

An Introduction to Intergenerational Financial Planning

Getting to grips with the basics



Retire Invest
A **Quilter** partner



In recent years, the existence of a generational wealth gap has become all too clear. Thanks to a combination of large gains in property and stock markets over the past few decades, and generous final salary pension schemes, it has been reported that the baby boomer generation now hold around 80% of all UK private wealth¹. In contrast, today's younger generation face significant obstacles to accumulating wealth, due to increased living costs, including housing expenses, and high levels of student debt, making saving for retirement challenging. As a result, there has never been such a wide disparity in wealth distribution between the older and younger generations.

A need to optimise family resources

Other societal changes have added to the financial challenges across the generational divide. Increased life expectancy, for instance, means older people are typically living longer, which increases the need for, and cost of, residential and nursing care. These trends inevitably exert different financial pressures on different members of a family unit and this, in turn, is increasing the need to consider financial planning issues at a family level. So, rather than each generation making their own arrangements in isolation, families are increasingly trying to optimise their combined resources in order to achieve better outcomes that are capable of benefiting the whole family.

What is intergenerational financial planning?

Intergenerational financial planning is essentially a strategy designed to ensure the smooth transfer of wealth down the generations, in a controlled and tax-efficient manner. In essence, it involves integrating financial planning decisions across generations, with grandparents, parents and children all working collaboratively to support each other, while ensuring family wealth is protected and opportunities for growth maximised from one generation to the next. By doing so, an intergenerational approach can ensure the right family members have the right assets at the right time, while minimising any potential for family disputes or conflict.

Why is it relevant today?

Planning ahead is particularly important with modern families, which are typically larger and more complex than in previous generations. The increasing incidence of divorce and rise in second marriages and second families, for instance, has added extra layers of complexity and heightened the need for careful planning, if wealth is to be passed down in line with your wishes and used for the reasons you choose.

A key element of intergenerational planning is therefore establishing a family roadmap that details who should receive your money and how you would like it to be used. Such an approach ensures family aspirations are met, while keeping you firmly in control of your finances. And with unused pension funds subject to IHT from 6 April 2027, the need for a well thought out plan is even more important.

'Great wealth transfer'

Another reason why intergenerational planning is particularly relevant today relates to what has been dubbed the 'Great Wealth Transfer'. This will see unprecedented sums of money cascade down the generations as baby boomers – the wealthiest generation in history – prepare to pass assets on to their heirs. Estimates² suggest that, in the UK, £5.5tn could be set to pass between generations over the next 30 years. These record-breaking sums inevitably mean that intergenerational planning has never been more important to so many families.

Involving your family

Despite the increasing need to adopt a collaborative and open approach to transferring wealth, many people are still uncomfortable discussing money issues with their family. If the process is to be successful though, it is clearly imperative to do so, which means you need to start the conversation. Letting us help with intergenerational financial planning can be a particularly good way to get the ball rolling.

Encouraging your children, or grandchildren, to become involved in your financial decisions can also be an effective way of boosting their financial literacy and, in doing so, ensure they are ready to take control of family assets when the time comes. It also allows us to get to know your beneficiaries so we can help educate them financially and thereby ensure they are better prepared to make decisions about their own finances.

The sooner the better

Another common reason why people fail to speak about inheritance is procrastination. While many intend to have the wealth transfer conversation with their family, they never actually get round to doing so, instead continually putting it off until their next milestone birthday.

However, starting to plan the process at the earliest opportunity is often the key to success, as the sooner you begin, the more time you have to sort things out effectively.

Enjoy the benefits

A key advantage of early planning is that it gives you greater control over the process which, in turn, can help ensure you are around to witness younger generations benefiting from your money. Increasing life expectancy also means many people now receive their inheritance at a time when they themselves do not necessarily have the most pressing financial need for it; for example, it arrives after they have paid off a mortgage or finished putting children through school.

While the most important element within any wealth transfer process is ensuring your own financial security, transferring assets to family within your own lifetime can be an extremely rewarding experience. With the right advice, passing on wealth to others while sustaining your own living standards is achievable. In addition, because you are in control of the process, you can pass on money when you wish and when your beneficiaries need it the most.

¹FT Adviser, ²Kings Court Trust



Aspects of Intergenerational Financial Planning

Whether you are looking to help a family member gain a foothold on the housing ladder, help them build a retirement fund, clear their debts, contribute to a grandchild's education, a family wedding or much-needed family holiday, intergenerational planning can provide solutions. Such planning can ensure your wealth is working hard for your whole family while at the same time ensuring your own financial security is not put at risk.

Careful consideration and professional expertise, are prerequisites when constructing an effective plan, capable of delivering your future aspirations and family financial goals. In particular, a plan must focus on six fundamental aspects:

Sustaining your standard of living: Although intergenerational planning is essentially about passing on your wealth, a central element is ensuring your living standards are not compromised – it is your money and you come first.

Tax-efficiency: Ensuring the wealth transfer process is carried out tax-efficiently is vital, so more of your money goes to your beneficiaries and a minimum to the taxman.

Control: Retaining control of your finances throughout the process is important, as this ensures it is you deciding exactly how you pass on your wealth, who to and with what restrictions.

Timing: Today's complex family structures have heightened the need to plan ahead and resulted in timing becoming an increasingly key factor in order to avoid any unforeseen consequences or nasty surprises.

Access: In an era of high divorce rates and blended families, there are a number of traps that can divert slices of your wealth beyond family boundaries if issues surrounding access are not considered carefully.

Protection: Another key element of any intergenerational plan is ensuring your family assets are protected so they can continue to be passed on from one generation to the next.

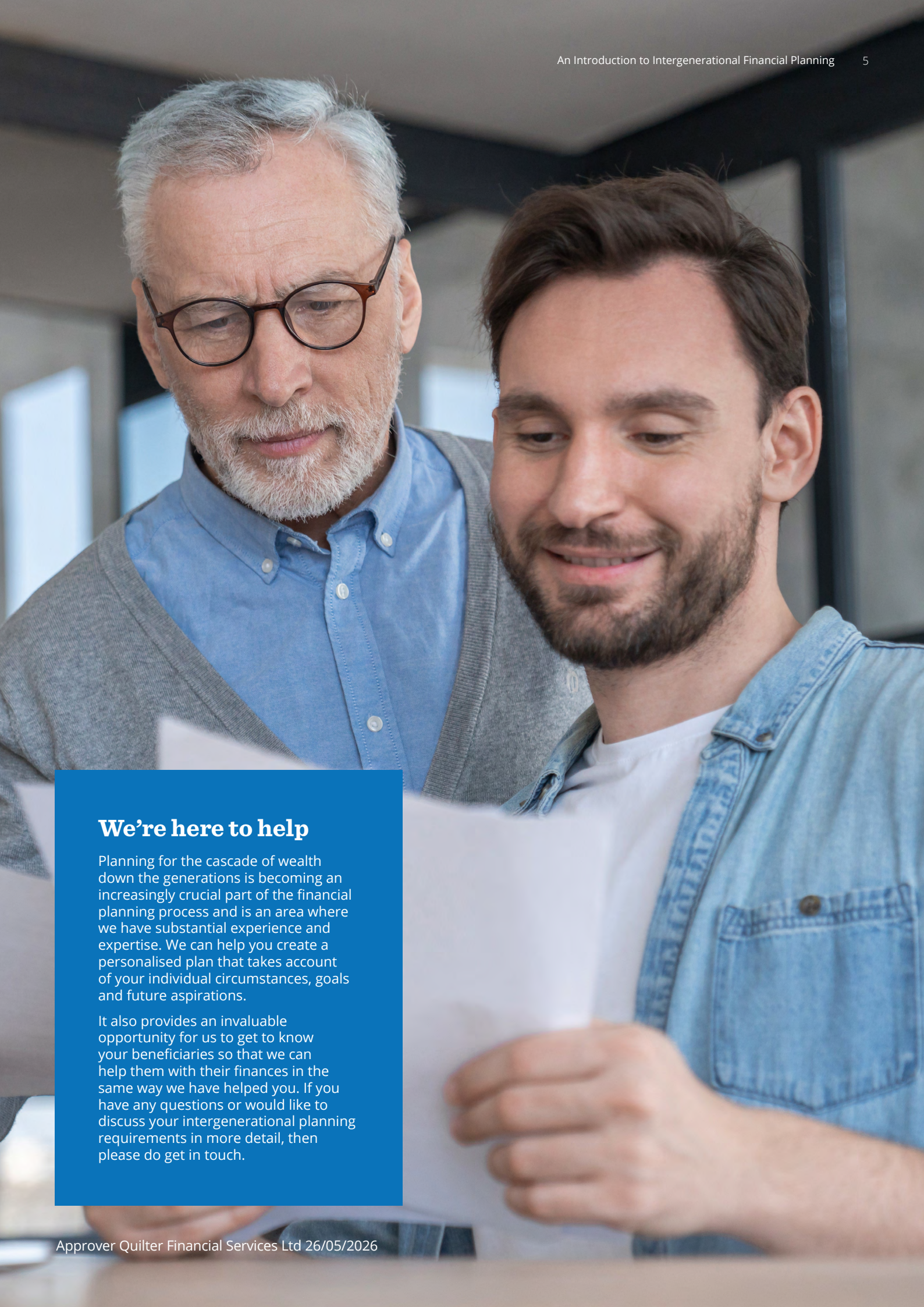
Solutions to intergenerational needs

Intergenerational planning inevitably involves finding solutions to a range of issues across a number of financial product areas. For example, thoughtful **estate planning** is essential in order to maximise the amount you pass on to your chosen beneficiaries. An effective plan will utilise various tools, such as gifting, in order to minimise tax liabilities, as well as considering the provision of a **Will** and **Lasting Power of Attorney**.

For centuries, **trusts** have been used as a means of preserving and managing family wealth and they still perform a key role in many people's intergenerational plans. Regulatory reforms in recent years have also resulted in **pensions** playing an increasingly crucial part within the wealth transfer process, while **life insurance** can also be an extremely cost-effective way of avoiding unnecessary tax bills when you are gone.

Whatever your circumstances, we can help you construct a bespoke intergenerational financial plan tailored to your individual needs that will allow you to pass on your wealth to those people that matter most to you, in a controlled and effective manner. You can then concentrate on enjoying life while watching your children, or grandchildren, reap the benefits of your family wealth.

Estate Planning/Inheritance Tax Wills and Lasting Powers of Attorney are not regulated by the Financial Conduct Authority.

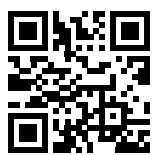


We're here to help

Planning for the cascade of wealth down the generations is becoming an increasingly crucial part of the financial planning process and is an area where we have substantial experience and expertise. We can help you create a personalised plan that takes account of your individual circumstances, goals and future aspirations.

It also provides an invaluable opportunity for us to get to know your beneficiaries so that we can help them with their finances in the same way we have helped you. If you have any questions or would like to discuss your intergenerational planning requirements in more detail, then please do get in touch.

If you would like this document or any other document in an alternative format e.g. Braille, Clear and Large Print or Audio documents (Cassette, CD, MP3 or Wav) or any other languages please let your adviser know.



www.retieinvest.com
Tel. 0800 0284 040