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The Great Wealth Transfer

According to the productivity commissions research paper completed in 2021, around $3.5 trillion of assets will shift from “baby boomers” (people born between 1946 and 1964) to their heirs over the next 30 years. This is touted to be the largest intergenerational wealth transfer in history. With most wealth transfers being in the form of property, unspent super and other investment assets such as shares.

Most Australians looking to leave a financial legacy, want to do so with warm hands, preferring to give while they are still alive rather than after they are gone. This brings up the question “If I give now, would I have enough in retirement?”.

Giving now can provide beneficiaries with support and allow us to experience the joys of giving. But consideration should be given to how this may impact your retirement.

Arguably, most Australians lack confidence around how much money is really needed to support our lifestyle and see us through retirement. There is always that constant thought of checking our balance and thinking we may outlive our funds.

Can I Give Now?

The bigger question would be: “how much can I give now?”. The biggest priority in retirement is generally having sustainable income for essential living (such as food, utility bills, health care, occasional holidays etc) and the flexibility to draw down on capital.

So how do you ensure that you will have enough to support you through? All else being equal, the first thought is usually to reduce spending or draw down more on capital. When faced with these options, retirees often decide to reduce spending, and sacrifice their desired lifestyle.

Doing the numbers can help paint a clearer picture. If it all seems challenging, utilising professionals (call us: 03 9268 1118) or free budgeting tools (such as those found on www.moneysmart.gov.au) are a good way to get started. From here you will get an idea on how much there is to give without sacrifice.

As a guide, below are the estimated expense figures that classify a “Comfortable” and “Modest” lifestyle for singles and couples.

	Average living standards for those aged 65-84 (September quarter 2023)		Average living standards for those aged around 85 (September quarter 2023)	
(per year)	Comfortable Lifestyle	Modest Lifestyle	Comfortable Lifestyle	Modest Lifestyle
Couples	$71,723.56	$46,620.05	$65,554.96	$42,978.78
Singles	$50,981.27	$32,417.48	$47,338.04	$30,034.80

* Both budgets assume that the retirees own their own home outright and are relatively healthy. Source: https://www.superannuation.asn.au/resources/retirement-standard

Comfortable Retirement

The comfortable retirement standard allows retirees to maintain a good standard of living in their post work years. It accounts for daily essentials, such as groceries, transport and home repairs, as well as private health insurance, a range of exercise and leisure activities and the occasional restaurant meal including an annual domestic trip and an international trip once every seven years.

Modest Retirement

The modest retirement standard budgets for a retirement lifestyle that is slightly above the Age Pension and allows retirees to afford basic health insurance and infrequent exercise, leisure and social activities with family and friends.

Other Considerations

Leaving a living legacy comes hand in hand with managing family dynamics. Successfully navigating through familial challenges requires a level of open communication, planning and sometimes, professional mediation to ensure wishes are fulfilled without undue family friction.

There is also the question about the value of work and achievement. Will wealth inherited early weaken the work ethic of younger generations? And will this gift be put to good use?

What you have to give and how you want to structure it are also factors worth exploring. Providing a legacy can be in many forms, such as straight up cash or shares and can be structured in ways that protect the assets or ensure longevity. Speaking to a professional can assist with exploring your options and identifying what may be suitable for your wishes.

What will recipients do with the money?

Boomer children and future generations are often facing expensive education, rising house prices (mortgages) and rising costs of living. Reducing debt is generally the first place the funds go.

Final Thoughts

In Australia, we have three-pillars designed to support us through retirement. These being in the form of compulsory super, voluntary savings and government funded aged pension.

The government-funded, means-tested age pension paid by Centrelink, is perhaps considered the ultimate longevity hedge. If you run out of money, you'll more than likely qualify.

Despite the desire to 'leave something for the kids', many individuals have a vision but no plan.

Using professionals can help plan, facilitate and educate the transition. We offer this service on a regular basis, and we'd love to hear from you. Please contact us on 03 9268 1118 or ahenderson@shawandpartners.com.au to discuss our services further.

Alex, Anu and the team.

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