, and sometimes kids end up living at home for much longer than their parents anticipate.

Mr. Tobias recommends that his clients give their kids a dose of reality. He asks them to come in with their adult-age kids and show them exactly how much money they have in retirement and bank accounts. Mr. Tobias then calculates projections, showing how the parents' retirement will be affected as they pay more for the kids.

While that might feel awkward for some parents who aren't used to detailing their finances, it's the starkest way to illustrate to the child how his or her actions affect everyone involved.

“It tends to wake up the kids and also, to an extent, the parents,” says Mr. Tobias.

In worst-case scenarios, where parents can’t seem to get their children to leave after a year and a half or more, Mr. Tobias has recommended family therapy, aimed at encouraging the kids to become self-sufficient, without the help of their parents. He also has sent sternly worded notes to his clients showing his probability projections for when they’ll run out of retirement funds if they keep supporting their children.

“We sit down and have heart-to-heart meetings,” Mr. Tobias says.

It also can be hard to take advice—even your own. Ms. Zahn, the nonprofit executive director, has often advised people on her parenting blog to make a contract with their adult-age children before they move home. But that’s something she didn’t do when her son and his girlfriend moved home, although they had an initial conversation about budgets and expenses.

She also recommends making children pay rent, another suggestion she didn’t employ herself.

Still, Ms. Zahn says the experience of having her son and his girlfriend stay for about a year and a half has generally been positive, largely because she and her husband initially set expectations.

“I think in many ways it was harder for them living with us then it was for us,” Ms. Zahn says.

Sam and his girlfriend plan to move out in June.

Write to Kirsten Grind at kirsten.grind@wsj.com

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