generation life

Outthinking today.

generation life

Don’t lose a client, gain generations.

Estate Planning

Your wealth | Your legacy | Your way

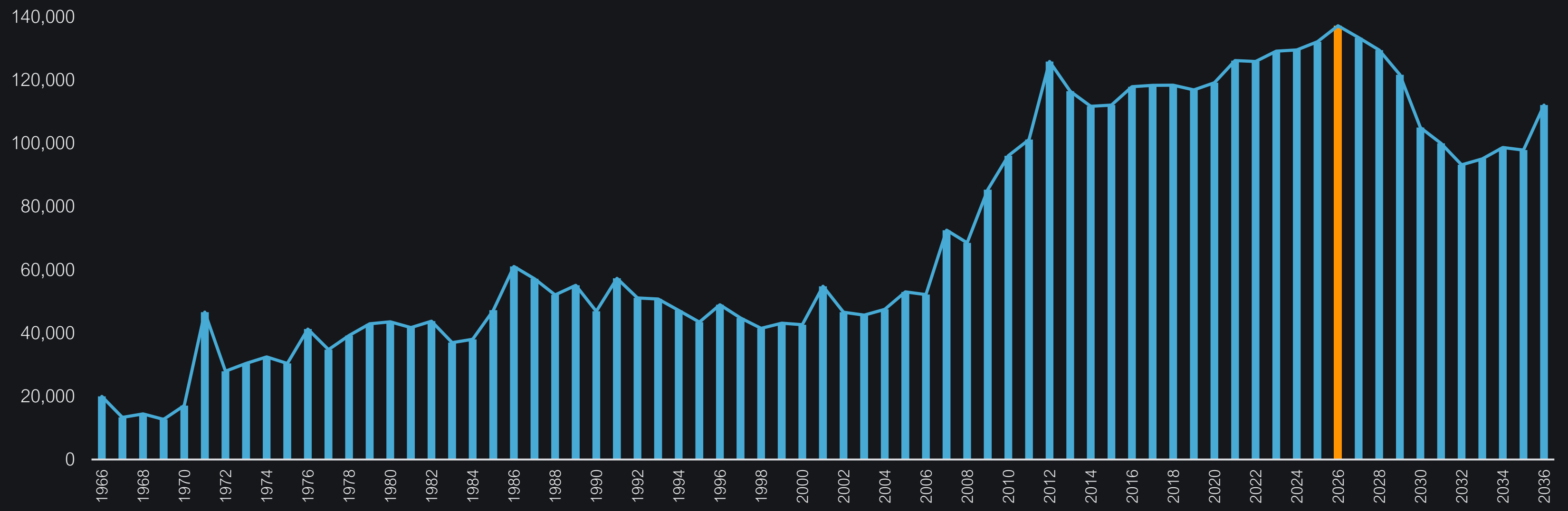
Estate Planning

Opportunities and pain points

Opportunities

Surge in the retiree population is caused by the great baby boom of the 1950s

Boomer's retirement mountain: Net annual change in Australian population 65+



1990s

65-and-over population increased by an average of around 40,000 per year[1]

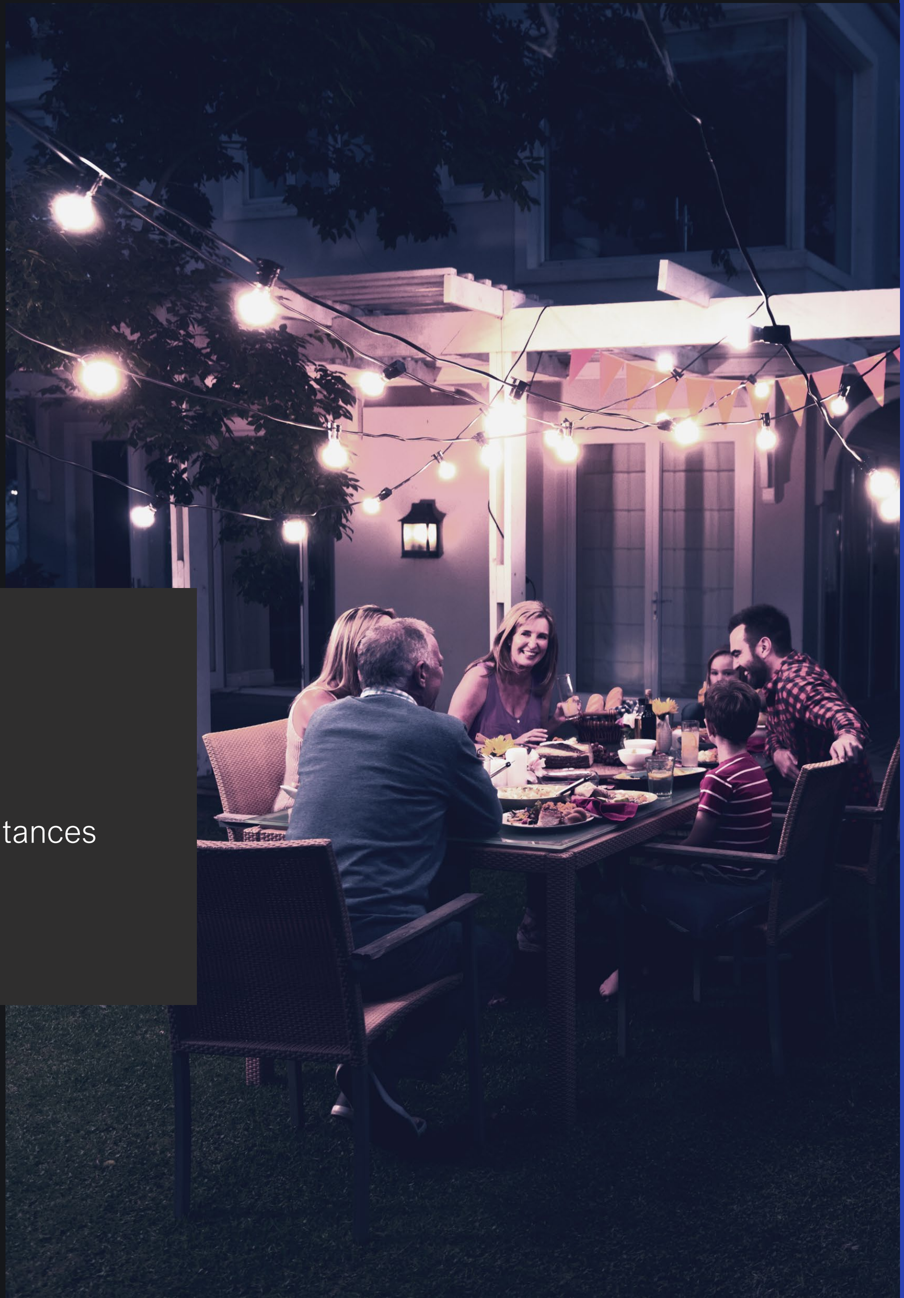
137,000 per year in 2026

65-and-over population passed 126,000 per year in 2021, expected to peak at 137,000 per year in 2026[1]

1. Salt, B, 2021, "Turning point: the 2020s baby boom retirement surge", published in Firstlinks on 24 March 2021, https://www.firstlinks.com.au/turning-point-2020s-baby-boom-retirement-surge

Opportunities

An opportunity to design a comprehensive estate plan for your clients.



$4.4 trillion[1]

Total inter-generational wealth opportunity with 18% of individuals holding an Average Net Investable Asset of $2.6 million

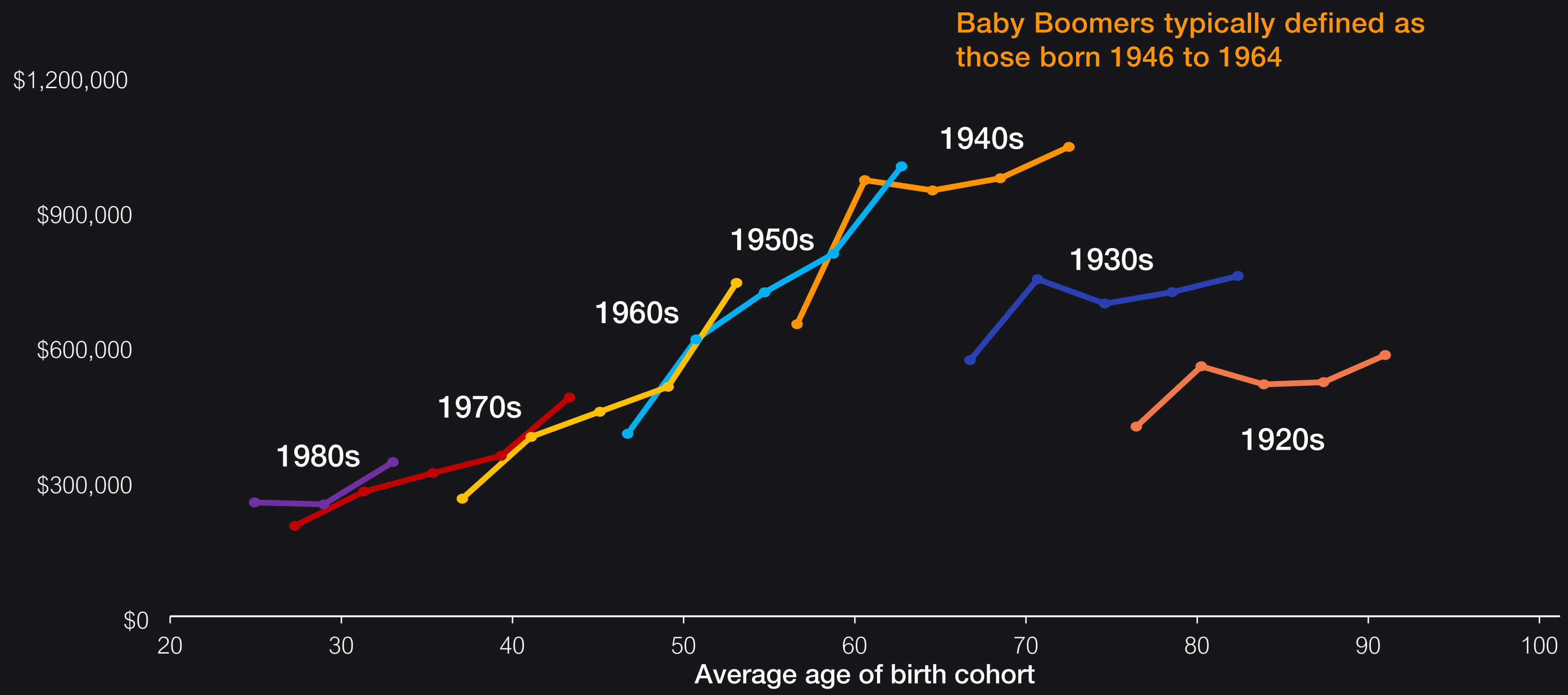
$224b

Estimated to pass each year in inheritances by 2050[2]

1. Generation Life – Locking In The Next Generation by Core Data 2022
2. Vickovich, A, 2021, "Baby Boomers to pass on $224b a year by 2050", published in The Australian Financial Review on 7 December 2021

The Baby Boomers are far wealthier than previous generations

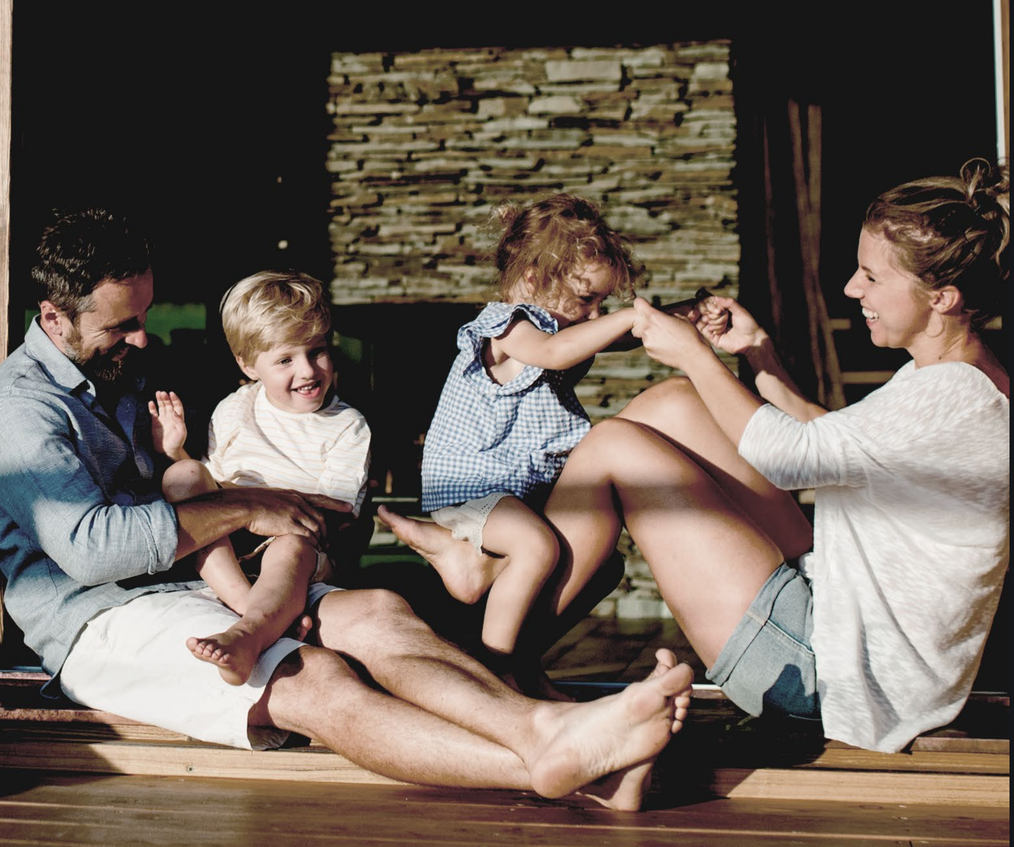
Equivalised wealth by age and birth decade



Source: Productivity Commission: Wealth Transfers and Their Economic Effects (2021, Figure 1.1). By Grattan Institute

Pain points

Leaving an inheritance and the challenges of wills



86% of claims are brought by the immediate family

12+ months for a case to be heard in court

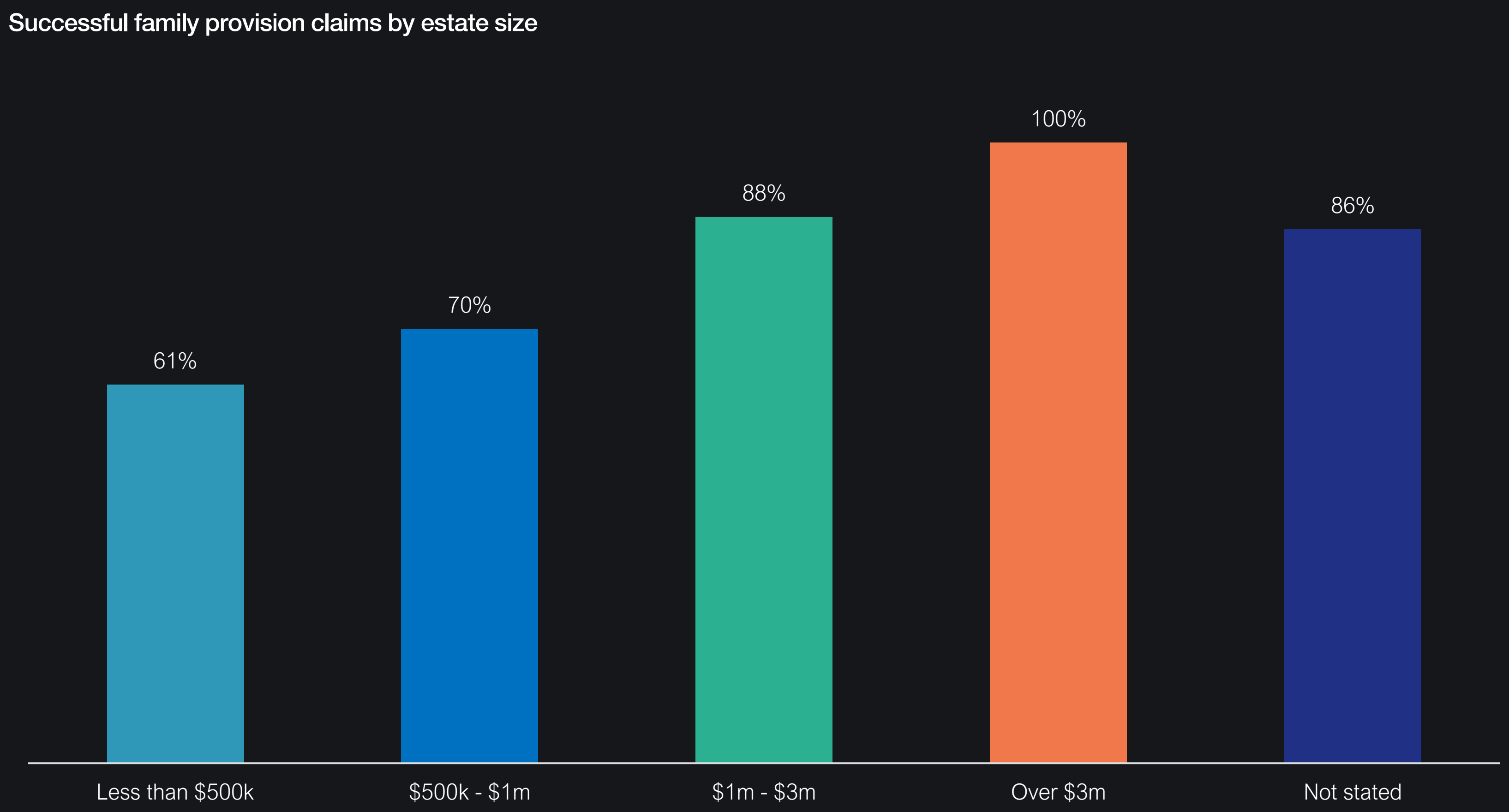
88.2% of seniors plan on leaving an inheritance ($930k on average)

36% of estates go to grandchildren

Source: Generation Life Estate Planning Research by Core Data 2020

Pain points

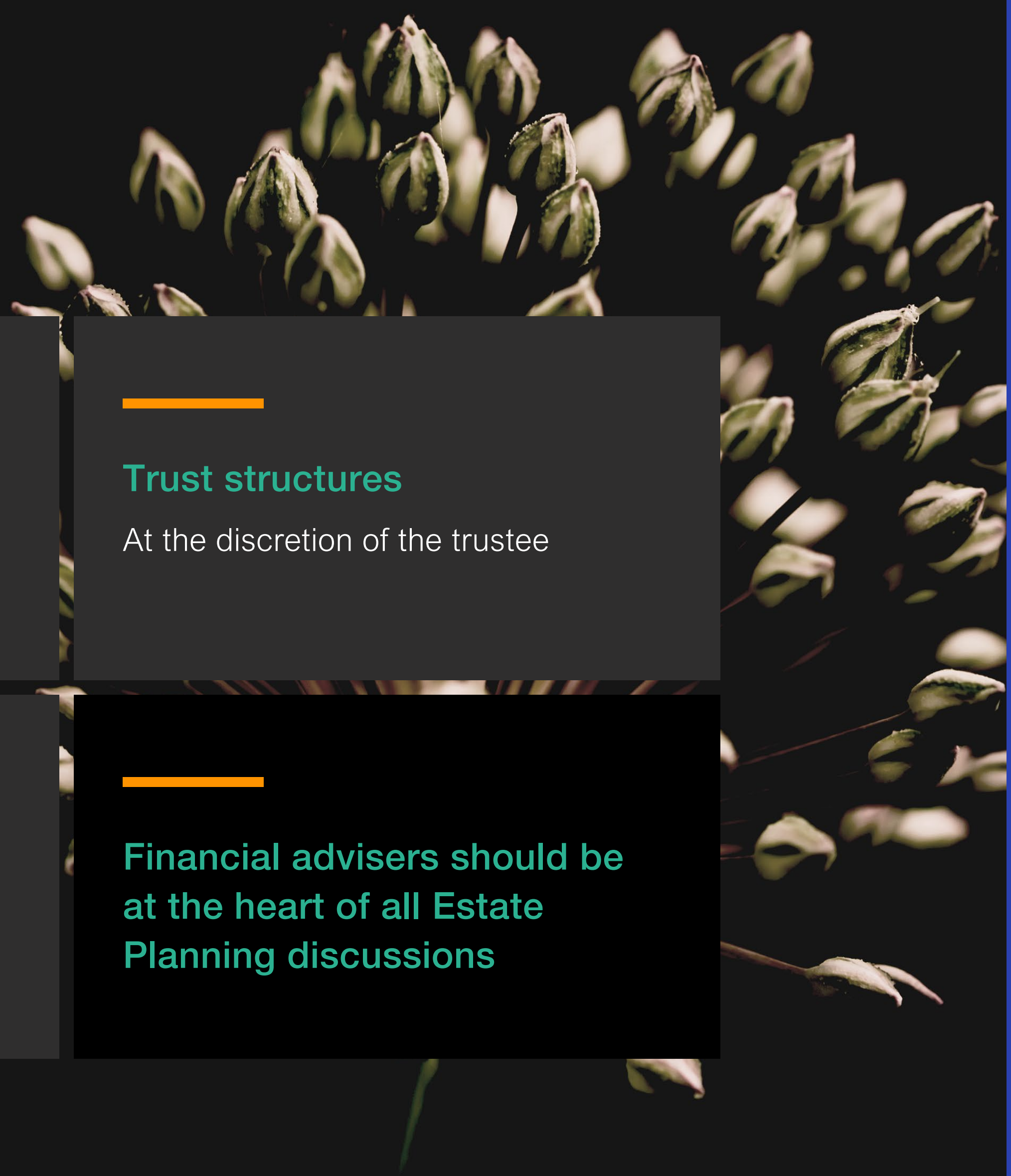
74% of estate claims are successful



Source: UNSW Law Journal, Estate Contestation In Australia: An Empirical Study Of A Year Of Case Law, 2015

Pain points

Complexities and uncertainties around estate planning



Wills and Estate

Constant maintenance and situation changes day by day

Managed by lawyers

Their focus/objectives are different to financial advisers

Trust structures

At the discretion of the trustee

Blended families

Seek certainty when passing on wealth

Improper Tax Planning

Underestimate the tax impact when transferring wealth

Financial advisers should be at the heart of all Estate Planning discussions

Estate Planning

Emerging practices

How do I start when discussing Estate Planning with a client?

What estate planning outcomes would your client like to achieve?

Is your client looking to bypass a generation?

Do they foresee any family issues or conflict that may prevent their wishes being met?

Do they have adult children who don't have children?

Have they considered the tax impact on the next generation when transferring wealth?

Have they considered the emotional reasons for leaving a gift/inheritance to an intended recipient?

Emerging practices

Education is key

Understanding the complications and ramifications of Wills and Testamentary Trusts.

The bureaucracy of transferring the ownership of assets and managing the Estate.

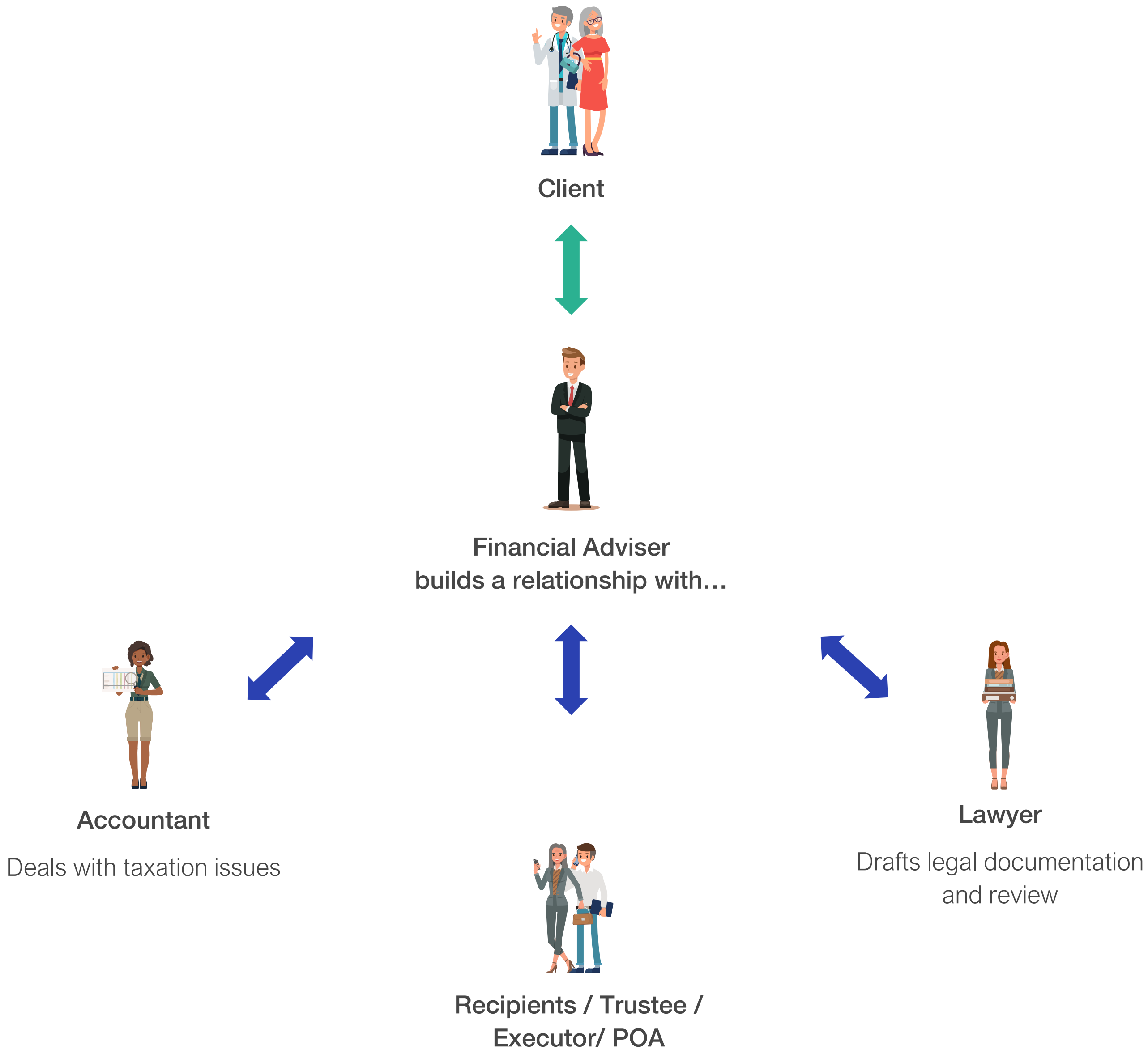
Estate planning lawyers may not know the taxation issues facing heirs.

Competence: Understanding structures for estate planning

	Superannuation	Discretionary trust	Wills / estate assets	Investment bonds
Estate planning	— Some estate planning Limited to SIS Act Limited beneficiary types	— Some estate planning Multiple beneficiary types	— Open to challenge and may create conflicts	✓ Strong estate planning Multiple beneficiary types Can manage personal conflicts
Set up	✓ Easy to set up	— Can be complex	— Can be complex	✓ Easy to set up
Cost-effective	✓ No additional costs	✗ Additional set-up and ongoing costs i.e. tax reporting, accounts	✗ Additional set-up and ongoing costs i.e. legal, trustee, probate costs	✓ No additional costs
Tax consequences to beneficiaries	— Non dependants may be subject to death tax. Different tax treatments depending if income stream or lump sum.	— Ongoing tax depends on beneficiaries	— Subject to estate wind up	✓ Tax-free to beneficiaries on death or opportunity of future event transfer
Accessibility upon death	— Subject to SIS Act	✓ Direction through trust deed	✗ May be subject to lengthy probate delays	✓ Typically, beneficiaries will receive funds within 7 business days of receiving documentation
Creditor protection	✓ Protected	✓ Protected	✗ Not protected	✓ Protected

Emerging practices

Financial Advisers can know the clients' personal situations better than any other professional.



Estate Planning

Growing practices

Growing practices

Australians' key concerns when transferring wealth

44.9% Australians are worried about transferring wealth

42.2%

Concerned about the impact of tax when transferring wealth

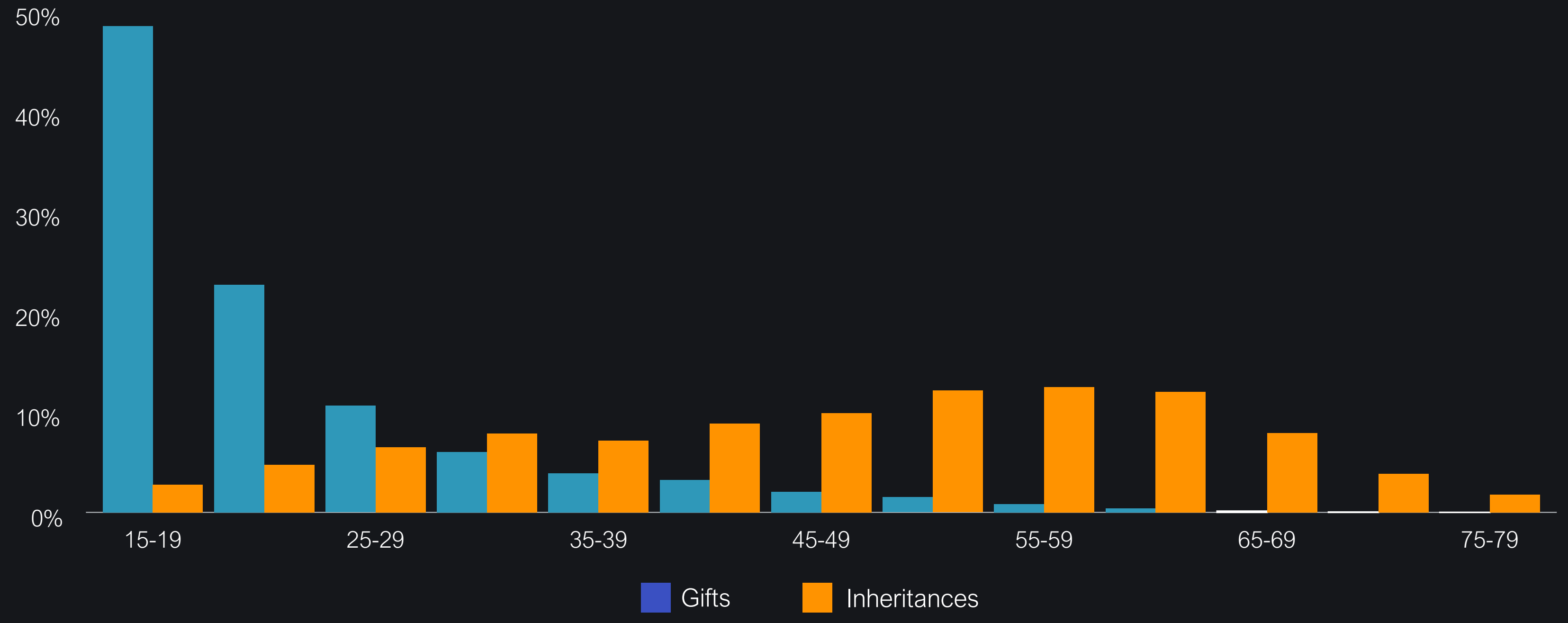
41.7%

Concerned about misuse or mismanagement

Source: Generation Life Estate Planning Research by Core Data 2020

Gifts overwhelmingly go to the young, while inheritances favour pre-retirees

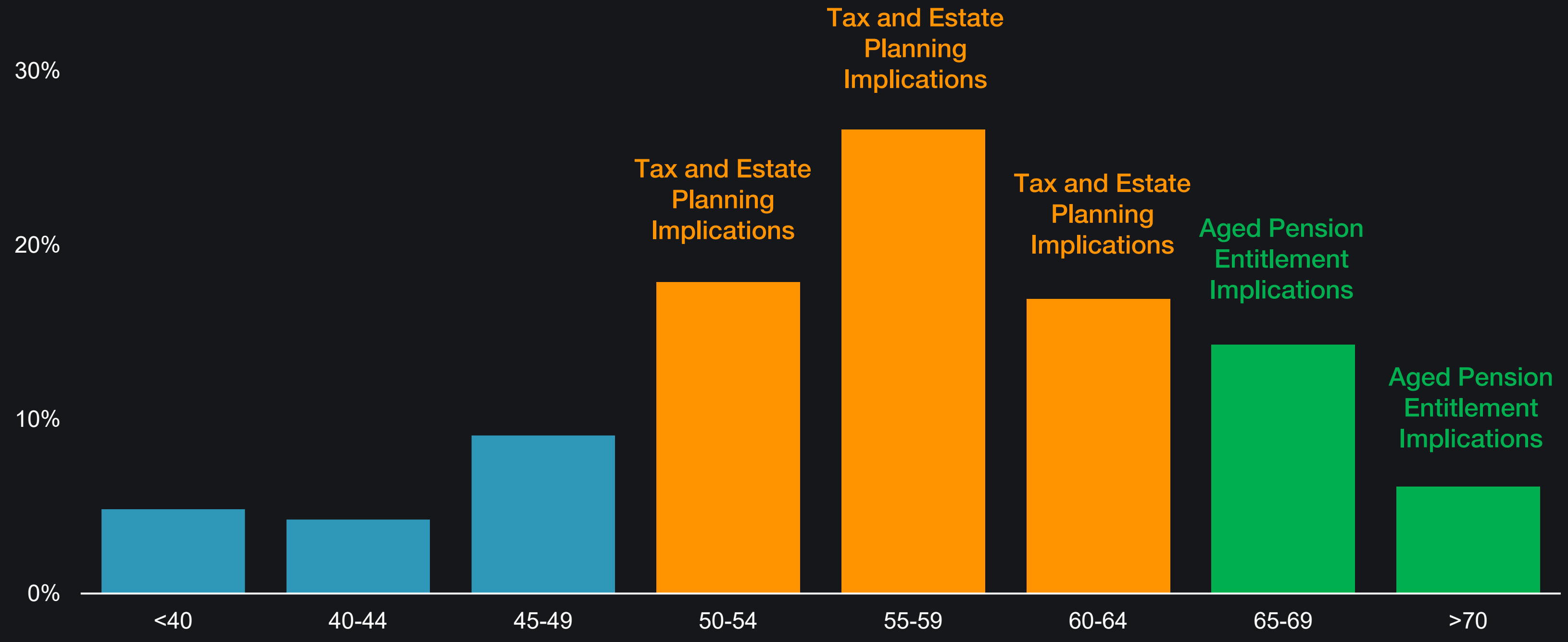
Percentage of recipients of gifts and inheritances by age group



Source: Productivity Commission: Wealth Transfers and Their Economic Effects (2021, Figure 3).

More than 80% of inheritance money flows to people aged 50 or older…

Proportion of inheritance money received by children of the deceased, by age band of recipient.



Notes: In probate data, the age of the recipient is only identifiable for children of the deceased, which represents three quarters of final estate money. Includes only estates where no bequest was made to a spouse. This will almost always correspond to 'final estates'; that is, estates of people without a surviving spouse.
Source: Grattan analysis of probate files, Victoria, 2016. By Grattan Institute.

Continuity – it's not just about advising one generation, but across multiple generations to maintain family unity

Start conversations early

- Youngest baby boomer is 58
- Life expectancy is 84 on average
- An adviser will lose on average 2/3rds of the FUA as it transitions to the next generation.

Imagine your business 1/3rds of current revenue

- What drives the future value of your business
- What plans and processes are in place and conversations around estate planning
- How are you retaining these funds

What was value, isn't value

- Different value propositions for different generations
- Millennials vs. baby boomers – one size doesn't fit all

Source: Generation Life – Locking In The Next Generation by Core Data 2022

This is not a new concept…

How are they modelling success in the UK?

Introducing the next generation conversations with all clients aged 50 and above and understanding their key drivers.

Building relationships with family and the next generation through annual planning meetings.

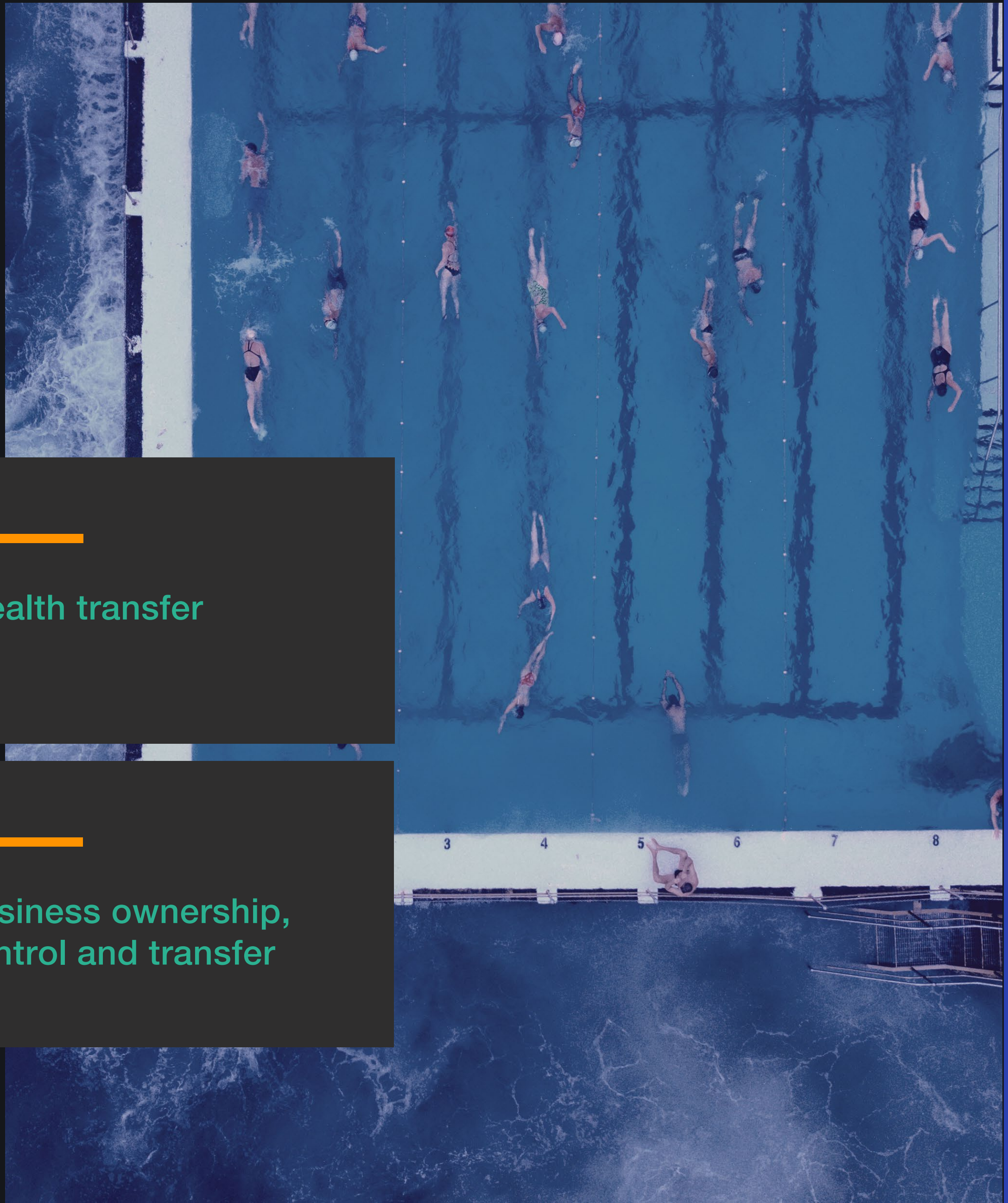
Building relationship webs for clients with accountants and lawyers.

Building strategies to tax effectively transfer wealth for the next generation.

Source: Generation Life – Locking In The Next Generation by Core Data 2022

Growing practices

Areas for consideration

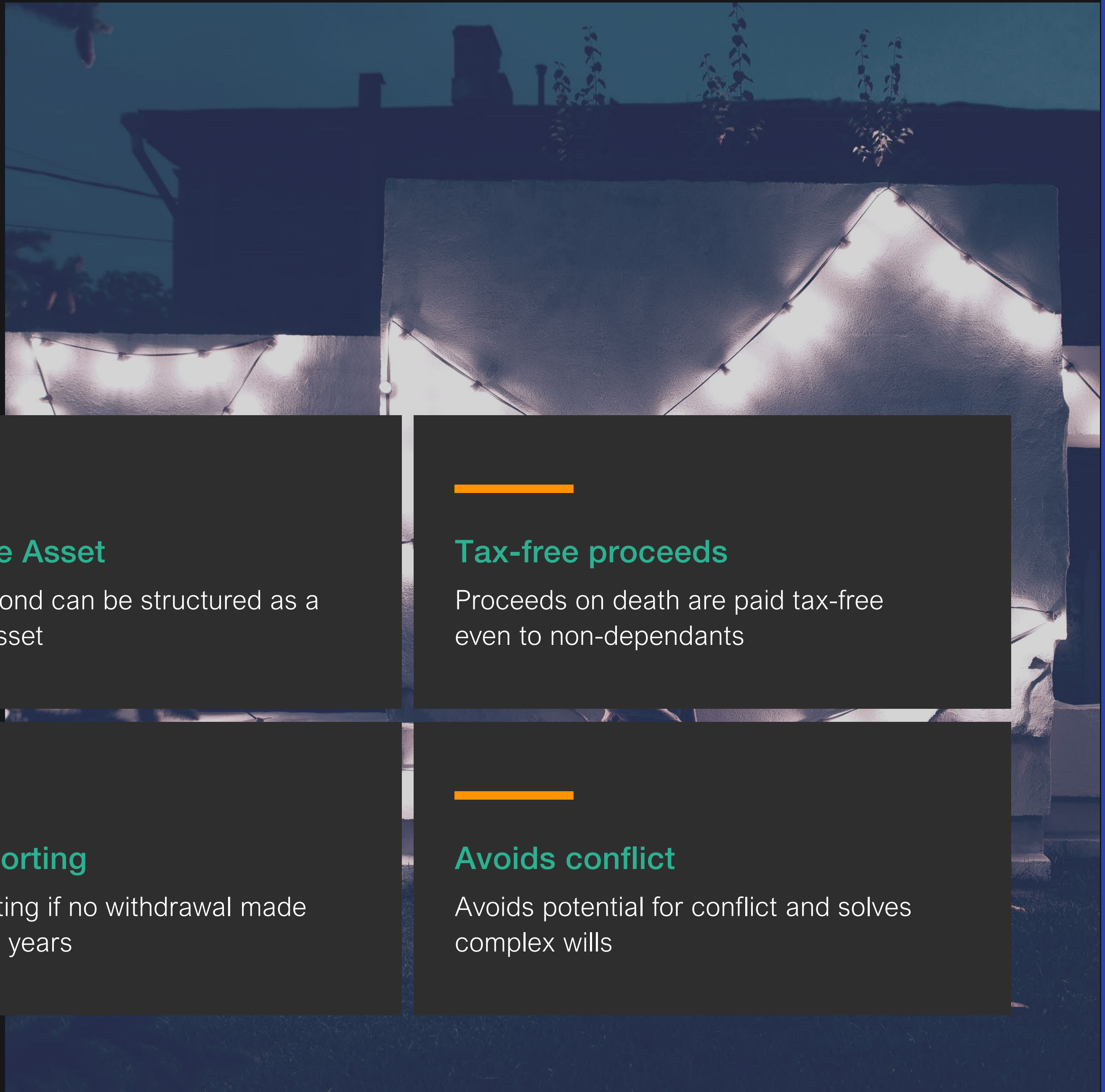


- Affairs management
- Wealth preservation
- Wealth transfer
- Family continuity
- Legacy within society, community and family
- Business ownership, control and transfer

Established practices and strategies

Reimagine legacy

Investment bond estate planning benefits



Life insured contract (Life Act)
A type of life insurance policy which is investment-based

Non-Estate Asset
Investment bond can be structured as a non-estate asset

Tax-free proceeds
Proceeds on death are paid tax-free even to non-dependants

Automatic transfer
Automatic transfer at specific ages, dates or on death

No tax reporting
No tax reporting if no withdrawal made in the first 10 years

Avoids conflict
Avoids potential for conflict and solves complex wills

Strategy 1: Reimagine legacy

Meet Margo…

Margo is 77 years old.

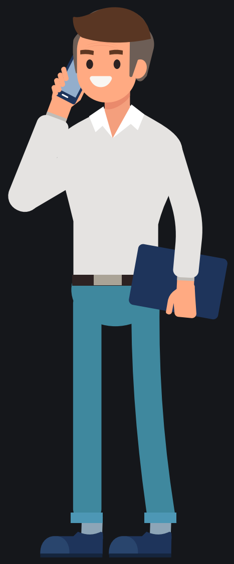
Margo has 3 adult non-dependent children, Sarah, Jane and Sam.

Strategy 1: Reimagine legacy

Margo’s three children...

Sarah

- 51 years old and married
- Both on 47% MTR (including Medicare Levy)
- 3 young children



Sam

- 46 years old and single
- Not good with money
- No stable job

Jane

- 42 years old and single mum
- Works part time and on 21% MTR (including Medicare Levy)
- 7-year-old twins

Margo’s concern…

Sarah

- Confident that Sarah is good with money
- Concerned that this burden Sarah with a huge tax liability

Sam

- Concerned that Sam may need income
- However, doesn’t want a lump sum transferred due to the potential misuse of the funds

Jane

- Concerned that Jane needs support to help fund her grandchildren’s education

Margo's current financial position …

Home value	$2.5m
Cash at bank	$100,000
Superannuation balance	$2.1m 50% taxable component (she maximised non-concessional contributions at age 75)
WBC shares	$175,000 Weighted average price of $23.00 accumulated between 2006 and 2010
Magellan shares	$10,000 Capital loss of $10,000
Vanguard Growth ETF	$20,000 Bought 2 years ago, currently worth $22,500

Margo seeks financial advice to see how she can help structure her estate according to her wishes and deal with her concerns

Margo's to restructure her assets as part of her estate plan…

Home value	$2.5m	House to be sold on her death and distribute proceeds equally in accordance with the Will
Cash at bank	$100,000	Remain as cash at bank of $100,000
Superannuation balance	$2.1m 50% taxable component (she maximised non-concessional contributions at age 75)	Withdraws $1.3m from superannuation
WBC shares	$175,000 Weighted average price of $23 accumulated between 2006 and 2010	Sells shares and Vanguard ETF due to low asset price and minimises CGT liability
Magellan shares	$10,000 Capital loss of $10k	Establishes 3 investment bonds from $1.3m superannuation withdrawal proceeds and the $200,000 from the sale of her shares and ETF.
Vanguard Growth ETF	$20,000 Bought 2 years ago, currently worth $22,500	

Margo’s investment bond structure

#1 Investment bond
$500,000

Sarah
Future event transferee

- Transfer ownership upon death
- Sarah the new owner
- No re-setting the 10-year period.

#2 Investment bond
$500,000

Sam
Future event transferee

- Transfer ownership upon death
- Set up a future Regular Income
- Payment until funds run out or the death of Sam.
- Sarah becomes the Co-Signatory to make once-off emergency withdrawals for Sam

#3 Investment bond
$500,000

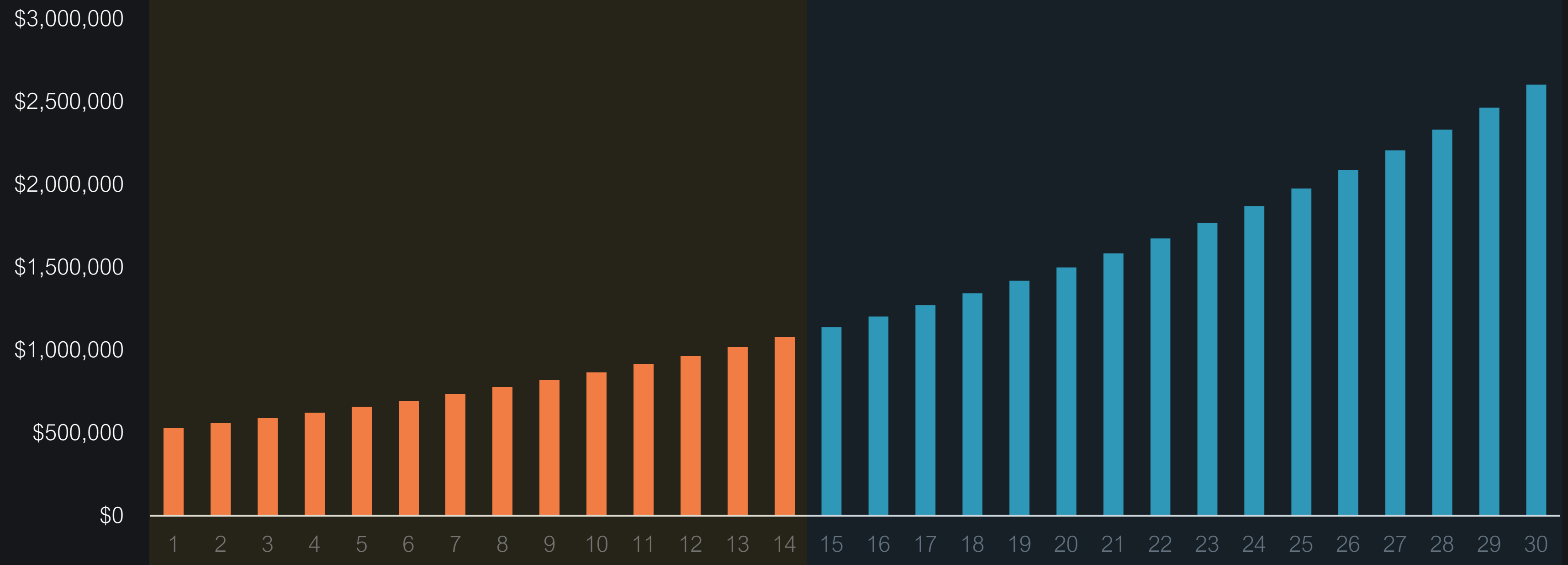
Jane
Future event transferee

- Transfer ownership to Jane in year 4
- set up a future Regular Income Payment for a 6-year period
- Sarah becomes the Co-Signatory to make once-off emergency withdrawals for Jane

Let’s look at Margo’s investment bond for Sarah…

Margo is the owner of the investment giving her full access to her funds if she needs to until she passes away (assumed age 91).

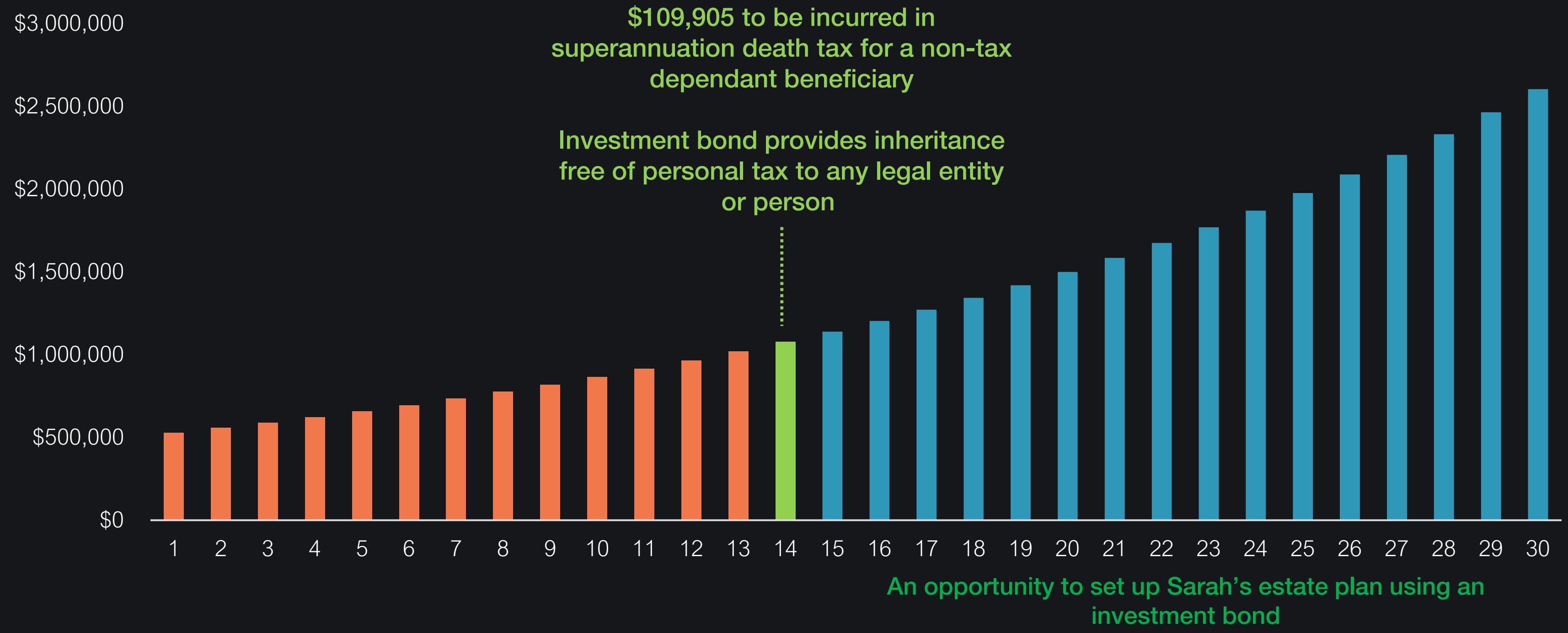
Ownership transfers to Sarah. As an investment bond is a tax-paid structure, any withdrawals Sarah makes will not impact her personal tax position.



An opportunity to set up Sarah’s estate plan using an investment bond

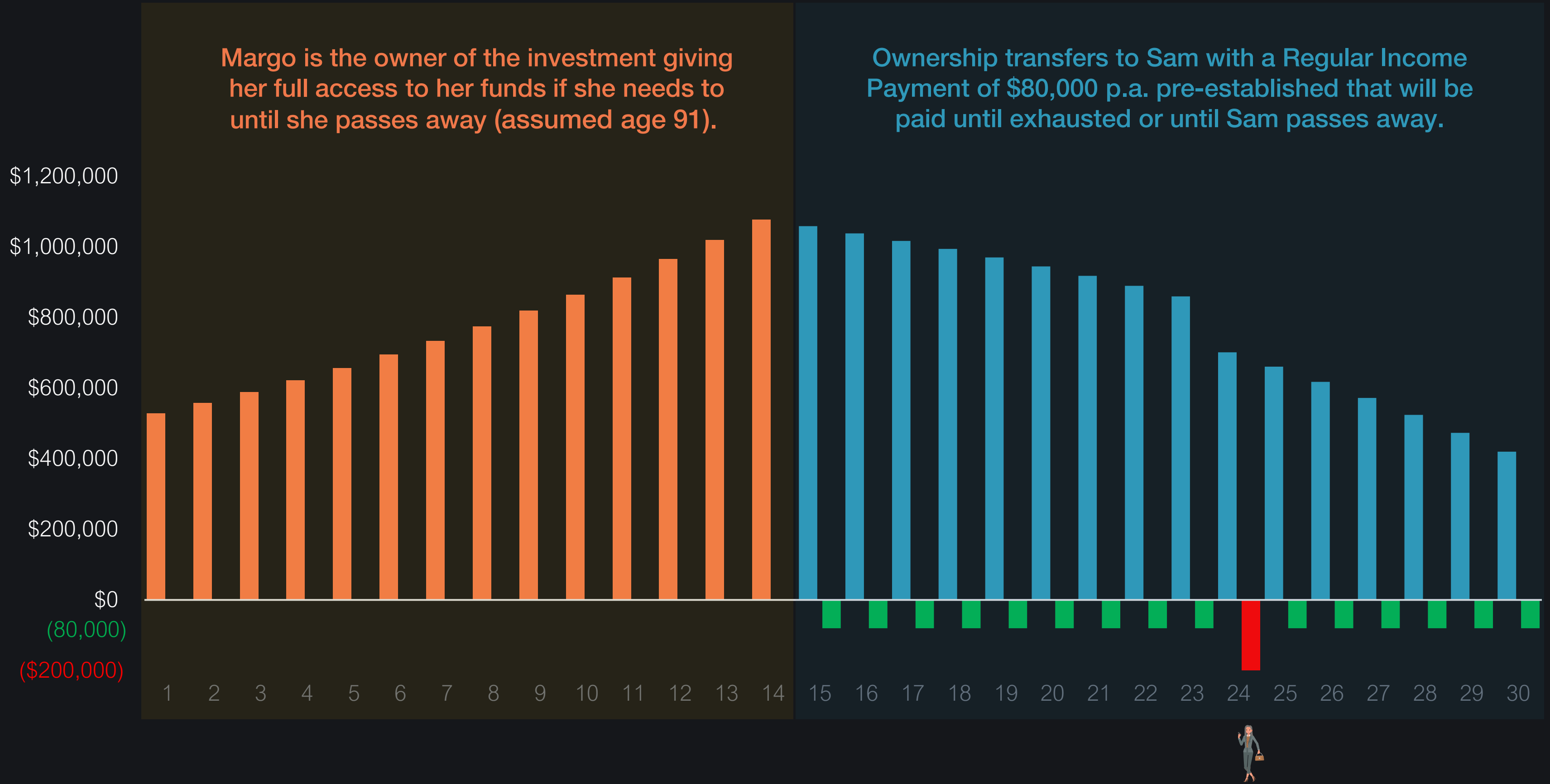
Assumption: Assuming an initial investment of $500,000 with a total annual after-tax investment return of 5.65% p.a. Estimated average fees and costs of 0.64% p.a. over investment term with an effective long-term average bond tax rate of 7.76%.

Let’s look at Margo’s investment bond for Sarah…



Assumption: Assuming an initial investment of $500,000 with a total annual after-tax investment return of 5.65% p.a. Estimated average fees and costs of 0.64% p.a. over investment term with an effective long-term average bond tax rate of 7.76%.

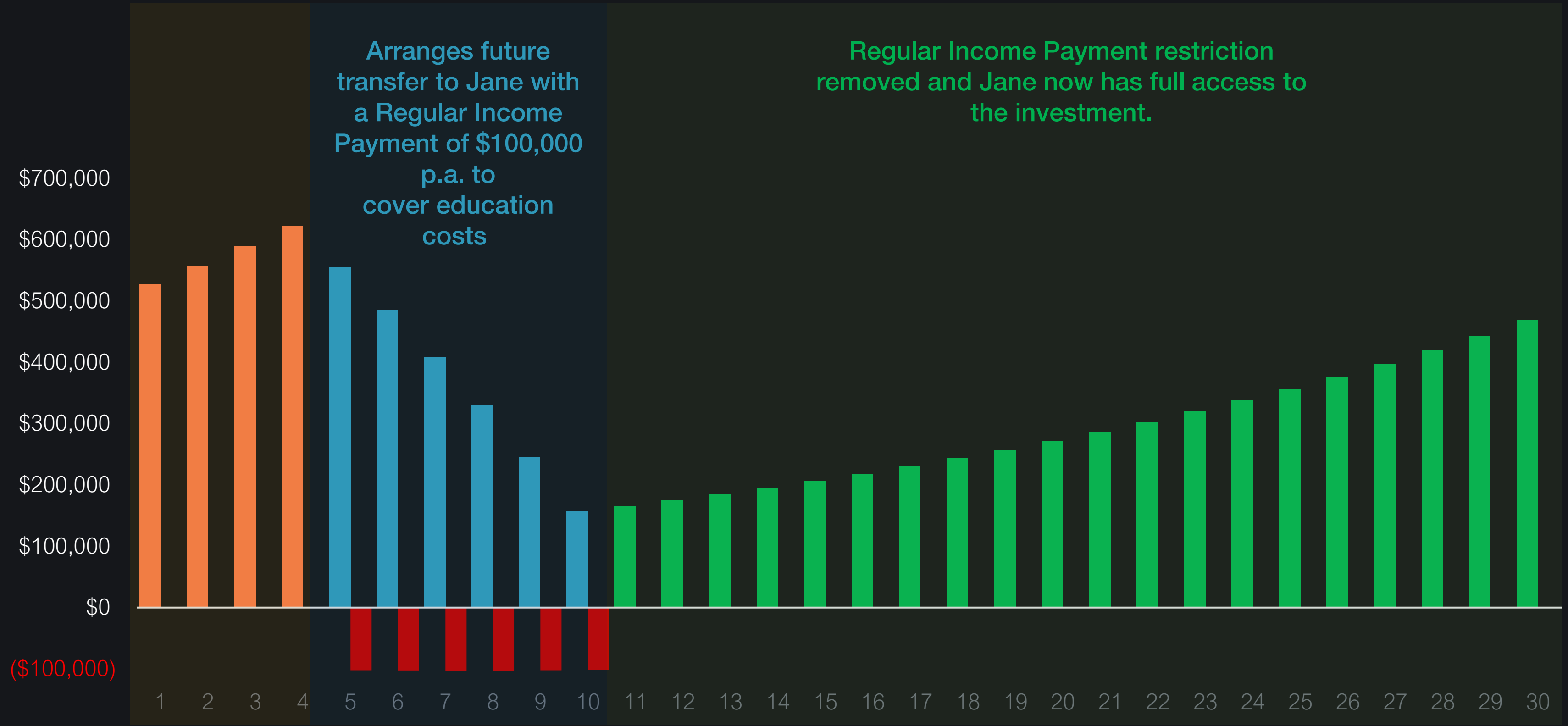
Let's look at Margo's investment bond for Sam…



As Sarah is the Co-Signatory to Sam's investment, she is able to authorise once-off withdrawals requested by Sam.

Assumption: Assuming an initial investment of $500,000 with a total annual after-tax investment return of 5.65% p.a. Estimated average fees and costs of 0.64% p.a. over investment term with an effective bond tax rate of 7.76%.

Let’s look at Margo’s investment bond for Jane…



Jane’s personal tax on $600,000 withdrawal is a total of $14,070.

Any withdrawals are tax-paid and any residual amount can be used to set up an estate plan

Assumption: Assuming an initial investment of $500,000 with a total annual after-tax investment return of 5.65% p.a. Estimated average fees and costs of 0.64% p.a. over investment term with an effective long-term average bond tax rate of 7.76%.

Strategy 1: Reimagine legacy

Key outcomes…

Automatic transfer of ownership	Full ownership before transfer of ownership occurs	No impact to recipient's personal tax position	Ability for recipients to set up an estate plan
Restrictions on accessing funds	Set up Regular Income Payments	Co-Signatory	Tax offset for withdrawal before 10-years

Established practices and strategies

Complementing superannuation to transfer wealth

Strategy 2: Complementing superannuation to transfer wealth

Why the proposed changes to superannuation?

Objectives of super - Push to codify what super is for.

Treasury consultation paper proposes "to preserve savings to deliver income for a **dignified retirement**, alongside government support, **in an equitable and sustainable way**"

Dignified retirement

Enough to get by on comfortably (not to amass wealth)

Equitable

A fair system (progressive tax approach)

Sustainable way

Able to be afforded by Government (large deficit needs to be reigned in)

What are the changes and impact?

The proposal	Who is impacted
Additional tax on earnings on super balances above $3m Measured by total superannuation balance (TSB)	**Anyone with a TSB greater than $3m on or after 30 June 2026** Estimated 80,000 people impacted
Additional 15% tax on increases in TSB value over a financial year	**Applies to those with combined accumulation and retirement phase accounts**
Effective tax rate of 30% tax on portion of total superannuation balances above $3m	**TSB calculated already and includes accumulation, allocated pensions, defined benefits and annuities**
Tax will apply to both realised and unrealised gains	**Government hasn't figured out how to value defined benefit schemes yet**

How is the additional tax calculated?

Tax is 15% on "**Earnings**" over a financial year on the amount of **TSB** above \$3m.

$$\mathbf{\mathit{Tax\ Liability}} = 15\ \mathit{per\ cent} \times \mathit{Earnings} \times \mathit{Proportion\ of\ Earnings}$$

$$\mathbf{\mathit{Proportion\ of\ Earnings}} = (TSB_{Current\ Financial\ Year} - \$3\ million\ TSB_{Current\ Financial\ Year})\ /\ TSB_{Current\ Financial\ Year}$$

$$\mathbf{\mathit{Earnings}} = TSB_{Current\ Financial\ Year} - TSB_{Previous\ Financial\ Year} + Withdrawals - Net\ Contributions$$

Source: Better targeted superannuation concessions – factsheet. Treasury.gov.au

Strategy 2: Complementing superannuation to transfer wealth

Meet John...

John is a surgeon in his mid 60s, with a SMSF worth $5m and is not subject to preservation.

He is married and has 2 kids in their mid 20s.

Strategy 2: Complementing superannuation to transfer wealth

John’s situation…

Due to the recent proposed changes to superannuation tax, John’s financial adviser proactively contacted him regarding changes to superannuation and recommends a restructure to John’s superannuation.

John invests $2m in two investment bonds and has $3m remaining in superannuation

			Alternative strategy	
	$5m invested under current super rules	$5m invested under new super rules	$3m invested under new super rules	$2m to commence two investment bonds
Gross value	$5,436,238	$5,436,238	$3,261,743	$2,164,023
Large balance tax	-	**-$29,324**	**-$3,150**	-
Net value after 12 months	$5,436,238	$5,406,913	$3,258,592	$2,164,023
Net value after 15 years	$17,734,817	$15,806,320	$9,870,884	$7,853,890
Total net value after 15 years	**$17,734,817**	**$15,806,320**	**$17,080,077**	

Assumptions

Income	4.83%
Growth	3.62%
Total Return	8.45%
Franking	81.40%

Outcome for John...

Easy, convenient and effective way to pass on wealth

Each investment bond can be transferred tax-free as part of John's estate planning wishes to his children

John has access to funds whenever he needs them and can set up tax-paid regular withdrawals before his passing

Children may not have any assessable income to declare on withdrawals if the transfers occur after 10 years of John's original investment

Comparing investment bonds vs. trusts

Investment bonds do not require income or gains to be distributed.

Trusts do.

Investment bonds are simple to administer. No annual tax returns required.

Investments bonds are an Estate Planning vehicle with tax free inheritances.

But…

Trusts can also own investment bonds.

Best of each structure.

Summary

Are the recommended strategies in the best interests of your clients?

Have you considered every option available to meet your clients' desired outcomes?

Can your solution protect your clients against family disputes?

Have you considered your clients' emotional needs as well as their desired financial outcomes?

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Thank you.

Outthinking today.