A step by step guide to obtaining a long and prosperous retirement

Lesson 12 – Giving or Receiving family help

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Introduction

This document is part of the training material written to assist Kiwi's in their 50's or 60's that are looking at retirement but have no idea what to do, what is needed, and how or where to get help. Or those that already have some ideas of how to survive retirement, are looking at alternatives, or just checking they are on the right path. They might even be looking on behalf of their 'elderly' parents, to ensure they are considering all options available to them.

This course provides a simple comprehensive step by step process to create your own retirement plan. It includes a summary guide, road map, lessons and discussion topics to help you prepare for your retirement. It will help you answer questions such as:

- *How much money do I need in retirement?*
- *How much money will I receive from Government Superannuation?*
- *How, and from where, can I get more money?*
- *Where can I safely investment my money?*
- *How much should I put into KiwiSaver?*
- *Should I buy a 2nd property, a business, or invest in the share market?*
- *How much do I need to keep aside for a rainy day?*

all from a very New Zealand perspective.

Course outline

This document is "Lesson 12 – Giving or Receiving family help" of the material supporting our simple step by step approach to creating your financial retirement plan.

The course material comprises:

- a summary 'Retirement Planning Guide"
- a 'Retirement Roadmap'
- a supporting 'Retirement Planning excel spreadsheet'
- more comprehensive training guides ("Lessons") for various tasks along the way if you need them
- additional supporting spreadsheets if you need any further assistance

All material can be downloaded and printed from the downloads page on our website: http://www.bizxtra.co.nz/

Most people complete their retirement plan using just the Planning Guide, Roadmap and the Excel spreadsheet that supports the guide. Additional information is provided to support you along the way if you get stuck, don't understand a concept, or just need some further ideas to try out as part of your planning.

> *"Don't ever forget, that the main plan in life is always to enjoy a long and prosperous retirement."*

Contents

Latest Version

Market prices, superannuation and benefit rates, Government policies, inflation, costs of living, house values etc. all change on a regular basis. The numbers in this document have been updated to reflect the market position as at July 2025.

Lesson 12 – Giving or Receiving family help

How to help the Children

Previously we said:

> *"Too many retirees get into financial trouble during their retirement because of money they lend to family – usually their children, or their children's partners.*
>
> *The best gift you can give your family is financial literacy – not a financial handout."*

We also advised that:

> *"If you do want to help your children or grandchildren during your retirement, don't give them free handouts. Any monetary assistance given must be by way of a well documented loan, secured over an asset."*

Now that you have significantly more financial knowledge than when you started reading this guide, hopefully you now understand the reasons for this advice.

The seven basic reasons why you should avoid giving loans to family (or friends or neighbours), without signing proper documentation are:

1. Open-ended loans are confusing to all parties
   Loans to family members tend to be open-ended. The parties don't reach an agreement for a timeline for repayments and don't include the agreed interest on the loan. Lenders don't know when their money will be returned, and borrowers don't know when to repay the loans.

   This leaves both parties in limbo and doesn't set any expectations. The uncertainty can lead to stress as the borrower may worry that the lender expects payment and the lender worries about when he or she will be repaid.

2. It is difficult to get your money back
   It can be difficult to request repayment of a loan from a family member. More than likely, the lender cares about the borrower and doesn't want the borrower to feel awkward. The lender may continue to worry about loan repayment and thus shut down some or all communications with the borrower in order to avoid talking about the loan. The borrower becomes confused and hurt feelings can result.

3. Family gatherings become awkward
   Family get-togethers can become very awkward. The borrower, in particular, may feel uncomfortable being around the person who loaned the money. It can also be uncomfortable to be around other family members who know about the loans.

   No one wants to talk about the loan or about money or even about anything that costs money, because then people might wonder why someone hasn't repaid the loan.

4. The borrower may ask for more
   Once money has been lent to a family member, this person may return when he or she needs more money. In addition, other family members may also ask you for a loan.

5. Helping of enabling?
   When you lend money to family members, you give them an easy way out of their financial problems, instead of helping them work through their issues, or encouraging them to raise their own financial literacy.

6. Losing out on interest
   Lending money to a family member costs the lender money. But often, they won't charge interest or ask for principle repayments if the loan is given to a loved one.

7. Losing money and relationships
   As Shakespeare wrote in Hamlet, "For loan doth oft lose both itself and friend." If you lend money to a family member, beware that you may not get your money back and then your relationship may never go back to normal. This will cause tension between you and the borrower and may also cause guilt, remorse, and anger.

While today you may think that because they are family, my children or their partners would never try to 'rip us off', money does strange things to people.

You should avoid (or delay) giving loans to family (or anyone else) until:

- both you and the family member(s) receiving the loan, are financially literate enough to understand the implications of the loan.
- you have completed your retirement plan and confirmed that you are only lending spare money that you will never need. You are basically lending them money 'now' that would be left over in the estate at the end of both you and your partners life expectancy.
- you have tested your plan for all those converging trends and speed bumps that you may encounter during the remainder of your life. Once you loan the money, you may not be able to get it back if you need it in an emergency.
- you are treating all members of the family equally (to avoid long complicated legal battles upon your deaths). If you choose to lend to one family member on favourable terms, then you need to ensure you can afford to do the same for the other children, as they will all come knocking on your door.
- All parties clearly understand that the money is a loan (and not a gift) and will abide with the terms of the loan.

Once you have confirmed you do actually have some spare money, you understand the risk associated with lending it (i.e. you may never get it back), then you need to consider the financial implications of loaning to the children.

Basically, they are likely to receive any leftover money that you have not been able or required to spend from your estate upon your deaths. The financial decisions you need to calculate are:

- "are they better off receiving the money now, or in the future?"
- "are we no worse off in our retirement as a result of lending money to our children?"

Using your retirement planning spreadsheet you should be able to model this "what if" scenario to determine any impact this will have on your retirement.

Typical options for family include:

1. Give them a handout now (a gift).
2. Invest the money in the bucket fountain, and they can get the interest and the amount when you die.
3. Give them a 0% interest loan so they can repay their mortgage or buy an income generating asset for themselves. They don't have to pay you back as they will get it eventually anyway.
4. Give them a 0% interest loan to buy an income generating asset (pay off their mortgage, buy a rental property etc) and they repay principle only back to you on very favourable terms. You can live off that principle or reinvest in your bucket fountain as needed.
5. Give them a loan on the same terms as a bank no more or no less favourable. i.e. you are the bank of "mum and dad".

Following are examples of these options, based on $100,000 being provided to a family member, and calculating the impact of these scenarios over the same timeframe of 15 years.

Option 1 – Give your children a handout

The first option is to just give your children money. A gift such as an extra big Christmas or birthday present.

Research has shown, if you give your children a lump sum of money, they will spend it on 'wants' rather than 'needs', and they will not buy any income generating assets.

At the end of 15 years, you will have provided the value of the gift, and they will likely now have nothing left ($0 value), as they will have spent it on travel, fast cars, alcohol or ski lessons. Hopefully they remembered to take lots of photographs of what they spent it on, and can still remember where the money came from when you are gone.

Option 1 Summary
Give the children some money to travel or spend on 'non income' generating assets

$	100,000	Gift given to Family
	15	years life expectancy before Estate distributes (re death)
$	**100,000**	Value of gift given, although research suggests the remaining value is probably closer to $0 when provided as a handout.

Option 2 – Invest any spare money, and leave it to the children when you die.

This option assumes you will invest the $100,000 funds and that you will receive compounding interest at a conservative interest rate of 4%. You will pay tax on the interest you receive on your investments, and upon your deaths, the resulting balance will be distributed to your children.

In this scenario you would leave almost $155,000 to your children in 15 years time.

Option 2 Summary

Invest and provide to family in 15 years from the Estate upon death

$	100,000	Capital invested
	4%	compounding interest rate on investments
	15	years life expectancy before Estate distributes
	31.70%	Tax Rate assumed paid on any investments
$	80,094	Gross Amount returned from investments
$	25,390	Tax paid on this investments
$	**154,704**	Net amount returned from Estate on this investment after tax in 15 years time. The initial investment plus the interest received.

Option 3 – Loan them money to invest in an income generating asset.

This option assumes they have property and a mortgage. This could be their own home or a rental property but for now we will assume it is their own home. Basically, they have purchased an income generating asset of their own, but have some debt remaining on the purchase.

You document a loan and you register it over the property as security. You agree that the interest rate is 0% and they don't have to make any payments to you. They avoid paying interest on their mortgage at say 4% so there is no tax to be paid.

This scenario is the equivalent of $180,000 over the 15 year timeframe as it is more tax effective than the previous option.

Option 3 Summary

Loan at 0% interest to Family now. They repay mortgage. Evaluated over the same 15 years
They must use money to repay their mortgage or buy an income generating asset

$100,000	Loan to a family member
0%	Rate charged to family. No repayments required
15	years life expectancy assumed, to compare options
0%	Tax rate
4%	Mortgage rate the family are paying
$ 80,094	amount of interest avoided by the family that they can now spend on something else or invest
$ -	Tax paid on investments
$180,094	Net amount equivalent provided by the estate (after tax). This is the Initial loan, plus the money not paid to the bank re the interest. It assumes the money not paid to the bank in interest is not reinvested, and also that no principle was paid on the loan that could have been reinvested.

Option 4 – Loan them Money, but they repay the principle on favourable terms

This option is a refinement of the previous option. Basically the loan is still at 0% to be tax efficient, but they are required to repay the principle on the loan back to you on favourable terms. You in turn re-invest that principle.

You could always reinvest it by lending it to another family member. Often your children get into their own homes at different timeframes. If they are repaying principle back to you, it means that you can then on lend that principle to another child. This approach may enable you lend more, or the repayment of the principle could be a low risk way to fill the bottom bucket of your bucket fountain.

If setup correctly, this option would be equivalent of leaving $191,000 over the 15 years, and that excludes any capital gain your child may have received on their own property.

Option 4 Summary

Loan at 0% interest to family. But they repay the principle as if it was over 30 years. With this option evaluated over the same 15 years before assumed death
They must use money to repay their mortgage or buy an income generating asset

$	100,000	Loan to a family member
	4%	compounding interest rate on investments
	0%	Rate charged to family. No repayments required
	30	Years for calculation of principle payments per year
	15	years life expectancy before Estate distributes
	31.7%	Tax rate that applies to any reinvestment of principle returned
	4%	Mortgage rate the family are paying
$	80,094	amount of interest avoided by the family
$	50,000	Amount of principle paid by family on the loan back to you to reinvest
$	16,745	return on the principle if reinvested at 4%
$	5,308	Tax paid on investments
$	**191,531**	Net amount equivalent Initial loan - principle repaid, plus money not paid to the bank plus the returned principle, plus the return on the investments (after tax)

As can be seen in these simple examples, giving your children a handout is not a good solution for both them and yourselves. And these numbers exclude any capital gain the children may receive on the income generating asset they purchased.

You can help them more by providing a suitably documented and registered loan. You become the "Bank of Mum and Dad", rather than a "Family Welfare and Support Service". Throw in a free copy of this guide, and you will set them up for life.

Common mistakes many pre-retirees make is to provide their children money for a house deposit without clearly understanding the consequences:

- If it is recorded as a loan, the bank takes this loan into consideration when assessing the children's mortgage and reduces the amount accordingly. As such the parents say "just tell the bank it is a gift" so it is not recorded as a loan. So no loan is registered against the property. Some years pass, the child and their partner split basically saying that money was a gift so we get half each. The parents don't get any money back.
- The parents decide to become co-owners in a property, say 25% parents, 75% children. The kids decide they want to go overseas and sell the property for a capital gain after 5 years. As the property was their home they avoid the Brightline test, but the parents have to pay tax (at say 39%) on 25% of any capital gain.

How our children can help us

The alternate to us helping our children, is looking to see if they can help us.

If we have exhausted all other options, and still can't survive retirement, is there any way they could help us survive retirement without providing us a handout?

A common issue in the later phases of retirement, is that many retirees are 'asset rich' but 'cash poor'. They own assets, from which they cannot generate any income, and they can't sell them or restructure them any further.

Common options that you could consider are:

1. Your children give you a handout
2. Your children give you a loan
3. If any of your children have secured loans with another lender (e.g. a mortgage with a bank), you take on the role of the bank instead of investing in low return Term Deposits.

Option 1 – Ask your children for help

Many retirees avoid asking people for help – especially family. This may be a result of the loss of dignity, independence, or confidence resulting from needing to ask your children for assistance in later life.

In New Zealand, money is seldom talked about within family circles. Often retirees feel that if they are struggling, their Children must really be finding it tough. They are of the era where they believe they need to sacrifice their lifestyle to leave something to their children, and asking for help is a sign of failure.

If you are in the position that you do need to ask for help, the alternate options below should be considered before you ask family for a handout. Even if your children are insistent, they want to help, make sure you have looked at the other options they can help with, before accepting a handout. Your mental state of mind is just as important as your financial well-being.

Option 2 – Receive a loan from a family member

A loan from family is significantly better than a reverse mortgage over the home. When someone establishes a reverse mortgage through a bank or finance company, then the compound interest charged on the loan means that they may need to sell the house to repay the bank.

By borrowing from family – they get to choose what to do with the house. Any interest will be paid to the lender (the family member) rather than a third party (a Bank).

Because of the somewhat punitive issues with reverse mortgages, in New Zealand very few organisations offer them. And if it is a last resort, consider the following example before you sign up for a reverse mortgage from a bank:

- A $20,000 reverse mortgage borrowed from a bank at age 65 requires a lump sum repayment at age 90 (upon death) of almost $100,000*
- If the same loan was provided through family, that $100,000 could remain within the family (rather than going to a Bank).

Option 2 Summary

Comparison of $20000 Reverse Mortgage vs Family Loan

$	20,000	Amount borrowed from Bank
	6.2%	compounding interest rate on reverse mortgage
	90	Age when loan required to be repaid
	65	Age when loan taken out
$	2,110	Valuation + Arrangement + drawdown + equity protection fees
$	**99,922**	Amount repaid to the Bank at age 90 that would remain in the family if the loan was with Family, and not a Bank
$	20,000	Amount borrowed from Family
	4.0%	Notional interest rate agreed to be paid to family upon settlement of the loan (i.e. death)
	90	Age when loan assumed to be repaid
	65	Age when loan taken out
$	1,500	Estimated Lawyer fees to correctly document the loan
$	**57,765**	Amount repaid to Family Member upon death

This bank example was calculated using a New Zealand Bank online ‘Reverse Mortgage Calculator’. Their additional drawdown fees (per drawdown) were excluded on the assumption this example was a $20,000 lump sum drawdown and did not involve periodic or recurring drawdowns that would incur additional regular admin charges.

At the end of the loan, the house may have to be sold to repay the bank, preventing its use as an income generating asset by the family. If the loan was transferred to an alternate property, further additional fees would be incurred.

These costs and implications could be avoided if you arranged a loan with family instead of the bank. The $100,000 would remain within the family.

Being a loan with family, a more friendly interest rate could be set for the loan. The rate could even be 0%. If you are going to pay interest, wouldn’t it be better to pay it to a family member, rather than a third party?

Any loan would be repaid prior to any distribution from the estate, so equity between multiple children would be preserved. To enable a fair comparison between the Bank and family member scenarios, an estimate of legal fees has been included. Remember, if your family are able to assist you by providing a loan, you need to ensure it is clearly documented, understood, and signed.

Option 3 - Swap a bank loan for a loan with the parents

If the income gap is minor, and your retirement plan would work “if only you can find a low risk investment paying a slightly higher interest rate, or a little more regular income”, then consider being the “Bank of Mum and Dad” with your children paying you instead of paying their bank.

If your children have secured loans (mortgages are best) that they are regularly repaying interest and principle to a bank, and you are confident that they can and will continue to make those payments, you could swap that loan with the bank. You become their bank.

If you have savings or term deposits receiving say 1%, if you lent that to a family member (with all the required documentation to reduce any risks) could you received 4% instead? That extra 3% might be enough to bridge the income gap, and if you trust your children to keep paying it to you instead of the bank, then it is a low risk investment.

This is an option that can generate a higher return than a Term Deposit, to help fill up the bottom bucket in your plan on a regular monthly basis. The children keep paying the same amount anyway, just to a different bank, so it doesn’t impact them. And they are finally helping their parents.

Again, the rules of family lending apply, and you need to establish appropriate loan documentation, register the loan over the asset, and ensure your children keep paying you. Having appropriate documentation lowers the risk to both parties. If you die before it gets repaid, your Estate will repay the loan (and not think it was a gift you received or to be part of any final asset distribution).

Option 3 Summary
Swap $100,000 term deposit to a loan with your Children

$100,000		Loan to a family member
	4%	Mortgage rate the family member is paying to the bank
	1%	The Term Deposit Rate you are receiving
	15	years life expectancy assumed, to compare options
	20	years remaining term on the loan
$	606	Amount family pay per month to the Bank (principle and interest)
$	83	Monthly Amount of interest you would receive from a term deposit
$	-	Extra amount Family would pay you instead of the Bank
$	**523**	Extra monthly amount of 'cash' you could receive each month

Being more financially literate, you can now start to see opportunities all around you. You can also investigate the risks and benefits of the various options available to you. Having a retirement plan will let you model and assess various scenarios before you even need to talk to your kids.

Form 17 - Don’t forget the Children

Please answer “Yes” or “No” to the following questions:

1. Have we finished creating our retirement plan?
2. Are we financially literate enough to consider lending money to our children?
3. Have our Children read and understood the retirement planning guide guide?
4. Have we modelled the help we want to provide ore recieve in our retirement plan spreadsheet?
5. Do we have spare money (showing at the end of our lives) that we could use now to help our Children?
6. Will helping our children make no detrimental impact on our retirement?
7. Have we allowed for converging trends and future speed bumps in our plan?

If, and only if, you can answer yes to all the above questions, are you in the position to start helping your children.

If you answered no to any of these, you are not yet ready to start financially helping your children.

Identify “When and how could we be ready to help our children?”