How Retirees Can Say ‘No’ When Adult Children Ask for Financial Help

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By Glenn Ruffenach
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Question: In a recent column, you talked about the possible pitfalls in retirement of giving financial help to adult children and family members. My question: How do you say “no”? I think refusing a request is difficult for most parents.

Sonia Pulido

Answer: It is. And I’m a case in point.

In recent years, my wife and I have helped several family members with financial problems. In most instances, we were happy to step up. It feels good, obviously, to help someone you love. And, as we get older, it’s nice to know that we’re still needed. Even if that need involves cash.

But there have been occasions when we wanted to say no—and didn’t. In one case, it was easier simply to say yes and avoid explanations or arguments or feelings of guilt. In another, we rationalized, “We’ll help just this one time.” (As it turned out, one time became multiple times.) In still another instance, one family member became aware of help we had provided to a different family member, and asked for the same help.

To date, our gifts haven’t put a big dent in our retirement savings. But as I indicated in my recent column, older parents can’t necessarily see whether the help they provide today—and/or continue to provide in the future—will put their nest egg at risk.

A wonderful book that looks at these issues is “Parents to the End: How Baby Boomers Can Parent for Peace of Mind, Foster Responsibility in Their Adult Children, and Keep Their Hard-Earned Money.” The author, Linda M. Herman, doesn’t spell out how to say no, but she explains why it can be appropriate to do so. Among the reasons:

- Forget “perfect.” Some parents equate refusing an adult child’s request for financial help with failing in their parental duties—with letting their child down. To which Ms. Herman says: Get over it; stop trying to be perfect. “Sometimes being a ‘good enough’ parent is sufficient,” she writes. “A ‘good enough’ parent recognizes her own strengths and limitations and, on balance, is comfortable that she is doing an adequate job.”
- Throwing good money after bad. Let’s face it: Some adult children who receive financial help use the money irresponsibly. At some point, Ms. Herman says, you have the right, and perhaps the obligation, to stop funding profligacy.
  “Parents do not owe their children the lifestyle to which they may have become accustomed,” she writes.
- The value in boundaries. Saying no, or setting limits on your generosity, isn’t necessarily a bad thing. On the contrary: It can send a powerful message to adult children, Ms. Herman says.
  “You consider them the adults they are. You have faith in them to handle their own finances. You allow them to experience delayed gratification, a sign of maturity,” she says.
- Who’s watching out for you? Adult children might feel as if they have a right to your support. But parents have rights, as well, Ms. Herman notes. And one of those rights is reaping, at some point, the benefits of a lifetime of work. Yes, it’s all well and good to sacrifice for family members, but don’t lose sight of the fact that you deserve a secure financial future, as well.
  “Adult children have years in which to prepare for their own retirement,” Ms. Herman writes. “Don’t be too quick to give away your own.”

Question: I took my 2020 required minimum distribution from my retirement account in January 2020. Later I learned I could return the gross amount and avoid taxation on it. I did this in June. The problem: I don’t know how to report this action to the IRS. I tried to report the taxable amount as zero, but my tax software ignores the zero and treats the RMD as being taxable. I am certain there are more than a few seniors with the same problem.

Answer: You’re correct — A lot of people are wrestling with this. But the solution is relatively straightforward.

The confusion starts with Form 1099-R. That’s the paperwork you receive from your retirement plan or the custodian of your retirement account if you withdraw funds from your savings. In all likelihood, your 1099-R for 2020 shows your RMD as a taxable distribution—which, of course, it’s not. That’s because you repaid the money to your account. (Note: Most repayments had to be completed by Aug. 31, 2020.) A 1099-R, though, isn’t built that way; it shows only withdrawals and not what happened to those dollars after they were withdrawn.

So…don’t be alarmed if your 1099-R is showing your RMD as taxable. (And don’t expect to receive a corrected 1099-R.) Rather, says Ed Slott, an IRA expert in Rockville Centre, N.Y., turn your attention to Form 1040, your federal income-tax return for 2020.

The key: You will need to indicate, on your return, that you performed a rollover, Mr. Slott says. And that’s what returning an unwanted RMD is—a rollover. Line 4a on Form 1040 is for “IRA distributions.” Here, enter the amount you withdrew in January 2020. Line 4b is where you enter, normally, the taxable amount of that withdrawal. But instead, enter “Rollover” next to line 4b.

If you’re using tax software, you shouldn’t actually have to write in “Rollover.”

There will be, or should be, an option in the software that allows for this step—probably a check box that will automatically write in "Rollover." At that point, the software should show your taxable amount as zero.

This is essentially the same reporting that would be done for any IRA rollover, Mr. Slott notes—say, when you move IRA funds to another financial institution. Returning an unwanted RMD is treated the same way.

Two additional notes. First, in a few months, your financial institution will furnish you and the IRS with Form 5498, which will confirm officially the rollover amount. It's not necessary to file Form 5498 with your tax return.

Second, 2020 was, with regard to RMDs, an anomaly. Normally, an RMD never can be rolled back into a retirement account. But since Congress waived RMDs in 2020, Mr. Slott says, your withdrawal from your retirement savings early last year wasn't considered an RMD; as such it could be repaid. In 2021, traditional rules again apply: You can't roll over an RMD.

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Schedule a meeting