Media Release 90 **3rd December 2018**

Helping out our kids

By Theo Marinis

Helping out our kids

It is hard to believe how quickly the last 40 years have gone.

Many of us, after finishing Uni, having partnered up (at least once) & had kids, may now find ourselves in a new role – be it Grandpa, Pappou, Nonno, Poppy …. Grandma, Nanna or Nonna.

And as a reader of this publication, you may have even managed to get some money behind you.

Which begs the question – what do we do about our money, our investments – to help our next generation?

There is no doubt that handing out help in the form of a lump sum is madness. A lump sum has the potential to be blown on cars, holidays and all the things we couldn't afford as we were busy accumulating our wealth.

There is a need to engage with our young people about money – how to make it, and how to keep it; financial education is critical.

How well have we invested in the financial education of our next generation? This question is a good starting point, and if we haven't done so as yet, then – as well as a subscription to this magazine – let's start the conversation.

If we don't have the kind of relationship which allows us to engage with our next generation, for example, to buy them books on investing, share articles about Warren Buffett and teach them about insurance, then find them a mentor who does.

Don't overlook the superannuation system.

If there is spare cash to slip into a young person's fund, then we should do so. Current rules allow up to $300,000 to be paid as Non-Concessional Contributions, and should you choose to do this, you will also have the satisfaction of knowing that it can't be accessed until the current preservation age of 60 (when it can then be accessed tax free at retirement). As well as providing that young person with a brilliant first quarter of life, hopefully he or she will be mature enough to also appreciate that you have ensured the last quarter of that life is comfortable and dignified.

If that that sort of cash spare isn't available, simply by putting an extra $50 a week into your young person's super fund for 10 years – that $2,600 per annum with compound interest (according to ASIC's website), will deliver $33,644. Not a bad reward for foregoing a decent bottle of red per week – and it might even make your doctor happy!

If your grandchildren are then able to claim this 'super' gift as a personal Concessional Contribution 'top up' to their employer SG contributions (subject to annual taxable income being under $90,000) they may even be entitled to a personal tax refund from this CC of approximately $897!

As well as the prospect of teaching them the value of saving, it may even motivate them to do more salary sacrificing to super for themselves.

Whilst there has been a lot of negative commentary around compulsory insurance in superannuation, I take a contrary view. Insurance in superannuation is generally cheaper than going direct. Encourage your working age child to take out good insurance, and in particular, income protection. This may sound like self-interest, but remember, should your child become permanently incapacitated, in say, a sporting or motor vehicle accident, as a parent you may be faced with footing their bills for life.

Home ownership remains the greatest tax-free wealth creator in Australia, despite the temporary hiccup in prices we are presently experiencing. Now is probably a great time to buy.

A worthwhile strategy might be to charge your working 'kidults' $100 per week ($5,200 pa) in board. Put this money into a managed fund – and keep it secret. When they eventually tell you they are saving for a deposit on a home, you can tell them they have already started – and give them the fund to boost their home loan deposit.

If your child is saving for a deposit, taking an equity share in the property or lending them funds to get a foot on the property ladder are obvious ways to help. There is however, an important caveat. Obtain written and signed agreements around joint investments so that everyone is clear what was intended at the start. There can be significant financial ramifications should relationships go sour, even if your children have not married their partners!

Remember too, if you do it for one child, then you will almost certainly be obliged to do it for the others.

Encourage your child to buy the ugly duckling house in a great suburb and suggest they move their mates in to help pay the mortgage off as quickly as possible. Current low interest rates will not last (spoken by he who at one stage held a mortgage with an interest rate at 16% pa)!

When it is time to sell, renovate to maximise returns and sell a 'swan'.

It a characteristic of human nature that we can become sentimental about our assets and this can create difficulty around decisions to sell. According to James Packer, his famous father once said to him *"Son, the problem with the English is they sell their businesses to keep their properties*. *Sell your properties* to *keep* the *business.*"

Because most humans don't think like a Kerry Packer, one way of keeping a much-loved asset in the family (such as a working farm, or the BHP shares bequeathed by Grandma) might be to consider transferring the asset into a family SMSF. As a family SMSF can currently have up to six members, there is a real opportunity to transfer wealth inter-generationally, and tax effectively.

That said, the laws around SMSFs are making running one increasingly onerous, so get good advice and understand the costs involved, both in terms of financial costs and opportunity costs.

The most important thing you can do for the next generation is to accept you are mortal; plan to die.

Only a fool heads into the afterlife without a will, but there is so much more to be sorted than just who gets what when you are gone. In many states there are legal roles for family members or your appointed 'attorneys' around your wishes towards the end of your life.

There are a number of important financial planning steps that should be undertaken before your appointment with the undertaker.

Most people are shocked to hear about Australia's optional Superannuation 'Death Benefits Tax' and this tax is no small amount of cash. It represents 17% of your remaining super balance (which Canberra wants to claw back) so you owe it to your children to make sure this liability is worked around. You can help your family enormously by speaking to your financial adviser and discussing how you can legally and morally remove tax liability from your estate.

My advice is to agree with your partner what course of action you intend to take in planning the transfer of your wealth in such a way that really helps the next generation, but also prevents them 'blowing it'.

Whatever the outcome, financial education must be at the heart of any discussion about 'helping out the kids'.

-o0o-

For further information, please contact:

MARINIS
FINANCIAL GROUP

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
E admin@marinisgroup.com.au
W marinisgroup.com.au
A 67 Kensington Road
NORWOOD SA 5067