Helping your grandkids purchase their first property

Supporting your adult children or grandchildren in purchasing their first property can be a fulfilling way to help them achieve financial independence. However, it's crucial to ensure your own retirement savings remain secure. Here are some strategies to help your loved ones get onto the property ladder without compromising your financial future.

Financial strategies

1. Guarantor loans

- How it works: A guarantor loan allows you to use the equity in your property to help your child or grandchild secure a home loan. This can be particularly useful if they have a small deposit but need additional security to meet lender requirements.
- Considerations: While this can be a powerful tool, it's important to understand that you're responsible for the loan if your family member defaults. Ensure you have a documented agreement and consider seeking legal and financial advice to understand the implications fully.

2. Gifting the deposit

- How it works: Providing a financial gift for the house deposit can significantly reduce the financial burden on your child or grandchild. This can be a one off gift or a matching scheme where you match their savings efforts.
- Considerations: Be mindful of the gifting rules specifically if you receive government benefits or age pension. It's also wise to ensure that this gift does not deplete your own savings, so speak to your financial adviser about your specific situation.

3. Loaning money

- How it works: Instead of gifting, you can loan the money to your child or grandchild. This can be formalised with a loan agreement outlining the repayment terms and any interest.
- Considerations: This approach can protect your financial interests. However, it's essential to have a clear and legally binding agreement to avoid potential family conflicts.

4. Rent free living

- How it works: Allowing your child or grandchild to live with you rent free can help them save money for a deposit. This can be a temporary arrangement until they have enough savings to purchase a property.
- Considerations: Ensure this arrangement is clearly communicated and agreed upon by all parties. It can be a great way to support them without directly impacting your finances substantially.

5. Joint ownership

- How it works: Co-purchasing a property with your child or grandchild can help them enter the property market. This means you both own a share of the property and contribute to the mortgage repayments.
- Considerations: Owning property with another person can have tax implications and affect your entitlement to government benefits. It's important to seek financial advice to understand the full impact of this arrangement.

Protecting your retirement savings

While helping your loved ones is important, safeguarding your retirement savings is crucial. Here are some strategies to help you stay financially secured:

1. Diversify your investments

Diversification can help protect your retirement savings from market volatility. By spreading your investments across different asset classes, such as stocks, bonds and real estate, you can reduce the impact of any single investment's poor performance.

2. Maintain an emergency fund

Having an emergency fund can provide a financial cushion in case of unexpected expenses. This can prevent you from dipping into your long-term investments during emergencies.

3. Adopt a sustainable withdrawal rate

The 4% rule is a common guideline, suggesting that you withdraw 4% of your retirement savings in the first year and adjust for inflation in subsequent years. This can help your savings last longer during your retirement. Speak to your financial adviser about your specific circumstances.

4. Consider annuities and IRIS products

Speak to your financial adviser about annuities and innovative retirement income stream (IRIS) products that can provide a steady income stream in retirement – these reduce the risk of outliving your savings. They can be a valuable addition to your retirement plan, offering financial stability.

5. Regularly review your financial plan

Periodically reviewing your financial plan with your financial adviser can help you stay on track and make necessary adjustments. This helps ensure your retirement savings are aligned with your goals and risk tolerance.

6. Limit large financial gifts

While it's generous to support your children or grandchildren, it's important to balance this with your own financial needs. Consider how much you can give away while ensuring your retirement savings are enough for your own needs.

Inspiring the next generation

Your financial support can do more than just provide immediate benefits; it can inspire your children or grandchildren to achieve their own financial independence. By setting a positive example and providing the tools and resources they need, you can help them build a solid foundation for their future.

Helping your adult kids or grandkids purchase their first property involves a combination of financial strategies and careful planning. As with any big financial decisions, we recommend you speak to your financial adviser or a financial coach to ensure your plans are appropriate to your personal situation.

Further information

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