

# The Bank of ‘Mum & Dad’

‘If parents aren’t happy to gift money with no strings attached, they should keep their money!’ was the title of an article I read online. I don’t agree and it got me thinking as we are entering the period of the greatest intergenerational wealth transfer.

A cumulative total of NZ\$1.6 trillion is predicted to pass down over the next 25 years. So, what are some of the guiding principles and considerations you should be thinking about if you are in the fortunate position to be facing this challenge?

The lessons below come from nearly 20 years in the financial advice space, from what has worked, what hasn’t, and what we are personally thinking about for our own family. There are many reasons why people sitting in the wealth to transfer seat are not jumping to hand it over to their children.



Firstly, they are **not ready to pass the ‘baton’**, reluctant to lose ownership/control! For this to happen, they need to accept the notion that the next generation could do as good a job as them (or potentially better) in business, with the portfolio or the farm. The buck has always ended with them and it is a pivotal change in thinking.

Next, they are worried about the **longevity of their children’s love interests**. Possibly they sense a freight train coming down the track or having a differing opinion on ‘necessary’ expenses or not wanting to see 50% of their hard earned or inherited assets taking off with their entitled ex daughter/son in law or being misspent.

Most though, **haven't taken the time to sit down with someone to figure out what they want for their retirement** or worked out how much capital they need to lead the retirement of their dreams. It maybe that they are still figuring out what excites them in the next 'stage' of life. In all cases, they vehemently **don't want to be a long-term burden** on their children if they 'over gift'.

When we look at succession, clients often come to talk to us when conversations have gone around in circles. **Our first priority is ALWAYS the parents** in the position to gift. We do not want them to diminish their retirement goals or lifestyle. However, if there is surplus, we discuss their values and the joy they potentially will get from helping their children get on the property ladder, extending their personal ambitions, education or takeover of the family business and put a practical plan for their needs to be met first.

We always recommend that **any financial gift to the next generation is documented with a 'family loan agreement'**. Your lawyer can organise this for you. It ensures that 'Mum & Dad' can recall their loan at any time, this is especially helpful if their child has a relationship breakdown and their assets are then divisible according to the Relationship Property Act, the financial gift is 'repaid' prior to any assets being split.

Making sure that if there are multiple children, **that all financial gifts are fair, equitable, well recorded and most importantly well communicated** so that the family Christmas is still a pleasure. We can all identify families that have been ripped apart because things turned sour and noses were put out of joint, as Mum & Dad didn't organise their affairs or communicate their wishes whilst they were still breathing, or they outstayed their welcome in the business!

Legendary Investor Warren Buffet says he plans to leave his children enough money to pursue their passions, but not so much that they lose motivation or purpose. Look, not many of us will have an estate of USD \$150 Billion to worry about! The point here is that there is a fine balance between entitlement and aiding. The joy of gifting is what you receive back, maintaining and enhancing your family dynamics to create purpose and direction, whilst you are still here to witness the next generation flourish.