TOP 16 Strategies & insights to help your adult children into the property market

2017 EDITION

an initiative of spring FINANCIAL GROUP

Before you get started

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Information in this eBook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this eBook you will find information about us and our services and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

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Letter from Wealth Adviser

Dear *Reader*

WELCOME TO SPRING

Welcome to Spring Financial Group and to a *fresh approach* to financial services in Australia. Welcome also to our Wealth Adviser library of educational eBooks.

For readers who do not know us well, we are an ASX-listed financial advice business with state capital offices in Sydney, Melbourne, Brisbane and Canberra – as well as an ever expanding regional branch network.

We offer financial planning and investment advice; wealth management; retirement and estate planning; insurance and superannuation; finance; and tax & accounting services. We also specialise in self-managed superannuation funds (SMSFs); and direct and SMSF residential real estate investment.

KNOWLEDGE GIVES YOU A HUGE ADVANTAGE

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That’s why our team of experts has created this series of eBooks that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this eBook and find it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

TAKE THE NEXT STEP

We invite you to meet with us on a no-obligation basis to discuss what it was you were hoping to achieve when you downloaded this eBook and to establish if we may be able to help you achieve your goals and objectives.

Through our *fresh approach* our experts have helped literally thousands of people of all ages and all walks of life to build, protect and manage their wealth and financial affairs.

So, whether you want to pay down your mortgage faster; you’re just starting out with building your wealth; or starting to plan for retirement; or already retired; or just wanting a second opinion and the peace-of-mind that comes from expert advice and planning based on your goals and your needs, our experts have the knowledge and resources to help.

At the rear of this book you will find some information about our *fresh approach* and what sets us apart. You also find the details of how to book an appointment with one of our experts.

We look forward to meeting you soon.

Wealth Adviser

Contents

Before you get started 1
Letter from Wealth Adviser 2
Introduction 4
#1 – Just give them the money 5
#2 – The 5% Question 5
#3 Renting & Investing (Rentvesting) 6
#4 – Lend them the money 6
#5 – Parent to child loan products 7
#6 – HECS-HELP 7
#7 – Parental Equity and Cross Collateralisation 8
#9 – Joint borrower 9
#10 – Early inheritance 9
#11 – High LVR (95%) Loans 10
#12 – Helping them get Government Help 10
#13 – Cashflow contribution 11
#14 – Offset Accounts 11
#15 – Helping them to compromise 12
#16 – 2017 Budget – First home super save scheme 12
Conclusion 13
Take the next step 14
Our fresh approach to Financial Services 15
Appointment Booking Request form 17

Introduction

To put it bluntly, Baby Boomers need to help their kids get into the property market. Without that help the maths doesn't work and they will not be able to do it. It's as simple as that.

This eBook is for parents who want to help their adult children but don't quite know how, and also for adult children who need to be helped but don't know how to start the discussion with their parents.

This is largely, but not only, a tale of three immigrant cities, Sydney, Melbourne and Brisbane that now have average prices that are outside the reach of the younger generation (although Brisbane remains the most affordable).

Let's look at 1975 and see how the maths has changed. 1975 is a good year to pick because Baby Boomers were just turning 30, getting married, having kids and buying homes (on average they were marrying about 6 years earlier than they are today).

The average price of a house in Sydney was $34,000 (for a unit it was $26,000). The average income was about $8,000. So, very importantly the house to income multiple was in the low 4s (so 4 years income paid for a house, and less for an apartment).

Consider the average property prices at the end of 2016 below[1]:

	House ($)	Unit ($)	Average state income ($)[2]
Sydney	1,123,991	711,256	79,955
Melbourne	795,447	459,181	77,714
Brisbane	$540,758	358,426	76,960

So, the multiple now becomes significantly greater, depending on where you are looking to buy). Put simply, the maths has changed so much that

without some help, younger generations will not be able to step onto the inflationary elevator that is Australian property.

While we are on the subject, we cannot help but talk about the cost of university. In 1974, just as a large wave of Baby Boomers were entering university, university fees were abolished and then in 1989 just as the last Baby Boomers were leaving university, the fees were reintroduced again. So today's university student can easily leave university with a $30,000 debt (or much more) compared to the unencumbered Baby Boomer.

This is no insignificant matter and is very relevant to the discussion of entering the property market as these debts have a material impact of someone's ability to obtain and service a loan. Having to pay 4-8% of your gross income with after tax dollars materially affects borrowing capacity and cashflow and delays the entry into the property market. It now takes on average about 8 years to pay off a university debt!

So, that's the back story, and now onto the question of what parents can do about it if they would like to help their kids in a material way.

Editor's Note:

This 2017 edition has been updated to include:

- The 2017 Federal Budget proposed First home super saver scheme
- Latest average property prices

[1] Domain Group

[2] ABS as at November 2016 – Full-time adult average weekly ordinary times earnings http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0

#1 – Just give them the money

Let's not beat around the bush. If you want to help them and you have the means to do so, just give them the money. Call it what you want, a gift or an early inheritance, but the bottom line is that it was your money and you make it theirs.

Saving enough money for a deposit nowadays borders on the impossible. After tax, living expenses, rent and university debt, there is not much left to save for a deposit that can easily reach $100,000. By the time they have been able to save the deposit, many years later, property prices have risen again and they never get to latch on.

If we put family relationships and politics aside, it really is a question of maths. Can you give them enough money to help them into the market without impacting your lifestyle? Even better, are you happy to have your lifestyle affected a little bit to help them in?

You can ask yourself *The 5% Question*…

#2 – The 5% Question

Would giving them 5% of your net worth impact your lifestyle today? If your net worth was $3m, would giving them $150,000 affect you and if so how much? If your net worth was $2m, would $100,000 affect you and so on.

Or, you might say, that a large part of your net worth is in your home and illiquid, so then you could ask the question a different way. Would giving 5% of your retirement fund affect you? So let's say that between your super and an investment property you have $1.5m, would giving them $75,000 (or possibly less than one year's returns) affect you?

You get the gist of the question. Whatever the amount or percentage is, what you are really asking yourself is whether you can do without that money in order to help a child into the property market. One client comes to mind, who retired last year, with a net worth of about $4m. He gave his 28 year old son $200,000 to help him and his wife buy an apartment for about $800,000. It hasn't affected his retirement income in any material way and he is deeply satisfied with the fact he was able to get his son into the market. Now had he had 5 kids, his ability to help to that degree would have changed, but you have to work with the hand you are dealt.

We often hear concerns from parents around the loss of family wealth in the event of an adult child divorcing. It's a legitimate concern but one that has solutions if you get the right advice.

#3 Renting & Investing (Rentvesting)

For a variety of reason your children may not want to buy a property to live in. Many don't want to be fixed down with home ownership, early in life which is why Rentvesting is on the rise among the generation.

Maybe they want to live close to you so you can stay in touch with the grandkids (and do the babysitting!) or they want the flexibility of being able to move around with work or as their needs change.

Financially, renting and NOT investing is a problem in an environment where asset prices keep rising.

But renting AND investing (or Rentvesting) is a perfectly legitimate wealth creating strategy for many and compares favourably with more traditional home ownership.

So, helping the kids buy an investment property can be just as profound a step in the long run to their financial well-being,

We have written much more in depth about the subject in our eBook: Renting vs Buying – Which is better in the long run?

#4 – Lend them the money

Alternatively, you can lend them the money. This can take a variety of shapes and forms:

- An interest free loan.
- An informal handshake agreement or they can be formalised with a written agreement.
- The loan could have an indefinite repayment term, which makes them a gift by another name of an agreed repayment timeline.
- The loan could be directly between you and your child or you can include a third party between you to formalise the arrangement.

In you lend them the money on an interest free basis, you are in effect "gifting" them the interest on the money.

#5 – Parent to child loan products

A handful of loan providers have a formalised process that can be used to lend money to your kids. In effect you are inserting a middle structure to help with the formalities. It is like letting your kids live in your investment property and pay rent, but getting them to deal with a local agent instead of you directly. More formal and potentially less family hassles.

Whilst these loans come at a price, they can certainly have their benefits. It can be a good tool to help the kids save on Lenders Mortgage Insurance (LMI) by lending them enough (via a second mortgage) to get them to an 80% loan, which means no LMI.

#6 – HECS-HELP

You could choose to pay for their university education so that they leave university unencumbered.

Or if they have a HECS-Help loan, you could choose to pay it off for them, which at the very least will help with any loan applications that they make. It will increase their borrowing capacity and increase their ability to cashflow any loans.

If they are paying say 6% of the gross income towards their student loan that could easily reduce their borrowing capacity by 20%.

#7 – Parental Equity and Cross Collateralisation

Cross Collateralisation is a mouthful, but in English it means using the equity in your home to support a loan that your kids could use to buy a property.

So it is not a gift or a loan, but really a guarantee or a promise that if your child doesn't pay back the loan, you will take ultimate responsibility. You are "giving" them your financial firepower or credit.

So let's imagine that you have a $1m unencumbered home and your son, who has no deposit but a good income wants to buy his first home for $600,000. If the two assets are "Crossed" your son would be able to get the loan.

#8 – Family pledge and limited guarantees

Another way of using the equity in your home to help the kids is by providing a limited guarantee or what is referred to as a family pledge. So, your child may need, say $60,000 to get them over the line and especially if that number was required to avoid the cost of mortgage insurance. Well, a family pledge, secured via mortgage (including a second mortgage) against the home which has ample equity in it, might just do the job.

It may only need to be temporary because if the value of the properties rise, then you can have them revalued and if the new loan to value ratios are adequate, have the pledge released.

#9 – Joint borrower

You could choose to jointly buy a property with them. It could be 50/50 or 60/40 or whatever percentage works for your situation. You are on title and you are jointly responsible for the loan.

Your kids owning 50% of something is better than owning 100% of nothing.

You obviously are taking on the risk of the loan if your child fails to keep their end of the bargain, but there are varying degrees of risk within all these ideas and there is an assumed level of trust and reliability between parents and children for any of these strategies to work.

#10 – Early inheritance

We have talked about this already, but it's important to think a bit deeper about inheritance while we are on the subject.

If you are 60 and your daughter is 35, helping her now with only some of your wealth could make a profound difference to her and a minor difference to you. But, if you go down the more traditional road of inheritance and give it all to her at your death, she could be waiting another 30 years and by the time she inherits the funds at 65, it doesn't have the same impact on her life because she has lived most of it already.

So the whole idea of early inheritance is giving them the funds when it really matters.

#11 – High LVR (95%) Loans

Once upon a time these loans didn't exist, but today because of people's inability to save up large deposits and high property prices, they are a necessity for many first home buyers. The point here is that helping them get into the market may cost you less than you think.

Let's say we are talking about a $700,000 property (especially in Sydney or Melbourne), 10% or $70,000 might do the trick. 5% for the deposit and another 5% for costs, mainly stamp duty. If that is all you can do, that might be just enough for them. They will still need to contend with mortgage insurance and servicing a large loan, but if they (and you) want to get into the market, it's another way of doing just that.

#12 – Helping them get Government Help

Unfortunately, Government support has been skewed towards new properties only, but it's still better than nothing for some. The First Home Owner Grant, which has just been reduced to $10,000 in NSW (it was $15,000) is available if your first property is a new one. Not ideal, but certainly better than nothing.

So, you could choose to help the kids buy a new property to access the grant.

There is also the First Home – New Home Scheme (again biased towards new property only) where the stamp duty is waived or reduced for properties up to $650,000 (in NSW). This can be quite significant as the stamp duty on a $550,000 property in NSW is about $20,000. Similar schemes exist in other states.

You can find out more on this in our eBook: 38 Tips & Insights for First Home Buyers.

#13 – Cashflow contribution

Instead of a capital contribution, you could choose to help with cashflow and assist with the mortgage repayments (or part thereof) until their income reaches a point where they can comfortably pay the mortgage. I can hear you think, how did the bank lend them the money if they are struggling to pay it back? Well, it happens more than you think, people over extend themselves all the time and are able to find a bank that lends them more than they really should be borrowing.

#14 – Offset Accounts

If you have the funds and your son has a mortgage, you could get them to set up an offset account so that you could simply "park" your money in their offset account and save them the interest on that part of the loan. The only cost to you would be the "opportunity cost" of earning a return on that money in your own bank account.

If you had the money in your bank account you might earn 2% that you would pay tax on but in your daughters offset account she would save 5%, or whatever the interest rate is on her debt, after tax.

#15 – Helping them to compromise

Too many people are struggling to make concessions to get into the market. If you have grown up in your parents' home, near the city, near amenities, near the beaches etc. you might be finding it hard to make the necessary concessions to move out and being an hour away from work. But that is the journey many will need to take if they want to get into the market. If a $1m property is simply not within your reach (with or without parents support) then you have to go looking at suburbs or property types that fit you (and your parents) budgets.

Parents may need to make their support conditional on some compromise.

The journey may begin in an area that is "less than ideal" but you can then work your way up the ladder over time and get closer to the city or work and lifestyle.

#16 – 2017 Budget – First home super save scheme

On Tuesday 9 May 2017, the Treasurer, Scott Morrison, released the Government's 2017/18 Budget.

One of the initiatives, the First Home Super Saver Scheme would allow first home buyers to withdraw voluntary contributions they make to superannuation, along with associated earnings, to be used towards a deposit for a first home. This initiative, if legislated would take effect for contributions from 1 July 2017, with withdrawals allowed from 1 July 2018. The maximum amount that could be contributed, and later withdrawn, is $15,000 p.a., with a maximum limit of $30,000. Contributions may be concessional (pre-tax salary sacrifice) or non-concessional (post tax) contributions and count towards standard contribution caps. Concessional contributions will incur the standard 15% contributions tax deducted.

Upon withdrawal, concessional contributions and associated deemed earnings (equivalent to the 90 day bank bill rate plus 3%) would be taxed at the contributor's marginal tax rate (minus a 30% tax offset). Non-concessional contributions are tax-free however.

Before any of the proposals announced in the budget can be implemented, they will require passage of legislation and they may be subject to change or not implemented.

Conclusion

As you can see, there are a variety of ways of doing this. What it really comes down to beyond capacity, is intent. Where there is a will, there is a way.

Making any or a combination of these ideas work for you requires customisation to your individual circumstances. There will be tax, legal and liability considerations for many of them and you would be well advised to first canvass the viability of an idea with a financial adviser.

They are best suited to navigate you through the varied and interconnected areas of expertise that are required to solve this type of problem.

Here at Spring Financial Group, we are well equipped to help clients navigate the considerations of this subject. Please give us a call or come and meet with us.

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Take the next step

We trust you enjoyed this eBook and found it informative and professionally presented. Of course your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

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We look forward to meeting you soon.

Spring Financial Group

Our *fresh approach* to Financial Services

Whether you have a very specific need such as looking for a better rate on your home loan or making sure your insurance cover meets your needs; or you're considering how to develop and implement a tailored retirement, wealth creation or wealth management plan, when you deal with Spring Financial Group you can expect a *fresh approach*.

That's because instead of focusing on products we focus on helping you to develop and implement outcomes that are based on your specific goals.

Why do we call it a *fresh approach*?

Financial advice and financial planning in Australia has its origins in the early 1990s with the birth of compulsory superannuation. Prior to this we had stockbrokers, life insurance agents, accountants and bank managers.

As the planning and advice (or "wealth management") industry grew it was eventually controlled by the big banks and insurance companies keen to sell an expanding range of financial products, including of course their own managed superannuation funds.

Fundamentally, that's how it remains today. Banks and other major financial institutions now control not only the majority of product "manufacturing", they also control or directly influence the majority of advisers. Recently we have even seen "industry" superfunds move into financial planning; as well as banks take part or full ownership of larger mortgage brokerage companies and mortgage "aggregators" that smaller brokers rely on to access a range of loan options.

This ecosystem of institutional control by financial product manufacturers has led to widespread adoption of practices that can be at odds with clients' interests and objectives.

How our *fresh approach* is different

At Spring Financial Group we have built our organisation to be different. Our *fresh approach* is about you and putting your interests first without any institutional product agenda.

We don't manufacture our own products and we don't answer to an institutional master about recommendations we're able to make. What this means for you is that if a particular loan (for example) is right for you and it's not available from one lender, we're able to source it from another. Same can be said for insurance policies, and different investments options.

And when it comes to investments we recognise there's more to the world than just the sharemarket; and more to it than just managed funds run by the banks and major institutions.

We believe that finding a balance between a variety of asset classes including property, shares, fixed-income and other markets is prudent in the long term.

We also believe it's naïve to think that the future will be any different to the past. All markets rise and fall and those trends can take years to play out. Your financial life will travel over all these different terrains and the structures, investments and vehicles you use need to be compatible to these different climates. In our view, there is little point improving your financial position during a bull market only to watch it dramatically deteriorate during a crash, in particular if a crash comes on the doorstep of, or during, retirement.

A team - rather than an individual

In a financial world of increasing complexity there's too much to know and too many regulatory and legislative issues to consider for one person to master. And your financial well-being is too important to be left to a "jack of all trades, master of none". Similarly, relying on multiple experts working in silos, without the right hand knowing what the left is doing, can lead to costly mistakes, missed opportunities and even having structures working at cross-purposes.

That's why our *fresh approach* is built on the team ethos that none of us is as good as all of us.

It may be that you want to pay down your mortgage faster; or get your insurances, tax or estate planning needs in order; or that you're considering a specific investment. Perhaps you're just starting out; or starting to plan for retirement; or already retired. Regardless, our team of highly-qualified advisers will serve you without the pretence that one adviser alone knows everything.

As and when needed we'll marshal a group of professionals that includes finance, superannuation and insurance experts; property, sharemarket and alternative investment specialists; accountants and tax and legal advisers; and veteran financial advisers. And they are supported by our team of graduates who bring fresh ideas and the latest thinking from their recent tertiary study in finance, economics, business, accounting and law to the table, as well as a highly experienced and dedicated team of administrative personnel.

And rest assured, if we don't think we can add value or help you achieve the outcomes you desire, you'll be the first to know. We'll never try to make a square peg fit in a round hole!

Peace-of-mind

We correctly value psychological outcomes for our clients more than other organisations. A particular product, plan and strategy may be technically brilliant in the mind of a qualified adviser, but if it leaves you unable to sleep at night, then it is the wrong product, plan or strategy for you!

Your peace-of-mind and financial well-being are always at the forefront of our considerations when we work with you.

Let us help you to meet your financial goals and objectives by booking an appointment with one of our experts today.

Call us on:

1300 4 SPRING

Or send an email to:

info@springfg.com

Or use the Appointment Booking Request form on the following page.

Appointment Booking Request form

Please complete the Appointment Booking Request below and scan and email to:

appointments@springFG.com

Appointments are available Monday-to-Friday from 8am and until the normal final starting time of 6pm. After-hours appointments are available by request most weekday evenings and on most Saturdays if preferred. Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

Date

Time Am/pm

Your email address

If you would like us to contact you via email to confirm your appointment or to answer any questions you have please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile

Your partner/ spouse's name

Many people have lifestyle and financial goals that are shared with their spouse or partner. Please provide the name of your partner/spouse so one of our client services team can discuss with you whether it is appropriate for them to attend our meeting.

Title

First name

Last name

Relationship

If you're ready for a *fresh approach* to financial advice, planning and investing that is founded on Goals; Plans; and Action then we look forward to meeting with you soon.

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