HIGHTOWER
Westchester

guidebook

What To Do When Your Loved One Turns 18

Has your child turned 18? Consider these important items.

Your child is turning 18. For your child, this birthday brings a sense of freedom. They're graduating from high school and transitioning to college--or for some, beginning a career. But there are some big changes that also happen when your child turns 18. Not only does it mean they now have the right to vote; it also means they are legally recognized as an adult. This is an important milestone to pay attention to because that means they are legally responsible for their own actions (they can sign contracts, purchase a car, establish credit, etc.), they have new privacy rights including making their own medical decisions, they can be called for jury duty, and males have to register for the draft within 30 days. This newfound legal recognition of being an adult not only impacts your child, but you as their parent. Let's take a closer look at some of the ways this impacts you both.

As mentioned earlier, 18 is the age when, under state law, a person is no longer considered a child, but an adult with legal rights and responsibilities. Because of this new legal status, the parents of an adult child no longer possess the legal authority to make decisions on behalf of their child. However, as most parents know, they continue to be involved in their now adult child's life in various ways such as helping with college expenses, accompanying their child to the hospital or doctor, providing a home while their child establishes themselves financially and professionally, and providing ongoing overall guidance with life's decisions, both big and small. At the end of the day, parents never stop being parents, no matter how old their child is.

Most parents and adult children take for granted this unique relationship not realizing that once a child turns 18, their parents no longer have unfettered rights to help their children in certain situations. For example, let's assume parents are providing financial support for their child's college education and a billing issue or other tuition question comes up. Parents assume they have a right to call the college's financial office and access records, but they don't. Without an authorization on file, a parent cannot access the child's financial information (or grades for that matter) even though they are making the payments. Likewise, if ever there comes a time that your child has had a medical incident or situation and is in the hospital, when you call and speak with a nurse, they may not be able to disclose important medical information to you because your child is now a legal adult, and you are not authorized as their agent or proxy, and they have not signed a HIPAA release form. For these reasons, it's important that you consider preparing a health care proxy/declaration and durable power of attorney.

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HIPAA AUTHORIZATION, HEALTH CARE PROXY, AND DURABLE POWER OF ATTORNEY

Once your child turns 18 their health information is protected by the Health Insurance Portability and Accountability Act, also known as HIPAA. This prevents anyone from receiving medical information about another adult, unless they have a signed release. What does that mean, practically speaking? It means medical professionals are no longer allowed to disclose personal health or medical information (think test results, diagnoses, and treatments) about your child to you, even if they're on your health insurance. Your child can sign a HIPAA Release Form which will allow healthcare providers to disclose health information to anyone specified on the form. Your child can choose what information is shared, who it can be shared with, and the method in which it can be shared. As a parent, you should have a copy of this signed authorization in your possession so you can provide it to a medical professional or hospital when necessary. If your child is going to college, you should check with the campus medical center to see if there are additional forms you'll need to sign.

In addition to the HIPAA release form, you should also have your child sign a health care proxy/declaration. A health care proxy/declaration appoints an agent to act on your behalf should you become incapacitated or unable to make your own medical decisions. It's best practice to have your child execute both the HIPAA release form and the health care proxy so the person entrusted to make health decisions on their behalf will also have access to the medical information they need to make such decisions.

A durable power of attorney ("DPOA") is another important document that, like a health care proxy, appoints a third party to act on your child's behalf in financial matters. The DPOA enables the designated agent to access bank accounts, pay bills, resolve tuition issues, sign tax returns, etc. The primary purpose of the durable power of attorney is to prevent the court from appointing a conservator to manage your child's finances should he or she be unable to make their own, conscious decisions. An attorney-in-fact can sign anything from financial aid to federal and state tax returns, even if your child has not been employed or accumulated any assets.

If your child is attending college, you should also ask the registrar's office if they have a standard form or authorization (such as a FERPA consent form) to put on file so that you can access your child's school records.

terms to know

HIPAA
Health Insurance Portability and Accountability Act

HEALTH CARE PROXY/ DECLARATION
Appoints an agent to act on your behalf should you become incapacitated or unable to make your own medical decisions.

DPOA
Stands for a "durable power of attorney," a legal document that appoints a third party to act on your behalf, with respect to financial, business or legal matters, even if you become incapacitated.

CUSTODIAL ACCOUNTS FOR YOUR CHILDREN

Perhaps when your children were growing up you opened a custodial account for them at a bank, brokerage, or mutual fund company so that any gifts they received could be saved and invested. Typically, this is done in a Universal Gift (or Transfers) to Minors Act account (UGMA or UTMA). When your child becomes an adult, you lose control over those assets, and they need to be transferred into their own name. Each state has their own laws dictating when those funds need to be transferred, but generally it's between ages 18 and 21. This is the perfect time to have conversations with your child about financial responsibility so they can be confident in their ability to make sound financial decisions.

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THE POWER OF CREDIT

Credit is a powerful tool, if used properly, and your child will need a good credit history and rating not only for potential employer background checks but to eventually purchase a car and/or home. If your child lives in an apartment at school, you should consider putting the utilities and cable in their name to help them start building a credit history.

Now that your child has turned 18, there is going to be no shortage of offers to open a credit card. Opening a credit card account with a low credit card limit is a good way to build a credit history. But keep in mind this is only effective if your child spends a minimal amount each month on their credit card, as the amount of the available credit that's utilized is an important determinant of your credit score. Your child should also pay off the balance every month. We recommend that your child set up an autopayment or alerts to remind them to pay their bill, so their payments are always on time. Not paying their bill on time not only incurs late fees and accrues interest on the unpaid balance but will also negatively affect their credit score.

TIME IS YOUR FRIEND — THE POWER OF COMPOUNDING

Financial literacy and responsibility are one of the greatest long-term gifts you can pass on to your loved ones. If you haven't already done so, you should read our white paper "Educating the Next Generation: A Guide to Preparing for an Inheritance & Responsible Financial Management". In this we offer age-specific suggestions for educating your children on financial responsibility and accountability.

If you're interested in helping your children kickstart their journey towards financial independence, here are a few ways you can do that:

01

Fund a Roth IRA

If your child has earned income from a summer job, they are eligible to make contributions to a Roth IRA in an amount of the lesser of their earned income, or $6,000. Funds in a Roth IRA are intended for retirement and grow in the Roth IRA tax-free if withdrawn after age 59 1/2.

02

Open a brokerage account in their name

Perhaps you want to make contributions to an account for your child but want them to have the flexibility to access those funds before retirement (to fund a future purchase or help them get on their feet after school). You can make contributions to a non-retirement brokerage account for them, and they will have access to those funds at any time.

03

Help them build a Financial Plan

As your trusted financial advisors, we are available to help your loved ones start their own saving and investing journey. If your children or grandchildren have any questions or would like any assistance as they start their own saving and investing journey, please do not hesitate to have them contact our office.

It's important to discuss these changes with your child before they take effect on their 18th birthday, so they have time to process things and come to terms with their new responsibilities. Take the time to walk them through what everything means and give them the opportunity to ask questions. As part of this conversation, you should explain to them what the different documents are, why you would like them to sign them, and address any concerns they may have. And remember, they're starting their journey as an adult so try to treat them as such.

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