LAWRANCE PRIVATE WEALTH

Intergenerational Wealth And Legacy

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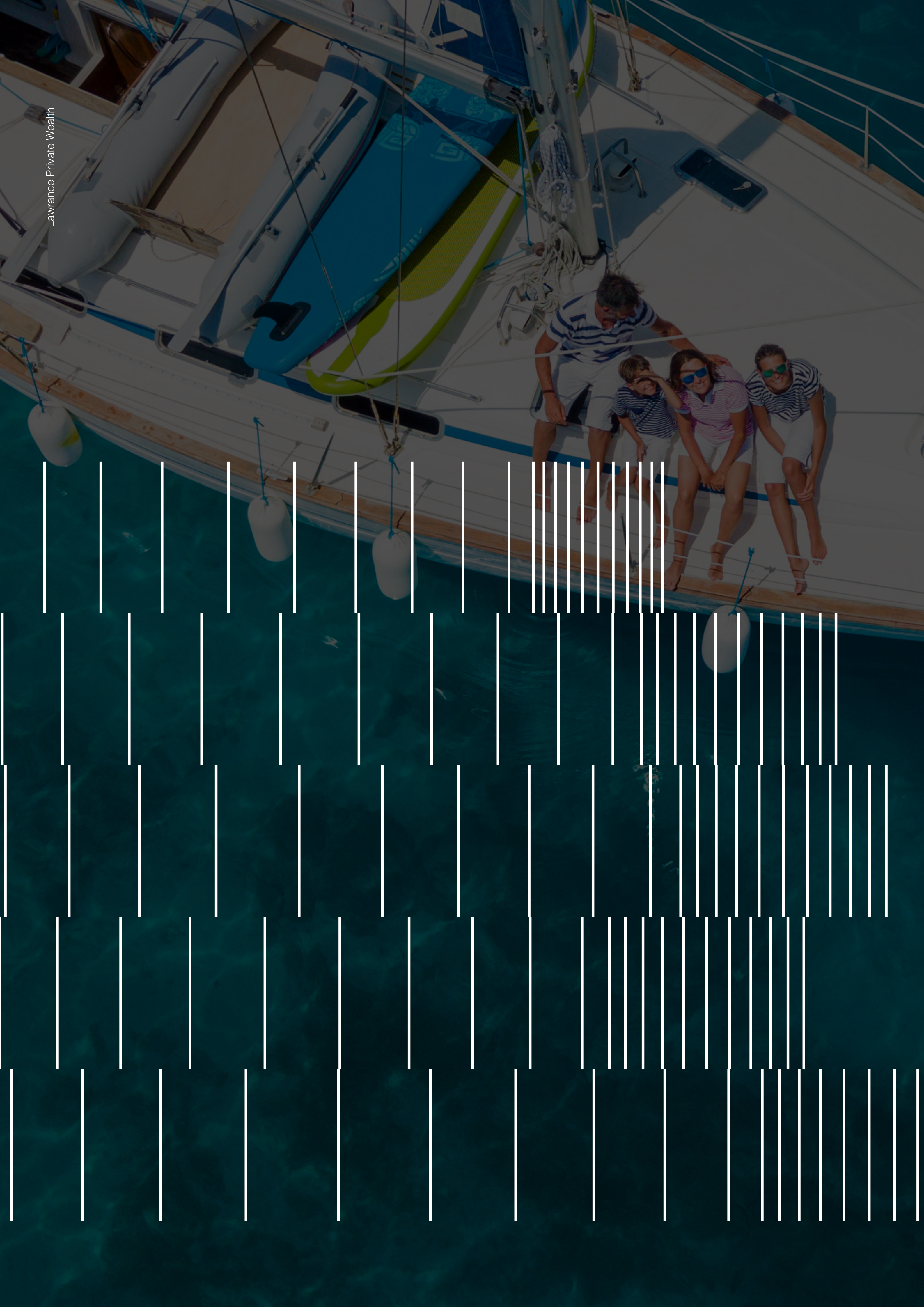


SECTION 1

Intergenerational Wealth

Australia is on the cusp of the greatest wealth transfer in history. However younger generations have different perspectives on money, leading to concerns over how intergenerational wealth will be managed and preserved.

> "Leave the children enough so that they can do anything, but not enough that they can do nothing."
>
> **- Warren Buffett**

SECTION 1

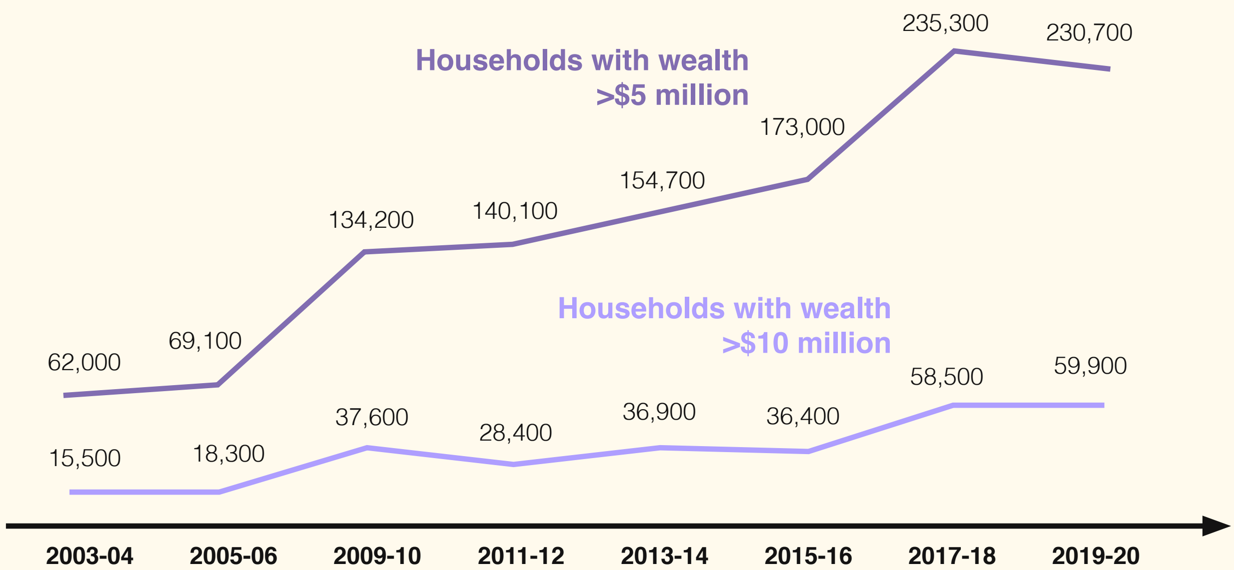
The three trends

Over the next two decades $3.5 trillion will be bestowed upon future generations. This will include common assets such as the residential home and cash savings in addition to shares, property, family businesses and superannuation.

The wealth accumulated by Baby Boomers and Generation X has largely stemmed from appreciation in the family home and superannuation balances. Subsequently the number of households with more than $5 million and $10 million in assets has quadrupled in the past 15 years. **Greater asset bases** has led to a commensurate increase in wealth transfers, with this trend expected to continue into the future.

Australians are **living longer**. Men born in 2000 are expected to live an extra ten years compared to those born in 1960. Women are expected to live an additional eight years. This means beneficiaries will be well into their adult life before receiving intergenerational wealth. Subsequently, older generations are frequently sharing their wealth outside of the nuclear family, notably with philanthropic causes. It also has implications for retirement planning and ensuring sufficient wealth to support everyday expenses and aged care.

On the topic of beneficiaries, there are likely to be **fewer recipients** in future years. The fertility rate has been below two since 2005. Families are now having one or two children, compared to three or four in the Baby Boomer generation. With more wealth to give and fewer beneficiaries, this places a greater focus on educating future generations about preserving and investing inheritences.

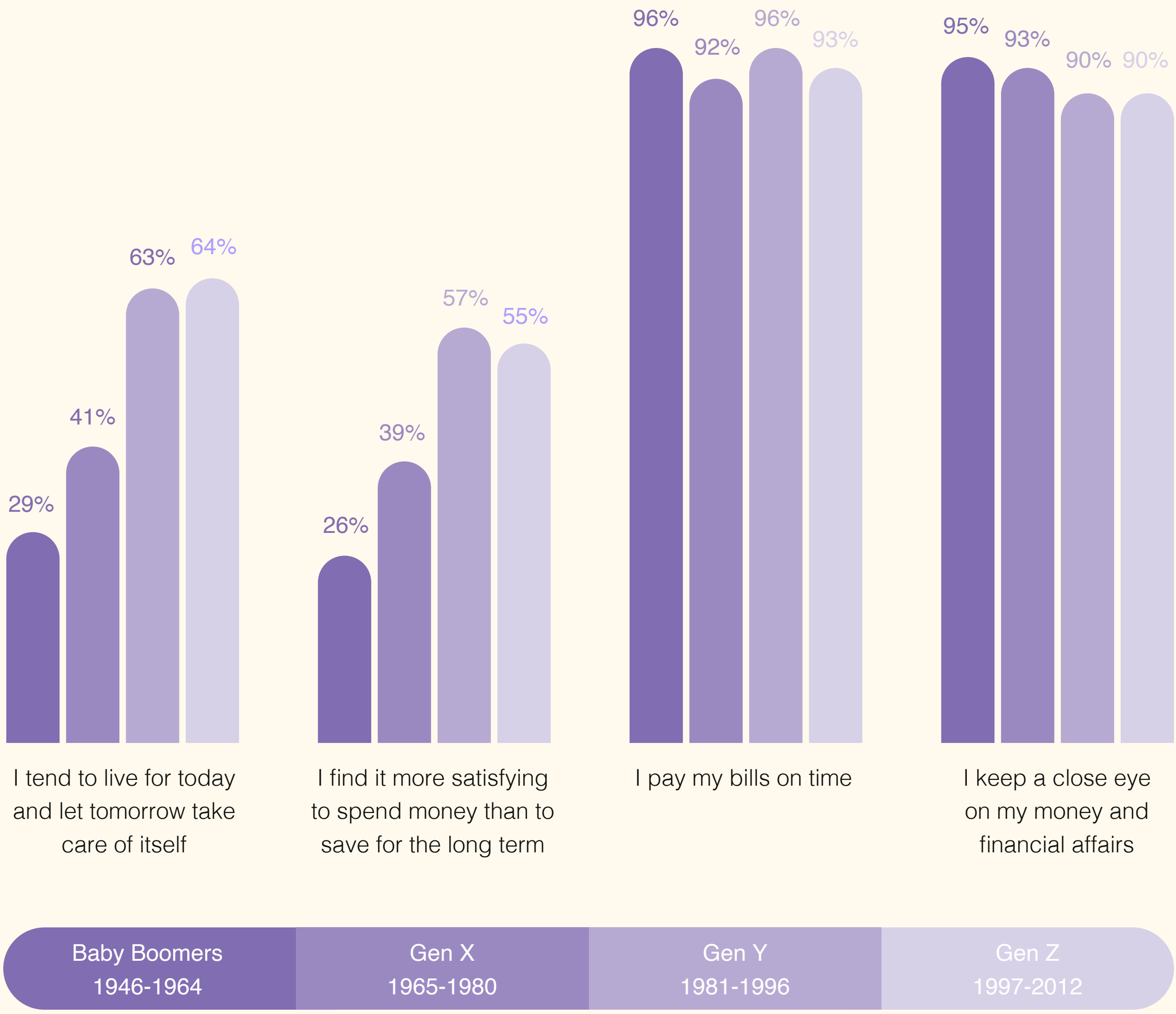


SECTION 1

Views on money

Views on money from older generations bifurcate greatly from their likely heirs. Generation X and Y prefer to spend today rather than conserve cash for a rainy day. Moreover younger generations have less of an appreciation for building long-term wealth with more of a focus on experiences and travel. This cohort is also significantly more willing to take risks with money, reflecting their longer investment horizon.

That's not to say that younger cohorts are not fiscally prudent, as evidenced by their similar tendency to pay bills on time and keep an eye on finances. However, this does highlight the division in priorities and the need for education around the importance of building and preserving long-term wealth.



SECTION 1

Concerns for the future

Given how younger generations view money, it's little surprise older Australians may be unsettled over how their wealth will be managed once they pass. Below we present the four most common concerns.

Misused and poorly managed funds (38%)

Retirees are most concerned their hard-earned wealth will be squandered. Research has shown younger generations are less confident with money, and also less inclined to engage with a financial adviser. There is additional worry over unintended recipients claiming or gaining access to an estate.

Tax implications (37%)

Australia does not have an explicit inheritance tax. But there are still several ways beneficiaries can be subjected to tax implications including taxes on capital gains and superannuation.

Unintended distribution of wealth (34%)

Failing to establish the correct estate structures can lead to unintended distributions of wealth to non-family members. Moreover, incorrect forms or invalid wills can lead to control being taken away from whom you intended to manage the estate to a third party.

How to pass down wealth (32%)

Simply beginning the transfer of intergeneration wealth can be a daunting process. How do you best protect your estate? Will it cause conflict in my family? What advisers do I need? You are often left with more questions than answers.

> "Approximately 70% of transfers of intergenerational wealth fail because of dissipating wealth, family conflicts, misaligned family values, delays and bungled execution. "
>
> **ANZ Bank**

SECTION 2

Preparing Your Family

To encourage alignment between generations, families should consider various ways of educating children and grandchildren. Where appropriate, gifting or investing may be considered to give your loves ones a helping hand.

> “Give a man a fish, and you feed him for a day; teach a man to fish, and you feed him for a lifetime.”
>
> **- Laozi**

SECTION 2

Educating your family

To foster and encourage a wealth mindset, consider adopting the following five ideas.

1 Open communication

For better or worse, we learn much about our finances and spending habits from our parents. Promoting an open and inclusive space to discuss finances will break down the any perceived stigma and empower children to take control of their finances.

2 Include in decision-making

Early on this can include simple budgeting activities like searching for a more competitive internet plan or grocery shop. As they age, include them in discussions around wealth and encourage them to take ownership of outcomes. Where appropriate, providing a small portfolio of shares or cash to manage will help foster a long-term mindset. Even bringing them along to discussion with your financial adviser starts the ball rollling.

3 Capitalise on interests

Some beneficiaries are not particularly interested in finance and that's okay. They will no doubt have other areas of interest so linking the two may help money feel more relatable and less intimidating. For example, a young adult may be interested in purchasing shares in their favourite brand, sports team or website.

4 Super is super

Almost every Australian will be building long-term wealth via their superannuation account. This might only be a nominal amount in the early years, but discussing the investment strategy and benefits of wealth creation via a structure they are somewhat familiar with will encourage further interest.

5 Relatable resources

Younger cohorts consume information through different channels than older generations. Provide them with information in their preferred medium such as podcasts, short-form videos, or websites.

SECTION 2

Gifting children

With Australians living longer, many are opting to bestow gifts onto future generations today rather than wait for it to be done via inheritance. The primary benefit is that you are both able to share in the gratitude and experience. However, gifting is an imperfect science and deeply personal. If done incorrectly, it can lead to negative outcomes for both the recipient and the broader family group.

How to give

- ✓ The proceeds will be used as intended and the recipient will be grateful for the gift
- ✗ The recipient expects the gift, and that future assistance will be unconditional
- ✓ To assist in the purchase of an appreciable asset, such as a first home
- ✗ The gift would impact your own financial security or lifestyle
- ✓ To fund major milestones including university, a wedding or starting a family
- ✗ The recipient may not have the financial skills to receive a gift of such

If you're unsure about how best to give to your family group, it's best to start in small amounts. If you're worried about how the proceeds will be spent, a loan may be more appropriate to align the recipient's interests with yours. As always, it's important to communicate your wishes clearly and educate the recipient about the importance of financial discipline.

Investing for children

Another means of providing for your family is setting money aside to invest. This is a common way to pass on wealth to children and grandchildren while remaining in control of the investment amount.

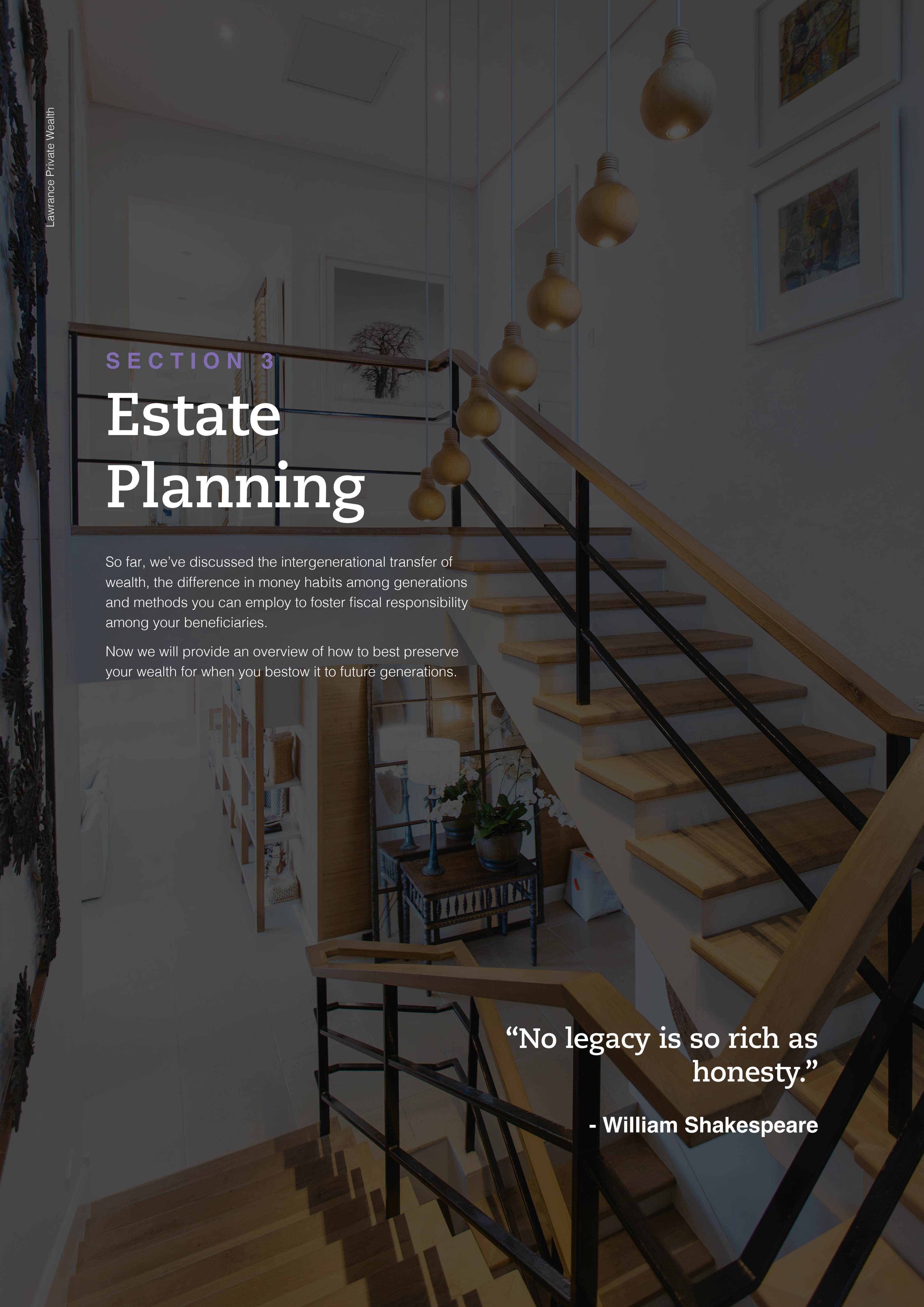
Investing provides the recipient with a much-needed head start to compound wealth early before they need it. It also provides a platform for you to discuss and educate your children about money and investing.

What you should consider before investing for children

Start early	Investing $10,000 at the birth of a child will be worth ~$40,000 at age 18, compared to just $18,500 if you started at age 10.
Build a plan that is sustainable	Build wealth for the long-term by committing to regular contributions that are sustainable and within your budget.
Consider investments	Align your investment choices with your investment timeline. Consider shares and property for long-term. Include your children to improve their knowledge and encourage ownership over outcomes.
Review tax consequences	Investing for your children can give rise to tax obligations. Consider strategies to maximise the investment returns that accrue to you and your children.

Investment Bond

An investment bond is a life insurance policy that facilitates investing in a tax-efficient manner. After ten or more years, annual contributions can be withdrawn tax-free or transferred to a beneficiary, such as a child or grandchild. Earnings are excluded from personal tax returns. Furthermore, there is no capital gains, and income is taxed at a maximum of 30% (and in most cases much less). The bond also provides valuable asset protection in the event of death or divorce.



SECTION 3

Estate Planning

So far, we've discussed the intergenerational transfer of wealth, the difference in money habits among generations and methods you can employ to foster fiscal responsibility among your beneficiaries.

Now we will provide an overview of how to best preserve your wealth for when you bestow it to future generations.

> "No legacy is so rich as honesty."
>
> **- William Shakespeare**

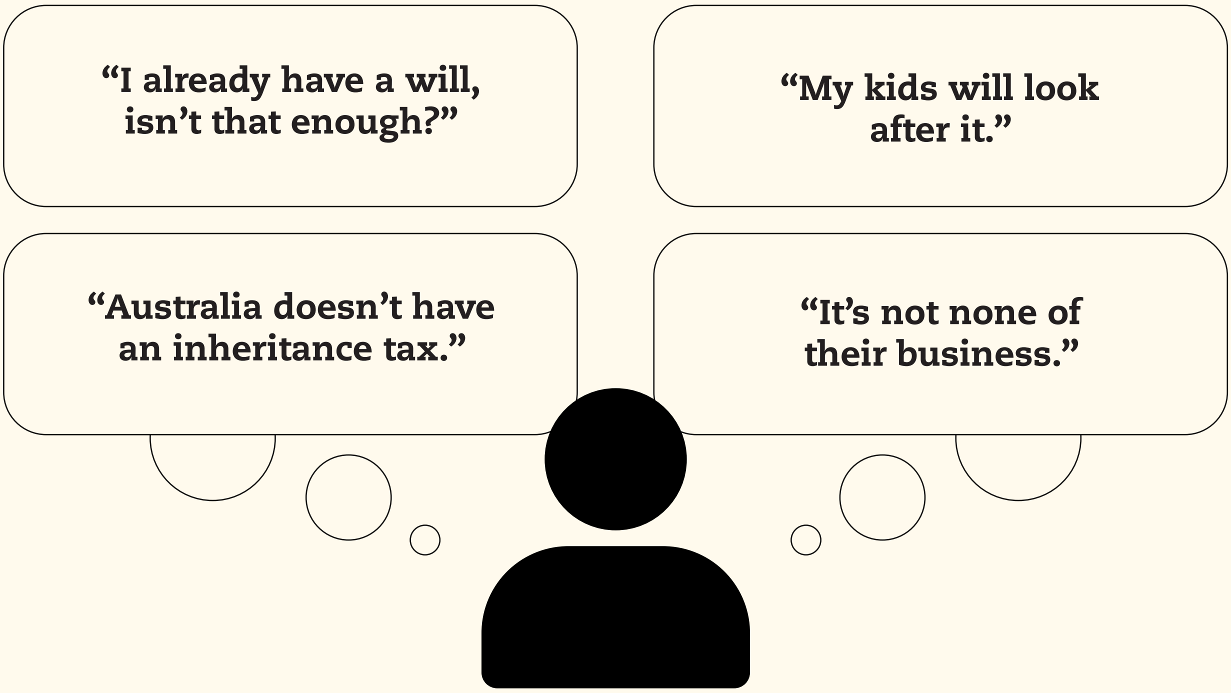
SECTION 3

Estate planning importance

Estate planning is much more than having a will.

It involves thinking about the legacy you want to leave to your loves ones in addition to avoiding unnecessary costs and complexities, particularly in the deeply emotional period after your passing.

Proper planning protects wealth from being eroded by mismanagement, unnecessary tax obligations, or being passed down to unintended beneficiaries. Starting your planning early is crucial for implementing the appropriate structures and having the required conversations with advisers and family.



- Assets transferred against your wishes
- Non-intended beneficiaries
- Unnecessary tax
- Wealth destruction
- Family conflict, grandchildren impacted
- Avoiding significant costs and complications associated with probate

SECTION 3

Estate basics

- Do you have a will, and does it accurately state your current wishes and assets?
- Have you appointed an enduring power of attorney and enduring power of guardianship?
- Have you lodged binding superannuation and self-managed super fund (SMSF) nominations?
- Do you have appropriate insurance including funeral, health and life policies?
- Do you need a letter of directions to assist your executor in managing your estate?
- Do you have a healthcare directive?
- Have you collected relevant documents and informed someone of where they are located?
- Have you created an address book of contact details to guide your family?
- Have you created a list of assets and entities to guide your executor?
- Have you provided the login details for online access?

Will

Legal document that specifies how you want your assets to be distributed after your death.

Power of Attorney

Appointed by you to manage financial and legal decisions on your behalf.

Power of Guardianship

Appointed by you to manage health and lifestyle decisions on your behalf.

List of Assets

A summary of your major assets including trusts, businesses, shares, property, bank accounts, SMSF, jewellery, cars and sentimental items.

Relevant Documents

Documents your estate will need to carry out your wishes including identity, birth, marriage, will, trust deeds and investment ownership papers.

SECTION 3

Hard conversations

In our experience, one of the biggest hurdles to estate planning is sharing your legacy with your loved ones. Naturally, discussions of money and death can make us feel uncomfortable. However, we know that avoiding difficult conversations increases the likelihood of unwanted outcomes including family conflict, unintended beneficiaries, tax obligations and even lost wealth. Having one or a series of conversations with your beneficiaries is a much-needed weight off your shoulders. Best of all, it's an opportunity to explain your wishes and choices clearly and include your family in the process.

1. State clearly, in writing, the wishes and objectives of your estate.
2. Where appropriate and you feel comfortable, share the reasoning behind your decision-making.
3. Employ a trusted and dispassionate intermediary, such as an adviser or lawyer, to facilitate the conversation.

SECTION 3

The right structure

Having the right structures in place can provide peace of mind that your wealth won't be mismanaged, while also ensuring your children and grandchildren are not paying unnecessary tax once you pass.

Testamentary trusts

Testamentary trusts are established upon your passing and create a structure that will hold the assets contained in your will. The trustee then determines how much beneficiaries receive, which can minimise income and capital gains tax. It also provides important asset protection from non-family members in the event of a divorce.

Asset structuring

Unfortunately, the assets of estates rarely align equally with the heirs. Often there is a large single asset, such as a family home or farm, where one or more of the beneficiaries would like to retain. There are strategies we can implement to ensure an equal outcome for all beneficiaries while keeping the assets that are important to you within the family.

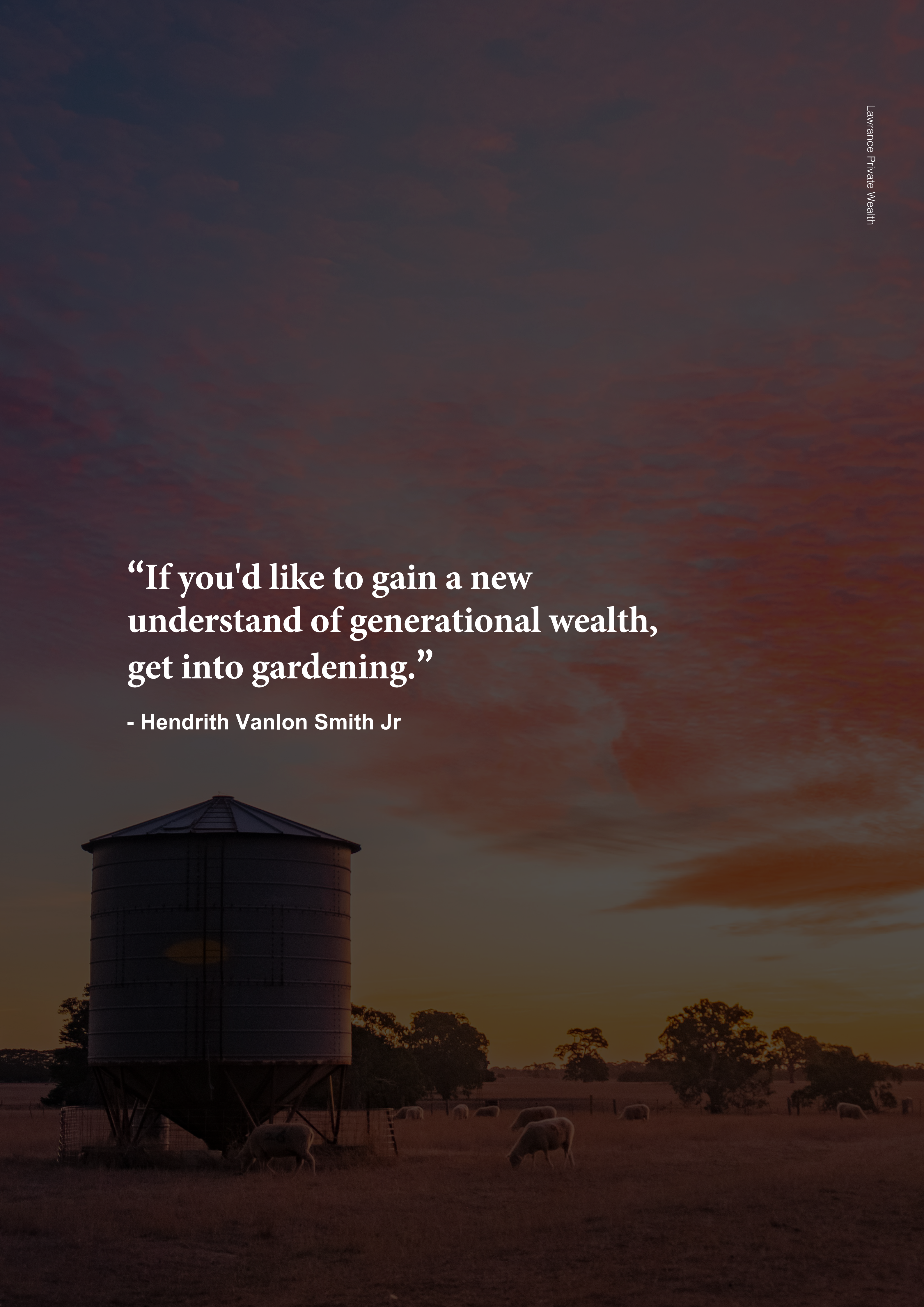
Recontribution strategies

Superannuation passed onto non-dependents (such as children above 18) will be taxed at 17%.

Depending on your eligibility, you may be able to recontribute taxable income as non-taxed balances to reduce their tax liability.

Building your team

Estate planning is a process that involves more than one professional. In most cases, a financial adviser, lawyer and accountant will be required to work together to ensure your estate represents your goals and objectives.



“If you'd like to gain a new understand of generational wealth, get into gardening.”

- Hendrith Vanlon Smith Jr

SECTION 4

How We Can Help

Passing on your wealth and preparing your estate is a daunting task. Here's how we can help.

"An investment in knowledge pays the best interest."

- Benjamin Franklin

SECTION 4

The Lawrance Private Wealth difference

Lawrance Private Wealth is a boutique and independent financial advice firm based in Canberra.

Our focus is delivering tailored investment and strategic advice to help our clients achieve their goals, regardless of life stage. We are owned by our advisers, and therefore our success is completely aligned with yours.

Our comprehensive and expert advice services both intergenerational wealth and estate planning.

Equitable Outcomes

Tailored advice to your family group for splitting assets equitably across beneficiaries while achieving your goals.

Structuring and tax

Implement the correct structures to preserve your wealth for your family and minimise future tax obligations.

Insurance and estate planning

Connect you with one of our trusted professional partners for your insurance, accounting and estate planning needs.

Family pricing model

Reduce barriers to younger generations receiving financial advice by aggregating the family group's assets, thereby reducing administration fees.

Succession planning

Guidance with succession planning, particularly in regard to farm and family businesses.

Education

Provide personalised financial education for you and your family to build confidence in your financial future.

SECTION 4

Our advice in practice

CASE STUDY:

Passing down a family farm

Graham and Louise own and operate a family farm. When they retire the property will be bestowed to their youngest son who will continue working on the farm, while the two other children work and live in the city. Graham and Louise want to provide equitable inheritances to each of their children, however the majority of their wealth is in the farm which cannot be easily divided.

Solution: By approaching us early, Graham and Louise were able to grow off-farm assets and dilute the amount of wealth held on the farm. We also implemented a life insurance policy to provide a lump upon their passing. Finally, the farming asset was restructured to support debt and enable equal inheritances to the three children.

CASE STUDY:

Investing for grandchildren

Ross is considering investing for his grandchildren to help provide for a house deposit once they become adults. He has heard there are structures for optimising after-tax investments but it all sounds a bit complicated. Instead, he is doing it in his own name, where his marginal tax rate is 42%.

Solution: At our quarterly meeting, Ross expressed his wish to provide for his grandchildren. We educated Ross about investment bonds, which enabled him to invest for his grandchildren in a tax-efficient structure. The income is not included in Ross's personal income tax return.

Looking ahead, Ross set up three separate investment bonds for his grandkids. From an upfront investment of $20,000 per bond, after 25 years of compounding, each bond is worth more than $108,000. This is enough for all three grandchildren to purchase their first home.

CASE STUDY:

Preventing family conflict

Annie and Fred have raised three bright and independent adult children. She knows however they can all be opinionated and not necessarily agree. Last Christmas there was a big argument over who would inherit the family home. Annie is wary of an impending family conflict once she and Fred pass.

Solution: At their quarterly strategy meeting, Annie asked if there is any downside to them not having an estate plan. Our adviser informed them there are many, including an increased likelihood of conflict and control being taken out of the family's hands. The adviser also pointed out that given the incomes of two of the children, taxes would reduce the estate by $300,000 without appropriate tax planning.

We suggested they invite the three children to a planning meeting to find common ground and discuss points of contention. To Annie's surprise, the meeting went smoothly, and the residence issue was resolved. Our adviser has implemented a trust structure to optimise the capital gains across the children. Importantly, all children agree that discussing it as a family was a far better approach than simply leaving it to them.

CASE STUDY:

Empowering a recent widow

Janine's husband passed away this year. A superannuation account with $1 million was passed onto her but she wasn't confident managing the money. Subsequently, she moved the assets into a savings account yielding just two per cent. She was cutting into her savings to fund her everyday needs and was worried she will eventually run out of money.

Solution: Our adviser guided her through the estate planning process and crafted an investment strategy that would provide an annual income of $45,000 after tax, which was more than sufficient to fund her lifestyle with some left over to give generously to her grandchildren. She now feels more confident in her financial future.

CASE STUDY:

Protecting wealth and unintended beneficiaries

Lisa has built significant wealth throughout her career and she intends to pass this on to her two adult children. Unfortunately, one of them has a partner whom she does not get along with. Her second child is a notorious spendthrift. She wants to pass on her estate to her children but is concerned it will fall into the wrong hands and be wasted.

Solution: We advised Lisa she should consider a testamentary trust. This would enable her to have an independent trustee who would manage the estate, protecting it from non-family members and distributing the wealth over time. Income would also be able to be distributed to her grandchildren who are all under 18, saving the estate considerable income tax.

CASE STUDY:

Reducing a tax bill by $216,000

Harold is retired and occupies himself by managing his SMSF which consists of several commercial property investments. He intends to pass it on to his one adult child Gary. Harold has a will in place and his trust deeds are regularly reviewed by his lawyer. Harold was unaware however that as a non-dependent, Gary stood to inherit not only his SMSF but a $260,000 tax bill.

Solution: Harold approached us to see if there was anything he could do to mitigate the tax bill. We advised a recontribution strategy to reduce the bill to $44,000. Harold also diversified his SMSF into more liquid holdings to assist Gary with the tax payment.

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