INTERGENERATIONAL DEPENDENCY – IS THIS YOU?

If you are concerned about your parents' ability to fund a comfortable lifestyle for themselves in retirement, it would not be a surprise.

The latest research from REST Industry Super found 46% of people retire with some form of debt. This included 25% anticipating credit card debt, 21% with a mortgage and 12% with unpaid bills[1]. Also concerning is ING Direct research found retirees had an average of $150,000 in mortgage debt[1].

And while there has been a steady decline in the population aged 65 and over receiving the age pension (from 74% in 2001 to 66% in 2017 and then to 62% by June 2021[2]), this percentage still indicates that a large proportion of retirees have not adequately prepared themselves for retirement.

This has created the phenomenon described as 'intergenerational dependency' where adult children are supporting their parents and jeopardising their own ability to retire comfortably.

So you ask – what are the options?

Government assistance

Firstly, seek available government assistance packages. These include concessions on council and water rates, travel, driver licences, vehicle registration fees, energy costs, rental assistance and – as they enter later retirement – services such as My Aged Care.

Downsizing or selling the family home

In retirement many find themselves being asset rich but cashflow poor. Accordingly, downsizing the family home makes both financial sense and is practical with the needs of an elderly couple differing to a growing family. Unfortunately for many, downsizing is also a necessity so they can repay their liabilities that can no longer be funded with income.

You do however have both selling and acquisition costs that may diminish the remaining funds.

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Releasing available equity

For those unable to make the decision to sell the family home, there is also the option to release some equity in the home with the use of a reverse mortgage. As the name suggests, it works in reverse to a mortgage - the lender will make funds available that your parents can draw down each month. This loan accumulates interest and is not required to be paid until your parents pass or on the sale of the home at a later date.

It's important to have a firm understanding of how this product works and a financial plan around its use.

Support from adult children

If you have exhausted the above alternatives, this may be the only remaining option. As an adult child please consider the following before jumping into this one.

1. How will you fund this financial support? Cash, loan, line of credit or equity?
2. Will the obligation be shared by all siblings?
3. Will you provide it as a lump sum or regular monthly payments?

Ensure you understand the consequences of all options before your final decision.

Apart from deciding how to fund it, it is important to protect your own financial position. If you are not proportionally sharing the financial burden with your siblings, then ensure you have the loan documented so when your parents pass you are able to seek repayment before your parents' wealth is distributed.

Sources
1 oversixty.com.au/finance/retirement-income/huge-numbers-of-australians-retiring-with-mortgage-debt
2 aihw.gov.au/reports/australias-welfare/income-support-payments-for-older-people

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