Time for the Bank of Mum & Dad to get tough...

Supporting your children as they get started in their adult lives doesn't have to mean putting your own financial future at risk. Here are some ways to get the balance right, says finance writer Ruth Jackson-Kirby

Once your children are grown-ups, you expect your work to be done. You safely got them through childhood and education and they are now fully fledged adults. Except, these days, many grown-up children are struggling to fly the nest. Figures from the Office for National Statistics show that about 3.5m people aged between 20 and 34 – more than a quarter of young adults – still live at home. That is around a million more than 20 years ago.

The reason is simple: money. Rising house prices, stagnant wages, university debt and high rent all add up to make independent living very costly. 'Children are returning home as economic dependants on their parents,' explains Dr Eliza Filby, an expert in generational change. 'Millennials have come of age when the key things in life, such as housing and education, have become expensive. This is a new social phenomenon and it is leading to these young people delaying the key milestones of adulthood. They are moving out later, getting married later and having kids later. They are having an extended adolescence and are reliant on Mum and Dad for far longer.'

Back in 1999, the average first-time buyer was 29 years old and needed £12,000 to put down as a deposit. These days, buyers need an average £52,000 deposit (or an astronomical £143,759 in parts of London), according to estate agent Savills. Unsurprisingly, this means the average age of a first-time buyer has risen to 33. It typically takes eight years to save a deposit. Over the same period, average rents have risen by 25%, says estate agent Knight Frank. So, it is hardly surprising that more and more young people are staying in or heading back to the family home to cut their living costs.

But while you might be happy to have your children at home for longer, it has financial consequences. On average, parents pay out an extra £414 each month to cover the cost of an adult child living at home, according to pensions advice specialist Portafina. A recent survey by Fidelity International revealed that 13% of parents felt having adult children at home put pressure on their finances, and a further 10% said it affected their relationship with their partner.

> "Millennials have come of age when housing and education have become expensive"

The money mountain young adults have to climb makes moving out difficult. As a result, many parents are dipping into their own savings to help. 'More than one in four of all first homes are bought with at least some cash provided by parents, who hand over an average of £18,000,' says Sarah Coles, personal finance analyst at Hargreaves Lansdown.

If you want to help your child into a home of their own, there are many ways you can do it, and you might be surprised to hear that they don't all involve you parting with a large amount of cash.

GIVE YOUR CHILD A FINANCIAL LEG-UP

The simplest way to help a child could be to give them a cash gift. 'If you have the funds available, you can take advantage of the double whammy of being able to help your kids and reduce a potential inheritance tax bill further down the line,' says Sarah. 'You can give them £3,000 (per parent) which comes out of your estate immediately, or you can give them a larger gift and, as long as you live for at least seven more years, it will be out of your estate for inheritance tax purposes.'

However, most of us don't have large amounts of cash lying around to hand to our children. If you have some money but can't afford to give it away, you could loan it to your child instead: just make sure the repayment terms are clear and you all agree to them. Watch out, though, as a loan could hinder your child's ability to get a mortgage.

'The lender will take account of any monthly repayment when deciding how much they can lend,' explains David Hollingworth from broker London & Country Mortgages. When assessing your child's mortgage application, the bank will look at their income and monthly outgoings to make sure there is enough left over to cover the mortgage. Any loan repayments to you will be factored in.

OFFSET YOUR SAVINGS

It's also possible to help your child with a deposit without actually giving them any cash. Several banks now offer 'family mortgages', where a parent or grandparent can put their money into a savings account linked to a mortgage. It allows the child to have up to 100% of the price of their home advanced in the form of a mortgage, as the money in the savings account acts as the deposit.

'The benefit is that you don't have to simply give the cash away – you can earn interest on your savings and regain access to the cash at a later date,' explains David Hollingworth. 'That could really help where there's more than one child who will need some help, as the funds can be recycled over time, or where the child is buying with a partner and the parent is anxious that a gift could end up being split in the event of the relationship breaking down.'

BOOST THEIR MORTGAGE APPLICATION

If your child is struggling to get a mortgage, you could consider acting as a guarantor. Several lenders offer guarantor mortgages, where a parent can sign up and promise to cover the mortgage repayments if their child fails to pay. If you do this, you will need to put something up as security, typically your own home or savings. This isn't a step to take lightly, as you could be putting your own home at risk.

Another option could be to buy a house with your child. That way, your money becomes an investment that you will eventually get back, potentially with a profit. However, this has become a lot less attractive since the government brought in the additional stamp duty rate. If you own your own home and buy another property with your child, you'll have to stump up an extra 3% or more stamp duty on top of the standard rate. Plus, your child won't get the benefit of any first-time buyer stamp duty relief.

An alternative could be to take out a joint mortgage. 'An increasing number of lenders will now allow the mortgage to be held in joint names but the property to be in one name only, so the parent need not be on the title deeds and can sidestep some of the tax issues,' says David.

LIVING WITH BOOMERANG KIDS

If you let your children move back home after college or university while they save for a deposit, how do you ensure that everything goes smoothly and they do eventually move into their own home?

'It's most important to remember that you're all adults,' advises Tracey McNamara, a relationship counsellor, who is listed on bark.com. 'Parents of returning children can easily slip into their old roles, but they need to remember that their offspring aren't the children they used to be! I'd recommend laying down some solid house rules early on, so all parties can be in agreement on expectations.'

There is nothing wrong with charging your boomerang children rent if they can afford it. It can help you keep on track with your own financial goals, such as paying down the mortgage or paying into your pension, while teaching your children to budget. 'Typically, parents have used the empty nest years to cut costs and squirrel away every spare penny for retirement,' says Sarah Coles. 'So, if the nest is still crowded as parents head into their 50s and 60s, they miss this opportunity.'

If you can afford to put your kids up without it affecting your own finances, you could charge them rent and set aside what they pay into a savings account. You can then give them the money back when the time comes to help with housing costs.

'You need to decide what you'll do if they don't pay,' adds Sarah. 'If it becomes a regular problem, you can insist they set up a Direct Debit for the day they're paid. If they run into trouble, they can pay you back through household jobs, or you can withhold services such as wi-fi.'

Opening your home to your children, or helping them on to the property ladder, could also benefit you later in life. 'The big question is: will things be reciprocated when Mum and Dad get old and need care – will the millennials invite them to live with them?' says Dr Eliza Filby. 'Will the social care crisis be solved by the boomerang generation?'

PUT YOUR NEEDS FIRST!

Make sure the help you give works for you, advises Rebecca O'Connor, personal finance specialist at Royal London

Letting your kids move back in may seem like the easiest option, but the extra money you spend on food and energy bills over the long-term could add up to more than the cost of a one-off handout. There are several ways you could free up cash to help:

- **Downsizing** Selling your home to buy somewhere smaller is arguably the cheapest way of releasing equity. It could allow you to become mortgage-free while helping your child with a lump sum towards a deposit.
- **Equity release** This allows you to free some cash from your home but still live there, as the loan, plus interest, is repaid when the property is sold. Make sure your children understand that this will mean a smaller inheritance later on.
- **Gifting some of the tax-free lump sum from your pension** You can access this once you turn 55, but consider very carefully. Your pension pot, including the lump sum, is designed to cover your income in retirement. Make sure you don't leave yourself short.

'Moving back home has helped me to save'

It was only meant to be a short-term arrangement when Laura Sears, 29, moved back in with her parents, Jacqui and Jeff, in 2018. Laura had just broken up with her boyfriend, with whom she lived, so she needed a place to stay, fast.

'We had no issue with Laura moving back home,' says Jacqui, 57, an investigator for the Financial Ombudsman Service. The plan was for Laura to stay at home while she got settled in her job and could then find a room in a house share. 'After a couple of months, I realised that it was much more sensible to stay put and save to buy my own property instead,' explains Laura, who works as a PR manager in the City.

Commuting to her job from the family home in Hornchurch, east London, was easy and Laura, Jacqui and Jeff, 58, quickly settled into a routine. 'We don't see her much,' says Jeff. 'We pick her up from the station most evenings, but by the time she's back and has made dinner, it's nearly bedtime.' Laura is vegan, so she makes her own meals. 'She does her own laundry and helps around the house occasionally, though probably not as much as I'd like her to,' adds Jacqui.

Laura does pay rent, but nothing close to what she would be paying if she were living elsewhere. 'Having her at home doesn't massively affect our finances, so we don't ask for much,' says Jacqui. 'We've put half of this money away for her as savings towards her eventual house deposit.'

In fact, Jacqui is using this opportunity to help make Laura better at budgeting. 'She puts her savings into one of my old online accounts as soon as she gets paid and I pay her an amount each week into her current account, which helps limit her spending,' explains Jacqui. 'If she wants any more, she must ask me to transfer it over, which reduces the temptation to spend on things she doesn't need.'

Laura is also saving into a Lifetime ISA and is hoping that she'll have enough money to be able to buy her first home later this year.

MAKE THEIR FIRST HOME MORE AFFORDABLE

If you're not in a position to assist your child with a deposit or mortgage, you can still help by showing them the variety of ways they can make buying their first home more achievable.

First, there are savings accounts that can help boost your child's deposit. Lifetime ISAs are available to anyone aged 18 to 39 and all growth is tax-free. They can save up to £4,000 each year and the government will add a 25% top-up to whatever they deposit. The ISA can then be used towards a deposit on a first home or a pension. But beware: if they withdraw the money for any other reason, there is a 25% penalty charge.

First-time buyers also pay less stamp duty than anyone else, thanks to a special discount on properties worth less than £500,000. There is no stamp duty to pay at all for first-time buyers purchasing a home worth less than £300,000. If the property is worth between £300,000 and £500,000, then there is no stamp duty to pay on the first £300,000, and 5% to pay on the remainder, saving up to £5,000 on what they would have previously paid.

There are also schemes to help cut the cost of buying a first home. Help to Buy equity loans could help make a new-build home more affordable. The government lends first-time buyers up to 20% of the value of the property interest-free for the first five years.

Another option could be shared ownership. These schemes allow buyers to purchase part of a property and rent the rest from the local authority. Owners can then buy further shares until they own the property outright.

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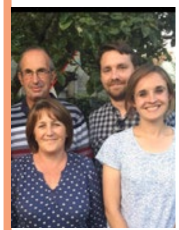

'My dad's pension got us on the property ladder'

Cat Bradford-Aungar and her husband, Matt, had been saving for years. But their wedding, car repairs and an unexpected vet bill cleared out most of their nest egg.

'We'd resigned ourselves to not buying a place for a few years at least,' says Cat, 28, a Forest School leader from Canterbury. 'Matt has a good regular salary, but I was on two zero-hours contracts and one part-time contract at the time, so our monthly income varied, making saving a little unpredictable.'

The couple were preparing to tighten their belts for a few years so they could scrape together a deposit, but Cat's dad, Mike, 61, was keen to help. 'My wife, Carole, and I wanted them to get their own place,' he explains. 'We bought our own home a long time ago and wanted them to have the same security. Plus, Cat and Matt were paying more in rent than they would be paying on a mortgage.'

Mike has been a postman for most of his working life, and has a Royal Mail pension. When he turned 60, he was able to access a lump sum and had planned to put it into a savings account. He then read about the Lloyds Bank Lend a Hand mortgage, and saw he could put his pension money into a savings account linked to a mortgage for Cat and Matt, allowing them to buy a house, while earning interest on his savings. 'It was better than just sticking it in the bank,' says Mike. 'There is hardly any risk to it; providing they meet their mortgage repayments, I'll get my money back after three years plus interest.'

Mike and Carole put £15,500 into the Lend a Hand savings account, providing a 10% deposit for Cat and Matt's mortgage. 'My parents' help has absolutely changed our lives,' adds Cat. 'It's given us security.' □

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