generation life

Generational Wealth

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Outthinking today.

> "Leaving wealth across generations for those who matter most is one of the most emotional life goals Australians will ever work towards."

What is generational wealth?

As a nation, we are on the cusp of the largest intergenerational wealth transfer we have ever seen. Between 2021 and 2027, Australia is expected to experience the peak of the Baby Boomer retirement surge.[1] Baby Boomers hold approximately $4.9 trillion in assets[2] with an estimated $224 billion to be passed on as inheritances each year by 2050.[3] Australians are now thinking about the footprint they'll leave on the world when they pass away, their legacy.

80% of Australians intend to leave a legacy, in reality, only one in five have a plan to do so.[4]

Considerations when transferring wealth between generations

Maintaining family unity

Transferring wealth can be problematic and complicated, especially when there are complex family arrangements like blended families, unequal distributions required or providing for non-family members.

Beneficiaries or third parties may feel that they have been inadequately provided for and make a claim against the estate, challenging how the estate is to be distributed through the will. Studies have shown that up to 74% of family claims made against estates have been successful in Australia.[5] The contestation of an estate can add considerable stress, time and cost to the process.

Tax can impact not just one generation but future generations

Almost half (42%) of affluent Australians are worried about the impact of tax upon wealth transfer.[6] Whilst Australia does not yet have an inheritance tax, it is important to note that without appropriate planning a large portion of a superannuation death benefit is taxable at a rate of 17% (including Medicare levy) where payments are made to certain non-dependant beneficaries. With appropriate consideration, a future beneficiary can benefit significantly from the choice of structure used to transfer the wealth.

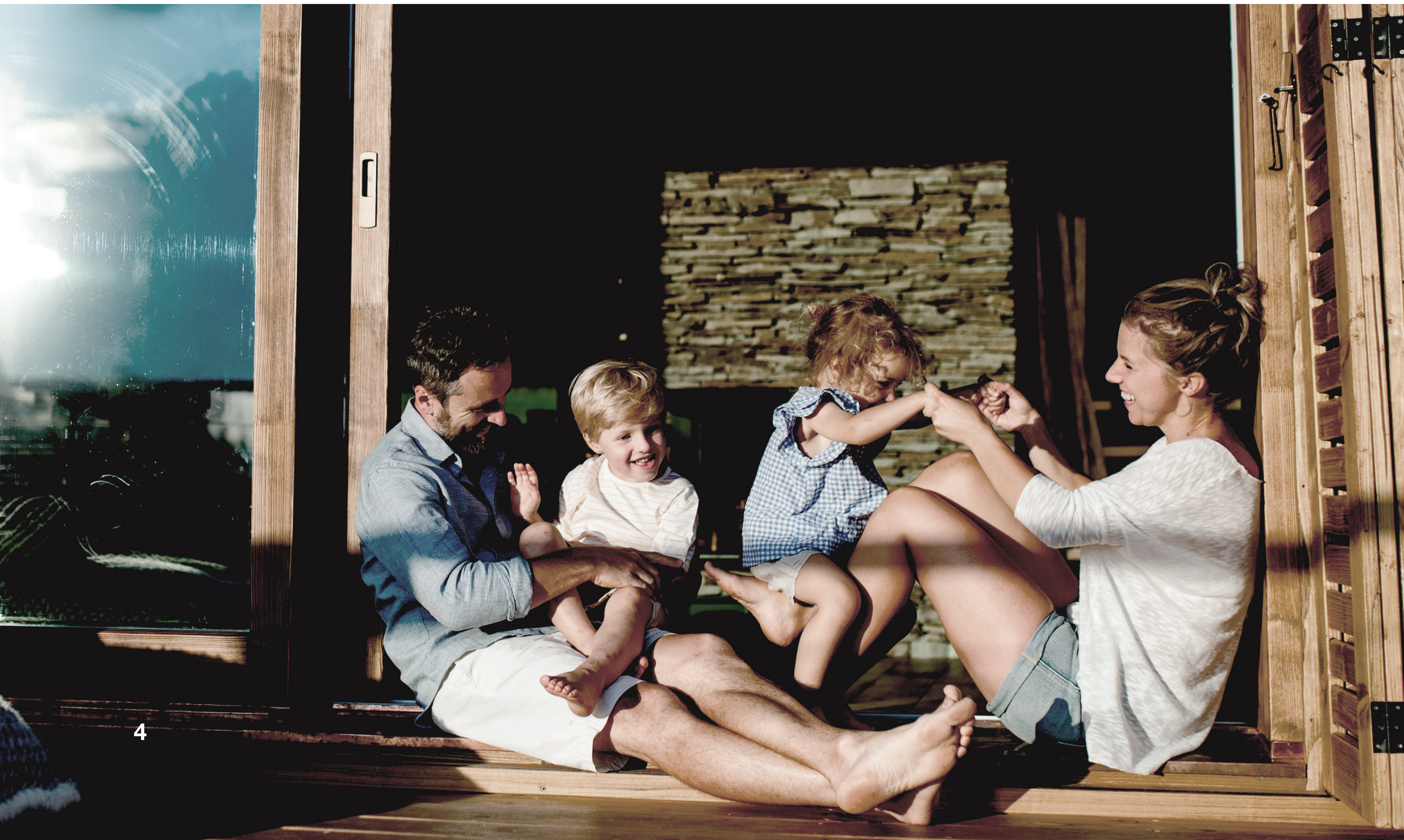
But more importantly, remember the future impact of inflation – and giving the next generation a helping hand…

Research conducted by Generation Life reveals that nearly two-thirds of Australians plan to transfer some or most of their wealth before they pass away to support their loved ones.[7]

The Australian economy is at a critical juncture. Cost of living pressures and the rise in property prices, education costs, rental costs, and the cost of day-to-day necessities, has seen the need for the previous generation to lend a helping hand when it comes to supporting the next generation.[7]

It is estimated that young buyers need at least 12 years to save for a deposit for the average unit and 16 years for the average house in Australia. This is assuming households save 25% of their income after paying for rent, groceries, utilities, internet, phone and transport. The figures also assume a 3.5% annual growth in property prices, 3% average savings interest rate and a 3.5% annual growth in the median household income.[8]

Saving up enough for a deposit is challenging, especially with the rising costs of essentials like food, energy, insurance, and rent, all significant barriers for young Australians to overcome.



Common ways to transfer wealth or assets

	Superannuation	Discretionary trust	Wills / estate assets	Investment bonds
Estate planning	• Some estate planning benefits • Limited by SIS Act • Limited concessional beneficiary types • May be subject to trustee discretion	• Strong estate planning benefits • Multiple beneficiary types available • Challenges can often create conflicts • May be subject to trustee discretion	• Challenges can often create conflicts • Multiple beneficiary types available	• Strong estate planning benefits • Multiple beneficiary types available • Can help manage personal conflicts
Set up	Easy to set up	Can be complex	Can be complex	Easy to set up
Cost-effective	Ongoing administration fees	Set-up and ongoing costs i.e. tax reporting, accounts, legal, trustee	Set-up and ongoing costs i.e. legal, executor/trustee, probate costs	Ongoing administration fees
Tax consequences to beneficiaries	Non dependants may be subject to death tax on taxable components Different tax treatment depending if income stream or lump sum	Ongoing tax depends on tax status of trust beneficiaries	Subject to estate wind up and tax status of estate recipients	Tax-free to beneficiaries on payment of death benefit or opportunity to transfer tax-free through a Future Event Transfer
Accessibility upon death	Subject to SIS Act and trustee processes	Subject to trustee discretion	May be subject to lengthy probate delays and legal challenges	Typically, beneficiaries receive funds within 7 business days of receiving documentation
Creditor protection	Generally protected*	Generally protected*	Not protected	Generally protected*

* Generally, bankruptcy exemptions apply provided that, amongst other things, the intention of the investment must not have been to avoid or mitigate a creditor's access to funds.

Considerations when using superannuation to transfer wealth

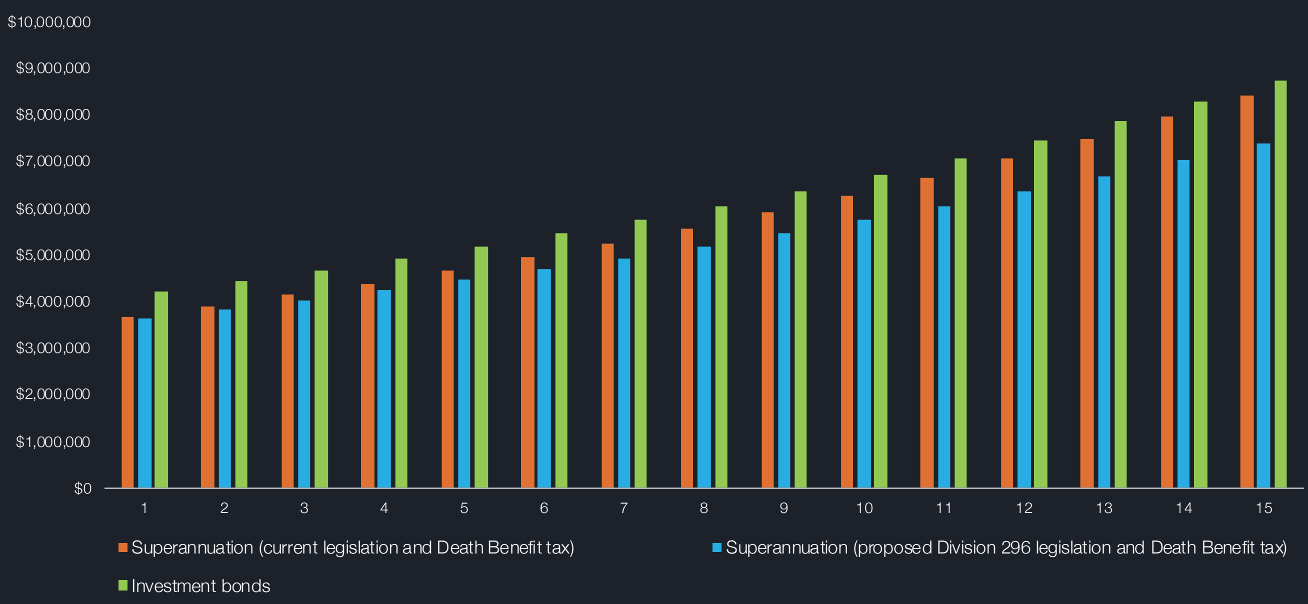
1 in 3 Australians believe super is the best way to optimise wealth and leave a legacy, despite this not being its purpose.[4] With more than 80% of inheritance money flowing to people aged 50 or older,[9] have you considered the impact of Death Benefit tax when using superannuation to transfer wealth?

Under the current legislation, the tax treatment of death benefits varies depending on whether the benefit is paid as a lump sum, an income stream, or a mix of both, and if the beneficiaries are considered 'dependants' or 'non-dependants' for tax purposes.[10]

Lump-sum superannuation death benefits paid to a dependant such as a spouse, child under 18, financially dependent individuals, or those in an interdependency relationship are paid tax-free. However, any lump-sum death benefits paid to 'non-dependants' are subject to a maximum tax rate of 15% plus the Medicare levy, while the untaxed element is subject to a maximum tax rate of 30% plus the Medicare levy.[11]

In addition, the proposed Division 296 tax on earnings on total superannuation balances above $3 million, has sparked new debate around whether superannuation is the optimal structure to transfer wealth.[12]

Example: Comparing the impact of superannuation Death Benefit tax, Division 296 tax and investment bonds



Assumptions: Assumes an initial investment of $4 million invested in the Vanguard Balanced Portfolio with a franking level of 51.7% and total return of 6.2% p.a. Superannuation balance is net of Death Benefit tax. Assumes current form Division 296 tax applies to earnings on total superannuation balances above $3m. Returns based on tax components to 30 June 2023 of the portfolio and return history of the portfolio from inception to 31 December 2023. Past performance is not an indication of future performance.

Transferring wealth using investment bonds

Beyond their role in wealth accumulation, investment bonds serve as an invaluable tool for estate planning. They can be a non-estate asset, nominate beneficiaries, and bypass probate requirements. Investment bonds also offer a streamlined approach to wealth transfer that minimises delays and the administrative burdens typically associated with the finalisation of deceased estates.

Additionally, the flexibility to control when and how beneficiaries receive inheritances, with the added layer of protection in the event of bankruptcy, further enhance the appeal of investment bonds. Investment bonds are an effective estate planning solutions, that facilitate the transition of investments to future generations.

Three ways to transfer wealth using Generation Life's LifeBuilder EstatePlanner

Our LifeBuilder investment bond's EstatePlanner feature helps establish tax-effective inheritances with the flexibility to structure investments as part of - or outside of - a will and legal estate.

Below are three ways to transfer wealth with certainty using a Generation Life LifeBuilder investment bond.

Option 1

Future Event Transfer

Generation Life's LifeBuilder investment bond provides the ability to transfer ownership to an intended recipient at a nominated future date, which can include the date of death of the investment bond owner or the date of death of the last surviving joint owner. The transfer of ownership happens tax-free for income and capital gains tax purposes, and the 10-year advantage period is not reset when the transfer occurs. Ownership transfers to the intended recipient and the bond does not form part of the estate.

There is also an option to place restrictions on when the recipient can access funds, including the ability to set up a regular income payment after the transfer has occurred.

Option 2

Nominating a beneficiary

One or more beneficiaries can be nominated to receive tax-free death benefit proceeds from a Generation Life LifeBuilder investment bond on the passing of the nominated life insured (which can be the owner or another individual). Proceeds are paid directly to the nominated beneficiary and do not form part of the estate.

There is also the option to manage nominations automatically should a nominated beneficiary pass away before the life insured, by using the joint survivorship or down-the-line nomination features.

Option 3

Passing onto the Estate

Investors have the option of structuring their Generation Life LifeBuilder investment bond to pass all or part of their investment proceeds onto their estate if they choose.

About the Future Event Transfer

What is the Future Event Transfer?

Individuals, joint owners and trusts can set up a Future Event Transfer arrangement to tax-effectively transfer ownership of the LifeBuilder to an individual.

Flexibility to choose a future transfer date

The Future Event Transfer arrangement can be used as part of a succession or estate planning strategy. There are three options to choose from to establish when ownership will transfer.

1. **Nominated future date -** Individuals, joint owners and trusts can arrange for the transfer of ownership on a nominated future date.
2. **On the death of the account owner -** Individuals and joint owners can choose this option. Ownership will be transferred on the passing of the last surviving owner.
3. **The earlier of the date of passing or nominated future date -** Individuals and joint owners also have the option of nominating the earlier of the nominated future date or the passing of the owner or the last surviving joint owner (for joint ownership) for a transfer to occur.

The Transfer Process

If the recipient is less than 16 years of age at the time of transfer (either at the future date or on death of the owner) ownership can be temporarily held by a nominated Account Guardian until the later of the child reaching 16 years of age and the transfer date. The Account Guardian will hold the investment on trust on behalf of the intended transfer recipient until the transfer to that recipient is able to be completed.

Alternatively, the owner's estate representative can hold the investment until the later of the child turns 16 years of age or the nominated transfer date is reached.

The Account Guardian can be provided with the ability to transact on the account if required (but only if the original owner has elected this).

Both a transfer recipient and Account Guardian can be removed or changed by an investor at any time up until the nominated transfer date or event.

Control how funds can be accessed

Investors have full control over access to funds prior to transfer. Investors as a condition of the future transfer, can manage how and when the recipient of the LifeBuilder transfer can access funds. Investors can choose:

- **Immediate access** to funds upon transfer with no restrictions on how much can be withdrawn.
- **Delaying access** to funds for a period after the nominated transfer date by nominating an access date.
- **Regular Income Payments** where funds will be periodically paid to the transfer recipient (either as a fixed dollar amount or percentage of the investment transfer value). Investors can also set up the length of time the Regular Income Payments are to be made as well as the payment frequency.
- **Delaying access** to a Regular Income Payment where funds will be periodically paid to the transfer recipient on a regular basis (either as a fixed dollar amount or percentage of the investment transfer value) from a nominated delayed access date.

Where access to funds is delayed or a Regular Income Payment arrangement is in place, investors can choose to appoint a Co-Signatory to authorise any special one-off withdrawal requests for the transfer recipient. A transfer recipient can choose to suspend and restart a Regular Income Payment at any time.

Case study 1

No death benefit tax

Meet Dianne…

Dianne is 79 years old.

She has two adult children Evie and Patrick, and three grandchildren aged between 7-13.

Dianne's situation…

Dianne has reached her Superannuation Transfer Balance Cap and has $600,000 still in accumulation phase.

Dianne's objective…

Dianne would like to transfer her superannuation balance of $600,000 still in accumulation phase to Evie and Patrick. She would also like to leave a portion to her three grandchildren and bypass Evie and Patrick.

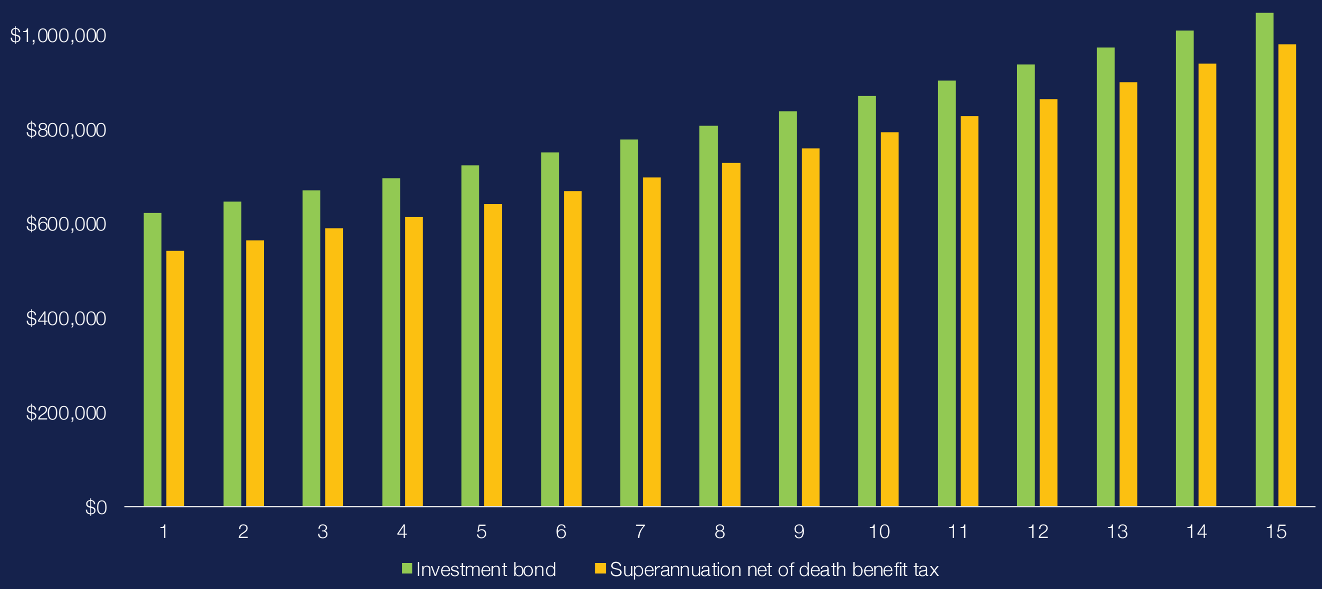
Dianne would like to steer clear of the superannuation death benefit tax, but still wants to ensure her gifts are passed on to her grandchildren with certainty.

Dianne's solution…

Dianne's financial adviser recommends closing her accumulation phase account, establishing five investment bonds, and nominating Evie, Patrick, and her three grandchildren as future event transferees.

For Evie and Patrick	For her three grandchildren
Two $150,000 investment bonds	Three $100,000 investment bonds.
Future Event transfer upon the death of Dianne	Future Event transfer on the 25th birthday of each grandchild. Evie and Patrick are nominated as Account Guardians for each investment bond, should Dianne pass away prior to her grandchildren turning 16 years old.

Let's compare if Dianne transferred her wealth from superannuation to an investment bond



Dianne's outcome…

By establishing multiple investment bonds to transfer her wealth to Evie, Patrick and her grandchildren, Dianne's family will not pay death benefit tax of $66,937 if she passed away at age 93.

Investment bonds allow for tax-free transfers upon death with the added flexibility of controlling when the transfer occurs.

Assumptions: Assumes invested in the Vanguard Conservative Portfolio with total return of 4.59% p.a. Superannuation balance is net of Death Benefit tax in each year and with an accumulation phase estimated average tax rate of 5.63% p.a. Investment bond estimated effective earnings tax rate of 17.73% p.a. assumed. Average return calculated using tax components of the portfolio to 30 June 2023 and return history of the portfolio from inception to 31 December 2023. Past performance is not an indication of future performance.

Case study 2

Helping the next generation

Meet Gordon and Mel…

Gordon and Mel are both 41 years old, are married and have two children aged 12 and 9.

Gordon and Mel's situation…

Gordon and Mel are both corporate professionals working full time and are on the highest marginal tax rate. They currently both maximise their concessional contributions each year.

Gordon and Mel have paid off their home, have a total of $10,000 saved and combined surplus after-tax income of $2,000 per month.

Gordon and Mel's concern…

With the rise in inflation and house prices over the years, Gordon and Mel are concerned that both their children will struggle financially so they would like to give them a financial head start in life.

They would also like to ensure any funds provided to their children will be primarily used as a deposit to purchase their first home.

Gordon and Mel speak to their financial adviser about how they can tax-effectively save for their children and see their children benefit from this wealth transfer.

Gordon and Mel's solution…

Gordon and Mel establish two investment bonds of $5,000 each.

They also set up a Regular Savings Plan of $1,000 per month for the first 10 years for each investment bond.

Using the Future Event Transfer facility, they nominate the date of transfer for each bond to occur when each child turns 30 years old. They also place restrictions on their children's access to funds for a further 10 years and nominate themselves as the Co-Signatories of the investments to enable one-off withdrawals to fund their respective child's home deposit.

Gordon and Mel's outcome…

Both Gordon and Mel can tax-effectively help their children save, giving them a financial head start in life, providing them each with a deposit for their own first home. The remaining funds can be used as their children wish.

Investment bonds are 'tax-paid' investments where tax on the investment bonds' earnings is paid within the investment bond structure, rather than being tax paid by Gordon and Mel at their personal marginal rates. The lower effective tax paid within the investment bond means after-tax returns will compound at a greater rate helping them them save much quicker.

Whilst they can't specify how recipients can use the proceeds of an investment bond, the Future Event Transfer Co-Signatory feature enables once-off withdrawals to be approved by Gordon and Mel. This can provide greater certainty that Gordon and Mel's intentions will be met.

Assumption: Assuming an initial investment of $5,000 and a Regular Savings Plan of $1,000 per month for the first 10 years. The total annual after-tax investment return of 8.51% p.a assumed. Estimated average fees and costs of 0.67% p.a. over investment term with an effective bond tax rate of 7.56% p.a..

Case study 3

Flexibility and certainty when transferring wealth

Meet Margo…

Margo is 77 years old, a homeowner with 3 adult non-dependant children: Sarah, Jane, and Sam.

As she reflects on her legacy, she wishes to leave each child an equal inheritance. However, their diverse circumstances are causing Margo to worry about any conflict that may arise, while she wants to maintain family unity. She wants to ensure her wishes are met, but avoid the misuse and mismanagement of her inheritance, as well as the tax burden that will arise on her death.

Sarah, Sam, and Jane's situations are different…

Sarah's situation	**Margo's concern for Sarah**
Sarah is 51 years old and married with 3 young children. Both her and her husband are on the 47% marginal tax rate including Medicare Levy.	Margo is confident that Sarah is good with money but concerned that her inheritance will reduce by being burdened with a huge tax liability.
Sam's situation	**Margo's concern for Sam**
Sam is 46 years old and single. He's not good with money and does not have a stable job.	Margo is concerned that Sam may need income. However, she doesn't want to transfer a lump sum due to the potential misuse of the funds by Sam.
Jane's situation	**Margo's concern for Jane**
Jane is 42 years old, a single mum to 7-year-old twins and working part time.	Margo is concerned that Jane needs support funding her grandchildren's education.

Margo's financial position…

Margo seeks financial advice to see how she can help structure her financial assets to help her achieve her estate planning objectives.

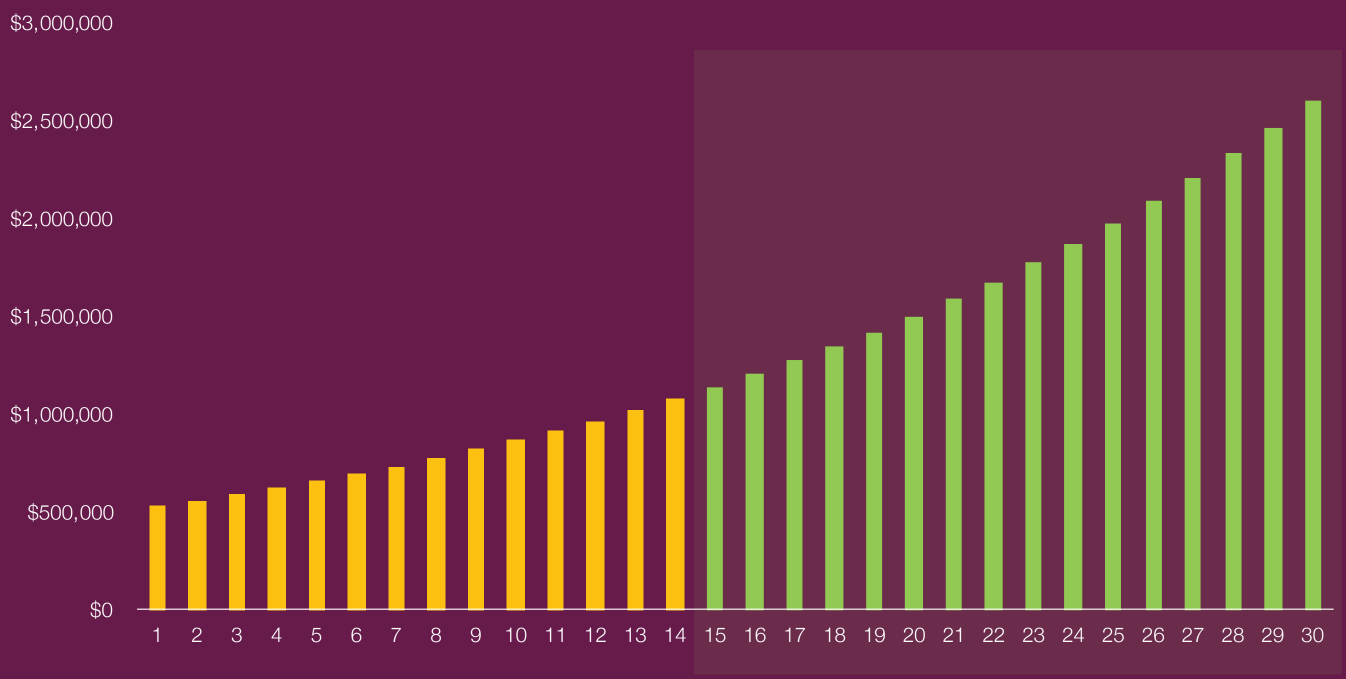
Margo's financial adviser establishes three investment bonds from $1.3 million of superannuation withdrawal proceeds and $200,000 from the sale of her shares and direct investments.

	Current financial position	**Restructured financial position**
Home value	$2,500,000	$2,500,000
Cash at bank	$100,000	$100,000
Superannuation balance	$2,100,000	$800,000
Shares and direct investments	$200,000	-
Investment bonds	**-**	**$1,500,000**

Margo's investment bond structure

#1 Investment bond **$500,000**	**#2 Investment bond** **$500,000**	**#3 Investment bond** **$500,000**
Sarah Future event transferee 	**Sam** Future event transferee 	**Jane** Future event transferee 
Transfer ownership upon death Sarah becomes the new owner Not re-setting the 10-year period	Transfer ownership upon death Sam becomes the new owner Set up a future Regular Income, payment until funds run out or the death of Sam Sarah becomes a Co-Signatory to approve once-off emergency withdrawals for Sam	Transfer ownership to Jane in year 4 Jane becomes the new owner Set up a future Regular Income Payment for a 6-year period Sarah becomes the Co-Signatory to approve once-off emergency withdrawals for Jane

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



Margo is the owner

Margo has full access to her funds if she needs them until she passes away.

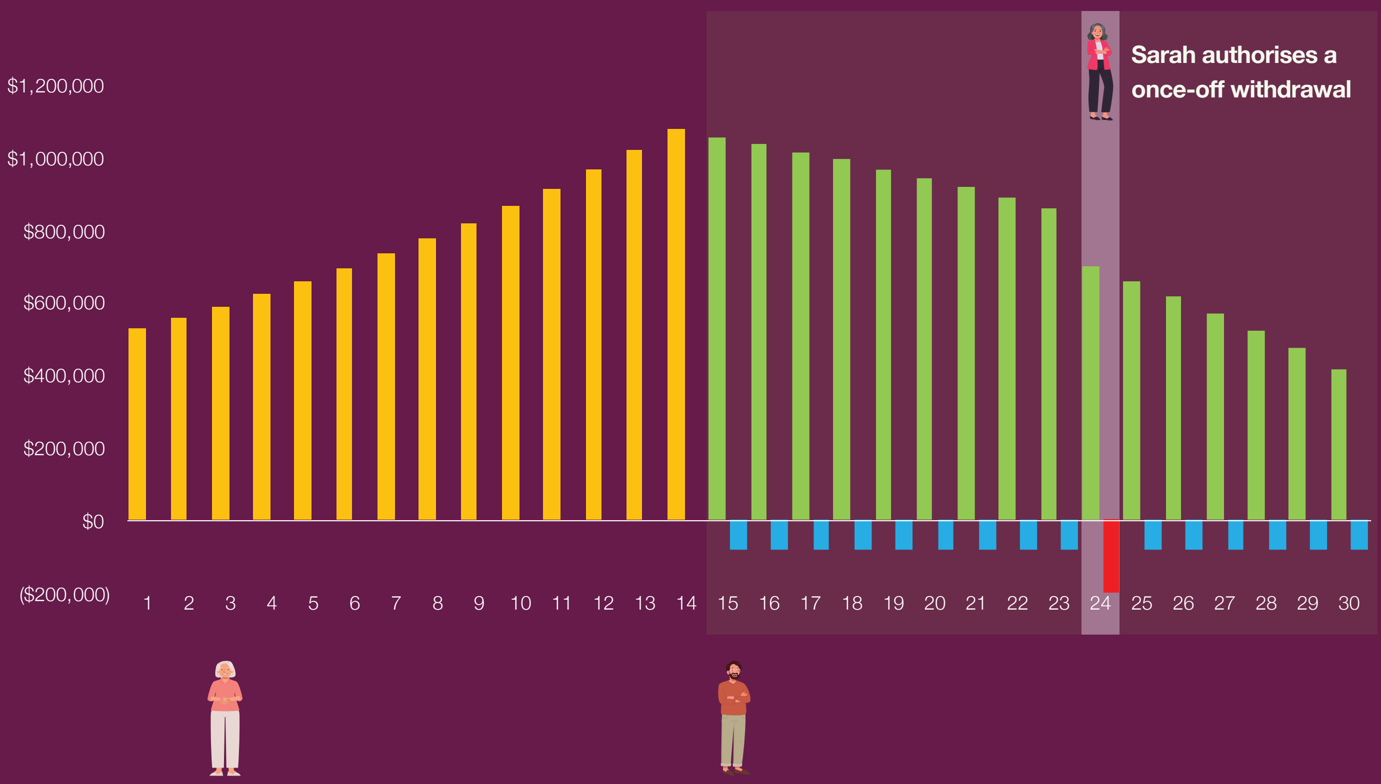
Ownership transfers to Sarah

As an investment bond is a tax-paid structure, any withdrawals Sarah makes 10 years after Margo's original investment date will not impact her personal tax position.

Sarah can also nominate her three children as beneficiaries of the 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% p.a..

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



Margo is the owner

Margo has full access to her funds if she needs them until she passes away.

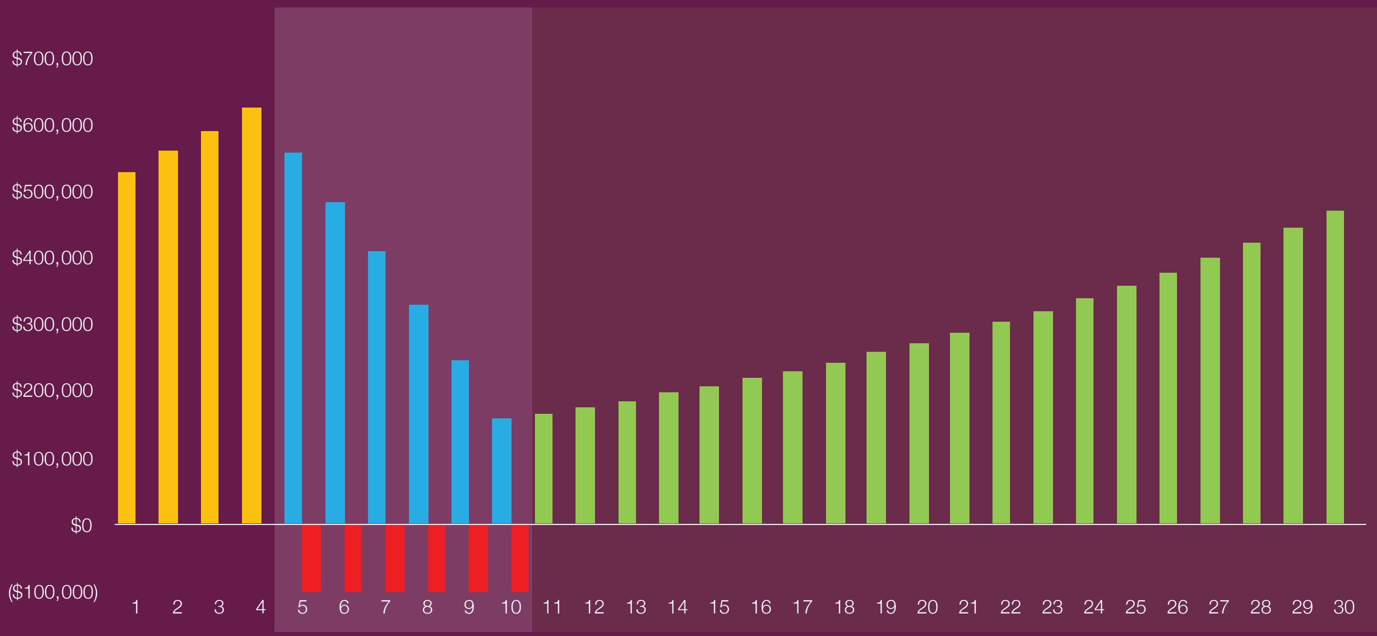
Ownership transfers to Sam

A Regular Income Payment of $80,000 p.a. is pre-established, that will be paid to Sam until exhausted or until he passes away.

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% p.a..

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



Ownership transfers to Jane

Jane receives a Regular Income Payment of $100,000 p.a. to cover her children’s education costs. She also receives tax offsets associated with her pre-10 year withdrawals to reduce any personal tax payable by $14,070 over the 6 years.

After 6 years…

The Regular Income Payment restriction is removed and Jane now has full access to the investment.

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% p.a..

Margo’s outcome…

Automatic transfer of ownership

Full ownership before investment bond is transferred to recipient

Restrictions on children accessing funds

Set up Regular Income Payments to control access to funds

Co-signatory to approve one off withdrawals by recipients in future years

Tax offset for withdrawals before 10-years

About Generation Life

At Generation Life, we know that finding the right investment partner is important for your future success.

We've been helping Australians since 2004 across all life stages and across multiple generations. Today, we are a pioneer in providing market-leading investment bond and investment-linked lifetime annuity solutions to help secure the financial future of many Australians and their families.

As part of an ASX listed company, we're passionate about innovating and providing the best outcomes for our investors. We believe in putting our investors at the heart of everything we do.

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Sources:

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9. 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, Generation gap: ensuring a fair go for younger Australians 2019 https://grattan.edu.au/wp-content/uploads/2019/08/920-Generation-Gap.pdf, accessed 4 July 2024, by Grattan Institute.
10. As defined in section 302-195 of the Income Tax Assessment Act 1997
11. See section 302-145 of the Income Tax Assessment Act 1997
12. As proposed by Treasury Laws Amendment (Better Targeted Superannuation Concessions and Other Measures) Bill 2023 and Superannuation (Better Targeted Superannuation Concessions) Imposition Bill 2023