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Bank of Mum & Dad should insure deposits

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Some parents helping their children onto the property ladder are encouraging them to take out insurance to safeguard against a fall in their retirement income.

Traditionally, it's always been parents who have had to insure their lives for the benefit of their financially dependent children.

But there could be a sea-change on the cards as more and more parents help the children out financially and look to cover themselves against their offspring defaulting on payments.

That means requiring children take out a life, critical illness or mortgage protection policy specifically mentioning their borrowing from parents and repayments to them.

This could cost £27 per month for a £50,000 debt and if something happens the loan repayments or lump sum should then be covered.

Despite the fall in property prices over the past two years, the UK's Bank of Mum & Dad is still booming as parents help their struggling offspring, with property prices still remain stubbornly out of reach for many and lenders demanding large deposits.

According to Lloyds Banking Group, a fifth of parents give their children money to help them on to the housing ladder.

And it's easy to see why they feel they need to, as figures from the Council of Mortgage Lenders show that first-time buyers are now paying an average deposit of almost £32,000 - more than twice the £13,194 in September 2007.

Figures from Hartwood Wealth Management in Spring 2008, when average first-time buyer deposits stood at £15,500, said 5.5m parents had already given more than £116bn to their children to help get them onto the property ladder.

But there are serious implications to be considered especially for parents who are nearing retirement and will be relying on loan repayments from their children to help fund their retirement.

Peter Chadborn, of CBK Colchester, an **independent financial adviser**, says: 'When parents assist their children financially, often this entails a loan of some form or another. But this loan is more and more often being taken out at a time when parents are making serious plans for retirement or are even at retirement age.

'Unless they have considerable retirement funding in place, the parents are relying on the loan repayments or capital repayments from their children as part of their retirement income/capital/plans.

'Therefore, as well as the normal protection advice for the new home and mortgage owning children, advisers now are having to include advice that means the children should take out cover - to the tune of the parents loan/repayments - for the benefit of their family.'

Danny Cox, head of financial planning, at Hargreaves Lansdown, adds: 'If parents are reliant on getting that cash back to supplement their retirement income, then lending to your children can be a high risk strategy so looking into some type of protection plan and getting proper advice is recommended.'

How it could work

Take a couple aged 58 and 56, who are two years away from their planned retirement. They have son aged 30, who is still living at home because he cannot raise enough deposit to get on the property ladder.

But if he can raise £50K he will have sufficient cash. The couple has calculated they need a combined income of £23K to support their desired income in retirement and they have the following projected income of £12,000 from their pensions, a buy-to-let income of £4,000 with the same amount tied up in investments. This leaves them short £3,000.

They, however, have savings of £100K. With a combination of investment and deposit-based savings, they could make up the retirement income shortfall.

But if they lend £50,000 to their son, they cannot make up the income shortfall without taking disproportionate investment risk and leaving insufficient **capital reserves**. The couple may feel this is not a problem because their son is going to repay the loan over a period of, say, 10 years and this is where the potential need for more insurance and protection arises.

In terms of cost of the insurance which would take into account, life, critical illness and income protection, based up on the above example the total monthly premium would be circa £27.