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Give financial help to adult children without putting your retirement at risk

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Were the Thomas and Greutman families ever to meet, they'd have some stories to trade about helping children out of financial crises. About a year ago, Joyce and Peter Thomas, both approaching 60, learned that their 31-year-old daughter Cathy and 34-year-old son-in-law Trevor had a black mold infestation in their basement, which explained some rashes and respiratory problems the young family had experienced. "It was under my granddaughter's bed and around my grandson's crib," Joyce says. The home had to be evacuated immediately so that about $25,000 of repairs could be done. Joyce took $15,000 out of her taxable retirement account to help.

Not long before, Mark Greutman and his wife, Lauren, then both 27, had been living beyond their means. They were underwater on their mortgage, had $40,000 in debts, and didn't have the $4,000 their bank required to do a short sale on their home. "We didn't have the $4,000 either, so we opened a home equity line of credit and gave it to them," says Mark's mom, Debbie, now 60.

In a recent Consumer Reports survey of more than 24,000 subscribers ages 55 to 75, 14 percent said they were providing some kind of support for an adult child. But you don't even have to have kids to find yourself in that situation. A parent, sibling, niece—you name it—who's down on his or her luck can pose the same sort of dilemma. Your goal is to decide if it's necessary to provide some financial aid, and, if so, to do so without torpedoing your own future, including your retirement. Here are some possible ways to cope.

When to help, when not to

A good first step is to determine how serious the problem really is, says Ken Moraif, a certified financial planner at Money Matters in Plano, Texas. If a grown child is facing a foreclosure or needs funds to address serious health issues, you'll want to intervene, assuming you're in a position to do so. But avoid raiding your retirement accounts or taking on more debt, if possible. Tap available cash in an emergency fund or a money-market or bank account first, Moraif says. Next, consider taxable investments accounts. Borrow from a tax-deferred account such as a 401(k) only as a last resort.

Hesitate in helping with revolving debt such as loans and credit-card bills, says Robert Stammers, the director of investor education at CFA Institute, a professional organization of chartered financial analysts. "If you just pay off the bill and your child has poor money habits to begin with, you may just be enabling the bad behavior," he says. A better idea: Help him negotiate better rates and set up a payment plan.

A good reason not to help is if you simply can't afford to. "If it will impact your finances so negatively it means you won't be able to live on your own assets, you may have to say no," Stammers says. The last thing you want is to deplete your retirement savings and end up financially dependent on your kids. They probably don't want that, either.

Instead, consider nonmonetary ways to help, such as offering a family car that you no longer need, drawing on your professional network to help your child land a better-paying job, or watching the grandkids while your child goes on job interviews or works extra shifts, says Gina Chironis, a CPA with Clarity Wealth Management in Irvine, Calif.

Another way to help your family finances: Creat a bulletproof estate plan.

Should they move back in?

"If you and your spouse agree to have adult children live with you, have a family meeting first," says Tim Prosch, author of "The Other Talk: A Guide to Talking With Your Children About the Rest of Your Life" (McGraw-Hill, 2013). Decide how you will share living expenses and chores. Most important, pick a target date when your child should move out. Both the Thomases and the Greutmans let their children and grandchildren live with them for a short time. Mark and Lauren also had to repay the loan and cover the interest, pay rent, and help cook and keep the house clean. They have paid off all their debts, and now offer tips on living frugally.

Gift or loan?

One looming question in those situations is whether to consider the financial help you provide a loan or a gift. People in the gift camp say just giving the money lessens the likelihood of future ill feeling. Bear in mind that if your gift exceeds $14,000 per year, or $28,000 in the case of couples, you could be subject to gift taxes. Also, the IRS requires you to report interest earned on a family loan. The FAQs on gift taxes, at irs.gov, has the details.

Loan advocates will tell you that a loan encourages responsibility on the part of the child, plus presents the chance of getting some money back eventually. Co-signing any sort of loan or lease is generally ill-advised. If your child doesn't pay up, you will be expected to do so or risk the impact of a default. Plus, as a co-signer, that loan is considered part of your credit history, which means it can affect how much you'll be able to borrow yourself.

If you lend your children money, consider getting the terms in writing to avoid any misunderstandings. Stammers suggests that a loan agreement include a reasonable interest rate and a well-defined repayment schedule. You can download a promissory note form at Nolo.com. "I've seen these situations tear families apart," he says. "Turning it into a business arrangement hopefully takes some of the emotion out of it."

—Mandy Walker (@MandyWalker on Twitter)