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An exclusive report by Griffith University and No More Practice Education to examine the likely retirement outcomes of Gen X & Y and the impact of the coming intergenerational wealth transfer.

Intergenerational Wealth Transfer: The Opportunity of Gen X & Y in Australia

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Executive Summary

Reinvention is the new retirement

Today, our 'lucky country' status is under real threat. The rise of technology and cheap labour from neighbouring countries means jobs are at risk of being rendered irrelevant and we are being told to prepare for a 'gig economy'. Skyrocketing house prices, expensive lifestyles, and a desire for instant gratification, means expectations and pressure are higher than ever.

Generations gone-by first made their fortunes on the sheep's back, before then digging resources out of the ground; but it's not clear where our future fortunes will come from next.

The government already cannot afford to provide meaningful support to the masses. By way of example, the age pension today covers only a third of what is considered a 'comfortable lifestyle'¹ in retirement, and who knows where this will end up by the time the next generation is ready to retire.

The safety net is fast disappearing and working Gen X and Yers are facing significant uncertainty at a national and a personal level.

With their maturation alongside that of the super system, the expectation has been that Gen Xers will largely self-fund their own retirements, but it is clear from our research that this financial trajectory is not looking good.

Projecting the current ASFA figures forward to 2043, when many of Gen X and Y will be retired or retiring from the workforce, a comfortable self-funded retirement is likely to require a savings balance of between \$2.09 and \$3.98 million.

Calculations extrapolating out from Gen X and Y's financial position today (based on real world HILDA data), and using 5 per cent investment returns and Australia's long running inflation rate of 5.07 per cent, show that as much as 94 per cent of our population won't achieve a comfortable retirement.

Even allowing for a much more conservative inflation rate of 2.5 per cent, 81.3 per cent would fail to reach the necessary target.

These factors place into sharp focus the importance of how we deal with the looming \$3.5 trillion intergenerational wealth transfer.² This will truly be a watershed moment for the nation. Modelling shows that meaningful, long-term investment of this pool of wealth (using projected returns of 5 per cent) could create a \$11.5 trillion positive impact to the Australian economy, helping to significantly improve our economic opportunity and place on the global stage.

¹ Association of Superannuation Funds of Australia (ASFA); "ASFA Retirement Standard"; <https://www.superannuation.asn.au/resources/retirement-standard>; accessed 29th August 2017

² McCrindle Research; "Wealth Transfer Report"; page 7; August 2017

Further analysis of the likely distribution of intergenerational wealth also illustrates the importance of careful orchestration. Whilst the 80/20 rule bears out with 20 per cent of the population inheriting 77.54 per cent of the pool, of critical importance is that 75 per cent will inherit \$110,000 or more, a figure materially significant in whether Gen X and Y achieves financial independence for retirement.

It is clear that how we choose to approach these challenges will change the face of Australia forever, producing a financial reckoning or, alternatively, the opportunity of reinvention: of mindset, of career and of our next economic chapter.

Successful reinvention will rest on creating significantly better financial capability amongst Gen X and Y through education to enable smart, long-term financial decision making.

It is our view that the economic reckoning facing Gen X and Y, if handled well, is a huge opportunity for reinvention for the better.

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1.0 Introduction: The Retirement Funding Challenge

The pathway to financial independence for most Australians is a challenging one. The reasons financial independence is challenging include:

- the complex financial system, markets and products that consumers must navigate;
- the disruption to markets, business and government;
- the government's tightened fiscal position, leading to a move from state to self-funded retirement and the government's reduction in ability to support individuals;
- high accumulation of household debt;
- increasing life expectancy and the desire to live a more active retirement;
- the persistent concerns in relation to financial illiteracy; and,
- behavioural factors that undermine effective financial decision-making.

The truth is that dealing with money is difficult. Talking about money remains a social taboo. Individuals are often not well educated about managing money. Financial stress has also been shown to have impacts on (and exacerbate) psychological and mental health concerns (Diener & Biswas-Diener, 2002). Indeed, money can be a tool used in domestic violence, with financial abuse one of the precursors to physical violence in many situations. The consumer is at great risk of poor financial decision-making with a plethora of schemes and scams operating and/or even paralysis due to the complexity and uncertainty. Indeed, evidence of low engagement in superannuation points to concerns about schemes, scams and paralysis. However, one of the key benefits that consumers have in relation to accumulating wealth is time and often this mitigates the paralysis concern.

A 'fair go' at accumulating wealth and achieving financial independence is possible with Australia's comparatively robust financial system, professional financial advice across the life cycle, time, and a degree of personal financial capability (both knowledge and motivation to act) providing a potent basis for engaging in wealth planning. Thus, economic and social policy geared towards supporting individuals achieving a level of financial independence is a critical social and economic policy objective.

In this regard, Australia's superannuation system has arguably been one of Australia's most successful economic policies in recent decades. Over \$2.3 trillion³ is privately held in superannuation/pension assets being accumulated for retirement. Relative to the size of the economy Australia punches well above its weight. Despite this success, there is much to do in the system to build up the average fund balance vis-à-vis having sufficient resources for self-funded retirement.⁴ To this end, the debate about the superannuation system has heated up in recent years with contribution rates, investment mechanisms, fee structures, member engagement and taxation rates being debated. The 'success' of superannuation has also led to it being the sole focus of retirement policy, perhaps to the detriment of other strategies/policies. Indeed many Australians will have significant wealth in other assets, particularly property, that should also be explored as part of the retirement funding mix.

³ Superannuation assets totalled \$2.3 trillion at the end of the March 2017 quarter (APRA 2017). Over the 12 months from March 2016 there was an 11.2% increase in total superannuation assets. Total super assets (outside life offices), reached \$1.95 trillion in September 2016 (RBA, 2016) growing at an average of 3% per quarter since 1988.

⁴ The Australian Government's view is that the objective of the superannuation system is to "provide income in retirement to substitute or supplement the Age Pension" (Productivity Commission, 2016, p57).

In terms of what household wealth in retirement looks like, the table below drawn from the Household, Income and Labour Dynamics in Australia (HILDA) Survey (Figure 1) shows the home is still the biggest asset with superannuation and other property following close behind. With the home being the biggest asset, retirees who are asset rich (home & other property) may be cash poor due to illiquid and immobile property assets (although this is changing with equity release strategies and products emerging). Household wealth is further exacerbated by the split between homeowners and renters (in retirement) where renters are evidenced to have lower income, be closer to the poverty line (for both singles and couples with single female renters in the worst position) and have higher levels of financial stress. Table 1 highlights areas of financial stress for households including those households who are not able to meet utility expenses. Thus the context and distribution of household wealth is an important consideration for a discussion on retirement planning.

Figure 1: Mean asset and debt summary by all households, homeowner households and non-homeowner households for those aged 65 and over, HILDA, 2010 and 2014



Source: Johnson, D (2017) PhD thesis.
 2010: (n=1624 (all); 1294 (homeowners); 256 (non-homeowners))
 2014: (n= 3112 (all); 2543 (homeowners); 444 (non-homeowners))

While the political debate on superannuation reform continues, the system itself continues to mature with the average member time in the system growing. Thus the ability for participants to gain from compounded long-term returns increases. Given the superannuation system became compulsory in 1992, it will only reach its first full cycle around 2039⁵. Arguably full maturity is even further beyond that point given contribution rates have moved from 3% to 9.5% over this time. Irrespective of how one might measure this, one thing is clear, the maturation of the system provides significant opportunity to further enhance the system and deliver even better outcomes for members and the broader economy.

Table 1: Financial stress for all household, homeowners and non-homeowners, age 65+, HILDA 2011

Financial stress indicators	All HHs %	Homeowners %	Non-homeowners %
Could not pay electricity, gas or telephone bills on time	14.0	5.1	13.5
Could not pay the mortgage or rent on time	6.9	2.4	5.5
Pawned or sold something	5.5	1.1	4.3
Went without meals	3.8	0.9	2.4
Was unable to heat home	4.0	2.6	9.1
Asked for financial help from friends or family	13.7	2.4	7.9
Asked for help from welfare/community organisations	4.2	1.2	6.0

Source: Johnson, D (2017) PhD thesis.

The changing population demographics including longer life expectancies impact the structure of the workforce, service provision in the economy, and, the structure of wealth in the economy. Australia has an aging population with the Baby Boomers heading through the retirement phase ahead of the Gen X'ers⁶ (see Figure 2 and Figure 3). The Gen X/Y'ers are of particular interest as:

- (1) the wealth of the Baby Boomers will either be utilised or recycled to Gen X/Y'ers leading to the largest intergenerational transfer seen to date;
- (2) they will also be advantaged by being the first generation to have the full accumulation cycle in relation to superannuation; and
- (3) they will potentially benefit from the modern financial advice system, including increased awareness of financial literacy.

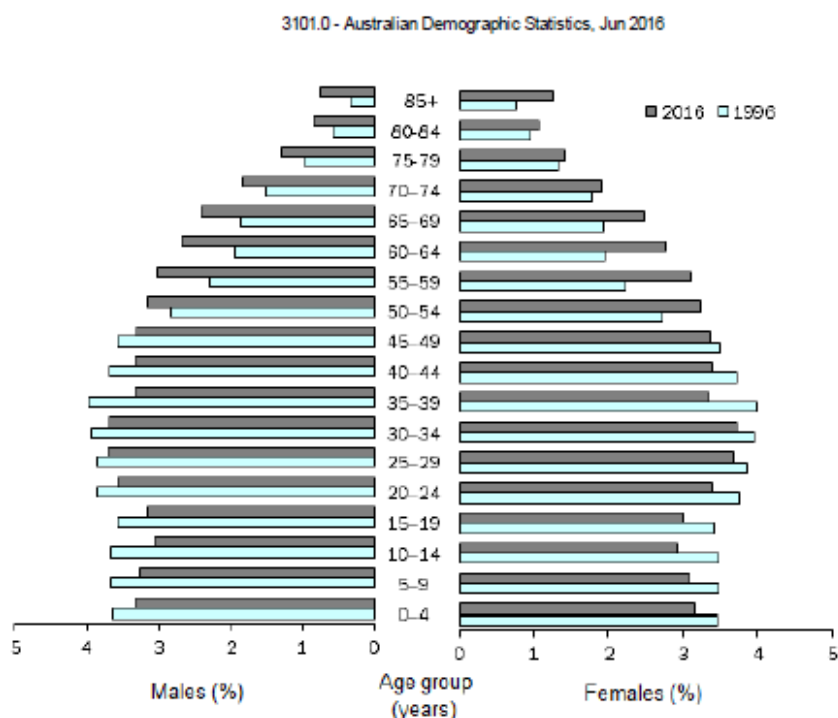
⁵ Assuming an 18 year old starting accumulating in 1992 and enters the decumulation phase at age 65.

⁶ Generation X is defined as born in the period 1965-1979 and Generation Y as 1980-1994. However the ABS defines as Generation X & Y (born 1966-1986)

Figure 2 and 3, following, illustrate the changing age demographics of Australians in the next 50 years. The intuition of the ramifications of these visual representations is straightforward regarding retirement planning and the role of government in this. It is worth remembering that many industries are building their futures while considering these intuitive ramifications as well, ranging from health to the justice system.

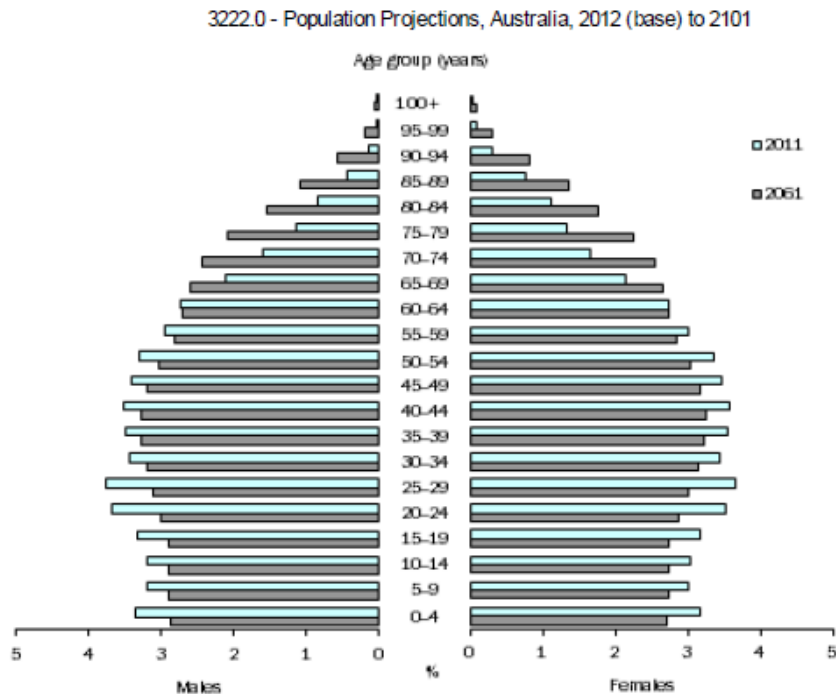
The potential fiscal impact of the aging population and increased longevity is significant and contains significant risks to the nation. The first inflection point is the degree to which the baby boomers are financially independent – the time for which is fast running out as they approach retirement. The second is the degree to which any residual wealth is captured and reinvested in the future financial independence of next generations. The degree to which the Gen X/Y residual wealth is then captured and transferred to a perhaps smaller retiree population in successive generations (see Figure 3) is of concern here. This suggests that there is a need to take a broader view of the retirement system by including assets outside super and considering the intergenerational phase.

Figure 2: Australian Population by Age Group, June 2016



Source: ABS, 2017

Figure 3: Australian Population by Age Group, Projection to 2061



Source: ABS, 2017

The focus of the current system is largely on the retirement savings accumulation phase with much less regulatory direction on the decumulation phase. Of relevance is the ongoing debate in relation to accumulation and withdrawal rates and methods, taxation, fees and products. A recent productivity commission report (Productivity Commission, 2016) focussed on how to measure the impact of fees and the efficiency and competitiveness of the system, including through the drawdown phase. In this report, the Commission defined the purposes of the system as (p 57):

Five system-level objectives have been proposed, against which the assessment criteria have been developed, to ultimately guide the final assessment.

- 1. The superannuation system contributes to retirement incomes by maximising long-term net returns on member contributions and balances over the member's lifetime, taking risk into account.*
- 2. The superannuation system meets member needs in relation to information, products and risk management, over the member's lifetime.*
- 3. The efficiency of the superannuation system improves over time.*
- 4. The superannuation system provides value for money insurance cover without unduly eroding member balances.*
- 5. Competition in the superannuation system should drive efficient outcomes for members.*

The first three points are of relevance to this project: maximising long-term outcomes over the member's lifetime and doing so in an efficient manner that improves over time. In this report, we focus on the 'third phase' of the system which is even less discussed - the intergenerational phase. In the intergenerational phase retirement funds form part of an estate and are transferred to beneficiaries.

The intergenerational wealth transfer in superannuation was only briefly mentioned in the Productivity Commission report, yet as average consumer balances grow, the likelihood of residual balances remaining at time of death increases. We posit that as the superannuation system matures, it is likely that more retirees will pass away with more residual wealth on average than in the past. This capital could be used to enhance the sustainability of the system through an orderly, if not incentivised, wealth transfer scheme.

The confluence of these factors therefore represents a significant wealth accumulation opportunity (in relation to retirement financial independence) for both individuals and the economy. McCrindle (2016) suggest that up to \$3.5 trillion (AUD) of wealth will be passed between generations via this mechanism over the next 20 years with the government suggesting the retirement system could contain \$9 trillion in assets by 2040. While maturation of the superannuation system alone will drive this, it is unclear to what extent this opportunity will be taken advantage of, and to what extent it will be squandered. As McCrindle puts it – “the granny flats or best retirement ever” conundrum (McCrindle, 2016, p 11), arguing that the possibility of such wealth transfer to buttress fund balances and expand the available pool of capital to generate income will support a greater degree of financial independence in retirement. With regards to wealth transfer it has been suggested that there is a shift from retirement saving to retirement spending and the preference to ‘spend the kids’ inheritance’ in lieu of a desire to pass on an inheritance. If ‘retirement spending’ persists then many individuals will miss the opportunity to retire with financial independence. The likelihood of individuals being financially dependent on government support will increase should policy not pay some attention to the intergenerational transfer opportunities that exist. The 2015 Intergenerational Report (Treasury, 2015) refers to the superannuation system in relation to income support/supplementation and suggested the next step was to focus on retirement income products in the drawdown phase of retirement. There was, however, no mention of the intergenerational potential of residual retirement capital, nor any mention of housing equity in the retirement mix.

The potential of residual retirement capital is underpinned by a number of factors including:

- the sheer scale of the superannuation system and the projected rates of growth in total funds and average balances⁷;
- the changing population demographics with an aging population and increased longevity, leading to a greater net value of assets in the hands of those in the older population brackets;
- evidence that later-stage retirees are often conservative with drawdowns and spending;
- the potential for consumer financial education programs to improve financial decision-making;
- improved access to, and quality of, financial advice; and,
- further regulatory reform as the purpose of the superannuation system is better defined and more focused on long-term outcomes.

This project aims to explore this opportunity further by coordinating the expertise, contacts and resources of No More Practice Education, the Griffith Business School (GBS), and our financial services partners, to build on and extend the work of McCrindle (2016). The first stage of the project will conduct further financial modelling by broadening the range of parameters considered, modelling the downstream (multigenerational) impact of Gen X/Y’ers across the remaining accumulation, decumulation, and, wealth transfer stages. A second stage of the project will also consider behavioural and attitudinal factors regarding superannuant preferences for the transfer of their residual wealth. These factors will be used to further fine-tune the modelling. The outcomes of this are a better understanding of the potential that wealth recycling offers.

⁷ For example the Actuaries Institute (2015) estimated that the median balance of superannuation accounts at retirement (age 65) for a couple currently aged 30 will be \$817 400 (in 2015 dollars).

2.0 Literature Review

Worldwide demographic trends are putting in place the foundations for the largest intergenerational wealth transfer in history over the next 50 years (Cutler, 1996). This is of importance to researchers and policy makers because of: the effects of inheritance on inequality, the widening wealth distribution gap, the attitudes of testators and inheritors, gender issues, and, the effect of estate planning strategies on exacerbating these factors.

Aside from the demographics, there are also social issues to consider. The issue of inheritance has been at the forefront of public policy and private strategies since there were property rights to pass on. The changing structure of family and family relationships means that research into their financial interactions is of increasing importance. This also means that up-to-date research on the effect of family breakdown and the effect of the changing nature of the family unit needs to be researched in the context of intergenerational wealth transfer. Research conducted in the past may have been valid at the time, and now the situation has changed, with record levels of individual wealth in superannuation ideally passed on to descendants within the same legal structure.

When considering the importance of the current research it is critical to remember the basic human drive: to reproduce. Basic evolutionary theory purports that humans (other than those who prefer cats to children) have an innate drive to have children, as this is the only way our species will survive. Reproduction goes far further than simply bringing the next generation into this fast decaying world. Reproduction requires that the next generation is fit and healthy enough to have their own next generation, and thus pass genes on in perpetuity. In this day and age, and for the last 10,000 years, being fit and healthy enough to have children has a strong relationship to control over property and the social status which accompanies it. Thus, the human condition requires that in order for our innate drive to be realised, we must be able to provide for the next generation to the extent that they are able to further the lineage. At a basic level it is hence a driving force of humans to build up wealth, property, or control over resources, so their children will have a better chance of reproduction themselves. This is a critical point of the justification for research into estate planning because it is relevant to every person, wealthy or not, and is critical for the survival of our species given the current societal values and trends towards individualism (versus collectivism) (Hofstede, 1983).

2.1 Taxation

A key factor associated with the transfer of wealth intergenerationally is the tax associated with doing so. Estate tax is not a major concern for those in Australia. However, in Australia, the majority of wealth of retirees is held in superannuation, and there is significant tax to transfer superannuation funds to non-dependent adult children. Research into estate tax and the intergenerational transfer of wealth revolve around the effect on decision-making (Abel, 1988; Chaplinsky, 1990; Feenberg, 1993; Goolsbee, 2000), tax avoidance strategies (Angell, 1938; B. D. Bernheim, 1987a; Byrne, 1999; Poterba, 2003; Spilerman, 2000), and the effect of tax on wealth (Altig, 1999; Bakija, 2003; Bankman, 1998; Pippin, 2010). These factors will be discussed in more detail below.

Estate taxes are an important topic for advice in America, with authors going so far as to say that the repeal of the estate tax would leave many advisers feeling they cannot create value for clients (Rogers, 2005). This indicates that the estate tax drives people to seek advice regarding how to avoid it, or at least that is the view of American advisers. The estate tax has generated philosophical and practical discussions about the disadvantages and advantages of such a system. For example, authors have found that tax policies do have an effect on wealth strategies, with people taking steps to reduce the size of the taxable estate in order to increase the overall benefit to their descendants (Abel, 1988; Chaplinsky, 1990; Feenberg, 1993; Poterba, 2003). Tax avoidance strategies have been a topic of intellectual discussion since before 1938, when the difference between tax evasion and tax avoidance for those in wealth management was clarified (Angell, 1938). It has been illustrated that an increase in estate taxes results in avoidance strategies (Chaplinsky, 1990). This is a logical analysis which is now supported by theoretical models. Further, the existence of tax affects the decision-making in 'high net wealth' individuals (Feenberg, 1993). For example, high estate taxes result in a larger amount

of money, as opposed to timber, being bequeathed with the opposite also being true (Amacher, 2002). Economic models have confirmed the effect of tax on individual income with the short run elasticity of taxable income (Goolsbee, 2000). This indicates that not only do people change their estate planning strategies depending on tax, but also their income. Leading on from this, there is a small death elasticity for estate tax (Kopczuk, 2003). This means that people may affect when they die (or falsify records) if it is tax effective to do so. However, this strong tax effect on decision-making needs to be considered in light of the research which found that the decisions go beyond tax, and are based on family culture and wealth (McGarry, 2000). The research into tax and estate tax has provided a foundation of knowledge in the area which is useful for the current research.

Theoretically, taxation is put in place by governments to spread the distribution of resources by breaking up large concentrations of wealth (Bernheim, 1987a). The effect of tax policies on inequality has been a topic of much debate in the literature with authors indicating that estate tax in America reduces wealth and increases revenue for the Internal Revenue Service (IRS) (Bernheim, 1987a). However, the revenue the IRS collects from estate taxes amounts to less than 1% of its total revenues (Bernheim, 1987a). Bakija (2003) and Bernheim (1987a) argue that a reduction in the estate tax results in higher wealth concentrated in a few. Altig (1999) argued that the sliding scale marginal tax rate systems in place in many countries increase income inequality. The structure of the taxation system is a topic of debate in developed countries because it is effective in achieving outcomes (Shome, 1988). However, it is important to remember that many developing countries are without the infrastructure to enforce income or other taxation (Shome, 1988). Developing countries ideally aim to have elasticity of taxes but this is often difficult to achieve because of World Bank (and other) covenants (Shome, 1988). It could be inferred from this that taxes are an integral component of development and increasing wealth equality.

There are clearly long-term and risk management considerations required when determining strategies for intergenerational wealth transfers. Authors have anecdotally commented on the effect of estate tax increasing investments in illiquid assets which are easier to undervalue for estate tax purposes (Poterba, 2003), and the abundance of other strategies specific to America (the US) (Spilerman, 2000). Suggestions regarding better taxation systems include: the removal of the homestead tax exemption (Barlowe, 1947); tax on interest is better than estate tax (Boadway, 2000); and, that consumption tax benefits the wealthy (Bankman, 1998). Pippin (2010) highlights the asset rich nature of estates by illustrating that investment income from estates and trusts is common.

2.2 Financial Transfers

A common strategy of transferring wealth intergenerationally is to make financial transfers while alive (Rogers, 2005). These transfers are often referred to as 'inter vivos', as opposed to a testamentary transfer or bequest, which occur after death. Financial transfers differ between families, and this is not only because of financial factors but also the networks and norms within the family (Kreager, 2008), and race. Not surprisingly, Cao (2006) found that a greater amount of financial resources results in larger financial transfers. Further, strategies to reduce the size of the potential estate (and thus the estate taxes in an American context) utilise a Grantor Retained Annuity Trust (GRAT) to support children and grandchildren over the long-term (Weinreb, 2009). Rogers (2005) has pointed out that financial transfers are as much about who gets the money, how they enjoy it, and, who is in control. This perspective indicates that there is more to transferring funds inter vivos than simply a dollar figure. And that lifetime gifts are better because the giver can see the benefit of their gift while they are still alive (Rogers, 2005). This emotional aspect is an important consideration which is often overlooked in the literature. Much of the literature covers the motivation for bequests, but not for inter vivos gifts as Rogers (2005) does.

Byrne (1999) has illustrated solutions to avoid estate tax in America, with it being found that intra vivos gifts early in life are an effective strategy for avoiding estate tax and maximising the wealth received by decedents (Bernheim, 1987b). However, some authors have cautioned about the issues that arise when inter vivos gifts are transferred and then the receiver gets a divorce (Heakes, 2006). Financial transfers while alive are an integral strategy for intergenerational wealth transfer and have been documented to occur commonly in high net wealth families (Cao, 2006).

2.3 Inheritance

The issue of inheritance has been of importance since property rights were first established (Shachar, 2007). From an ethical perspective, authors have found that inheritance leads to resource inequality (Alstott, 2007) and that the amount received is not related to effort or contribution (Spilerman, 2000). Further, there is a gender bias in inheritance (Davies, 1995). The ethical perspective is linked to the economic effects because authors have found that you inherit economic status (Corak, 1999), which can work positively for the wealthy and negatively for the poor. Over time, Eide (2000) has found that earnings do revert to the mean, but that it happens very slowly.

In terms of attitudes to inheritance, it has been found that there is no consistent inheritance attitude (Anderson, 2009). However, most people have been found to identify with kinship ties in attributing obligation for inheritance (Coleman, 1998), and that there are certainly intergenerational obligations at play in most societies (Ganong, 2005). It has also been found that inheritance is not just an economic and legal issue, it affects emotions and family relationship dimensions as well (Stum, 2000). Attitudes toward inheritance are an area of importance that have limited empirical research.

When considering the intergenerational transfer of wealth it is not only the financial transfer occurring at death which is important. Of equal importance is the transfer of wealth in developing the next generation, be that with time or financial transfers. The development of human and social capital is an important topic in the research because it illustrates that the means and result of transferring wealth are not limited to the financial (Enderle, 2010). Indeed, the transfer of wealth also includes the importance of investing in education of descendants (Caldwell, 2005; Chadwick, 2002), in particular for increasing their mobility across social classes associated with wealth (Chadwick, 2002; Checchi, 1997). Kinsey (1999) has gone so far to say that human capital is the reason why the 'haves' come out ahead so often.

The financial aspect of inheritance, and the so called 'inheritance boom' to come over the next 50 years has been played down by (Cutler, 1996), who has renamed it the 'inheritance ripple'. Greater wealth results in greater inheritance to descendants (Deutsch, 1997), and that there is large wealth mobility at the upper end of the distribution (Steckel, 1990). Cremer (1996) found that inter vivos gifts are efficient, while bequests are redistributive. Given the different effect of gifts either while alive or after death, it is important to consider the desired results as early as possible. The research indicates that intergenerational wealth transfer planning is especially important for the wealthy.

The law around the inheritance of property and rights differs from country to country and is constantly evolving to reflect the cultural situation at any point in time (Beckert, 2007). Many western cultures have developed an inheritance law system which has been passed down to them from their Colonial (often British) rulers (Alston, 1984). In effect, inheritance is the passing down of property rights (Brophy, 2008), and as such has only been important since the right to property became part of culture. The law of inheritance has evolved from merely choosing primogeniture over multigeniture (Alston, 1984) to stipulating the amount of testator power (Beckert, 2007) and reducing societal inequality (Altig, 1999). The research regarding inheritance law to date has focused on the evolution of the law in line with Colonial and cultural influences.

The ethical perspective of intergenerational wealth transfer is important to consider because ethics underpin societal norms and behaviours. Shachar (2007) discusses the ethics of inheritance in terms of the way birthright locks in privilege, and thus the way inheritance is as much related to social class and networks as it is to property transfer. Inheritance is not just an economic issue, it requires ethical considerations as well (Lafaye, 2008). The research into inheritance has found that people hold themselves in higher ethical regard than they hold others (Ganong, 2005). Despite the concept of property being an abstract entitlement, the effect of property inheritance has wide ramifications for societal inequality (Shachar, 2007). The ethical considerations behind discussions of intergenerational wealth transfer provide an important change of perspective on an issue that is often considered free of controversy.

Inheritance attitudes and strategies reveal interesting perspectives depending on culture, wealth, and ethical point of view. The research is not complete in terms of evaluating the best methods of inheritance and this is most likely because of the skewed distribution towards American based research where the focus is on minimising estate tax, which is not an issue in Australia.

2.4 Risk Management

The management of risk is an interesting factor associated with the intergenerational transfer of wealth. Risk management methods range from the unintentional self-insurance of the poor (Lybbert, 2004) to the transfer of wealth intergenerationally to reduce the career and earnings risk faced by adults today (Alan, 2006) in addition to other risk transfer strategies such as insurance. The perception of individual risk is an important consideration for the current research. Anderson (2009) found that people are inconsistent with attitudes toward inheritance risks.

A common method of managing risk is with insurance; the transfer of risk from the person to the insurance company in return for the premium. However, many Australian's are underinsured and lack trust in the insurance mechanism, while poor people are often unable to afford the insurance premiums and thus must self-insure (Lybbert, 2004). Despite the restrictions on availability, insurance is a common technique in America in order to fund estate tax where the estate is known to hold illiquid assets (Holtz-Eakin, 2001). Insurance as an estate planning technique can be fraught with disappointment where the insurance is not available as a result of age or health (Abel, 1988), and that advice is critical (George, 1999). Risk management in the intergenerational transfer of wealth can include insurance as a transfer of risk.

With an aging population, longevity risk and the issue of changing retirement expectations is of increasing importance. Researchers have found that individuals with high net wealth expect to outlive their money (Harrington, 2004). This is an emotional as well as financial issue as it creates uncertainty. When it comes to planning retirement is it not possible to accurately plan how long either party will live, and an often overlooked issue is how long the surviving spouse will live (Reinders, 1980). Further, research by George (1999) found that people are actually afraid of outliving their money, and that individuals with high net wealth live longer. These issues illustrate the importance of retirement planning and adjusting expectations to ensure an accurate perspective on wealth is maintained. The intergenerational transfer of wealth is an increasingly important issue when considering retirement options. Abel (2001) reports that individuals do not sell all their assets in retirement. Failure to sell assets in retirement may be because it is so complicated to plan for life expectancy.

2.5 Attitudes to inheritance

Inequality

Discussions around the attitudes toward inheritance often reveal underlining ethical considerations relating to inequality. Equality is a reference point for the process of defining inheritance law (Beckert, 2005), which illustrates how much of an integral component of the philosophical discussion equality actually is. For individuals living now they will have more money than anyone who comes after them (Ablett, 1996). In Australia, there is a history of financial inequality (Shanahan, 2001). Tax has been discussed in terms of inequality with Altig (1999) suggesting that a change in the tax system would result in greater income distribution. The intergenerational transfer of inequality is an important consideration, for not only can wealth be transferred, but also disadvantage (Corak, 1999). Further, Altig (1999) has suggested that parents who are on unemployment benefits are more likely to have children who are also on those benefits, illustrating the intergenerational transfer of disadvantage. There are a range of factors associated with the intergenerational transmission of inequality, among them culture, networks and education (Tiffin, 2007). Solon (1992) reports low levels of intergenerational income mobility resulting in unequal opportunity. The transfer of inequality is an important consideration, along with the effect that bequests and inheritance have on increasing inequality in society.

The role of bequests and inheritance in inequality in society is an area of thorough research. Researchers have found that inequality has increased in recent years (Keister, 2003) and that inherited wealth is more unequally distributed than income (Lafaye, 2008). Bequests and inheritance result in social and wealth inequality (Cagetti, 2008; Kunemund, 2005; Laitner, 2002; Semyonov, 2001; Spilerman, 2000; Villaneuva, 2005). Furthermore, bequests increase recipients income (Villaneuva, 2005), and increase income inequality (Feenberg, 1993). The role of bequests and inheritance in wealth and social inequality has been clearly established by the research.

The long-term implications of bequests and inheritance on inequality are unclear. Westerheide (2005) found that the poor save more of their intergenerational wealth transfer than do the wealthy and so there will be equality of wealth over time. However, Wahl (2003) found that wealth inequality will persist because the regression to the mean is occurring too slowly to be meaningful. These contradictory findings illustrate the importance for more research in this area.

Bequests

Attitudes towards bequests are important because they determine the eventual wealth distribution of descendants and reflect cultural norms (Alston, 1984). The issues surrounding bequests include the motivation, ultimate division between descendants, and attitudes towards bequests. The types of bequests are accidental, altruistic, and strategic (Lafaye, 2008). Bequest-motivated saving and the life cycle model explain bequest behaviour (Laitner, 2002). Attitudes towards bequests have changed over time, with people feeling they have less 'right' to property now, and a pragmatic attitude to the distribution of resources (Rowlingson, 2006). This is an important consideration because the change in attitudes over time makes it important that the current research examine attitudes in the current context to compare with previous research taken at a different snapshot in time.

The issue of who receives a bequest in practice is well researched. The majority of the research indicates that parents bequest equally to all children (Beckert, 2005; Behrman, 2004; Cremer, 1996; MacDonald, 2003; Wilhelm, 1996). However, it has also been found that only two thirds of parents divide equally (Bernheim, S., 2003; Cremer, 1996), with bequests a signal of parental affection, but not inter vivos gifts (Bernheim, S., 2003). Further research has found that bequests are not compensatory, and are not provided more to children with more need for them, rather they are provided equally (Wilhelm, 1996).

It has been found that bequests are elastic with regards to lifetime wealth (Wahl, 2003) and that low income of the child and high parental income results in greater bequests (Fan, 2006). This is clearly at a contrast to the research which suggested bequests are not compensatory (Wilhelm, 1996), despite the research analysing different aspects of the bequest division. These results highlight the behaviour aspect to bequests, as the amount and timing is influenced by family situations. However, parents generally do not transfer enough money to their children while they are alive, and this can have taxation ramifications in America (McGarry, 2000). People with high levels of wealth think they will leave bequests (Goetting, 2001), and do actually participate in more inter vivos transfers (McGarry, 2000). Research has found that bequests do get passed down to the next generations (Fried, 1999), indicating that despite the non-dynastic results of splitting bequests equally among children (Beckert, 2005), the result can be long-term dynastic formations.

Altruistic Bequest Motive

The most researched bequest motive is that of altruism, which is simply to provide for descendants, with no benefit to themselves (B. D. Bernheim, 1987b). Although authors have found that people have more than one bequest motive from their specific culture (Fried, 1999), the altruistic bequest motive has the most support (B. D. Bernheim, 1987b; MacDonald, 2003). Altruistic bequest motivations are associated with dynasty survival (Abel, 1991; Falk, 2001). Altruism does not extend further than the testators own descendants, so each generation will bequeath less and less (Amir, 1996). In terms of family properties, research has found that timber is more likely to be left in an estate tax free situation, because timber stock is more valued by generations (Amacher, 2002), providing further evidence that receivers are more

likely to keep passing the asset intergenerationally. This long-term perspective of testators is an important consideration because it provides evidence for the altruistic bequest motivation theory, without directly addressing it. Further, authors have conceded that inherited habits have a strong positive effect on bequest decisions, so there may be a precautionary motive as well as the altruistic motive (Jellal, 2002). There are certain factors which influence the amount of money transferred to descendants, and while it is logically associated with wealth, authors have found that both education and income of parents affects the amount transferred to children (MacDonald, 2003). Contradictory research has found no support for the altruistic bequest motive unless there is more than one child in the family (Wilhelm, 1996). Clearly the research is not equivocal on the existence of the bequest motive, and this is a gap in the research that needs to be filled.

In deciding the allocation of bequests, people in most countries are able to choose to leave property to charitable institutions. In many countries, this is supported by the legislation, which creates tax deductions and similar benefits to estates which support charities financially. Researchers have found that the existence of the estate tax results in more money being bequeathed to charities, such that a removal of the estate tax would lead to a 12% reduction in charitable bequests (Bakija, 2003; Brunetti, 2005; Greene, 2001). The fact that charitable bequests would not disappear entirely shows that people do generally want to contribute some of their wealth to those less fortunate, and it may not be their children. The area of charitable bequests has been tied to estate tax in the research to date and there is a gap in the research with regard to attitudes to charitable bequests from the perspective of testators and receivers in the absence of estate tax situations.

Strategic Bequest Motive

Another motive for bequests is the strategic bequest, which is based on the concept of getting the maximum attention from children by exchanging them a greater portion of the estate for doing so (Perozek, 1998). However, despite being discussed in the literature, there is little support for this theory. In particular, authors have found no support for the strategic bequest motive, with more influence from the socioeconomic situation of the children and the level of altruism displayed by the parents, than attention given to parents (Perozek, 1998).

Receivers Attitudes

The attitudes expressed by receivers of inheritance assets is an important topic of research because it affects other aspects of their life such as workforce participation, which can affect the wider society (Kinsey, 1999). Constantinides (2007) found that receivers intend to and do purchase assets with their inheritance, which increases security prices overall, thus inflating asset markets. How property recipients receive their land affects how they use and treat it, showing that inheritors are more aggressive forest managers than non-inheritors (Majumdar, 2009). These results highlight the differences in attitudes displayed towards asset use, and the effect it can have on the wider economy. With the largest intergenerational transfer of wealth happening in the coming decades, and the majority of this wealth transferred through superannuation and property, research would benefit from considering the attitudes of consumers who receive their inheritances in different legal structures, such as superannuation.

Culture

It is important to consider culture in the role of influencing attitudes towards intergenerational wealth transfers because culture plays such an important role in influencing people's attitudes and beliefs in general (de Graaf, 2001). There is a culture of intergenerational provision of resources for housing purchases (Bailey, 2009), which shows the importance of culture in the examination of attitudes in this area. Culture is so important that it has been found there is no direct transmission of behaviours and attitudes anymore, that it is all a result of culture (de Graaf, 2001).

Ethics have been found to affect people's attitudes towards bequests (Shachar, 2007) and ethics are influenced by culture (Bageac, 2011). Culture is related not only to the attitudes around intergenerational wealth transfer, but also

the legal system which supports it (Beckert, 2007). For example, it has been found that culture explains inheritance law (Beckert, 2007). There are a number of factors which are transferred intergenerationally other than wealth, and they include parenting skills (Chen, 2001), and volunteering participation (Bekkers, 2007). Further, intergenerational wealth transfer behaviours are also affected by intergenerational transmission of culture (Kreager, 2008). Mustillo (2004) found that people pass on either their behaviour as a role model, or capital. Mobility is an important factor associated with culture, with intergenerational education mobility higher for whites (Nimubona, 2007), low income mobility for females (Chadwick, 2002) and low intergenerational income mobility overall (Solon, 1992). Culture is an important factor for consideration because it has such severe consequences in such a wide range of areas.

Saving

The reasons for saving are an integral factor in determining the attitudes toward bequests, because it reflects the testator's ultimate wealth goal. It has been found that those with higher wealth save more on average because they are worried their children will have relatively less than they had (Fan, 2006). This precautionary savings motivation is apparently present for high and low wealth people (Abel, 1985; Alan, 2006). However, other authors have found that both the precautionary saving and bequest motivations are present in testators (Dyanan, 2002). On the other hand, some authors have found support for only bequest motivated saving (Laitner, 2002), or the life cycle model of saving for high income societies (Fan, 2001). The saving of income has shown a variety of perspectives on motivations for saving. When it comes to saving of inherited money, poor people save relatively more of the inheritance than do the rich (Westerheide, 2005). These results indicate that savings patterns differ, and the motivation for saving can reflect the motivation behind bequests.

2.6 Family

The role of the family in developing a system of values to transfer wealth intergenerationally is an important consideration with the potential to affect attitudes, strategies, and ultimately society. There are a number of factors at play within the family that are of importance. There has been an increase in researchers over time on topics such as family structure, family processes, demographics, and intergenerational obligations (Dew, 2008). Family structure has been changing over the last century, with family size reducing across the world, and a widespread reduction in fertility (Akkerman, 1998). Research has found that family structure affects educational attainment (Bogges, 1998), and so the changes in family structure can have far reaching consequences in society, and intergenerational wealth transfer. Declining co-residence between parents and children has actually increased the amount of wealth transferred upward towards parents (Chattopadhyay, 1999), and this may be because there is less time being transferred and money is the compensation. In addition to declining family sizes, there is an increase in the number of hours spent in the labour market (Ciscel, 2000), which results in even less time available to be transferred to parents. Wealth transfer from the other direction indicates that children who divorce have more reliance on their parents (Clark, 2010). Individuals who are divorced or never married have reduced levels of wealth until they marry (Wilmoth, 2002). In developing countries it has been found to be of benefit to parents to have more children (Clay, 1993). However, the increase in family size results in reduced educational attainment and reduced financial transfers because resources are spread more thinly (Keister, 2003). The long-term effect of large families can be a reduced concentration of wealth.

In terms of family processes, research has found that wealth does not predict the emotional environment of the family (Abbott, 2004). However, further research has found that family processes are predictive of wealth (Keister, 2004). Close family ties between generations has been found to increase gifts (Deutsch, 1997). The family and its processes are thus of critical importance to studies of intergenerational wealth transfer, and it has been anecdotally discussed that the family is more important than the individual in these conversations (Spilerman, 2000), and is somewhat more difficult to research. It has been found that the participation of family members in family business meetings is the main predictor of business success, rather than who is actually in control (Tower, 2007).

Different demographics have been analysed in terms of the family and intergenerational wealth transfer. In particular, researchers have found that socio-economic situation is better than education level of the parents at predicting family

functioning (Tiffin, 2007). It has also been found that socio-economic status influences perceptions of relationships and family dynamics (Tiffin, 2007). For females, less income mobility has been found (Chadwick, 2002), and this indicates that females are more likely to have similar income levels to their parents than males. The variety of demographic variables covered in previous research indicates that attitudes and strategies differ between cultures and family structure.

In terms of financial transfers within families, it has been found that it is tradition to give money to family in the New Zealand context (Cowley, 2004). There is a distinction between a feeling of family obligation, and addressing needs, with the level of giving different between families (Logan, 2003). Transfers within families can also be of an heirloom nature, and it has been found that heirlooms extend the group, and provide a sense of solidarity for family members (Curasi, 2004). From the perspective of transfers within the family it can be seen that the family plays an important role in social inequality (Semyonov, 2001).

The changing family structure is of relevance to the current research because of the wide-ranging impacts that changing family structure can have on attitudes and strategies towards intergenerational wealth transfer. There are gaps in the research in terms of attitudes and strategies relevant to different family structures.

In summary, the literature deals with some topics and jurisdictions extensively while other areas are more light on research such as attitudes towards inheritance, methods of inheritance, bequest motives and research outside of the US where a majority of the body of research has been conducted. It is also noted that strategies and attitudes vary over time as the legal and taxation environments continue to evolve. Furthermore, the build-up in wealth that is occurring will increase the importance of understanding intergenerational wealth transfers and the methods of achieving efficiency in such transfers. The issue of equality also emerges strongly in the literature with wealth transfers often argued to be a mechanism through which advantage and disadvantage are transferred. The current research will inform this literature and the advice and regulatory communities in relation to the scale of the intergenerational wealth issue that will occur in Australia in the next 20 plus years. Building on the work of McCrindle (2016) we also examine the design of potential mechanisms and products which are needed to transfer wealth across generations in a manner that seeks to advantage both individuals and the economy and avoid the opportunity of this wealth bubble being lost.

3.0 Project Approach

The project team has been engaged by No More Practice Education to further explore and extend the preliminary work of McCrindle (2016). In particular this project will extend modelling at the retirement and post retirement phases for Gen XY to provide a more detailed view of superannuation balances at retirement for different categories of individuals/households and how these funds will be utilised through the retirement phase. In addition, the outcomes of these scenarios will then be modelled through the intergenerational transfer phase and the potential impact of this transfer in the hands of the recipients over their accumulation phase. Finally, the outcomes of this modelling will be used to inform policy recommendations in relation to the reform of the superannuation system in Australia. The two proposed elements for the current research are detailed below.

3.1 Wealth transfer modelling

To accurately model the volume and distribution of wealth transfer, detailed data is required to take account of the various scenarios that are possible for Gen X/Y'ers during both their remaining accumulation and decumulation phases. Without such nuanced analysis, and thus relying on averages and totals alone, the potential analysis may result in unrealistic conclusions as the average may relate to only a small proportion of the population (particularly relevant if one intends to argue for policy reform). The reasons for this are primarily that superannuation and wealth balances are not normally distributed across the Australian population: there is a large group of people who are self-employed, casually employed or under-employed and do not have much in superannuation at all, and; there is a large group of the community who have in excess of \$1 million in superannuation as a result of continuous permanent employment in formal occupations.

A large dataset is needed to reflect actual Gen XY'ers both contemporaneously and at their time of death to accurately model retirement savings at the point of retirement. Analyses of this data will allow a more nuanced view of the potential wealth transfer and provide empirical conclusions from which policy recommendations can be drawn. Modelling will be based on a number of scenarios, including age brackets, likely inheritance, time horizons and range of potential investment returns and sequences. This will be conducted across the three phases retirement: the remaining accumulation phase for Gen XY'ers, the decumulation phase, and the wealth transfer phase. The Household, Income, and Labour Dynamics in Australia (HILDA) database will be utilised to gather a detailed view of contemporaneous Gen XY household wealth including specific individual information about wealth, household structure and other pertinent demographic and financial information. Through extracting the relevant data points, high level information will also be captured, as the HILDA dataset contains detailed information on a wide range of topics from consumption to lifestyle habits to inform and deepen the analysis. Policy recommendations will be made based on the above analyses to determine the appropriate balance of incentives or requirements to transfer wealth within the Australian retirement environment (versus spending the inheritance).

The transfer of wealth within the retirement system occurs regularly enough that adequate regulation on the topic is expected. However, there is relatively little regulation regarding wealth transfers through the retirement system itself (as opposed to estate law) and the regulations which do exist are inadequate to ensure that the goals of the retirement system are achieved over the long-term (intergenerationally). The retirement system is designed to provide incentives and a vehicle for self-funded retirement so that the government is able to allocate funds for other uses such as education and health. However, the current system does not incentivise long-term accumulation of assets across generations, and thus implicitly assumes funds will (in the normal course of retirement) either be insufficient and be supplemented by other assets and/or the pension, or be exhausted at or around death of the retiree. The simple premise of this research is that as the superannuation system matures and net wealth accumulation grows with aging population, more individuals will pass away with a significant residual balance of capital which could be used to enhance the sustainability of the system through an orderly, if not incentivised, wealth transfer.

Our task here is to inform our understanding of the potential outcomes of wealth recycling within the retirement system and inform policy recommendations regarding the calibration of any incentives and/or requirements.

3.2 Research Questions

In terms of the particular elements to be explored, several research questions have been framed to address the above issues that are presented in three stages:

Stage 1: At retirement

- RQ 1.1 – What wealth is likely to pass on to Gen X & Y's from the current over 60 population in Australia and what is the likely distribution of this wealth?
- RQ 1.2 – As the superannuation system matures, what are the likely superannuation outcomes at retirement for Gen X/Y'ers?
- RQ 1.3 – What is the likely distribution of household wealth outcomes at retirement for Gen X/Y'ers?

Stage 2: Utilisation of retirement wealth

- RQ 2.1 – What is the structure of the household (e.g. single, couple, dependants, beneficiaries) of the retiree and the impact this has on retirement outcomes?
- RQ 2.2 - What is the distribution of life expectancy outcomes and the drawdown rates this implies?⁸

⁸ This research question will be examined using a qualitative research design in a later stage of this research program.

RQ 2.3 - To what extent will the funds be drawn down by the retiree?⁹

RQ 2.4 - What are the intentions of the retiree in relation to bequeathing residual capital in relation to dependants and/or other interests?¹⁰

RQ 2.5 - What is the range of possible investment performance over the accumulation phase?

Stage 3: Wealth Transfer

RQ 3.1 - What is the impact of wealth transfers on the beneficiary's long-term wealth accumulation?

RQ 3.2 - How do the demographics of the recipient impact retirement wealth accumulation?

RQ 3.3 - How does the long-term investment allocation and sequence of returns impact on wealth accumulation?¹¹

RQ 3.4 - Is there merit in incentivising or regulating wealth transfers into retirement accounts and what would such provisions look like?

3.3 Data

Data for this project is drawn from the HILDA Survey. HILDA is the main Australian source of comprehensive, high-quality, longitudinal panel data on individual and household economic and social dynamics (Melbourne Institute of Applied Economic and Social Research, 2012) and with new waves of data available every year. The HILDA survey was initiated in 2001 and funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute).

HILDA provides information on more than 3,000 Australians already aged over 65 years, and approximately 15,000 younger Australians and is population weighted to account for gender, location and other individual profiles and differences. Of these approximately 6,000 are in the generation X and Y categories. Individuals in sample households are tracked over time regardless of whether they remain in the original households.

The Household Form and Household Questionnaire (as well as the top up forms) are completed during a personal interview with one adult member of each household. A Continuing Person Questionnaire is administered to all adult household members; and a Self-Completion Questionnaire (SCQ) is provided to all respondents who completed the Person Questionnaire and is collected at a later date or returned by post (Wooden et al. 2002). In addition to the detailed household questions repeated each year, the HILDA survey also includes a schedule of special modules, such as retirement (in waves 3 (2003), 7 (2007), 11 (2011) and 15 (2015) and wealth (in waves 2 (2002), 6 (2006), 10 (2010) and 14 (2014)) in the continuing and new person questionnaires. The Household questionnaire includes questions regarding whether the respondents own or are paying off their house, the amount of their mortgage and repayments, their expectations regarding paying their housing debt off, and the type of loan they have. Data from the Continuing Person and New Person Questionnaire will also be utilised for research including questions related to education, employment history, employment status, income, family information, partnering/spousal information, retirement intentions and matching this with data on age, gender, place of residence and retirement status.

⁹ This research question will be examined using a qualitative research design in a later stage of this research program.

¹⁰ This research question will be examined using a qualitative research design in a later stage of this research program.

¹¹ This research question will be examined using an extension of the simulation model in a later stage of this research program.

The HILDA survey collects information on economic and subjective wellbeing, labour market dynamics and family dynamics. The most recent module on retirement (2015) will be used to extract data albeit with a concentration on the questions from the annual self-completed questionnaire regarding personal and household finances, predominantly in wave 14 which included a sample of 9,538 households encompassing 17,325 individuals aged 15 years and over (Melbourne Institute, 11th Annual Statistical Report on HILDA 2016).

The important distinguishing feature of the HILDA Survey is that the same households and individuals are interviewed every year, allowing researchers to see how their lives are changing over time. By design, the study can be infinitely lived, following not only the initial sample members for the remainder of their lives, but also the lives of their children and grandchildren, and indeed all subsequent descendants (Wooden et al. 2012).

In addition to the widespread use of HILDA among Australian housing and economics researchers, international researchers on the topic of housing and retirement incomes were using similar international panel surveys such as the British Household Panel Survey (BHPS); the Survey of Family Income and Employment (SoFIE); and the Panel Study of Income Dynamics (PSID). Future collaborative international research is more readily possible if an internationally recognised panel survey was used and HILDA can also link to modules in these international panel surveys for international comparisons. Using secondary data makes future replicability easier for other researchers.

In addition, data was readily available through the Australian Bureau of Statistics on many of the household economic factors. Consequently, for this report the use of secondary data was considered the most efficient, credible and reliable way to proceed with the data analysis, and allowed for ease of further research on similar topics as the wealth and retirement income research agenda progressed over time.

4.0 The Current State of Gen X & Y

A review of household financial data in Wave 14 and 15 of HILDA¹² for Gen X and Gen Y participants¹³ provided a sample of 5922 households. Of these the gender and age were well dispersed (see Table 2 below) with the majority of respondents (57.1%) married and the majority had both parents still alive (73.8%). The majority of participants lived in the eastern states with a slight under representation from other jurisdictions relative to the population distribution. There was also variation in education across the sample with 13.2% achieving year 12 as their highest qualification, 20.3% bachelor level and 7.3% postgraduate.

¹² Wave 15 did not have the full financial module.

¹³ Based on the age of the first listed member of the household where they were between 29 and 49 on their last birthday.

Table 2: Gen X&Y Demographics

Item	Range	%
Gender (n=5922)	Male	47.6
	Female	52.4
Age (n=5922)	29-33	27.1
	34-38	21.3
	39-43	23.4
	44-49	28.3
Marital Status (n=5922)	Married (in a registered marriage)	57.1
	Separated but not divorced	3.9
	Divorced	8.2
	Widowed	0.4
	Never married but living with someone in a relationship	15.2
	Never married and not living with someone in a relationship	15.3
Total Children Ever Had (n=5922)	No children ever	26.0
	1	18.2
	2	30.6
	3-5	23.8
	>5	1.4
Parents (n=5746)	Both parents still alive	73.8
	Mother still alive, father deceased or status unknown	18.0
	Father still alive, mother deceased or status unknown	5.8
	Both deceased or status unknown	2.4
Highest Level of Education (n=5922)	Postgrad - masters or doctorate	7.3
	Grad diploma, grad certificate	7.4
	Bachelor or honours	20.3
	Adv diploma, diploma	11.3
	Cert III or IV	25.8
	Year 12	13.2
Location	Year 11 and below	14.6
	NSW	28.5
	VIC	26.7
	QLD	22.1
	SA	8.1
	WA	8.8
	TAS	3.0
	NT	.9
ACT	2.0	
Household Type (n=5916)	Lone person	10.2
	Couple family without children	16.7
	Couple Family with children <15	52.2
	Couple with dep st	4.4
	Couple family with non-dep child	3.1
	Lone Parent with children	9.3
	Group household	0.8
	Multi-Family household	2.5
	Other	0.8
Household Accommodation (n=5916)	Own/currently paying off mortgage	62.6
	Renting	34.9
	Live rent free	0.1
	Other	2.4

Note: This table contains summary descriptive statistics for Gen X and Gen Y participants drawn from the HILDA database. N= 5922 with any category reporting less than this due to missing data (refused/non stated/don't know responses).

In regards to household structure, 26% had no children and 54.4% having between 2 and 5. More than 10% lived in a single/lone person household, 16.7% were a couple with no children, 9.3% were single parents, and 52.2% in a couple-family with dependent children. Overall, this highlights the diversity of circumstances that exist across the Gen X/Y population and the comprehensive and generally representative nature of the HILDA database.

This diversity is further illustrated when one reviews the HILDA wealth data in the sample (see Table 3) where, for example, 15.8% reported household annual income of less than \$50,000 while 28.4% reported income of greater than \$150,000. Similarly, 26.4% of respondents reported household net wealth of \$100,000 or less, while 14% reported net wealth of greater than \$1 million. This dispersion is also reflected in the data for total assets and the disaggregated measures of financial and non-financial assets.

Table 3: Gen X&Y Household Wealth Descriptors (n=5916)

Item	Range	%
Gross Household Income (n=5830)	Negative or Zero income	0.2
	\$1 - \$19,999	2.0
	\$19,999 - \$49,999	13.6
	\$50,000 - \$99,999	29.4
	\$100,000 - \$149,999	26.5
	\$150,000 - \$199,999	15.7
	\$200,000 or more	12.7
Household Net Worth (n=4296)	>-\$100,000	0.5
	-\$100,000 – \$0	3.5
	\$1 – \$100,000	22.4
	\$100,001-\$250,000	18.9
	\$250,001-\$500,000	20.1
	\$500,001-\$1,000,000	20.6
	\$1,000,001-\$2,000,000	9.8
>\$2,000,000	4.2	
Household Total Assets (n=4570)	\$0-\$50,000	12.8
	\$50,001-\$100,000	8.3
	\$100,001-\$250,000	9.2
	\$250,001-\$500,000	14.9
	\$500,001-\$1,000,000	28.2
	>\$1,000,000	26.6
Household Financial Assets ¹⁴ (n = 4670)	\$0-\$50,000	26.5
	\$50,001-\$100,000	19.0
	\$100,001-\$250,000	30.6
	\$250,001-\$500,000	14.0
	\$500,001-\$1,000,000	6.6
	>\$1,000,000	3.7
Household Non-Financial Assets ¹⁵ (n = 5260)	\$0-\$50,000	30.8
	\$50,001-\$100,000	2.2
	\$100,001-\$250,000	4.0
	\$250,001-\$500,000	21.3
	\$500,001-\$1,000,000	26.4
	>\$1,000,000	15.4

¹⁴ A HILDA derived variable that includes bank accounts, superannuation, cash investments, equity investments, trust funds and life insurance.

¹⁵ A HILDA derived variable that includes property assets, business assets, collectibles and vehicles.

Table 3: continued

Household Property	\$0	33.6
	\$1-\$250,000	5.2
	\$250,001-\$500,000	24.8
	\$500,001-\$1,000,000	23.9
	>\$1,000,000	12.5
Household Superannuation	\$0-\$50,000	36.3
	\$50,001-\$100,000	22.4
	\$100,001-\$250,000	27.5
	\$250,001-\$500,000	10.2
	\$500,001-\$1,000,000	2.8
	>\$1,000,000	.8
Household Total Debt	\$0	12.1
	\$1-\$50,000	27.6
	\$50,001-\$100,000	6.0
	\$100,001-\$250,000	16.0
	\$250,001-\$500,000	24.0
	\$500,001-\$1,000,000	10.5
	>\$1,000,000	3.7
Household Total Bank Accounts	\$0-\$1,000	16.5
	\$1,001-\$10,000	38.8
	\$10,001-\$50,000	28.6
	\$50,001-\$100,000	7.9
	>\$100,000	8.2
Overdue Household Bills (n = 5705)	\$0	88.0
	\$1-\$1,000	8.2
	\$1,001-\$5,000	3.1
	>\$5,000	0.7

Note: This table contains summary descriptive statistics for Gen X and Gen Y participants drawn from the HILDA database.

The descriptive data above also shows that superannuation and property dominate the balance sheets of Australian Gen X/Y households with these making up the lion's share of financial and non financial assets respectively. Line item examination shows there is also a large percentage of the sample with low value investments in both property (33.6% report no property assets) and superannuation (27.6% report a balance between \$1 and \$50,000 with 12.1% reporting they had no superannuation), again highlighting the variation in wealth across households. Total debt held largely reflects the geared investments in property.

When it comes to liquidity, 55.3% report bank account balances less than \$10,000 with 16.5% less than \$1,000 and 8.2% more than \$100,000. In addition, 12% report they are behind to some extent on household bills. This suggests an array of circumstances exist in relation to Gen X/Y household cash flow and the existence of financial stress for a large number of households.

Table 4 provides summary information on other financial variables for Gen X/Y and illustrates concentrated exposures to HECS debt, business assets and collectibles. Wider use of credit cards is reported with 30% of participants having an ongoing balance of up to \$20,000 and the majority of participants have vehicle assets on their household balance sheet.

Table 4: Other Financial Items

Item	\$0	\$1-25,000	>\$25,000
HECS Debt %	78.2	16.1	5.7
Household Credit Card Debt %	68.9	30.0	1.0
Collectibles %	87.3	10.0	2.7
Vehicles %	5.7	55.1	39.1
Business Value %	86.9	4.6	8.5

Note: This table contains summary descriptive statistics for Gen X and Gen Y participants drawn from the HILDA database.

5.0 Gen X & Y at Retirement

The HILDA data is used to forecast Gen X&Y net wealth at retirement. The household data above is used for this purpose based on age of the primary household member with key variables collected being Age, Location, Number of Children Ever Had, Number of Children Who Have Died, Net Worth, Total Assets, Financial Assets, Non-Financial Assets, Property, Superannuation and Income. Retirement net worth is forecast using these variables to the age of retirement (assuming 65) for each household and thus this varied from 16 to 36 years. Once observations are removed for those households that did not have the detailed financial data required, we are left with 4421 households of which 1391 fall within the 29-34 age bracket, 984 in the 35-39 bracket, 1092 in the 40-44 bracket and 954 in 45-49 age bracket. This provides a representative sample size across each group.

Assumptions are made in the base case and then varied to conduct sensitivity analysis as follows (see table 5 below for the parameters):

- **Capital Growth:** Household wealth is largely tied to property values, income and ability to save this income, and increasingly, investment market performance due to the growth of superannuation as a proportion of the household balance sheet (exposing more wealth to financial markets). Historically, household net worth has grown at 10.5% (from June 1960 to June 2007) as cited in Goldbloom and Craston (2008); however, the differences across regions and over time are noted in this report. We take a more conservative view given the current economic outlook and the diversity of households in our sample with the base case being 5% ranging to a worst case

scenario of 3% and best case of 10%.¹⁶ It should be noted that savings and wages growth (in other measures below) add to capital growth also, thus this component is seen, while conservative, as reasonable given it is applied to all households.

- **Savings Rate:** The personal savings rate in Australia has a long-term average of 9.98% (Trading Economics, 2017). However, this has been lower in recent years (for example in the second half of 2016 it fell to 5.2% with a record low in 2002 of -0.70%). Given the outlook for wages and household living costs, we adopt a conservative 5% on gross household income for the base case and range this from 0% in the worst case to 10% in the best case.
- **Wages Growth:** Historically, wages growth has been around 4% per annum; however, in recent years this has declined and examples such as Japan and the US suggest lower growth may be a trend for some time. Trading Economics (2017) suggests growth in 2018 will be 3.3% and thus we adopt a conservative 2% for the base case and range this from 0% in the worst case to 4% in the best case.
- **Cost Per Child:** The literature on the cost of raising children has differing views on the impact of wealth. Some put the cost at \$812,000 for raising a family of two children from birth until they leave home (AMP/NATSEM, 2013). In this research we are interested in the impact on net wealth rather than the cost, not to say that the two are not related; however, a broader measure of wealth impact recognises the complete change in financial circumstances including possible positive impacts on income (Deaton and Muellbauer, 1986). More recently, Dockery and Bawa (2017a; 2017b) take up this perspective and conclude that the overall wealth impact per year over time on wealth of couples is approximately \$2,000 per year per child. We apply this as a percentage of average income from our sample and generate a 1.6% cost to income in the base case, ranging from 2% in the worst case to 1% in the best case over the entire sample period.
- **Net Super Contributions and Tax:** Superannuation policy in recent years has a political uncertainty to it and thus we adopt the current standard contribution rate (currently 9.5% of income and expected to rise to 10% in July 2021) less 15% contributions tax and 1.5% for administrative fees and insurance premiums. In the worst case we increase this to 20% contributions tax to account for possible further policy changes and/or higher fees/insurance premiums.
- **Inheritance:** The value and timing of inheritance at the household level is extremely difficult to predict and thus at this stage we do not include this in the modelling. Later in the report we examine the distribution of likely intergenerational wealth transfers from the current over 60 year old Australians, much of which will go to the Gen X and Y's and will comment further at that point.

The results of the forecasting are summarised in table 5 below. Panel A provides average retirement wealth for the sample and each of the age groups across each of the five scenarios referred to above.¹⁷ The base case results in average wealth of over \$2.8 million with a high of \$3.3 million for the 35-39 year-old group and a low of \$2.4 million for the 45-49 year old group. The worst-case scenario more than halves this across the pooled sample (\$1.4m) and most groups with a low of \$1.09 million for Group 1 and a high of \$1.5 million for Group 2, highlighting the time (capital and market) risk associated with the longer-term accumulators. The best case scenario produces a pooled sample average of \$11.4m with a low of \$6.3m for Group 4 and a high of \$16.5m for Group 1 (best case). This represents the time value of having capital in the market when it performs well over long periods of time, which usually means stronger economic circumstances and higher wages growth as per the scenario.

¹⁶ Wealth is forecast forward on a 3%, 5% and 10% basis for each household in the sample for the number of years required to obtain a retirement age of 65 with yearly compounding of returns and assuming no other changes in the household circumstances.

¹⁷ All figures are nominal and not inflation- or time-adjusted.

Table 5: Gen X/Y Retirement Wealth Forecasts
Panel A: Wealth Forecasts By Age Group

Scenario	Best	2	Base	4	Worst
Capital Growth	0.100	0.075	0.050	0.040	0.030
Savings Rate	0.100	0.075	0.050	0.025	0.000
Wages Growth	0.040	0.030	0.020	0.010	0.000
Cost Per Child	0.01	0.016	0.016	0.016	0.020
Net Super Contribution	0.090	0.080	0.080	0.080	0.070
Super Contribution Tax	0.150	0.150	0.150	0.150	0.200
Wealth Outcomes:					
Pooled	11,375,936	5,621,349	2,885,294	2,065,830	1,373,532
Group 1 (29-34)	16,466,956	6,967,665	3,038,166	1,946,207	1,085,368
Group 2 (35-39)	13,673,313	6,663,472	3,308,254	2,319,872	1,495,023
Group 3 (40-44)	9,010,284	4,934,770	2,745,018	2,049,843	1,435,576
Group 4 (45-49)	6,353,190	3,919,490	2,449,737	1,947,399	1,478,162

Panel B: Wealth Forecasts By Age Group Quartile

Group	Quintile	Scenario				
		Best	2	3	4	Worst
1 n=1391	1	711,049	356,337	200,017	121,703	38,595
	2	2,113,238	1,084,344	596,219	409,453	230,238
	3	3,181,801	1,643,497	903,021	635,954	387,312
	4	4,239,301	2,211,694	1,221,749	875,249	557,307
2 n=984	1	5,247,623	2,664,118	1,433,015	1,014,546	638,440
	2	6,167,949	3,072,734	1,624,679	1,140,819	711,343
	3	7,107,926	3,606,304	1,933,949	1,379,969	889,187
	4	8,107,178	4,077,253	2,157,569	1,536,336	993,027
3 n=1092	1	9,315,349	4,609,133	2,397,603	1,698,508	1,095,291
	2	10,875,070	5,422,495	2,835,952	2,026,065	1,330,531
	3	12,560,996	6,105,141	3,107,100	2,187,768	1,409,501
	4	14,796,988	7,163,679	3,607,433	2,544,440	1,655,855
4 n=954	1	17,580,189	8,505,256	4,271,434	3,031,967	2,005,060
	2	21,069,102	10,086,037	4,995,904	3,534,799	2,337,904
	3	27,297,244	12,794,931	6,189,041	4,344,383	2,857,267
	4	56,133,161	26,682,187	12,923,245	9,263,012	6,371,347

Notes: This table contains summary information from the forecasting of Gen X/Y retirement wealth based on data from HILDA.

Panel B of Table 5 provides further information on the distribution of this wealth within each of the age groups. This illustrates, even when breaking the groups into just quartiles, that there is a wide dispersion of wealth outcomes amongst Gen X/Y households in the sample. Substantial ranges are observed in the minimum and maximum outcomes across the 16 quartiles in each model. For the worst case scenario the largest outcome is 165 times larger (\$6.37m) in comparison to the smallest outcome of \$38,595. The other scenarios average a 75 times larger maximum outcome in comparison to the lowest outcome.

In terms of the utility of these funds vis-à-vis providing sufficient capital to fund a 'comfortable' retirement, one must first determine a basis upon which 'comfortable' is defined. We note the various approaches to determining 'how much is enough', and without debating that here we adopt the AFSA model which suggests that when investing at 5% with no aged pension, \$1.11m is required, or \$910,000 at 7% or \$1.375m at 3% (per person). This, is of course in today's terms and thus forecasting this forward for 16 years (when the first of our sample are likely to start retiring) at 2.5% inflation, the amount for the 5% case increases to approximately \$1.6 million (note that if Australia's long run average inflation rate of 5.07% is used this figure jumps to over \$2.4 million). In the base case above, 31% of the sample would not reach this

target in 16 years (50% at 5.07% inflation), while in the worst-case scenario 68.75% would not reach the target (87.5% at the higher rate of inflation). However, if a 26 year time horizon is utilised (where the last of the sample households reach 65) the target accumulated capital becomes \$2.09m (\$3.98m) at the 2.5% (5.07%) inflation rate. Under those parameters, 43.7% (75%) of the base case and 81.3% (93.8%) of the worst case fail to reach the retirement target. This highlights the accumulation and longevity risk faced by significant proportions of the Gen X/Y group in a world where the aged pension is likely to be diminished.

The final element of this modelling is the distribution across the entire sample. Using the base case, ordered retirement wealth outcomes are shown to be concentrated in a small percentage of the population (see Table 6 below). For example, the first 50% of the sample accounts for 17.91% of the total forecast pool of wealth. The last 10%, however, accounts for just over 52% with the wealthiest 10% holding an estimated 45.21%. This reflects the concentration of wealth we see in society more generally (Jericho, 2015), however interestingly the severity of it is not as severe as one might expect (for example see the results below for the over 60's forecasts). This is perhaps one of the 'social promises' of superannuation as the forced savings regime, particularly over the long-term, to provide a significant capital base for superannuants to utilise to at least part-fund retirement. Whereas without superannuation, their retirement savings would not have been so high. What the above results ask, however, is whether the current regime will achieve sufficient outcomes for enough Australians. It is also clear that small variations in factors that influence accumulation outcomes (investment returns, fees, taxes, savings rates, income growth, etc.) can have significant implications over the long run. While this is a risk, it is also an advantage as time is a key factor that Gen X/Y have on their side that later generations do not.

Table 6: Gen X/Y Retirement Wealth Forecasts: Distribution of Wealth

Households in Sample by Decile	% Of Total Forecast Gen X/Y Retirement Wealth	Value (\$) Of Total Forecast Gen X/Y Retirement Wealth
10	0.76%	260,821
20	3.08%	720,919
30	6.70%	1,108,065
40	11.56%	1,465,589
50	17.91%	1,903,211
60	25.75%	2,324,308
70	35.73%	2,923,624
80	47.96%	3,549,714
90	64.79%	4,832,373
100	100.00%	9,883,208

Notes: This table provided summary data on the distribution of forecast wealth of 4421 Gen X/Y households drawn from the HILDA database. Data is ordered by household wealth and presented in deciles as per column 1.

Overall, it appears there are large percentages of Gen X & Y households on the pathway to self-funded retirement with a significant proportion to be at least partially self-funded in retirement. The ultimate outcomes for many are likely to be driven by the investment parameters falling in their favour. For many the possibility of inheritance, or improving personal circumstances beyond the best case scenarios (growing wages faster than the average for example), and managing risk well, will be key to these outcomes. There will also be a sizable percentage of Gen X & Y that under current circumstances will struggle to be at least partially self-funded in retirement. In this regard, the importance and impact of time, and over time the small incremental changes in income, savings rates, return on capital and efficiencies that result in lower fees and taxes will have a big impact on outcomes. Should these parameters move in the 'wrong' direction for the superannuants, the impact will be equally negative. While we adopt the positive perspective that "time is your friend", we also caution that prudence and conservatism in investment decisions, acceptance of risk, being adequately insured and avoiding speculative investment and schemes/scams will be critical for most Australians in order to benefit from time. This also suggests that having sufficient financial literacy/

capability to underpin effective financial decision-making, in addition to fostering a professional financial advice relationship, will also be key factors in order to maintain a long-term perspective and avoid the behavioural pitfalls.

Thus, we concur with McCrindle (2016) that the intergenerational wealth transfer issue will be important (if not critical) for many Gen X/Y households in relation to their accumulation of wealth. To this end the next section will explore wealth held by the over 60's in Australia.

6.0 Over 60's Wealth Transfers

A key element of the future wealth transfers of Australia's Gen X and Y's is the inheritance they may receive from the Builder and Baby Boomer generations. McCrindle (2016) estimates that Australia's over 60's will transfer \$3.5 trillion in wealth, growing at 7% per year (see Table 7 below). With an estimated 7.5 million children, if 70% of wealth is transferred then it is estimated approximately \$320,000 on average will be passed on to each child.

Table 7: Estimated Intergenerational Wealth Transfer

	60-64	65-69	70-74	75-79	80-84	85+	Totals
Total Households	763,313	735,441	536,363	408,572	309,758	379,903	3,133,350
Average Net Worth \$	1,239,700	1,230,200	1,230,200	850,900	850,900	850,900	1,042,133
Cohort Net Worth \$ (Millions)	946,279	904,754	659,834	347,654	263,573	323,259	3,445,353

Notes: Sourced from McCrindle (2016).

To unpack these numbers further we utilise the HILDA data for participants 60 and over in the same age brackets as McCrindle (2016) to examine the distribution of this wealth and determine if the average is meaningful. HILDA provides detailed data on 4,267 households with an average net worth of \$980,872 (see table 8 below). At an aggregate level, with 10,632 surviving children reported for these households, potential average wealth transfer of approximately \$394,000 is estimated and is broadly comparable to that of McCrindle (2016). Panel B of the table provides demographic information for these age groups and shows the 'having 2-3 children' is the largest category, the largest jurisdictions represented are New South Wales and Victoria, and representative spreads are evident in qualifications and income. As expected the sample size and average net wealth declines as the age bracket increases.

In terms of disaggregating the sample to further investigate distribution of net wealth, Panel C of Table 8 presents the net wealth figure by quartile within each age group and then per surviving child. Within each age group the range of quartile averages is substantial (for example for the 65 to 69 year old group the first quartile average is \$142,307 with the fourth quartile average being over \$3.3 million). With similar large ranges in the other brackets this clearly points to a significant distribution of wealth and thus implications for the likely intergenerational transfer (if any) for Australians. When the number of surviving children is taken into account (assuming 100% and equal distribution), the average per child across the age groups ranges from \$225,998 for the children of the 85+ group and \$621,693 for the 60-65 group should that wealth be distributed at the time of data collection. Quartile ranges are also large from a low of \$15,701 for quartile one in the 85+ group to \$2.79 million in the 75-79 group. To some extent these results are a function of declining survivorship as age brackets increase and also the natural decumulation of assets and wealth in relative and real terms as one ages, and thus is the demonstration of longevity risk. This highlights the danger in averages over such diverse data.

It should also be noted that there is substantial wealth in households that have no surviving children, either because they never had any children or have no surviving children. The pooled average (across the age brackets) in this scenario is \$928,082. It is unclear how these funds will be distributed by a future estate and we note that this is another important area of further exploration, particularly as the lone person household grows in prominence in the younger generations. Issues of multigenerational transfers (to nieces, nephews, and grandchildren for those with children), charitable donations and other philanthropic bequests are of interest here as well as the notion of legacy planning. We also make the assumption that all funds will be left to living children; however, this may not be the case, particularly in those cases where there is substantial wealth in the estate. Further information and research is required to get a clearer understanding of these aspects.

Table 8: HILDA Household Wealth Data for over 60's Australians

	60-64	65-69	70-74	75-79	80-84	85+	Pooled
Panel A: Summary Information							
Total HHS	1,154	1,042	766	556	415	334	4267
Avg Net Wrth	1,262,331	1,286,547	1,130,674	1,001,212	683,140	521,328	980,872
Panel B: Demographic Data							
<i>Surviving Children</i>							
0	139	110	73	33	29	32	0
1	135	115	48	43	33	33	407
2-3	740	678	484	339	228	175	6410
>3	140	139	161	141	125	94	3815
Totals	1154	1042	766	556	415	334	10632
<i>Location</i>							
NSW	375	331	228	173	141	103	1351
VIC	260	250	195	137	91	89	1022
QLD	227	214	151	100	77	57	826
SA	126	101	68	48	38	34	415
WA	111	95	91	63	45	30	435
TAS	30	28	23	16	12	14	123
NT	6	5	0	3	0	2	16
ACT	19	18	10	16	11	5	79
<i>Highest Qualification Obtained</i>							
Postgrad	158	109	67	42	23	8	407
Bachelor or honours	118	113	64	45	29	12	381
AQF 3 - 6	401	326	206	157	99	73	1262
Yr 12	89	81	67	32	27	25	321
Below Yr 12	388	413	362	280	237	216	1896
<i>Gross Income</i>							
\$0 - \$9,999	13	6	2	1	2	2	26
\$10,000 - \$49,999	372	511	472	379	300	249	2283
\$50,000 - \$99,999	371	299	188	113	77	43	1091
\$100,000 - \$149,999	214	116	50	19	12	8	419
\$150,000 or more	156	78	31	22	5	4	296
Panel C: Disaggregated Data – Net Worth							
Avg Qrt 1	159,999	142,307	173,622	102,757	85,086	168,126	138,650
Avg Qrt 2	670,038	574,785	622,337	402,283	380,145	290,556	490,024
Avg Qrt 3	1,245,254	1,073,728	1,287,071	777,885	621,901	509,488	919,221
Avg Qrt 4	2,974,034	3,355,368	2,431,434	2,721,923	1,127,813	1,239,574	2,308,358
Avg/Child	621,693	611,808	495,868	437,756	286,769	225,998	446,649
Avg/Child Q1	63,097	57,483	40,052	59,117	24,668	15,701	43,353
Avg/Child Q2	294,656	251,340	194,445	292,166	117,615	88,877	206,517
Avg/Child Q3	579,562	506,800	414,715	769,529	225,374	179,242	445,870
Avg/Child Q4	1,549,458	1,626,185	1,645,951	2,798,312	780,284	606,438	1,501,105
Avg No Child	1,186,582	1,140,207	1,145,761	808,625	823,873	463,445	928,082

Notes: This table contains summary wealth data from households in the HILDA database aged 60 and over.

It is clear from the above that there is substantial wealth to be transferred by the Boomer and Builder generations and this will represent a significant economic 'event' in this country. It is also clear, however, that not all Gen X/Y households will participate in this evenly with distributed wealth per child based on the static data being between \$0 and \$110,000 for 25% of recipients, between \$110,000 and \$285,000 for another 25%, between \$285,000 and \$608,000 for the third 25%, with the final group to receiving above \$600,000. While this highlights the importance of the distribution of wealth across retirees, it also illustrates the potential importance of these funds to their intergenerational recipients. In reference to McCrindle (2016) who notes the importance of the orderly transfer of these resources to Gen X/Y who will then rely on them for their own retirement planning, while 25% of the population will potentially receive a modest intergenerational transfer and another 25% a significant sum, the middle 50% of wealth transfer recipients will receive a substantial sum; however, this is unlikely to be sufficient by itself to fund their retirement. As McCrindle notes, the decision to either spend or invest this wisely will have a material impact into the future.

To explore this potential impact further, it must also be noted that the calculations above are at a single point in time across the 60 plus age brackets. Thus, the first group still have at least five years of accumulation remaining and a long period (more than a decade and a half) of decumulation (as is the case for other age brackets). To examine the implications of the potential period between the data collection and likely wealth transfer we forecast net wealth forward for each of the 3,329 households with all required wealth and household variables in HILDA that fall into the age bracket above. To achieve this a number of assumptions need to be made regarding the forecast period which will not reflect all realities, but are a reasonable approximation to establish a base case including:

- No changes in terms of personal and household structure, surviving children numbers or premature death with all households forecast forward to average life expectancy of 83.
- Wealth for 60-64 year old group is forecast forward in accumulation phase to a retirement age of 65 assuming ongoing employment and superannuation contributions.¹⁸
- From 65 years on all households are forecast forward in decumulation phase to age 83 and capital consumed based on four categories of drawdown determined by net wealth.¹⁹
- Retirees that are 83 or older have the current value applied as the transfer value.

The outcome of this modelling is total wealth of all in the sample of \$598,588 per child or estate (where there are no surviving children). The total transferable capital grows by 6% over this period (even after allowing for drawdowns) and effectively represents the growth in the wealthier households which outstrips expenditure while less wealthy households which are subject to longevity risk and/or utilising government support for income. If this is extrapolated to the total household numbers in Table 8 above, the total wealth transfer is \$3.445 trillion. Table 9 below illustrates the value that would be transferred from the research sample based on levels of investment by the recipients (Panel A) and the potential forward value of this at different rates of capital return over the next 25 years as those recipients move to retirement. Panel C extrapolates this out to the total number of households (as per McCrindle 2016). It highlights what is at stake at the macroeconomic level – a total wealth impact of \$866 billion should only 25% of the wealth transferred be invested at a return of 2.5%. This compares to \$41.5 trillion should 100% of potential intergenerational wealth be invested at a 10% return. Given this is more than 20 times the size of the current Australian economy, the importance of this cannot be underestimated.

¹⁸ Superannuation contributions at 10% of income adjusted for fees/insurance and contributions tax. Wages grow at 4% per annum and 5% rate of growth in net worth per year is applied.

¹⁹ Capital growth in net worth is forecast forward at 5% with the capital base consumed as follows. Where the capital base of the retiree household is less than a \$60,000 comfortable retirement income per annum (Power, 2017) the assets are reduced at a 5% rate, assuming the Age Pension is provided as income. Where the capital base is less than \$250,000 a full Age Pension is applied (based on current rates index at 2%) and topped up to \$60,000 with capital drawdowns. Where the capital base is between \$250,000 and \$500,000 a 50% Age Pension is applied as per above and where the capital base of the retiree household is between \$500,000 and \$1 million a \$75,000 drawdown is applied and a \$100,000 drawdown for those with more than \$1 million.

Table 9: HILDA Household Wealth – Forecast terminal wealth for over 60’s Australians

Panel A: Potential Wealth Transfer				
% Not Spent	25%	50%	75%	100%
Potential Wealth Transfer \$	496,678,200	993,356,400	1,490,034,601	1,986,712,801
Panel B: Theoretical Growth in Wealth Transfer if Invested for 25 years \$				
	2.50%	5%	7.50%	10%
25%	927,313,961	1,729,081,076	3,219,905,393	5,988,421,754
50%	1,854,627,922	3,458,162,152	6,439,810,786	11,976,843,508
75%	2,781,941,882	5,187,243,228	9,659,716,179	17,965,265,261
100%	3,709,255,843	6,916,324,304	12,879,621,571	23,953,687,015
Panel C: Theoretical Growth in National Wealth Transfer if Invested for 25 years \$				
	2.50%	5%	7.50%	10%
25%	866b	2.999t	5.584t	10.385t
50%	1.733t	5.997t	11.168t	20.771t
75%	2.600t	8.996t	16.752t	31.156t
100%	3.467t	11.994t	22.336t	41.541t

Notes: This table contains summary data from the forecast wealth outcomes from households in the HILDA database aged 60 and over. The sample size consists of 3,329 households for which full financial data was available and their 8,413 surviving children as per the data in Wave 14 of HILDA.

In addition to the size of the wealth transfer, the distribution, as noted above, is also of importance. In relation to the forecast outcomes, Table 10 below provides a distribution of this across households by decile. As suggested above, the decumulation period further concentrates wealth and leads to 50% of intergenerational wealth recipients receiving 4% of the wealth with an average transfer amount of over \$160,000 for those in the 5th decile. Conversely, 77.54% of the estimated transfer wealth will be held by 20% of recipients (deciles 9 and 10). Of the forecast total wealth to be transferred, 10.1% of this is held in estates with no children with the balance (89.8%) having at least one surviving child at the start of the forecast period.

Table 10: Forecast Distribution of Intergenerational Wealth Transfers

Forecast Wealth Transfer Recipients (%)	Forecast Proportion of Wealth Received	Forecast Avg Wealth Per Retirement Unit (\$)
10	0.00%	223
20	0.21%	14,451
30	0.78%	38,888
40	2.06%	88,526
50	4.46%	164,581
60	8.31%	264,855
70	13.93%	386,331
80	22.46%	585,830
90	38.26%	1,085,600
100	100.00%	4,229,071

Notes: This tables contains summary information on the distribution of forecast wealth for households in the 60+ age bracket on a per surviving child basis. Where there is no surviving child the forecast estate value is used.

Thus, we concur with McCrindle (2016) that substantial wealth will be transferred from the Builder and Baby Boomer Generations in the next two decades and that this needs to be done in an efficient and orderly manner. We also agree that this represents a significant opportunity for the economy and future generations and, if appropriately 'captured' and redeployed, could significantly enhance the retirement outcomes of future generations, many of whom will need this to support their own wealth accumulation efforts. We do, however, note that the dispersion of this wealth is far from even, and to this extent the average is misleading. With a high concentration of wealth in the hands of a few, the benefits of intergenerational wealth transfer are perhaps less than anticipated. We do, however, look forward with a degree of optimism in this regard, as the Gen X/Y generations will be favoured by a wider dispersion of wealth largely due to the superannuation system and for those who own property. The next section considers how this future wealth could be transferred across multiple generations to create a more sustainable and resilient retirement system, particularly in view of the emergence of a culture of "spending the kids inheritance" that McCrindle (2016) raises concern about.

7.0 Intergenerational Transfers

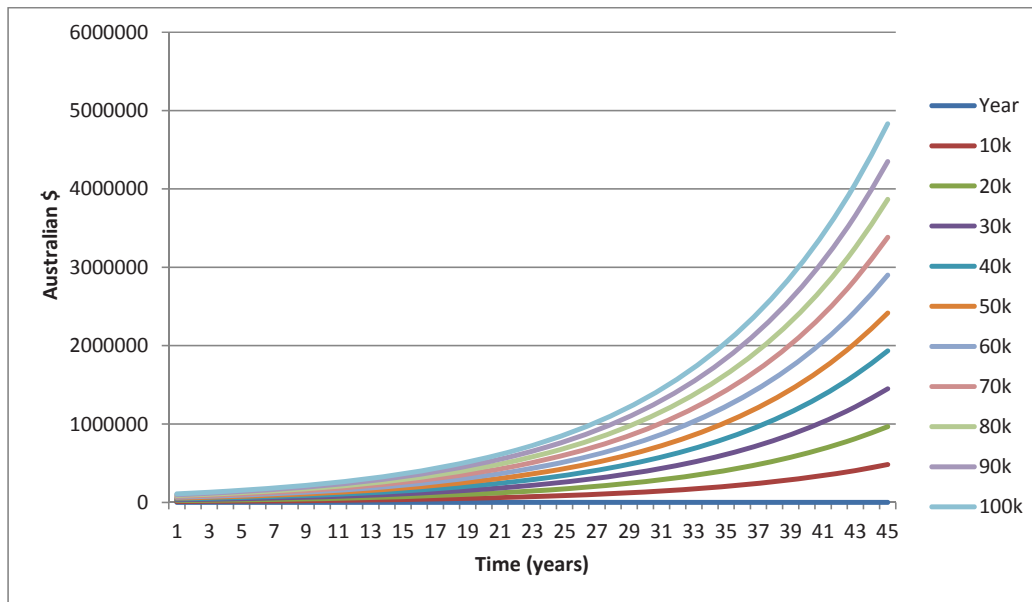
Intergenerational wealth transfers in the next 20 to 40 years will be significant. The discussion above reflects our starting point that with the maturation of the superannuation system, the population bubble that is heading into retirement, the general growth in nominal household wealth and the accumulated capital that will be the subject of intergenerational wealth transfers. While it is too late for some in the over 60's category to accumulate if they have not been able to thus far, the Gen X/Y's have time on their side. The potential of this when coupled with growing asset values, a long-term sustained wealth accumulation approach, improving financial literacy and access to professional advice provides opportunity for these generations. If 'we' succeed in this, then the pools of capital in the retirement phase will grow in both nominal and real terms. Thus, the opportunity for intergenerational wealth transfer is significant both for the Boomers and Gen X/Y.

We ponder the value of intergenerational wealth transfers as a vehicle to secure the long-term future of the next generations. We do so with a view to 'locking in' some of this wealth so that, as per the commentary of McCrindle (2016), this is not lost by the emergence of a 'spending the kids inheritance' culture. From an economic perspective, it seems logical to consider extending the forced savings regime, to a forced retirement income regime, to a required intergenerational transfer regime for at least a component of the final estate. The question for this section is how much is required for this to be material.

To answer this we operationalise some simple future value calculations assuming a single wealth transfer that is preferentially treated on transfer and invested in a single account with a long-term growth exposure. Extrapolating from the over 60s and Gen X/Y analysis above, our starting point is a range of \$10,000 to \$100,000 for a single inheritance (which would cover 63% to 15% of the population respectively, assuming this is 10% of the total intergenerational value transferred, and 81.3% to 51.4% respectively if this was 50% of the wealth transfer²⁰). Invested for 45 years at 9% net of fees this would result in an accumulation profile as per Figure 4 (and Table 11, Panel A). This illustrates the value of time as an investment parameter with \$10,000 accumulating to approximately half a million dollars and \$100,000 building to almost \$5 million nominally.

²⁰ Based on the 60+ modelling referred to above.

Figure 4: Future Value of Intergenerational Wealth Transfers (45 year horizon)



In terms of the pragmatic application of this, one needs to consider the birth rate and the average age of the parents, the first of which has been declining (from 3.54 births per woman in 1960 to 1.8 in 2015 (ABS, 2017)). The average age of parents has increased moving to 31 for mothers and 33 for fathers in 2015. Thus, with fewer children being born (indeed the fertility rate has been below replacement levels since 1976 (AFIS, 2017)) and parents being older, the division of estates will be lower and the average age at inheritance may adjust upwards. To achieve the 45 years of accumulation as suggested above, this may require wealth to be distributed across multiple generations under the banner of supporting, if not securing, the financial future of grandchildren. At a high level the data and modelling suggest this is a realistic ambition for a large proportion of society if a modest transfer (say \$20,000) is required to reach \$1 million (\$400,000 in today's terms) over the timeframe. This, together with the recipients own wealth accumulation over their lifetime, would lead to even stronger retirement outcomes, which in turn could be passed on to future generations.

This is further examined in Panel B of Table 11 where over a 45 year investment timeframe the rate of return is adjusted to current value to allow for inflation at 2.5% and allowing for differing net rates of return including 5%, 7.5% and 10%.²¹ This illustrates the impact of return, time and inflation (purchasing power) over time with the outcomes in (present value terms) for \$40,000 invested under these circumstances ranging from \$118,305 to \$959,747 with a greater range for the larger investment. It is also important to note (as indicated in Figure 5) that the terminal value is greatest for the portfolios with the greater return parameter rather than starting value, with the seven largest outcomes from high return portfolios and thus a better outcome is gained from investing \$40,000 at 10% than \$100,000 at 7.5%. Similarly \$20,000 invested at 10% outperforms \$100,000 at 5% over this time horizon. Thus, while a transfer of capital is important, the treatment of those funds over the receiver's investment lifetime is equally important.

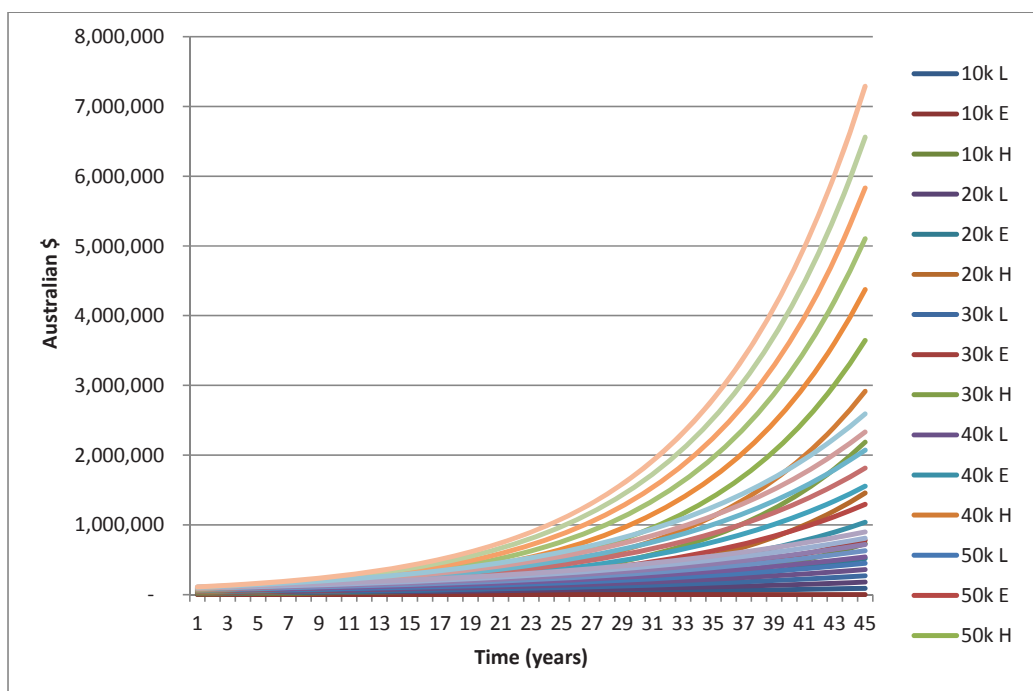
²¹ These rates of return are drawn from the 2016 SPIVA Scorecard data for Australian managed funds (S&P Dow Jones Indices, 2016).

Panel C repeats this for a 25 year investment horizon for the scenario of a later in life inheritance with Figure 6 presenting this graphically. Essentially the pattern of outcomes is similar; however, the distribution is narrower as the later stage benefits of compounding are not realised. Thus starting value is more important relative to rate of return over this investment horizon. Despite this, significant value to retirement savings can be added from even modest initial sums with \$10,000 at 10% for 25 years delivering \$58,441 in today's terms, \$50,000 providing over \$292,000 and \$100,000 generating over \$584,000.

In reference to the comment above about multiple generation transfers, the extreme end of this circumstance is where the funds are transferred to a 'Future Fund' for a newborn across several generations, perhaps from a trust structure. In this case, the accumulation is extraordinary with \$10,000 invested at 10% generating, in today's terms, over \$985,000 (\$221,000 at 5%) and \$40,000 providing almost \$4 million at 10% and \$884,000 at 5%. This long-term storing and orderly transfer of capital between generations, although be it in this extreme example, is where true financial sustainability and resilience at the national level could be generated.

A further aspect of such transfers is that they may provide a capital base, particularly if provided in early life, which can be drawn upon for either extreme circumstances/hardship or other wealth accumulation pursuits such as property acquisition. We do not model this here as this is not within the scope of the project; however, this may be explored in future research.

Figure 5: Future Value of Intergenerational Wealth Transfers (45 year horizon)



Note: L = Low; E=Expected; H=High

Table 11: Long-term Wealth Transfer Value Forecasts

Panel A: Intergenerational Wealth Transfers – Future Investment Value (45 year timeframe)

Wealth Transfer	10,000	20,000	30,000	40,000	50,000	60,000	70,000	80,000	90,000	100,000
Future Value	483,273	966,546	1,449,819	1,933,091	2,416,364	2,899,637	3,382,910	3,866,183	4,349,456	4,832,729
Present Value	198,237	396,474	594,711	792,948	991,185	1,189,422	1,387,659	1,585,896	1,784,133	1,982,370

Panel B: Intergenerational Wealth Transfers – Future Investment Value (45 year timeframe)

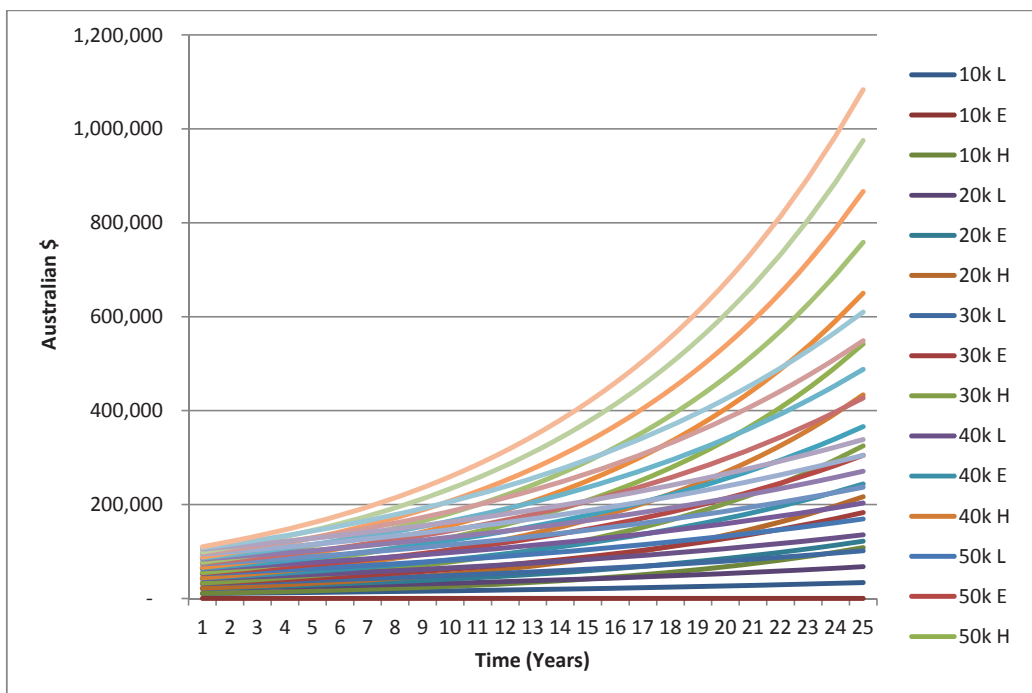
Return	Low	Expected	High	Low	Expected	High	Low	Expected	High	Low
Wealth Transfer	10,000	10,000	10,000	20,000	20,000	20,000	30,000	30,000	30,000	40,000
Future Value	89,850	259,048	728,905	179,700	518,097	1,457,810	269,550	777,145	2,186,715	359,400
Present Value	29,576	85,272	239,937	59,153	170,544	479,874	88,729	255,816	719,810	118,305
Return	Expected	High	Low	Expected	High	Low	Expected	High	Low	Expected
Wealth Transfer	40,000	40,000	50,000	50,000	50,000	60,000	60,000	60,000	70,000	70,000
Future Value	1,036,194	2,915,619	449,250	1,295,242	3,644,524	539,100	1,554,290	4,373,429	628,951	1,813,339
Present Value	341,088	959,747	147,882	426,360	1,199,684	177,458	511,633	1,439,621	207,034	596,905
Return	High	Low	Expected	High	Low	Expected	High	Low	Expected	High
Wealth Transfer	70,000	80,000	80,000	80,000	90,000	90,000	90,000	100,000	100,000	100,000
Future Value	5,102,334	718,801	2,072,387	5,831,239	808,651	2,331,435	6,560,144	898,501	2,590,484	7,289,048
Present Value	1,679,558	236,611	682,177	1,919,495	266,187	767,449	2,159,431	295,763	852,721	2,399,368

Panel C: Intergenerational Wealth Transfers – Future Investment Value (25 year timeframe)

Return	Low	Expected	High	Low	Expected	High	Low	Expected	High	Low
Wealth Transfer	10,000	10,000	10,000	20,000	20,000	20,000	30,000	30,000	30,000	40,000
Future Value	33,864	60,983	108,347	67,727	121,967	216,694	101,591	182,950	325,041	135,454
Present Value	18,266	32,894	58,441	36,531	65,788	116,883	54,797	98,682	175,324	73,063
Return	Expected	High	Low	Expected	High	Low	Expected	High	Low	Expected
Wealth Transfer	40,000	40,000	50,000	50,000	50,000	60,000	60,000	60,000	70,000	70,000
Future Value	243,934	433,388	169,318	304,917	541,735	203,181	365,900	650,082	237,045	426,884
Present Value	131,575	233,766	91,328	164,469	292,207	109,594	197,363	350,648	127,860	230,257
Return	High	Low	Expected	High	Low	Expected	High	Low	Expected	High
Wealth Transfer	70,000	80,000	80,000	80,000	90,000	90,000	90,000	100,000	100,000	100,000
Future Value	758,429	270,908	487,867	866,776	304,772	548,851	975,124	338,635	609,834	1,083,471
Present Value	409,090	146,125	263,151	467,531	164,391	296,045	525,972	182,657	328,939	584,414

Notes: This table contains summary information of forecasting forward single sums of capital using monthly compounding of specific timeframes which are then discounted back to current terms as a single terminal value at 2.5%. Low refers to a returns rate of 5%, expected 7.5%, high 10%.

Figure 6: Future Value of Intergenerational Wealth Transfers (25 year horizon)



Note: L = Low; E=Expected; H=High

Recognising the importance of the return component in the portfolio, we extend the modelling to account for a given intergenerational wealth transfer and time horizon while allowing for the stochastic nature of market returns. The initial modelling in Table 11 assumes a fixed rate of return through the investment horizon. Even where a very conservative rate of return is applied, the initial modelling does not capture the impact of share market volatility on an investor's retirement savings. Simple growth rate assumptions may not be critical in the short run or where an investor's portfolio is small, however, where successive periods of positive or negative returns occur, timing can be significant. If periods of volatility occur in the immediate period approaching retirement when the superannuation balance is larger, due to the portfolio size effect, one or successive large losses may have an impact significantly worse than forecast under the assumption of constant positive returns. Likewise, successive large positive returns can also lead to more extreme values on the upside of the distribution of terminal wealth outcomes.

We apply an Efron (1979) bootstrap approach to estimate terminal wealth accumulation through simulated wealth accumulation pathways for various sized intergenerational wealth transfers over 25 and 45 year time horizons. Each bootstrap sample is a random sample of real returns from five asset class returns (Australian cash, bonds and equities and international equities and international bonds) for a particular period drawn with replacement from historical observations from 1900 to 2014.²² By redrawing randomly to create 10,000 samples from the dataset, it is possible to generate potential retirement wealth outcomes based on asset returns that reflect many different plausible capital market environments while retaining the cross correlation between each class of asset returns and assuming independence in individual asset class distributions over time (Blake *et al.*, 2001; Hibbert and Mowbray, 2002). Thus, we improve our understanding of the variability of the terminal wealth outcomes, particularly the potential for extreme outcomes because in any simulated asset return sample from the historical dataset some returns such as the 1987 share market crash or dot com bubble could appear more than once while other returns may not appear in the bootstrap sample at all.

The intergenerational wealth transfer is assumed to be credited to the investor's account at the beginning of the time horizon and invested for 25 or 45 years in a typical 70% growth, 30% defensive portfolio. A 1.18% fee is charged to the portfolio per annum. Annual membership fees are ignored as they are not relevant in an incremental analysis, having been paid whether or not the investor receives an intergenerational wealth transfer to their superannuation fund. The investor's portfolio is rebalanced annually to maintain the target asset allocation. Figures 7 and 8 represent the first 100 of 10,000 pathways of wealth accumulation for a \$10,000 wealth transfer, invested over a 25 and 45 year time horizon, respectively, using 1900-2014 asset class returns. Both examples demonstrate the variability of portfolio value over the two investment horizons in response to market performance, in contrast to the smooth and positive growth represented in the initial modelling approach in Figures 4 to 6.

²² Simulations are based on real asset class data sourced from Dimson *et al.* (2015).

Figure 7: Sample of Simulated Pathways of Wealth Accumulation for a \$10,000 Intergenerational Wealth Transfer (25 year horizon)

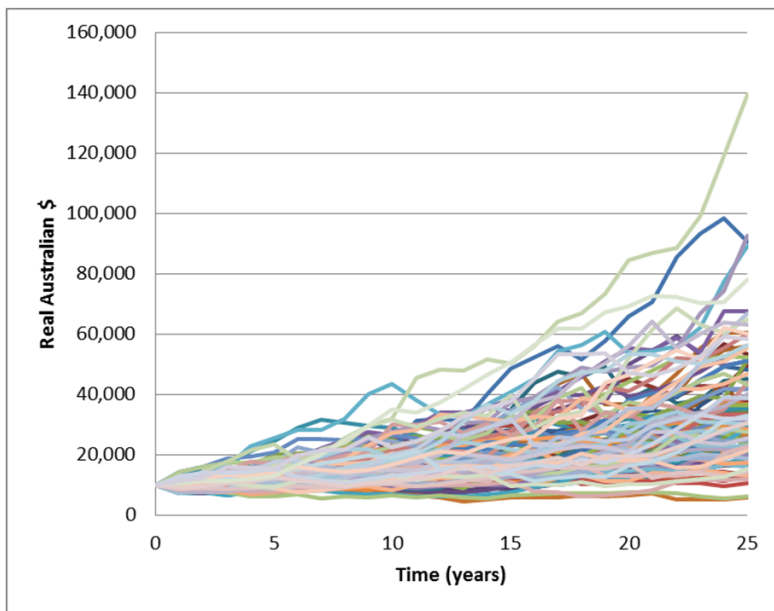


Figure 8: Sample of Simulated Pathways of Wealth Accumulation for a \$10,000 Intergenerational Wealth Transfer (45 year horizon)

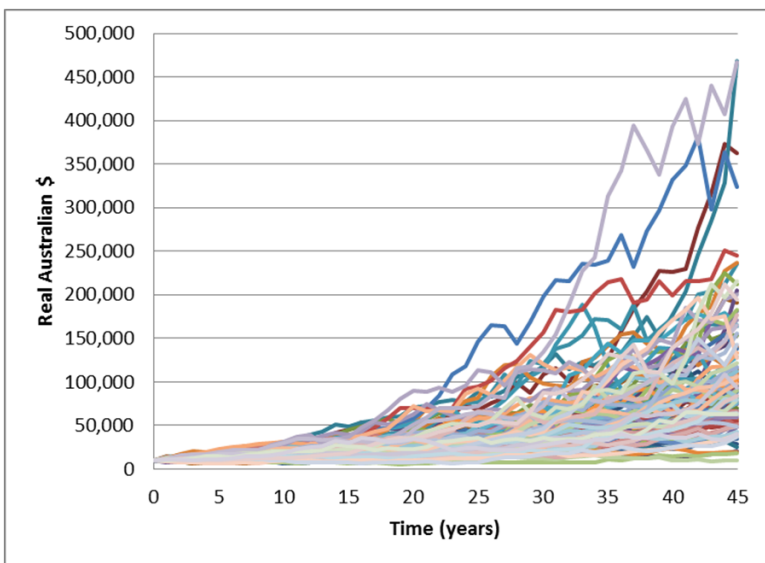


Table 12 reports the simulated terminal values of wealth transfer in real Australian dollars net of fees and before taxes. Comparing the results summarised in Tables 11 and 12, we can see that regardless of time horizon or particular market conditions, a simple modelling approach relatively consistently identifies 'expected' terminal wealth outcomes close enough to the simulated mean outcomes. Without the assumption of constant positive growth, the results summarised in Table 12 show that in all cases, the minimum terminal wealth is lower than the initial intergenerational wealth transfer whether for a 25 or 45 year investment horizon. Importantly, the extremely low terminal values are almost as poor after 45 years of investing as only 25 years, but the extremely high terminal values are much higher after 45 years than for 25 years. Noticeably, the 'low' and 'high' outcomes from the simple modelling approach significantly underestimate the upside potential and significantly overestimate the downside potential outcomes. So, although Figures 7 and 8 highlight the fact that simulation modelling produces some extreme possible although unlikely outcomes, the simulation modelling adds value to understanding not only the pathways to terminal wealth but also the distribution of wealth accumulation outcomes around the expected value.

Table 12: Simulated terminal values of wealth transfer (real AUD net of fees and before tax)

Intergenerational wealth transfer	Mean	Median	Max	Q3	Q1	Min
Panel A: Simulation results based on 25 year timeframe and 1900-2014 data						
\$10,000	\$35,407	\$30,813	\$228,514	\$43,964	\$21,343	\$4,189
\$20,000	\$70,358	\$61,283	\$356,246	\$88,179	\$42,494	\$7,888
\$30,000	\$106,655	\$93,663	\$627,056	\$133,648	\$64,516	\$9,414
\$40,000	\$141,901	\$124,290	\$1,120,947	\$175,811	\$86,911	\$15,783
\$50,000	\$177,563	\$155,494	\$950,902	\$220,543	\$106,257	\$19,728
\$60,000	\$211,264	\$185,504	\$1,380,029	\$262,875	\$129,058	\$24,177
\$70,000	\$248,155	\$218,578	\$1,266,978	\$308,463	\$152,940	\$24,260
\$80,000	\$281,220	\$244,926	\$1,877,088	\$352,020	\$169,787	\$23,038
\$90,000	\$318,665	\$277,321	\$2,056,622	\$380,402	\$219,792	\$37,701
\$100,000	\$354,097	\$309,756	\$2,137,692	\$441,297	\$215,174	\$34,367
Panel B: Simulation results based on 45 year timeframe and 1900-2014 data						
\$10,000	\$97,983	\$76,687	\$908,757	\$124,103	\$46,309	\$4,201
\$20,000	\$194,455	\$150,322	\$2,212,337	\$244,904	\$91,811	\$7,184
\$30,000	\$291,667	\$225,483	\$3,318,508	\$367,356	\$137,717	\$10,776
\$40,000	\$387,649	\$303,497	\$6,435,584	\$489,017	\$187,546	\$21,443
\$50,000	\$484,562	\$379,371	\$8,044,481	\$611,271	\$234,433	\$26,803
\$60,000	\$580,536	\$454,957	\$6,119,076	\$733,808	\$280,777	\$35,864
\$70,000	\$685,878	\$536,810	\$6,361,294	\$868,723	\$324,162	\$29,408
\$80,000	\$775,362	\$602,578	\$9,008,763	\$980,034	\$371,321	\$32,730
\$90,000	\$875,001	\$676,449	\$9,955,519	\$1,102,067	\$413,151	\$32,329
\$100,000	\$969,123	\$758,742	\$16,088,961	\$1,222,543	\$468,866	\$53,606
Panel C: Simulation results based on 25 year timeframe and 1969-2014 data						
\$10,000	\$35,837	\$28,631	\$454,820	\$45,521	\$17,937	\$2,495
\$20,000	\$71,483	\$57,589	\$819,076	\$90,295	\$36,358	\$3,872
\$30,000	\$107,965	\$85,763	\$805,751	\$136,059	\$53,827	\$6,087
\$40,000	\$142,947	\$114,879	\$1,103,432	\$182,307	\$72,326	\$7,847
\$50,000	\$179,304	\$144,605	\$1,336,802	\$225,952	\$90,863	\$12,108
\$60,000	\$212,738	\$168,613	\$1,914,514	\$268,642	\$107,494	\$12,537
\$70,000	\$251,816	\$203,711	\$2,621,105	\$316,330	\$128,104	\$13,873
\$80,000	\$283,787	\$228,295	\$3,002,477	\$361,250	\$145,094	\$17,421
\$90,000	\$324,090	\$259,483	\$3,023,869	\$406,734	\$163,673	\$18,419
\$100,000	\$355,624	\$287,496	\$3,910,221	\$448,636	\$180,798	\$15,230
Panel D: Simulation results based on 45 year timeframe and 1969-2014 data						
\$10,000	\$98,489	\$65,974	\$1,952,645	\$123,965	\$35,261	\$1,055
\$20,000	\$201,565	\$137,874	\$3,899,905	\$250,233	\$72,249	\$4,819
\$30,000	\$299,446	\$200,045	\$8,183,005	\$366,056	\$108,164	\$4,459
\$40,000	\$396,926	\$265,917	\$7,416,919	\$483,995	\$142,095	\$5,682
\$50,000	\$496,016	\$330,246	\$17,921,919	\$611,657	\$173,953	\$4,623
\$60,000	\$595,914	\$391,628	\$10,559,395	\$736,551	\$215,129	\$13,525
\$70,000	\$692,627	\$469,239	\$15,147,825	\$853,695	\$249,194	\$11,276
\$80,000	\$770,331	\$520,783	\$10,785,933	\$953,385	\$281,332	\$16,263
\$90,000	\$901,983	\$613,962	\$12,858,117	\$1,114,943	\$327,498	\$13,895
\$100,000	\$969,924	\$646,850	\$13,325,147	\$1,196,042	\$347,176	\$24,026

Notes: Table 12 presents the distribution parameters of the simulated wealth transfer values. Panels A and B denote results for the full sample period 1900-2014. Panels C and D denote the results for a sub-sample period being the last 45 years from 1969-2014. Potential return paths are created via 10,000 iterations of the simulation model for intergenerational wealth transfers assumed to be invested in a 70% growth 30% defensive fund over a 25 or 45 year investment horizon. Simulations are based on real asset class data sourced from Dimson et al. (2015). Results are net of a 1.18% fee, an approximation of the average percentage fee charged to retail superannuation accounts. Annual dollar based membership fees are ignored having been paid by the investor regardless of whether or not they receive an intergenerational wealth transfer to their superannuation fund.

Despite employing a simulation approach and a 115 year data set, the use of historic data from financial markets such as Australia with exceptional long run performance may still provide overly optimistic views of the future. A full sample analysis using real asset class data from Dimson et al. (2015) is supplemented by a sub-sample analysis employing only returns from the last 45 years to demonstrate the impact of changing market conditions. Comparing simulation results for Table 12 Panels A and B, the full sample from 1900 to 2014, against Panels C and D, the sub-sample analysis for 1969-2014, we note that despite differences in market conditions, the expected value of the terminal wealth transfer and quartile three values are relatively stable. However, the median (quartile two) and quartile one outcomes have reduced due to a change in the spread of the distribution. This can be seen by examining the much more extreme values for the maximum and minimum outcomes in the sub-sample versus the full sample. The sub-sample data represents periods of greater market volatility creating the potential for much higher maximum outcomes and much lower minimum outcomes, particularly where various pathways to terminal wealth represent long runs of positive or long runs of negative returns.

Further analysis may be conducted to recognise the likelihood of a lower future equity risk premium. The simulation modelling approach can also be extended to examine the impact of changing the amount of the intergenerational transfer, the time horizon, alternative asset allocations, higher or lower fees, and the inclusion of tax effects.

8.0 Discussion

The starting point for this project was to further explore the findings of McCrindle (2016). In particular we explored the significant opportunity that intergenerational wealth transfer will offer in the next 20 years for Australia. This was based on a finding that if 70% of estimated wealth currently held by the over 60 population in Australia is transferred then it is estimated approximately \$320,000 on average will be passed on to each child. This intergenerational transfer, underpinned by the aging population and the maturation of the superannuation system, was argued to represent an opportunity to build long-term sustainability into the finances of the nation.

RQ 1.1 – What wealth is likely to pass on to Gen X & Y's from the current over 60 population in Australia and what is the likely distribution of this wealth?

Overall, we agree with these findings and provide more specific modelling that examines the distribution of wealth across the Over 60 population. We also attempt to model this forward to an average wealth transfer value taking into consideration the household structure and number of surviving dependents. While demonstrating the importance of the distribution of household wealth and concluding that the average is largely misleading, we conclude that 63% of households will bequeath at least \$100,000 per surviving child and 46% more than \$250,000. Thus, this wealth transfer will be of key importance for the nation and represents a significant opportunity should some of it be transferred across generations in an orderly manner, without excessive taxation in the superannuation environment. We note, however, that the policy environment around the retirement phase in relation to superannuation is not robust and indeed there is little specifically in relation to wealth transfer outside of Estate Law.

RQ 1.2 – As the superannuation system matures, what are the likely superannuation outcomes at retirement for Gen XY'ers?

As noted above, the maturation of the superannuation system is an important factor in household wealth accumulation. We note that the household wealth data from HILDA shows property is the largest asset class for over 60 households on average and a key driver of wealth in general. Superannuation is a close and growing second. To explore the suggestion in McCrindle (2016) that the Gen X/Y's will rely on wealth transfers from the Builders and Boomers to manage longevity risk and fund their retirement, we explore the household wealth of Gen X & Y's and forecast this forward to retirement. We conclude that superannuation is a key current and future asset class for this group as the forced savings model comes to fruition with this generation who will have had a full working life of accumulation. We also note a less severe distribution of wealth across these generations in comparison to the over 60's modelling and suggest that the superannuation system plays a role in this through the forced savings that some of the middle wealth categories may not have otherwise accumulated.

RQ 1.3 – What is the likely distribution of household wealth outcomes at retirement for Gen XY’ers?

In terms of the overall wealth outcomes, we demonstrate that the distribution of wealth is a critical consideration and that the average wealth numbers mask important elements of household wealth accumulation. We also highlight the importance of the parameters of wealth accumulation that are applied for the remaining time the Gen X/Y’s have until they retire with both growth parameters (capital growth, savings rate, wages growth, super contribution rate) and cost factors influencing the outcomes heavily. This points to the importance of households making effective financial decisions when it comes to their long-term personal finances. To this end we note the importance of both financial literacy and professional advice in supporting this process. Policy settings to encourage participation and engagement in retirement planning and supporting accumulation with appropriate product and taxation settings are also argued to be critical.

RQ 2.1 – What is the structure of the household (e.g. single, couple, dependants, beneficiaries) of the retiree and the impact this has on retirement outcomes?

Throughout the modelling undertaken in this report we utilise household level data from HILDA and adjust for the structure of the household. We also map surviving children vis-à-vis distribution of wealth and this is shown to impact the average transfer values. At this stage we are not able to determine the desires of retirees in relation to distribution to wealth to entities or individuals who are not their children (charities, grandchildren, legacy planning, etc.). Furthermore, we note the number of households that have no children to pass wealth to. Therefore, further research, most likely qualitative in nature, is needed to obtain an understanding of these factors (and also to address research questions 2.2, 2.3 and 2.4).

RQ 2.5 – What is the range of possible investment performance over the accumulation phase?

In the accumulation phase modelling we adopt several scenarios in terms of capital growth performance utilising the estimates drawn from the S&P SPIVA Scorecard. We note that this does not account for all possible return pathways, nor allow for the possibility of sequencing risk. Rather it provides a range of outcomes that are likely depending on actual future circumstances. Additionally, we simulate potential wealth accumulation pathways and the distribution of accumulation outcomes using a bootstrap model. This work may be further extended to highlight the impact of asset allocation and sequencing risk on wealth accumulation outcomes and a lower future equity risk premium (and thus address research question 3.3 in more detail).

RQ 3.1 – What is the impact of wealth transfers on the beneficiary’s long-term wealth accumulation?

The total pool of wealth and the percentage of recipients that are likely to receive substantial sums (over \$100,000 as noted above) is significant between the distribution of wealth transfers of the Builders and Boomers. This, together with the percentage of Gen X/Ys that are likely to under-shoot a ‘comfortable’ retirement capital base, suggests these transfers will be important economically and socially. We also note the potential of long-term intergenerational and multi-generational transfers and demonstrate the impact of modest sums of such wealth (from \$10,000) when invested over the long-term at ‘growth’ type rates of return. This impact is potentially significant on future generations’ preparation for retirement, but also in terms of the resilience of the economy and sustainability of the retirement system. Should such transfers occur with sufficient scale across the economy, the future fiscal impact could also be of importance as more Australians become self-funded in retirement, with an increasing proportion of wealth generated through the long-term investment of recycled wealth.

RQ 3.2 – How do the demographics of the recipient impact retirement wealth accumulation?

A key element of the impact of wealth transfers are the demographics of the recipient of those funds. In particular we account for household structure and age which impact on dispersion of wealth and the time to generate additional wealth from it. We note there are also a range of other demographic factors that could be explored to obtain further understanding (for example health, disability and financial literacy) and these would be useful elements of future research.

RQ 3.4 – Is there merit in incentivising or regulating wealth transfers into retirement accounts and what would such provisions look like?

We conclude that intergenerational wealth transfers will become of increasing importance in the personal financial management space. Planning for orderly transfer of this capital will also become increasingly important and we highlight once again the need for more Australians to improve their financial capability and obtain professional advice. The sheer size of the transfer and the opportunity that this represents, as noted by McCrindle (2016) and in the third stage of the modelling in this report, suggests policymakers and regulators should consider supporting a policy environment that encourages and incentivises inter- and multigenerational wealth transfers into a retirement fund style account. We can also see an argument for some of this capital, and particularly that which has been treated preferentially within the superannuation system, to be required to be retained within the compulsory savings system in order to build this wealth across generations, improving the resilience of the economy and sustainability of the retirement system. The benefits of such a model would be significant at the individual and national level with longevity risk reduced, sequence risk potentially mitigated and the pressure on fiscal policy reduced as a majority of retirees become self-funded in retirement.

9.0 Policy Recommendations

Our conclusion is that there is much to be gained at the individual and economy level in relation to intergenerational wealth transfers. We acknowledge that this is a potentially controversial discussion; however, in light of what is at stake, and the virtue and importance of building a more sustainable and equitable retirement system for future generations, we feel obliged to offer the following recommendations. Indeed, we see this as the natural next step for the retirement system which is about to reach the end of its first stage. Rather than allow politics and budget pressure to drive the next phase of the development of this system, we would encourage a long-term multi-generational reform agenda to be considered. We posit that the recommendations below should form part of such an agenda.

Recommendation 1: Enabling Factors

Recommendation 1.1: Further investment in financial literacy within an impact and measurement framework

There is no doubt that the financial system is complex and the move from state to self-funded retirement has added the pressure of making effective decisions for long-term wealth accumulation. The fact is that many consumers are not equipped with either the technical knowledge or the capability to do so. Thus, with such a retirement system comes responsibility, in our view, for the system to educate participants and equip them with a base level of financial capability. We recommend further investment in financial literacy education that is measured over time and integrated into both advice and product.

Recommendation 1.2: Defining a sophisticated investor

In reference to recommendation 1.1 and with the increasing nominal wealth of retirees increasing as indicated by our modelling, many more may fall within the definition of 'sophisticated investors' which could expose such consumers to substantial additional risk. Thus we suggest this be closely examined and a more appropriate and sophisticated definition of 'sophisticated investors' be introduced. Enhancements to the disclosure and monitoring of the use of this regime should also be considered.

Recommendation 1.3: Continue to improve the quality of financial advice

In reference to recommendation 1.1, we note that having a base level of financial literacy is important for all consumers; however, for many having a sophisticated level of financial capability is not feasible. Thus, at some point obtaining financial advice is important on this basis alone, but also for a range of other reasons that should improve long-term consumer outcomes. Thus, we support the moves by key stakeholders in recent years to improve the advice industry and recommend these continue. We particularly encourage the industry leaders to support change and strive to adopt standards higher than the prescribed minimum and foster a greater degree of cooperation and collaboration.

Recommendation 1.4: Enhance the accessibility of financial advice

In addition to quality, access to advice is a significant issue. We recommend a stretch target of 'advice for all' be adopted. This will challenge the advice industry, regulators and policymakers to consider ways of ensuring advice is available to all that need it. Options here include further enhancing scaled advice, critically assessing the advice process and regulatory burden for efficiencies, the possibility of a Legal Aid style service for financial advice, further growth of pro bono services for particular groups in need, the expansion of financial counselling (crisis counselling services), proposals for some forms (or level) of advice be tax deductible, and innovation in financial services continue to be fostered by regulators and policymakers.

Recommendation 2: Wealth Recycling

The second set of recommendations relate to the outcomes of the modelling presented in prior sections. Here we seek to take the comments in McCrindle (2016), when viewed in conjunction with the arguments above, to make recommendations in relation to the next phase of the development of Australia's retirement system:

Recommendation 2.1: Enhance the legislative framework around the decumulation phase

With reference to our long-term modelling, it is clear that further guidance is needed in the decumulation phase in terms of products, use of superannuation resources in terms of lump sum versus income stream products, and cost structures in these services. Areas such as equity release strategies are also emerging. Thus, while this was not the focus of this report, we note the challenges that exist and the broad distribution of retirement wealth in the over 60 group suggests more could be done in this area. Indeed, this would be a key area for advice accessibility in relation to those with limited wealth in the lead up to retirement and through that phase.

Recommendation 2.2: Encourage orderly intergenerational transfers and multi-generational transfers

At various points in this report we mention the need for wealth transfers to be orderly and certainly to minimise the erosion of the accumulated wealth through transactions and settlement costs in relation to an estate. Again, while this was not a specific focus of the modelling, it is clear that there are many in retirement that are either asset and/or cash poor, and this will continue to be the case in Gen X and Y. Thus devices that can support this such as estate planning services built into superannuation for low account balances, tax deductibility of basic estate planning services, and other accessibility mechanisms will greatly assist in maximising the wealth transfer outcomes for those that need it the most.

Recommendation 2.3: Develop incentivised vehicles for inter- and multi-generational wealth transfers

This is the key recommendation that emerges from the modelling conducted in both this and the McCrindle (2016) report. To capture the opportunity that the future intergenerational wealth transfers represent we recommend the establishment of an incentivised scheme for wealth to be transferred inter-generationally. This would:

- Have a maximum contribution limit that would increase with the age of recipient
- Allow contributions to a superannuation style account across generations from family members and legal guardians/ former guardians from estate assets

- Permit investments to be allocated to a multi-asset growth to high growth, low fee, single fund, potentially managed by the current Future Fund or an equivalent
- Allow funds to be preserved for retirement purposes with the potential for strict provisions for early access
- Provide incentives in terms of being free of transfer charges and duties as well as preferential taxation treatment on earnings over the life of the fund as per superannuation
- Recommend consideration be given to a mandatory transfer of 10% (or the cap – whichever is larger) of residual superannuation assets per surviving child or dependant, with an option for additional units for grandchildren with an option for dilution.

The aforementioned points provide a clear mechanism to recycle retirement savings across generations and incentivise that behaviour. We stress that over the longer investment periods, the capital transfer required to make a material impact is modest, thus supporting multi-generation transfers. This, we suggest will make a material difference to the future sustainability and equity of the retirement system.

Recommendation 2.4 – Continue to grow the body of knowledge

Our final recommendation is for the financial services sector and the relevant regulatory agencies to invest in further expanding the body of knowledge in this and related areas. This will provide more evidence to inform debate, discussion, policy and practice. We note below areas of further research that flow from this particular project.

10.0 Concluding Comments

Financial independence in retirement and the development of a sustainable retirement system have been key economic and social policy objectives in Australia over the past three decades. The superannuation system has been at the centre of this regime with little attention given to non-super assets or the decumulation phase. In recent times debate has begun about the purpose and aims of the superannuation system and reforms have been undertaken; however, these have largely paired back the system in an environment of fiscal constraint. At the same time efforts are underway to improve the confidence and quality of, financial advice as well as continued efforts in relation to financial literacy. Despite this, we suggest that as the population continues to age, lives longer and desires to 'live younger', the sustainability of the retirement system and fiscal policy will come into question.

As this debate occurs, time marches on with the baby boomers heading into retirement and Gen X and Y benefiting from being the first to have a full working life of forced retirement saving. Thus, there is a bubble of wealth like never seen before amassing in and around retirement that will begin to be transferred across generations and continue for the next 20 years. The question is if a sufficient portion of this wealth can be 'captured' and deployed for the long-term sustainability of the retirement system, and economy more broadly, for future generations.

We agree with McCrindle (2016) that this represents a significant economic and social opportunity for the nation in so far as a proportion of this wealth could be captured and incentivised to be transferred into long-term savings and investment vehicles for the next generations' financial future. We find that a majority of the population stand to benefit to some degree and propose that this mechanism be used to also mitigate intergenerational poverty by incentivising to a great extent those with small transfers of wealth to participate in such programs. In doing so, the accumulated pool of wealth would serve to reduce future reliance on government support for retirees and generate an endowment fund that would provide the financial resilience the economy needs as it navigates the challenges of the future.

10.1 Limitations and Future Research

The findings in this report need to be viewed in light of the assumptions made and the approach taken to the modelling and forecasting. There are many aspects that require further investigation (as noted throughout the report and summarised below) and indeed a variety of other scenarios that could be run to test the conclusions drawn. This suggests there is much more work to be done in this space and we envisaged that this is the first phase of a research program that will explore in detail the possibility that intergenerational wealth transfers offer in regards to the long-term sustainability and efficiency of Australia's retirement and wealth transfer system.

A range of areas for further research have been identified, with notable examples:

1. A detailed examination of the attitudes and preferences of retirees in relation to wealth transfers using a qualitative research design;
2. Examining potential parameters for wealth transfers from Gen X and Y into retirement accounts in an incentivised model; and
3. The potential for a 'Whole of Life' superannuation account or endowment fund to facilitate and encourage early retirement accumulation through wealth transfer.

10.2 The Final Word

The circumstances articulated in this report create a once in a millennium opportunity for further reform and development of the retirement system to capture the accumulation of wealth, maximise intergenerational transfers and make a significant step forward in relation to financial independence for the majority of Australians. This, in our view, would be highly efficacious and support the development of a more robust, sustainable and equitable financial future for Australians.

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