Bridging the generational divide of money management

By Perpetual Private Insights

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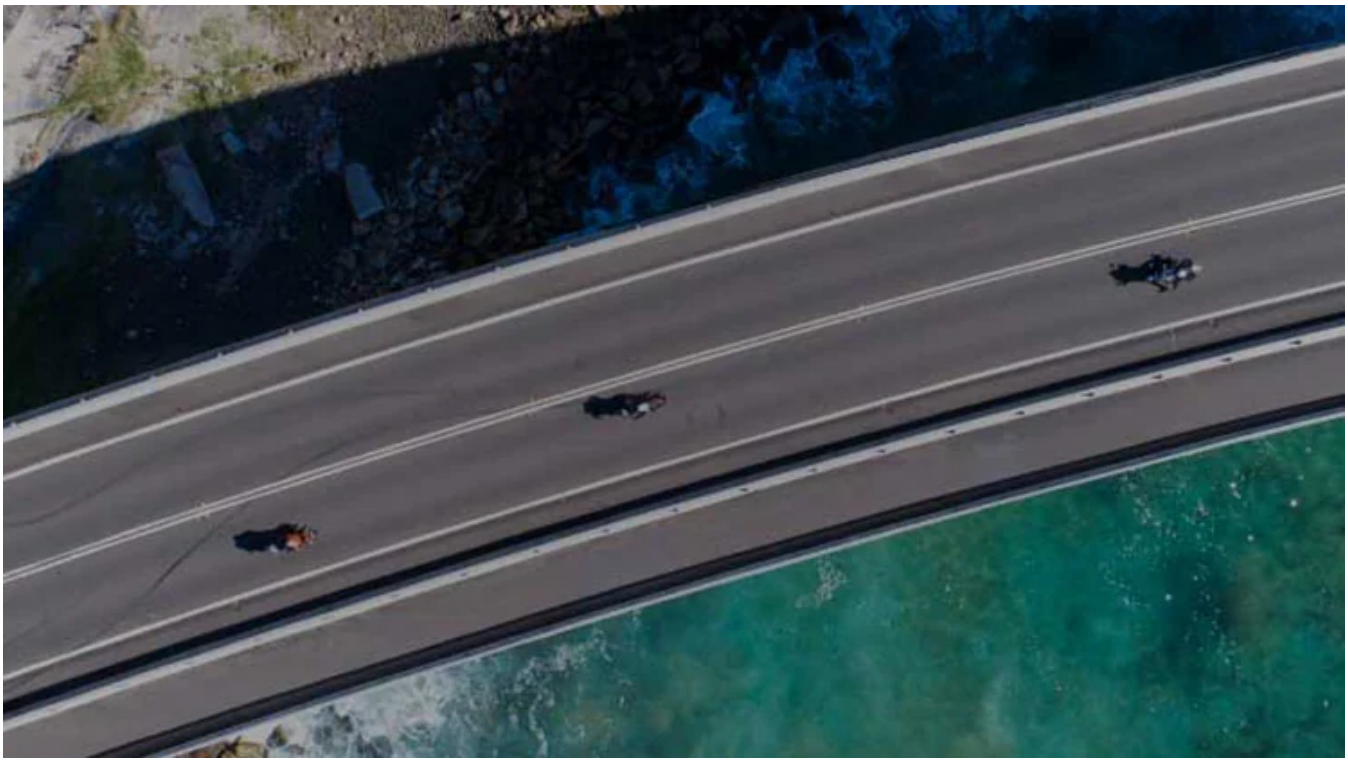

In November 2020, Ed Ryan and Jane Magor from Perpetual Private were joined by social commentator and journalist, Bernard Salt AM to discuss the shifting trends of Australia's population, intergenerational relationships, and implications for the "Great Wealth Transfer".

Bernard has a deep interest and expertise in predicting changing demographics and the impact on society and families. He highlighted the enormous growth in retirees since 2006, as the first wave of baby boomers started retiring. Since then, the number of people retiring each year has climbed rapidly from around 40,000 to around 120,000 annually in 2020.

“It’s still growing,” Bernard noted, “it won’t peak out until the mid to late 2020s, placing great strain on health, on the demand for pensions and funding.” (adding that this is a great reason you would want to invest in your super and in your own retirement).

“You get this Great Wealth Transfer to the millennial generation around about 2030 onwards… and it’s going to continue for around 20 years,” Bernard said.

“It’s known as the baby bust. If you have a baby boom in the 1950s, you got to have a baby bust.”

The sharp rise in retirees in the 2020s combined with the baby bust will see trillions of dollars in family wealth passed from baby-boomers to younger generations.

Shirtsleeves to shirtsleeves

Unfortunately, not all wealth transfers are successful. In fact, failure is so common it even has its own adage. “Shirtsleeves to shirtsleeves in three generations” famously predicts the demise of the family wealth as a result of the competing priorities and conflict that comes from the increasing number of sibling decision makers through the generations.

As Bernard also noted, the most common age a man gets divorced is 42 and for women 38, which often leads to even more complications for younger generations.

So how many wealth transfers fail – and what are root causes of this conflict?

Ed pointed to one of the largest and most referenced research projects on this topic, by The Williams Group in the US. Their famous study found that 70% of wealth transfers failed, where failure was defined as involuntary loss of control of the family assets.

“60% of the failure was caused due to the breakdown of family communication and trust. It also concluded that a further 25% of the failure can be attributed to the next generation not being adequately prepared,” Ed said.

The Family Office and Philanthropy: shared values and a common purpose

At Perpetual, what interests us most is what makes the 30% of wealth transfers successful. What are the characteristics of some families and some wealth transfers that make them more likely to succeed?

Jane drew upon her conversations with our peers in the US at some of the biggest high net worth trustee companies in the world, where wealth protection is a key focus of their work with clients.

“What we’ve learnt is that the most common characteristic of successful wealth transfer strategies involves philanthropy within the family unit,” Jane said.

“So in the US and Canada, what we’re seeing increasingly is that philanthropy is actually central to supporting successful strategies in wealth transfer and wealth protection,” she added.

Ed went further than the commitment to their community as being key for a successful wealth transfer, citing a study from global expert in the field of intergenerational wealth, American Dennis Jaffe who also found the following characteristics typical of successful families:

1. Shared values and purpose
2. Cross-generational engagement and support
3. Governance policies and structures to guide development and decisions as a family
4. Education of the next generation about responsibility, stewardship and values

“All over the world, including Australia, we’re seeing more and more families establish a Family Office to help them achieve these goals and successfully manage their intergenerational wealth,” Ed added.

The secret of the Rockefellers

Since the 1870s, the name Rockefeller has been synonymous with wealth. They were, however, far from the only family to grow wealthy during America’s second industrial revolution.

What has made their family so successful for so many generations, where others have failed?

While it was John D Rockefeller Sr who created the family wealth when he founded the Standard Oil Company in 1870, much of the credit for the family’s enduring legacy can be attributed to his eldest son, John D Rockefeller Jr (Junior).

Junior made it his life project to change the perception of his family and use their wealth for social good.

So what did Junior do?

- Diversified away from concentrated business positions, into real estate and shares and set up trust structures to maximise tax effectiveness.
- Created a Family Office structure to manage the family investments and trusts, family governance, meetings and succession planning.
- Established several private philanthropic foundations, founded on their family values and focusing on clear goals to foster social innovation.

Today, the Rockefellers are in their seventh generation with around 170 heirs and an estimated fortune of over US$11 billion[1]. The decisions made early on by Junior have meant the Rockefellers have remained united and sustained their values and shared identify and preserved their wealth over 110 years after they lost control of their family business.

Jane is passionate about helping people make a difference for charities and causes they care about. She says that when her clients start thinking about passing on wealth, they also start thinking about their legacy.

“For most families, leaving a legacy is about more than simply leaving wealth for the next generation,” Jane said.

“It’s about ensuring that that next generations understand how that wealth was earnt, how it should be used, invested and shared as a reflection of what the family values most.”

Whether it’s through a Family Office or family philanthropy, Perpetual Private can help you make this happen.

Plan for your future – and your family’s future

Bernard concluded by highlighting that each decade of your life really should trigger a different level of planning for your retirement.

“This is a big issue – our parents and grandparents didn’t have to plan for retirement because they died, without really having that phase of life,” Bernard said.

“It is a gift to us and we need to plan for it, from very, very early on.”

Want to learn more?

To find out more on inheritance visit the Perpetual inheritance hub.

You can also find out more on the Family Office or philanthropy.

1. www.cnbc.com/2018/03/26/david-rockefeller-jr-shares-4-secrets-to-wealth-and-family.html

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