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Making the most of an inheritance

By Perpetual Private Insights

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When it comes to investing an inheritance, there's a unique solution each time.

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By the year 2040, there will be AU$2.3 trillion of wealth transferred in Australia through inheritances*. For the most part, it will be received by the baby boomer generation – people born between 1946 and 1964. For some it will be life-changing; for others, a pleasant supplement to an existing lifestyle.

This is Australia's largest intergenerational wealth transfer, and it's just getting started. With research showing that 70 per cent of people who inherit a large sum of money deplete it in just a few years**, more and more people are turning to experts for financial advice.

The power of an inheritance

For one woman in her early fifties – a full-time working mum who'd lived pay cheque to pay cheque – an unexpected inheritance from a family member was life-changing. The gift was for more than $1 million and prompted her, for the first time in her life, to seek financial advice, as she had no idea what to do or what options she had.

The client chose Marisa Senese, a senior financial adviser at Perpetual Private, as her wealth manager.

"Similar to many inheritances, this beneficiaries windfall wasn't received as a lump sum, therefore there were many financial legal and taxation aspects to consider." says Senese. "Most of the funds were tied up in property and shares, which take time to navigate and monetise. They also have embedded tax implications – something that takes many beneficiaries by surprise."

Perpetual Private has been advising Australians on the administration of taxation, property and investments for complex estates since 1886.

"When not properly managed, an inheritance can also result in a significant tax burden," says Senese. "But if funds are accessed in a tax-effective way, we can help someone to create enduring prosperity for themselves and their loved ones."

In the case of this particular beneficiary that meant strategically growing the client's superannuation in line with government regulations. Funds that couldn't be put into super were placed in an investment portfolio that matched the client's values and appetite for risk.

Separate to this, funds were made available for her to achieve her own personal goals such as upgrading her home and also giving back to the community by setting up her own structured giving program.

The lynchpin of the strategy – getting as much money into superannuation as possible – is useful for someone at this age and stage of life. This is because superannuation can be

contributed to and grown until someone retires and begins accessing it.

A different plan for everyone

"Each and every client is different," says Senese. "Age is useful in helping us determine what's possible for someone receiving an inheritance, but their existing financial position, personal relationships and life goals play a big part in shaping the advice we give. Someone in their early fifties, for example, is likely to still be working and focused on saving for retirement. But most baby boomers who are in their seventies are retired. They're likely to be thinking about the next stage of life: downsizing, aged care, focusing on family, or creating an enduring legacy."

Source: Getty Images

Roxanne Gorman, Partner at Perpetual Private in Sydney, agrees, pointing out that just as every client's situation is different, every statement of advice Perpetual puts together is bespoke. From a wealth accumulation perspective, we look at accumulating wealth via the superannuation environment.

"Your fifties are a key window to start boosting your super," says Gorman. "There are contribution caps and timing rules to navigate, which is why tailored advice is so important. We work closely with clients to take advantage of these opportunities, as super can be one of the most tax-efficient ways to grow your retirement savings. The more you can shift into that concessional tax environment, the more you can potentially improve your financial position later on."

Once clients are already retired, diversified investment strategies that match the client's values, goals and appetite for risk take centre stage.

Facilitating freedom and choices

Together with their wider teams, Gorman and Senese guide clients in investing and protecting their wealth as they lead into and journey through their retirement years.

"There's a real sense of purpose in helping people gain financial confidence and independence," says Gorman. "What I love most is empowering clients to make choices that reflect their values, not just their financial needs. It's about creating stability not only for them, but for their families as well."

One of Gorman's clients was also in her fifties who had recently received a substantial inheritance from her father's estate. "She was already financially secure, so the inheritance wasn't something she needed to rely on. Instead, she wanted to honour her parents' legacy by growing the wealth and eventually passing it on to her children." says Gorman.

The will allowed the inheritance to be distributed directly or through a testamentary trust. "We talked through the benefits of using a trust structure, particularly for tax efficiency and long-term planning," Gorman explains. "By viewing it from both an investment and estate planning perspective, we developed a diversified strategy that supports intergenerational wealth—ensuring her family will be looked after well into the future."
These two very different client scenarios reflect Perpetual's ability to tailor its advice to each and every client, and its commitment to ensuring its advice is in the client's best interests.

Source: Getty Images

More than numbers

"People often assume that being a financial adviser means you're primarily a numbers person." says Senese. "While there certainly is a lot of math involved, the job is really about being a 'people person'. I'm talking to people about their families and discussing matters deeply personal to them."

“I call a first meeting with a new client a “discovery meeting”, because it's all about me trying to understand that person as best as I can. By understanding, I mean learning about where they're currently at and where they want to get to. I want to understand their goals and objectives, what's important to them, what their priorities are and what their main issues are.”

After that first meeting, Senese determines what kind of advice is in the client’s best interests – either a financial plan (called a statement of advice) from Perpetual or a referral to an expert in Perpetual’s network – a family lawyer or estate planning lawyer, for example, to help with navigating a complex tax issue, or the philanthropy team, which can help with meaningful and effective gifting.

"Many people lack the time or expertise to effectively manage a significant investment" says Senese. “In the current environment, we're seeing interest rates at higher levels, which means the allure of savings in a bank or term deposits can appear attractive in the short term. However, it's crucial for investors to consider the broader investment landscape when making long-term decisions. A diversified potfolio with both defensive and growth investments can smooth investment returns over time by providing both income and growth which is particularly valuable during periods of volatility. That's where specialist advice comes into play, as we navigate these complexities by having access to multiple underlying funds or strategies. This helps our client enhance returns and mitigate risks, which ultimately gives them peace of mind.

*Source: SVA Consulting August 2020, Seer Data estimates of intergenerational wealth transfer, derived from 2016 ABS data.

**Source: Williams and Preisser, Philanthropy Heirs & Values, 2005

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