

The confluence of rising property prices, ageing population and high levels of home ownership rates among the elderly in Australia has led to an impending transfer of wealth between generations on a level not seen before, and in turn, a number of opportunities and considerations for financial advisers.

A report from Bankwest<sup>1</sup> estimates \$400 billion of property assets will change hands during the next 15 years as older generations pass on property to their children. Importantly, the number of estates with housing assets, (not including estates passing between married partners), is forecast to nearly double from approximately 35,000 in 2009 to 68,000 in 2025.

In dollar terms, the report highlights housing inheritance is expected to increase from \$16 billion in 2009, to a staggering \$31 billion per year by 2025, a rise of 93 per cent.

This 'baton change' of wealth means there are opportunities for advisers to talk to their clients about family wealth and how to ensure a smooth transfer of assets between generations. It also provides a trigger for advisers to build relationships with their clients' children by involving them in discussions, which will help to ensure the sustainability of the adviser's client base.

"It's important for advisers to create an environment for family discussion – a will or a plan will only cover so much. Private intentions need to be discussed and understood by all family members," says Macquarie Private Wealth Manager Noel Yeates.

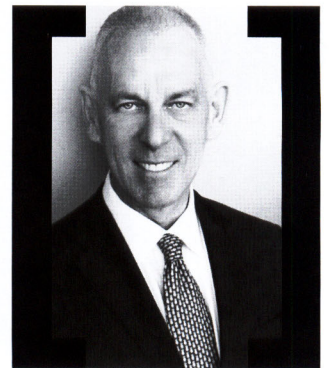
"The person who needs to run that discussion is the parent, and they need to do it before they are too old – both from a family perspective and a legal perspective," Yeates says.

Research conducted by JPMorgan's Private Bank<sup>2</sup> revealed preserving wealth can be much harder than most families would believe. They examined the names that managed to stay on the Forbes 400 wealthiest American list over a 21-year period, and found that fewer than 15 per cent succeeded.

The family home is often the largest single asset by value in a client's portfolio, and often can be the centre of disputes when it comes to estates. Arguments between adult children over issues such as the appropriate timeframe to sell the house, how the proceeds will be shared, if all children have an equal entitlement, and who oversees the sale of the property, cannot only disrupt family unity, but can impact on the family's wealth. The report suggests families can mitigate this risk in a number of ways, and the key is to involve younger generations in decision-making sooner rather than later.

The report also suggests providing a basic financial education to children, ensuring intra-family communications, creating flexible ownership

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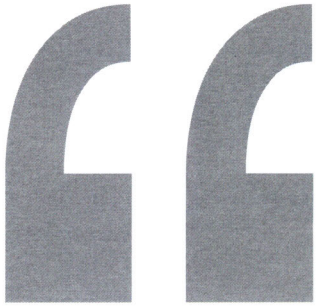
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**NOEL YEATES**

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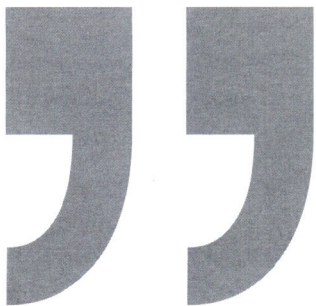
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**ANDREW AITKEN**



structures and getting appropriate insurance coverage as ways to improve the probability of successful wealth transfers.

Yeates says having a specialist estate planning solicitor involved in discussions with clients and their children can help prevent disputes, particularly over property, and can also ensure the sustainability of the adviser's business, as it provides an opportunity to build relationships with clients' children.

Andrew Aitken, Director at Aitken Lawyers in Sydney, also sees the value in estate-planning solicitors and financial advisers working closely together, provided the relationship is built on a mutual respect of each others' level of knowledge and understanding of their role in the process.

"What I see time and again are situations where people receive advice to do something because it is, or is seen to be, 'tax effective', but no one has thought about the estate-planning implications down the track," says Aitken.

"Particularly with property, there are a number of different issues you sometimes need to weigh up: land tax, stamp duty, capital gains tax, income tax and others. People focus on those things but they don't think about the estate-planning issues."

"The trap I often see people fall into is when they buy more than one property in the same entity; where ultimately they want one property to go to one member of the family, and another one

to a different person, but they're all held in the same 'basket'. If it's a company or a trust, it's difficult to split them up from an estate-planning point of view."

Mr Aitken notes that with a bit of foresight, this could be avoided by using separate companies or separate trusts, pre-prepared from an estate-planning perspective. He says while clients might incur slightly higher costs up-front, there are often considerable savings in duty and taxes down the track.

"Preparing the next generation to receive the inheritance - particularly in a tax-efficient way - also needs to be considered," says Yeates. He suggests the best way for advisers to do this is by working closely with accountants and specialist estate-planning solicitors.

"If you are leaving assets to a member of your family, it's not just how you leave them; it's how the family members receive them, particularly in terms of the tax structure," Yeates says.

"The adviser is there to help on the receiving end. It's about protection of the family wealth, and it makes good business sense from the adviser's perspective to build that relationship with the next generation."



<sup>1</sup> *The Inherited Housing Report*, Bankwest, 2010

<sup>2</sup> *Beating the odds: Improving the 15% probability of staying wealthy*, JPMorgan Private Bank, 2004

**HOUSING INHERITANCE IS EXPECTED TO INCREASE FROM \$16 BILLION IN 2009, TO A STAGGERING \$31 BILLION PER YEAR BY 2025.**

**A 93% RISE**