How to help ageing parents

Make sure your own financial future is secure before you step in

My parents' finances were hit hard by the GFC. They became super-frugal and worried about money. My dad, who had remarried and had a new family, tried to make up his losses by picking winning shares – a strategy that had worked for him decades earlier but was disastrous in his 80s. My mother went on the age pension and stopped spending.

My parents didn't want to ask their middle-aged kids, with their own financial responsibilities, for any assistance. And it was hard to broach the delicate topic. They were stubborn and proud.

When your elderly parents need a bit of financial help, what do you do?

Before you jump in, make sure your own finances are sound. You certainly don't want to jeopardise your own future. Any decision depends on how much they need and for how long. Ask yourself: what are the long-term costs and benefits?

I have a friend whose parents didn't have much income in their retirement, apart from the age pension, but they did own their home. She bought it to provide a cash pool for them. This generous act allowed her parents to stay there and she benefited from negative gearing and the tax deductions because she borrowed to invest in the property. She is responsible for all outgoings such as the rates and all the deductible expenses, freeing up further cash for her parents. This arrangement does have negative implications for the age pension but her parents have a much better lifestyle.

Financial planner Jason Petersen, from 5 Financial, says he is seeing more clients who are helping their ageing parents. He says elderly people are typically asset rich but cash poor as the compulsory superannuation system has only been in operation for 26 years, not long enough to set people up for a long retirement.

Petersen suggests these options:

• Set up a loan

If you lend your parents money, it doesn't impact on the age pension. But if you give it to them, either as a lump sum or regular deposits, it is counted in the income test.

If your parents own their home, they could take out a reverse mortgage. But adult kids might prefer to give them a line of credit instead. With reverse mortgage interest rates at around 6.2%, Petersen says parents will save around 2% if their kids lend them the money.

He recommends documenting all loans over $10,000. It is important proof in case of a dispute with other family members and the loan isn't referred to in the will.

• Consider a family trust

Some families are setting up discretionary trusts to pay their parents an income, says Petersen. The advantage of doing this is that adult children don't pay tax on the money distributed to their parents as their parents probably don't pay tax or are on the lowest rate.

Petersen recommends a family trust for people who have more than $1.6 million in superannuation. The excess can be placed into the family trust but to be cost effective you need to have $200,000 to $300,000 to set one up. The annual running costs are typically $2000 to $3000, which can be offset by the tax saving.

• Prepare a budget

Often ageing parents are generous with their money and gifts and so they can be preyed on by charities. You may have to help rein in their donations. Setting up a budget for them can give them a clear sense of where their money should go, particularly for food and services.

• Be aware of family dynamics

While there are plenty of good stories of children pulling together to help parents, there can be family dramas. Often, elderly parents are being pulled in all sorts of directions. You don't want to bail out your parents and have them give your money to other family members. Sometimes it might be better to organise their groceries or the house repairs or pay for services such as health insurance.

Susan Hely has been a senior investment writer at The Sydney Morning Herald. *She wrote the best-selling* Women & Money.

Age takes its toll

Cognitive studies show that the ability to manage complex tasks diminishes as people get older. For financial tasks the decline typically starts after 60.

Many ageing parents don't want to admit that they're having trouble managing money. This can lead to a snowballing of financial woes. It is another reason to keep your finances straightforward as you age.