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Keeping it in the family – the secret to transferring wealth successfully

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Keeping it in the family – the secret to transferring wealth successfully

Ensuring that future generations continue to benefit from family wealth calls for careful and early planning. What can you do to make sure you leave a lasting legacy?

Many Australians prioritise providing for their families when it comes to managing personal wealth. So it's only natural to want to do everything in your power to ensure your family and future generations are well looked after. That can be a challenge even when you're around to guide them, but even more so when you're not.

This is an important issue in Australia given the inter-generational shift in wealth that's gathering pace. A report by the Productivity Commission in 2021 estimated that more than $120 billion was transferred between Australians in the form of gifts and inheritances in 2018 alone.[6] By 2050, the annual wealth transfer is predicted to be four times bigger.

The three generation paradigm

Managing this wealth transfer will be a major concern for many families over the next two decades. The mismatch between the goals, aspirations and even financial abilities from one generation to another can lead to assets being squandered. The old saying about 'three generations from shirtsleeves to shirtsleeves' encapsulates the potential for family wealth to go from accumulation to evaporation in just three generations.

So how do you ensure that your family is one of the few that manages to preserve its assets for the benefit of future generations?

Make a plan for the whole family

Planning and communication are the key elements for families that successfully manage wealth continuation. In particular, planning needs to start early. This can be as simple as thinking about who in your family you'd like to provide for and in what form. Families can change quite dramatically over time because of marriage, divorce and new additions. That's why in any planning for future generations, it's worth considering how your family may look in the future. And for the same reasons, it's important to keep your plan up-to-date.

Whatever you decide, make sure you communicate your intentions to your family so everybody understands in advance what will happen. Consider their aspirations, needs, competence and interest in managing family assets.

6 Productivity Commission, 'Wealth transfers and their economic effect', December 2021, accessed 20 February 2023

Options to transfer your wealth

Several instruments can help you transfer wealth. These include having an up-to-date will, trust funds, superannuation and gifts. Each has its own tax implications and varies in terms of how much control you have over future beneficiaries.

A **will** is the most widely used means of making known how you want people to benefit from your legacy. A properly drafted will should make explicit the beneficiaries and your intentions. However, depending on how your assets are organised it might not be the most effective means of organising your estate. For instance, if you own a business, succession planning for that business may be more important than what you leave in your personal estate.

Superannuation is a popular and tax-effective way to save and preserve an income for the future. There may also be life insurance cover attached to the super fund which will pay out to your beneficiaries in the event of your death. To ensure that your superannuation is paid to the beneficiaries you choose, a non-lapsing binding death benefit nomination can provide you with certainty on who will receive your superannuation when you die. If you're in pension phase, then you have the option to have your super pension paid to a beneficiary that you nominate. They will need to meet eligibility requirements at the time of your death.

Trust funds typically offer taxation benefits and allow you to stipulate how your wealth is used in future and who controls it. Trust fund assets are not owned by any single individual but are held in trust, and any benefits from the trust must go to your nominated beneficiaries. Assets held within a trust don't form part of your estate so they are less likely to be contested in a will dispute.

Gifting is another popular method of transferring wealth to future generations, not least because you can do it while you are alive and when the next generation is most in need of a helping hand. The well-known 'Bank of Mum and Dad' is an example of gifting to help younger family members get on the property ladder. It may involve more than just handing over the money, however. For instance, you need to be clear whether it really is a gift or a loan, or if the gift needs to be considered a pre-payment of entitlements in your will.

How we can help

Estate planning is a complex task that requires specialised skills to ensure the right outcomes. If you would like to learn more about how to best benefit future generations, talk to us. In conjunction with legal and other advisers, we can guide you on how to plan your estate, considering your overall financial goals.

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