Fidelity INTERNATIONAL

Rainbow's end

October 2023

Contents

About this report

The information in this report is evidence-based. It leverages a large quantitative research study undertaken for Fidelity International by independent research firm MYMAVINS.

The research involved an online survey of 1,500 Australian consumers over 26, with fieldwork undertaken in September 2023.

The random sample was stratified by generation, life stage, advised status and respondents' intention to provide a financial legacy either before or after they pass away.

Respondents included Generation Y or Millennials, aged 27 to 42 (n = 455), Generation X aged 43 to 59 (n = 485), and Baby Boomers and the Silent Generation aged 60 and older (n = 560).

There were 371 retirees in the sample, 538 respondents with an active relationship with a financial planner, and 1,044 people who intend to provide a financial legacy to their family or loved ones.

Foreword

Australia is on the cusp of the greatest handover of wealth between generations in history.

According to the Productivity Commission's modelling, we are expecting to see $3.5 trillion pass from older generations to younger generations this decade.

It has been termed 'The Great Wealth Transfer' and it's an international phenomenon. In Australia, it is already happening. According to this study commissioned by Fidelity International, one in four respondents who intend to transfer wealth before they die have already started, by making 'in vivo' gifts.

For financial advisers, this trend represents opportunities as well as threatening existing practice models. Advice clients are ageing and as they turn their minds to their financial legacies, they need help in ways they haven't needed before.

The younger generations receiving the money need advice too. The good news is that while much of the transferred wealth will go to the repayment of debt, the next generation of potential clients is clearly open to receiving advice.

In this whitepaper, Fidelity presents research insights into the needs of the older and younger generations. The paper also explores how advice processes and the role of the financial adviser can evolve to better meet client needs and make the most of the opportunities.

I commend the insights in this report to you and trust that the research proves useful to you in your strategic planning, informing your business model and service offers.

Sarah Abood
Chief Executive Officer
Financial Advice Association Australia

Introduction

This study is the first of its kind and it has been designed to start a new conversation about retirement.

The $3.5 trillion Great Wealth Transfer between generations has begun in Australia. For financial advisers, it signifies both opportunity and threat.

The threat is that if we do nothing our established client bases will slowly diminish. But the opportunity is to expand our services to meet changing needs of our traditional client base and expand our client base to a new generation.

This study should help with this. We hear from 1,500 Australian voices, representing Gen Y, Gen X and the Baby Boomers/Silent Generation: a cross-section of everyday Australians over 26 years of age. We explore their expectations and in many cases experiences with the Great Wealth Transfer and identify their unmet needs, as givers and receivers and, in some cases, both.

What becomes clear is that financial advisers are in the box seat to make the most of the opportunities. Gen Y will make great advice clients, even better than their Baby Boomer parents, and there is plenty of scope to enhance service offerings to meet the needs of the older generations.

True, if it all goes to plan there will be less money to manage. The recipients of the funds will repay mortgages and invest in education. But financial advisers are in the advice game, not asset management, and demand for their services is only going to increase from already unprecedented highs.

I trust you will find this study thought-provoking, constructive and helpful.

Simon Glazier
Head of Wholesale Sales
Fidelity International

Opportunities for professional advisers

Most Australians want to share their wealth with the next generation, but they need help. Financial advisers are well-placed to meet the unmet needs of those wanting to provide a financial legacy. But it is not only the providers of the financial legacy that need help from financial advisers. The receivers of the money have their own unmet needs and require support.

Almost four in five Australians aged 26 years or older believe sharing their wealth with the next generation is important. Over three in five feel a sense of responsibility towards managing their family's wealth for future generations.

Over one in two of those planning to leave a financial legacy will look to transfer up to 40% or more of their accumulated wealth when reaching retirement as living legacy or bequest at some stage.

While most people aspire to leave a financial legacy, far fewer have made reliable plans to do so yet and ensure their wishes are fulfilled.

While nearly two in three intending to leave a bequest have a will, fewer than one in 10 have a comprehensive estate plan. Many just rely on discussions with family or don't have any plan in place yet, although most of these people 'plan to make a plan' at some point.

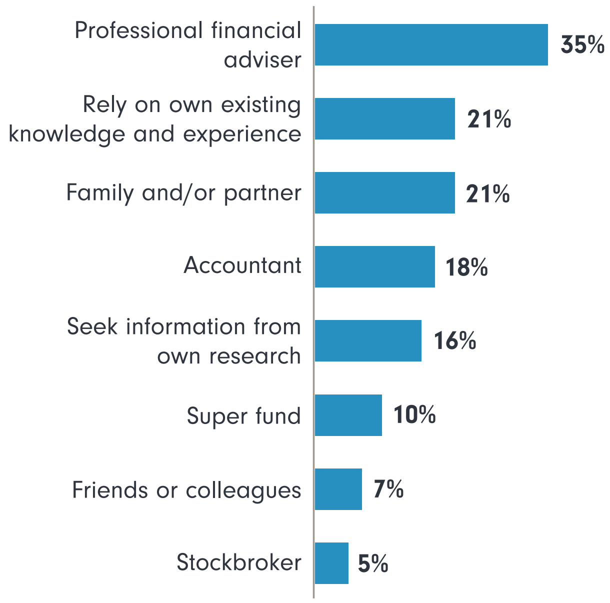
As many as one in two are only somewhat or not confident at all in how to ensure their financial legacy goals are fulfilled. One in two want to leave a lasting financial legacy but don't really know how to make it happen.

Over three in four of those planning to leave a financial legacy think financial advisers should play a role in teaching the next generation financial literacy.

The most popular go-to source of advice if receiving significant financial help or inheritance from family is a professional planner followed by self-reliance and family.

Figure 1. Preferred advisers of those receiving wealth

If you were to receive significant financial help or inheritance from your family, where would you rely on advice for what best to do with it? (Multiple responses permitted)



Nest egg mentality

In Australia, a nest egg mentality prevails, driven by uncertainty. This nest egg mentality includes their super, and is at odds with the purpose of super and its role in the retirement income system. The three-pillared retirement income system (superannuation guarantee, personal savings and social security) is designed for super being spent in retirement, not hoarded.

Almost four in five admit having a nest egg mentality, i.e. avoiding spending money to ensure they don't run out of money or have enough to pass onto the family.

Almost three in five plan to leave their superannuation savings to their loved ones after they pass away.

While three in four acknowledge that money in super is designed to be spent during their retirement, most strongly believe that it's their money to do what they want with.

At the heart of this mindset is a lack of confidence around how much money is required to support a desired lifestyle throughout retirement. Only around one in seven are very confident that their retirement savings will be sufficient to support their desired lifestyle.

Legacy is more than just money

Helping loved ones achieve greater financial security is the top goal for leaving a legacy across generations, but there are several other less tangible goals that are still top of mind.

Aside from providing greater financial security, the top goals for leaving a legacy include expressing gratitude for family, supporting family goals, personal fulfilment, sense of purpose and preserving family values and traditions.

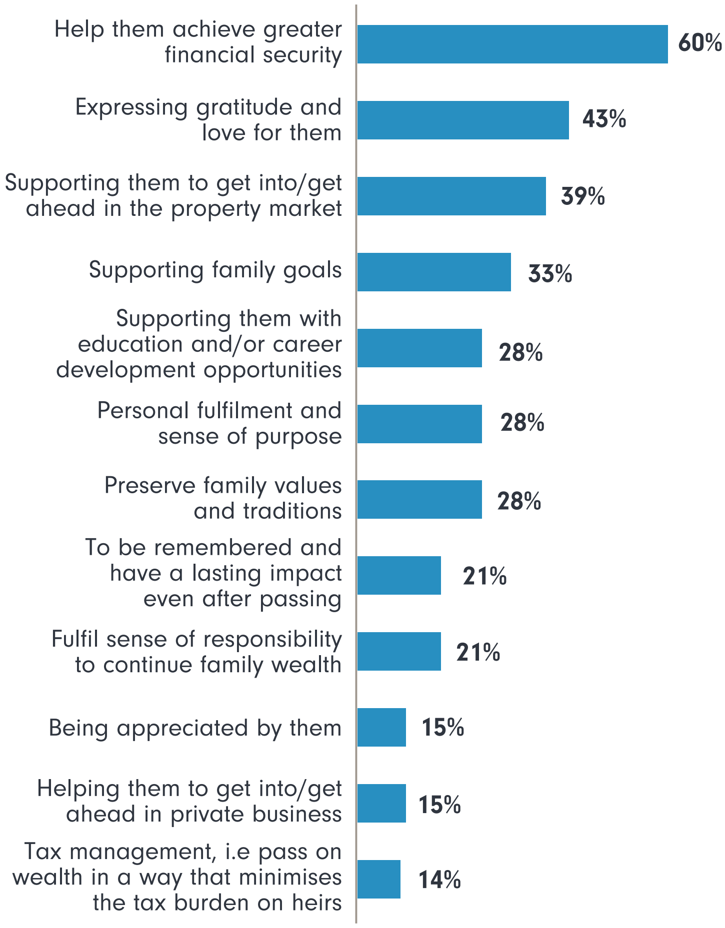
Most people also look to engender various cultural traditions and values among future generations as part of their legacy.

Three in four feel it's important to pass down cultural traditions and values to the next generations of their family. Close to one in two feel it is very or extremely important.

> Respect for elders, family values, individualism, and egalitarianism. Cultural values are passed on from one generation to another, which ensures continuity of traditions within a group of people.
>
> – Male, Gen Y, employed full time, advised.

Figure 2: Goals of those wanting to leave a financial legacy

Which of the following best describes what you hope to achieve with the financial legacy you leave to family or loved ones?



Cultural considerations

Close to two in five feel that cultural practices or beliefs contribute to their current preferences and approach to leaving a financial legacy, even more predominant among those identifying with Asian ethnic heritage.

When asked what cultural practices or beliefs are influencing their financial legacy decisions, several key themes emerged:

- Family values and traditions, including the importance of family, legacy traditions and the desire to provide for future generations;
- Work ethic and financial responsibility, including preserving the importance of hard work, saving, and being financially responsible;
- Inheritance customs and cultural beliefs, such as passing down assets or wealth to the eldest son or dividing assets equally among children;
- Religious beliefs, including the importance of spiritual values and religious traditions.

Australians identifying with Asian ethnic heritage tend to prioritise the importance of leaving a legacy and have some distinct views on how they will leave it.

Australians identifying with Asian ethnic heritage are the most likely to feel sharing wealth with the next generation is very or extremely important compared to those identifying as Australian or Western European.

Preserving family values is more highly prioritised by those identifying with Asian ethnic heritage compared to Australian, as is supporting family with education and/or career development opportunities, fulfilling a sense of responsibility to continue family wealth and feeling a sense of responsibility towards managing their family's wealth for future generations.

Those planning to leave a legacy with Asian heritage are more likely than those identifying as Australian to leave 40% or more of their transferred wealth as a living legacy rather than a bequest.

However, despite high priorities around legacy giving among those identifying with Asian heritage, this group is the most likely to have no legacy plans in place or plan not to.

They are also more likely to want to leave a lasting financial legacy but not really know how to make it happen.

Those identifying with Asian heritage are more likely to have not yet discussed estate planning wishes and goals as well as the distribution of assets in their will than those identifying as Australian or Western European.

Similarly, while more think their family have strong expectations of receiving a financial legacy from them, fewer are very comfortable discussing their estate planning wishes with family members.

They are also less likely to plan to divide their financial legacy equally, more likely to cite cultural norms influencing this decision and feel justified by strong cultural beliefs or traditions that prioritise the eldest child receiving a larger inheritance.

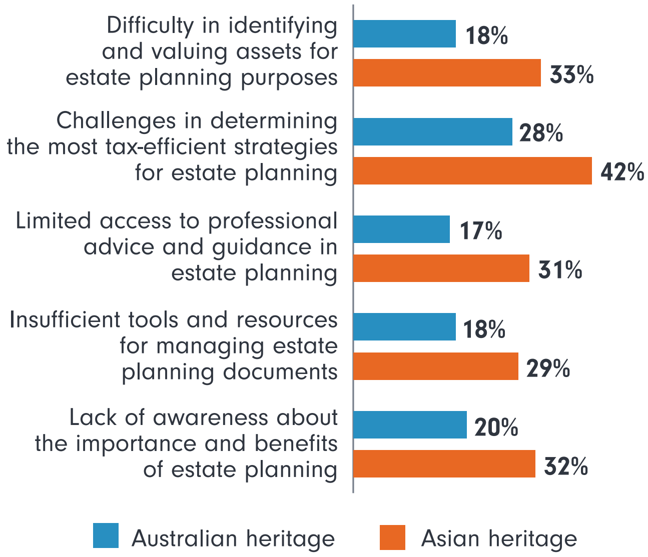
> Where I am from, wealth is usually passed down generation to generation. So, I'd probably like to preserve the practice.
>
> – Female, Gen Y, employed full time, unadvised.

Asian heritage legacy leavers are more likely to think beneficiaries of their financial legacy will invest transferred wealth in the sharemarket or in education than those identifying as Australian or Western European.

Those identifying with Asian heritage are more likely than those identifying as Australian to cite a number of challenges they face with estate planning including valuations, tax minimisation, access to professional guidance, tools and resources.

They are also more likely to be concerned about how the beneficiaries of their financial legacy might manage and invest the wealth passed on to them.

Figure 3: Greatest challenges in managing the complexities of estate planning



Asian heritage consumers intending to leave a legacy are more likely than those identifying as Australian or Western European to recognise the benefits of a family office including:

- Establishing a dedicated team to manage our family's wealth transfer process
- Developing a clear governance structure to make informed decisions regarding wealth management
- Providing education and training programs for family members to enhance financial literacy
- Implementing investment strategies that align with our family's long-term goals and risk tolerance
- Creating a succession plan to ensure a smooth transition of leadership and decision-making within the family office

They are also more likely to trust family trust or estate specialists to advise them on estate planning matters than those identifying as Australian or Western European.

Now or later?

Most Australians looking to leave a financial legacy are looking to do so with warm hands, preferring to give while they are still alive rather than after they are dead. This can provide a well-timed leg up for their children when most could do with the help and, of course, they also get to experience the joy of giving. However, this desire can complicate retirement planning, as opposed to just earmarking 'whatever is left' for a bequest.

Around two in five prefer to share their wealth as a living legacy – nearly twice as many as the one in five who prefer to just share their wealth as a bequest. The remaining two in five have an equal preference, meaning that four in five want to leave some kind of living financial legacy.

> I think not giving away too much, too soon. And also trying to keep my children motivated towards their own self-achievement goals and not falling into the thinking of they can always rely on me.
>
> – Male, Baby Boomer, employed part time, advised.

Close to nine in 10 feel they are likely to transfer at least some living financial legacy before they pass away, raising questions about how much giving can be afforded and how to best organise the giving.

However, we do find that leaving a large living legacy is much less common than aspirations might suggest.

- Two in three are likely to transfer 60% or more of their financial legacy after they pass away.
- Only around one in seven are likely to transfer most of their wealth before they pass away.

Many people clearly face challenges assessing the trade-off between covering their own expenses and transferring wealth to the next generation, with close to one in two of those yet to retire lacking confidence or unsure if their retirement savings will be sufficient to support their desired lifestyle.

There's also the push-and-pull of the right timing. It's not just about who to give what, but also when. Some prefer to save it for later, while others want to give a living legacy. Even with a living legacy, it can be tough to decide on the right time, as it may be too soon and could impact expectations of other family cultures and values.

Handle with care

A key top-of-mind challenge in leaving a bequest or living legacy revolves around managing family dynamics, which can introduce a whole set of complexities. These challenges encompass worries about potential conflicts erupting over the inheritance, disagreements over how assets should be distributed, differing expectations and interpretations of a will or legacy plan, and the very real possibility of rifts occurring within a family unit.

This is the last thing any legacy leaver wants. Successfully navigating these familial challenges requires open communication, careful planning and, in some cases, professional mediation to ensure that bequest or living legacy wishes are fulfilled and executed without undue family friction.

Navigating family dynamics can be difficult. Overall, just under one in five intending to leave a financial legacy anticipate any potential conflicts or disagreements. A further one in five are still unsure about all this.

However, this is more prevalent among younger generations, where almost one in three Gen Ys looking to give a financial legacy anticipate potential family issues compared to fewer than one in 10 Baby Boomers.

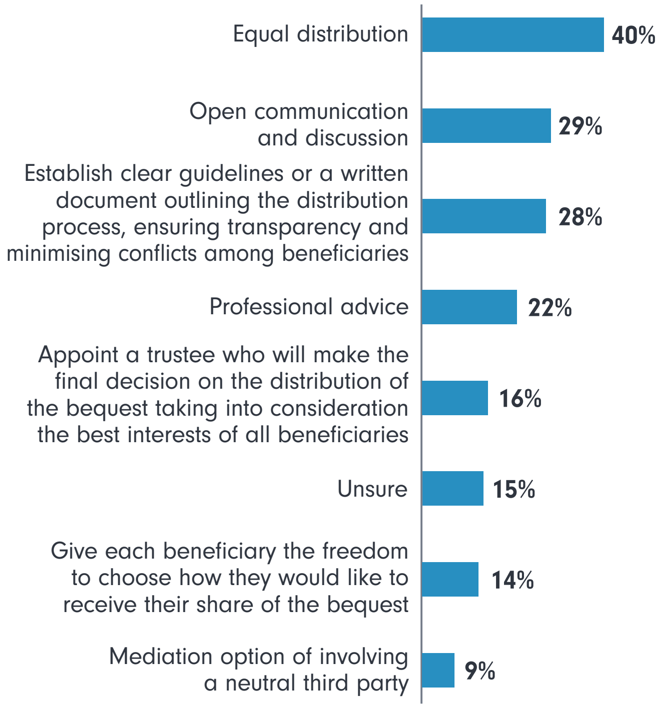
It can be tricky to traverse, as more than one in four feel that family members have strong expectations or feel entitlement to receive a financial legacy, with a further three in 10 reporting at least some expectations to manage.

While equal distribution is the most common approach for addressing family tensions, open communication, clear guidelines and professional advice are close behind.

Deciding on the split of how the financial legacy is to be divided can potentially lead to conflict within the family unit and equal distribution is the top method for addressing potential tensions. That's likely why, for the majority of people, an equal distribution of assets is seen as the most appropriate.

There are circumstances where an unequal bequest is seen as suitable by those providing financial legacies, including when one child has special needs or a disability that requires additional support, and evening up the ledger where there has been financial support or assistance given to one child during their lifetime.

Figure 4. Top ways to address potential conflicts or disagreements that may arise among beneficiaries regarding the distribution of bequest or living legacy



Almost three in four believe that it is extremely or very important to have open communication about inheritances with their family. More than two in five are very comfortable with discussing estate planning issues with their family, while a further two in five are somewhat comfortable with it.

However, despite the widely embraced importance of communication and general comfort engaging with family on this matter, the good intention is not always being delivered upon.

For those intending to leave a financial legacy, only just over one in three have discussed their estate planning wishes and goals with beneficiaries, with a further close to three in 10 planning to do so at some point. Two in five have discussed the distribution of assets in their will and a further three in 10 plan to do so.

However, for those that have had discussions, structured engagement with family, getting them involved and seeking input appears to be somewhat limited.

What recipients will do with the money

Much of the $3.5 trillion being transferred this decade will be lost to the asset management system. One in three of those intending to leave the financial legacy believe the beneficiaries are likely to use the wealth transfer to them as payment to existing debts. One in four believe that it will be spent to maintain the recipient's desired lifestyle and 16% expect recipients to invest in education.

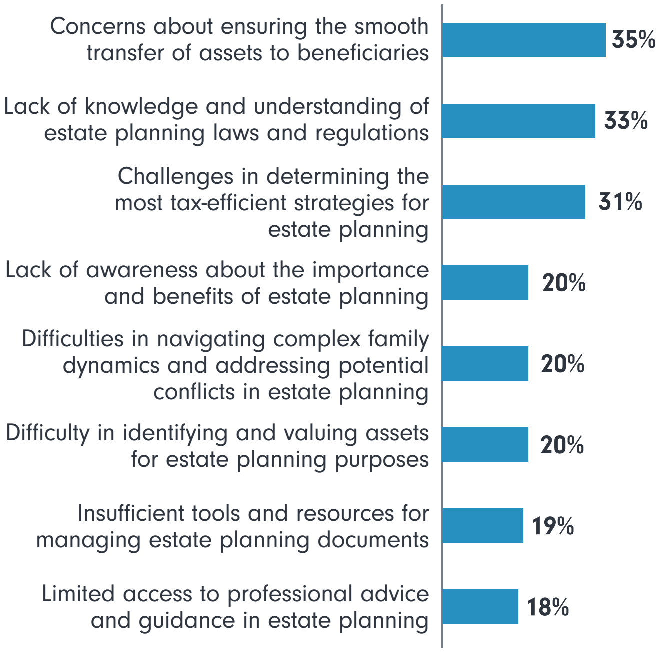
That makes sense and reflects the reasons why the older generation wants to share their wealth in the first place. But it has implications for how financial advisers charge for their professional services.

Those advisers still charging asset-based fees risk facing revenue drops even if they can successfully engage the next generation. But this is avoidable because demand for advice is increasing. If they haven't already, advisers should start the process of replacing asset-based fees with fixed, flat fees agreed with the client upfront.

The challenges to overcome

Most people intending to leave a financial legacy can also cite several other challenges in managing the complexities of estate planning.

Figure 5. Greatest challenges in managing the complexities of estate planning

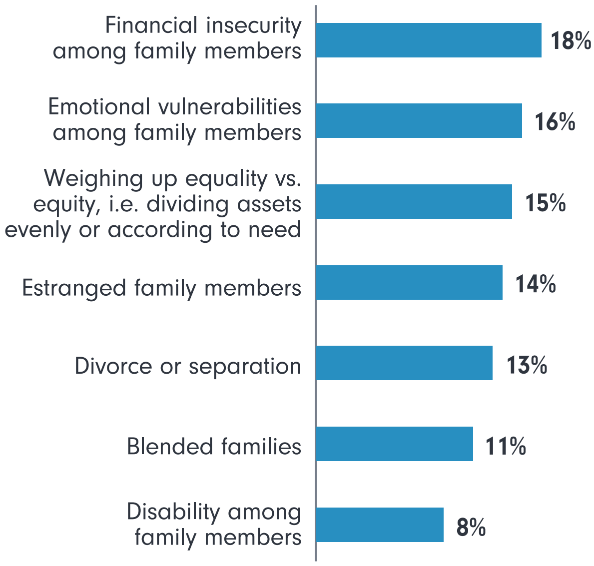


When asked about the greatest challenges in leaving a bequest or a living legacy the key themes to emerge include navigating uncertainty, legal and administrative issues, financial pressures, family dynamics, ensuring fairness for the family, and that personal wishes are fulfilled.

- **Financial challenges:** Including concerns about having enough money to leave as a bequest or living legacy due to worries about the rising cost of living, insufficient savings, and the impact of taxes and fees.
- **Managing family dynamics:** Including concerns about potential conflicts over the inheritance, disagreements over asset distribution, and the possibility of family rifts. Siblings, children, and other relatives may have differing expectations and interpretations of a will or legacy plan, leading to disputes that can strain family relationships.
- **Legal and administrative issues:** Including ensuring the validity of the will, preventing contestation, finding a trustworthy executor or trustee, and understanding tax implications. The lack of understanding coupled with the fear that the goalposts are always shifting can lead to greater challenges for individuals looking to provide a financial legacy.
- **Ensuring wishes are upheld:** Including worries about selecting the right person to receive the bequest, ensuring responsible use of the assets, and avoiding misuse or wastefulness.
- **Equality and fairness:** Including concerns about dividing assets equally, avoiding favouritism, and ensuring all family members are satisfied with the distribution.
- **Uncertainty and lack of knowledge:** Including uncertainty about how to proceed, unfamiliarity with legal requirements, and a lack of information or guidance.

There are many common life scenarios cited by those making estate plans that can complicate the process including items listed in Figure 6 below.

Figure 6. Top estate planning complications due to life scenarios



The role of the adviser

There is demand for professional support and financial planning can play a bigger role.

Seeking professional advice to assist with estate planning matters can help determine how much wealth is needed to achieve financial legacy goals. Almost two in five of those leaving a financial legacy either currently have professional help or are planning to seek it. A further one in four would consider seeking professional advice to manage their estate plan.

For those that would not rule out professional support, the top trusted source of professional advice is from a lawyer, followed by a financial planner.

These preferences are also reflected in perceptions of the best 'mediators' in family estate planning conversations.

Figure 7. Top professionals trusted to advise on estate planning matters (among those who would not rule out professional support)

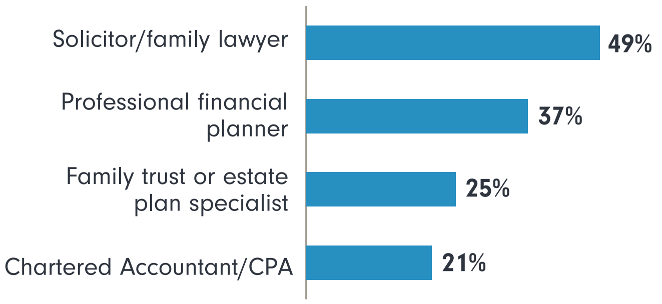
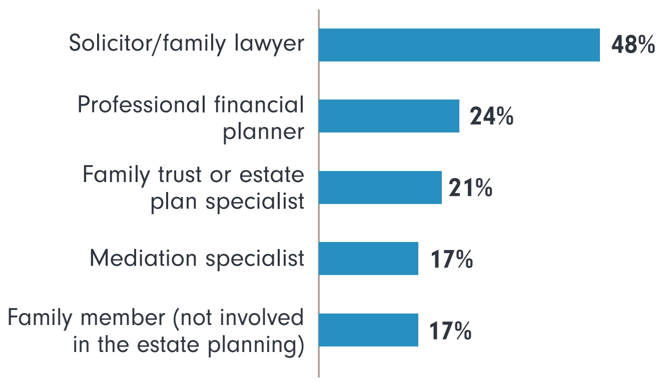


Figure 8. Top 'mediator' in estate planning conversations between family members (among those who expect to have to manage an estate plan)



However, only just over one in 10 of those intending to leave a legacy feel the typical financial planning practices and offers are very well suited to meeting their own estate planning needs with a further one in two feeling they are reasonably well suited.

People often have limited knowledge about estate planning, which can make it challenging for them to make informed decisions. There is much uncertainty when it comes to retirement savings and how much they will need. Service providers should take the time to educate clients about their options and help them understand the implications of different choices. Some estate planning services may focus solely on drafting wills and trusts, neglecting other essential aspects of estate planning, including the relationships, family dynamics and communication between the different parties.

Mediating role

Most people intending to leave a legacy emphasise the importance of open discussions and documented planning with their family, but this can be easier said than done.

Many also acknowledge some discomfort with these communications, potential conflicts and the need to meet complex family expectations. This suggests a role for third-party professional assistance to help provide structure and mediation for these negotiations.

When asked how a professional could help, mediating family dynamics is a common theme. This includes assisting with estranged family members, ensuring fairness, resolving family disputes, fair distribution, caring for a disabled family member, family meetings, explaining the process and legally binding documents.

Preparing the next generation

Generational differences in perceptions of financial planners' roles signal the evolving expectations of financial planners. And the good news is Gen Y will prove to be excellent clients of financial advisers.

Gen Y are more collaborative in their approach to making financial decisions, and they are far more open to learning from their adviser. Almost nine in 10 Gen Ys are interested in learning more about finance, while only one in two Baby Boomers is.

Compared to the general population, more Gen Ys recognise financial planners' roles in enhancing the next generations' financial literacy.

Around four in five Gen Ys believe that financial advisers should play a role in teaching the next generation financial literacy, and only one in 20 think it's not the financial adviser's role to teach the next generation.

The older generation's closed mindedness to learning extends beyond themselves. Only three in five Baby Boomers believe it's the financial adviser's role to enhance the next generation's financial literacy, and one in five think that it's not.

Preferences of next-generation clients

There are significant differences in how Gen Y approaches decision-making with their finances and how Baby Boomers make decisions. Gen Y is more likely to take a collaborative approach with their professional advisers when managing investments and their big-picture finances.

Over two in five Gen Ys like to get involved with managing their big-picture finances but listen to guidance, which is approximately twice the number of Baby Boomers. The older generation is twice as likely to want to do it themselves, preferring to do the tasks alone and not seek help.

Gen Y's preferred service channels are surprisingly like those of Baby Boomers. In-person meetings are the preferred method of communication with financial planners, with around seven in 10 expressing a preference for face-to-face interactions.

Gen Y, however, is more demanding of an omni-channel experience, where in-person services are supplemented by digital services. Around three in five Gen Ys want to be serviced by email, three in 10 by text message, and one in five via video calls; which are all higher proportions than for Baby Boomers.

Gen Y sees the importance of budgeting tools. Close to four in 10 Gen Y say it is highly important to have access to budgeting and expenses tools, while, one in three Baby Boomers have no use for them at all. And when it comes to artificial intelligence and chatbots, one in two Gen Ys would be comfortable in using them to make basic financial decisions, compared to only one in five Baby Boomers.

Service offers that may resonate

People are looking to build confidence in their financial legacy decisions and actions while overcoming all the complexities these entail.

As covered previously in this report, the majority of people believe sharing their wealth with the next generation is important. However, lack of financial confidence, uncertainty around retirement spending requirements and how to best organise legacy plans can become barriers to effective decision making and fulfilling legacy wishes.

Professionals can empower their clients to overcome a nest egg mentality and both spend and transfer their wealth with greater confidence and peace of mind. Many consumers also need to navigate the additional complexity of meeting their desire to provide some kind of a living legacy before they pass. This means decisions cannot be deferred to 'whatever is left over'.

As observed previously, many people feel the superannuation system is not well designed to support their legacy wishes and this calls for expert support to navigate effectively.

Most people (three in five) intending to leave a financial legacy can identify aspects of setting up a family office that would work well for them and their family, which are suggestive of solutions that resonate with them.

Table 1. Aspects of setting up a family office that would work well for you and your family

Creating a comprehensive financial plan to ensure smooth wealth transfer between generations	22%
Collaborating with experienced professionals, such as lawyers and financial advisors, to ensure a successful wealth transfer	22%
Implementing effective tax planning strategies to minimise tax liabilities during wealth transfer	21%
Setting up a trust or foundation to protect and preserve our family's wealth.	20%
Implementing investment strategies that align with our family's long-term goals and risk tolerance	18%
Providing education and training programs for family members to enhance financial literacy	17%
Establishing a system for regular communication and transparency among family members regarding wealth transfer	17%
Creating a succession plan to ensure a smooth transition of leadership and decision-making within the family office	15%
Developing a clear governance structure to make informed decisions regarding wealth management	14%
Establishing a dedicated team to manage our family's wealth transfer process	12%

Conclusion

To make the most of the Great Wealth Transfer, financial advisers will need to evolve their service offerings. For many older clients, planning their legacy is becoming their primary focus, and their required services of their adviser is shifting from retirement planning to estate planning.

In the traditional financial planning process, estate planning plays an important but peripheral role. The legal instruments like the will and enduring powers of attorney are important, but the successful transfer of a lifetime's wealth while preserving family relationships requires more than that.

And it's not just the givers of wealth who require advice. The receivers of the wealth transfer, the younger generation, wants and needs help, too.

They will prove to be better long-term clients than their parents.

About Fidelity International

Fidelity International offers investment solutions and services and retirement expertise to more than 2.52 million customers globally. As a privately held, purpose-driven company with a 50-year heritage, we think generationally and invest for the long term. Operating in more than 25 locations, we invest A$572.7 billion globally on behalf of clients in the Asia-Pacific, Europe, the Middle East and South America. We are responsible for A$235.5 billion in assets under administration.*

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If you require any assistance please contact Adviser Services on **1800 044 922**

*Data as at 30 June 2023. Read more at fidelity.com.au