

Intergenerational Transfer of Wealth

- “Great Expectations”

Career Enhancement Series: Elder Law
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Outline and Background

- Examine the current and future levels of inter-generational wealth transfers

- Two views
 - From the givers
 - From the receivers

- Very little data available

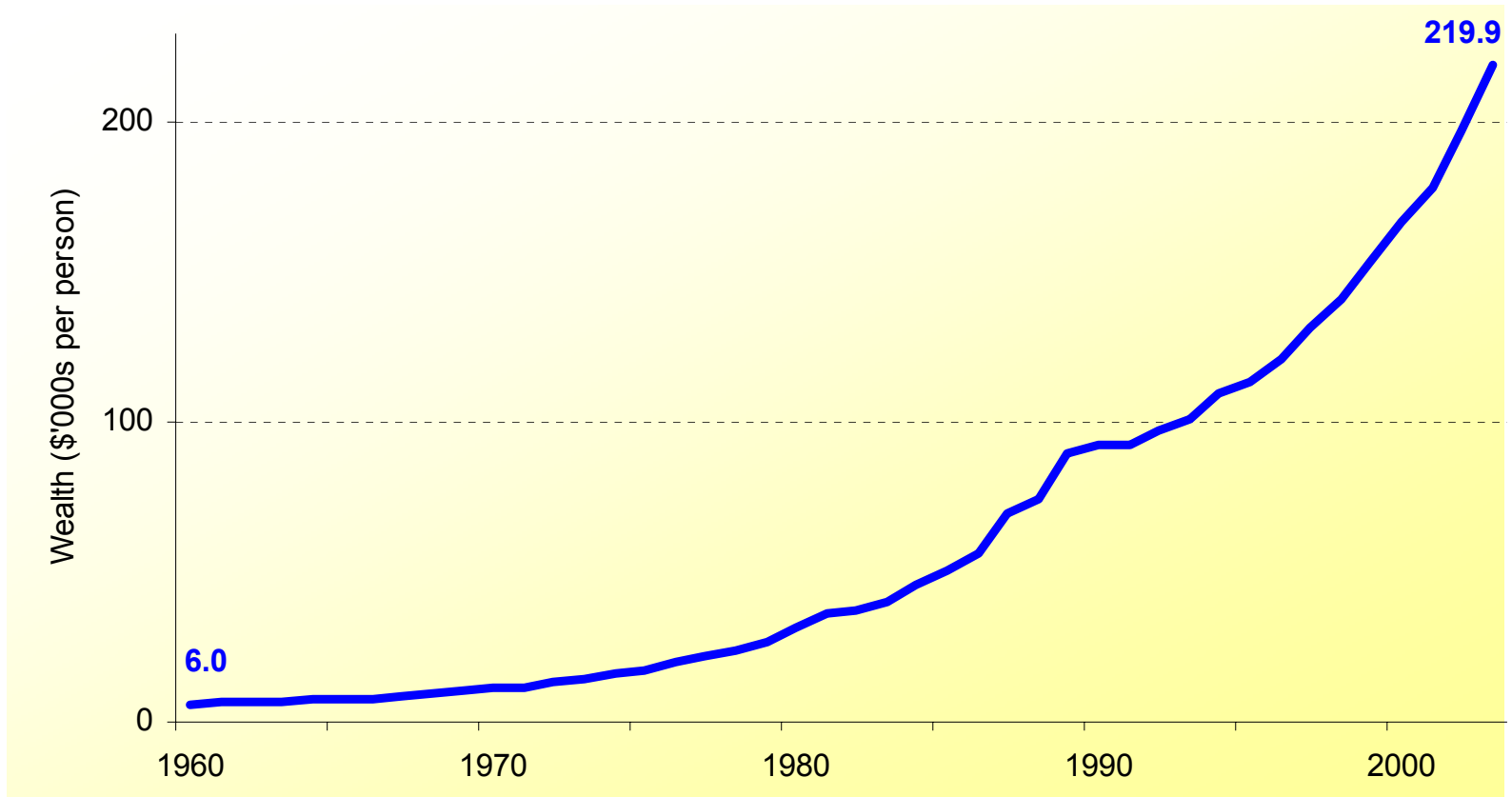
The Baby Boomer view



Good news for baby boomers

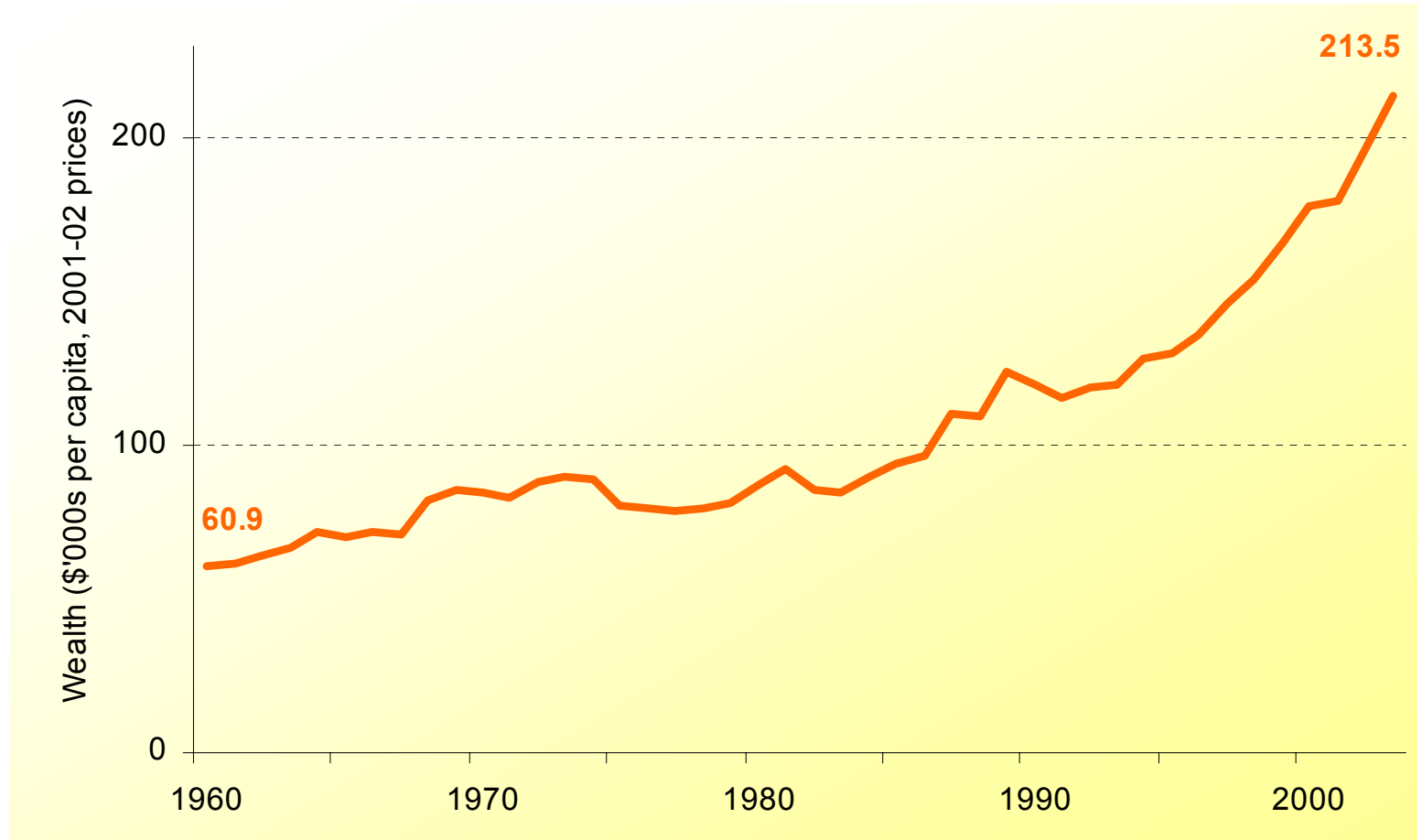
- Frugality was the norm for those born 1930-1950
 - 'Work hard and save' ethic
- Families are now smaller
 - The denominator is smaller
- Life expectancy has increased
 - Wealth compounds over time
 - Strong relationship between age and average wealth
- Houses and share market have boomed
 - Average wealth has increased significantly especially for homeowners

Average wealth per person increasing



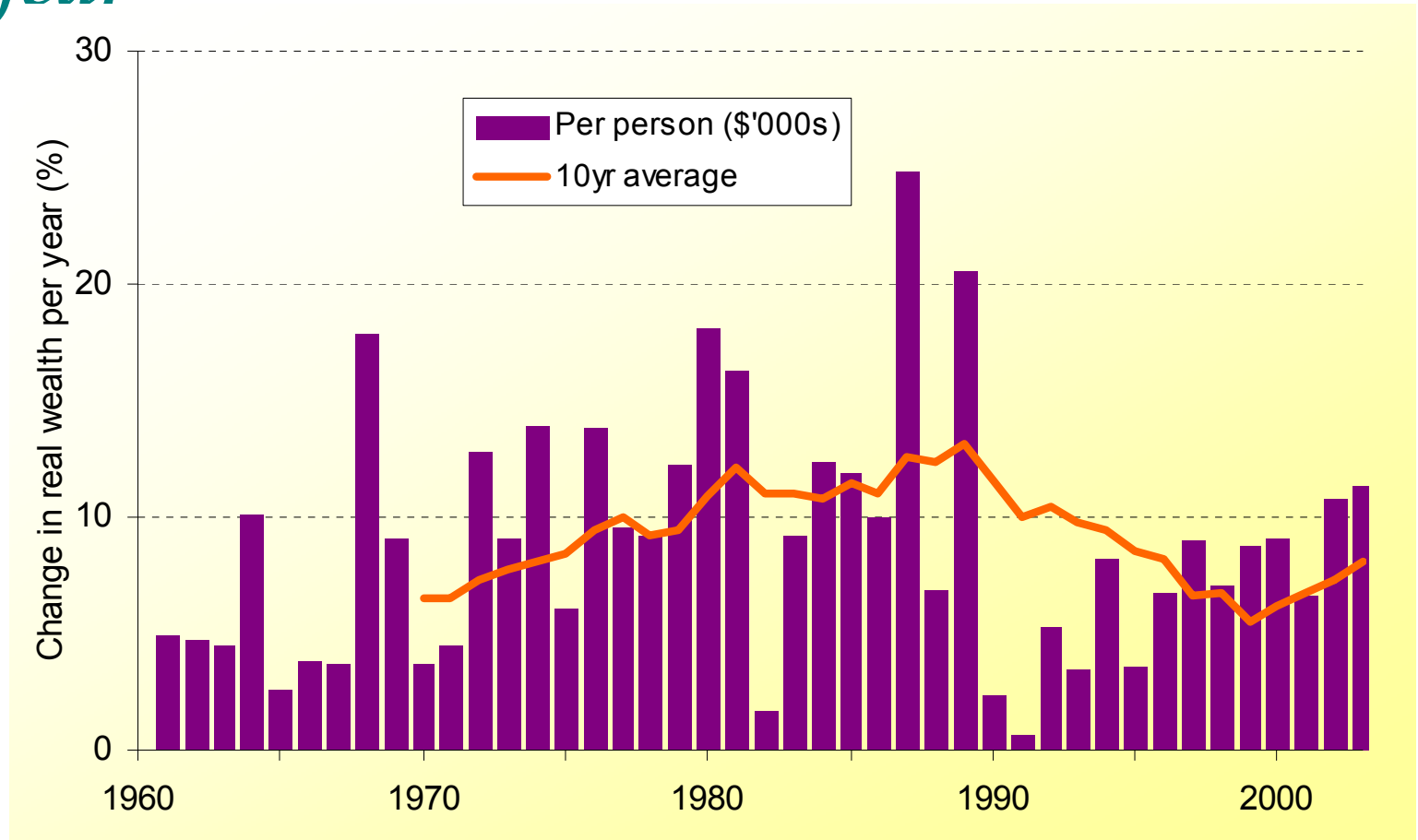
Source: Economic Roundup, 2003, private sector wealth at market value

Even in real terms...



Source: Economic Roundup, 2003, Real private sector wealth per person at market value

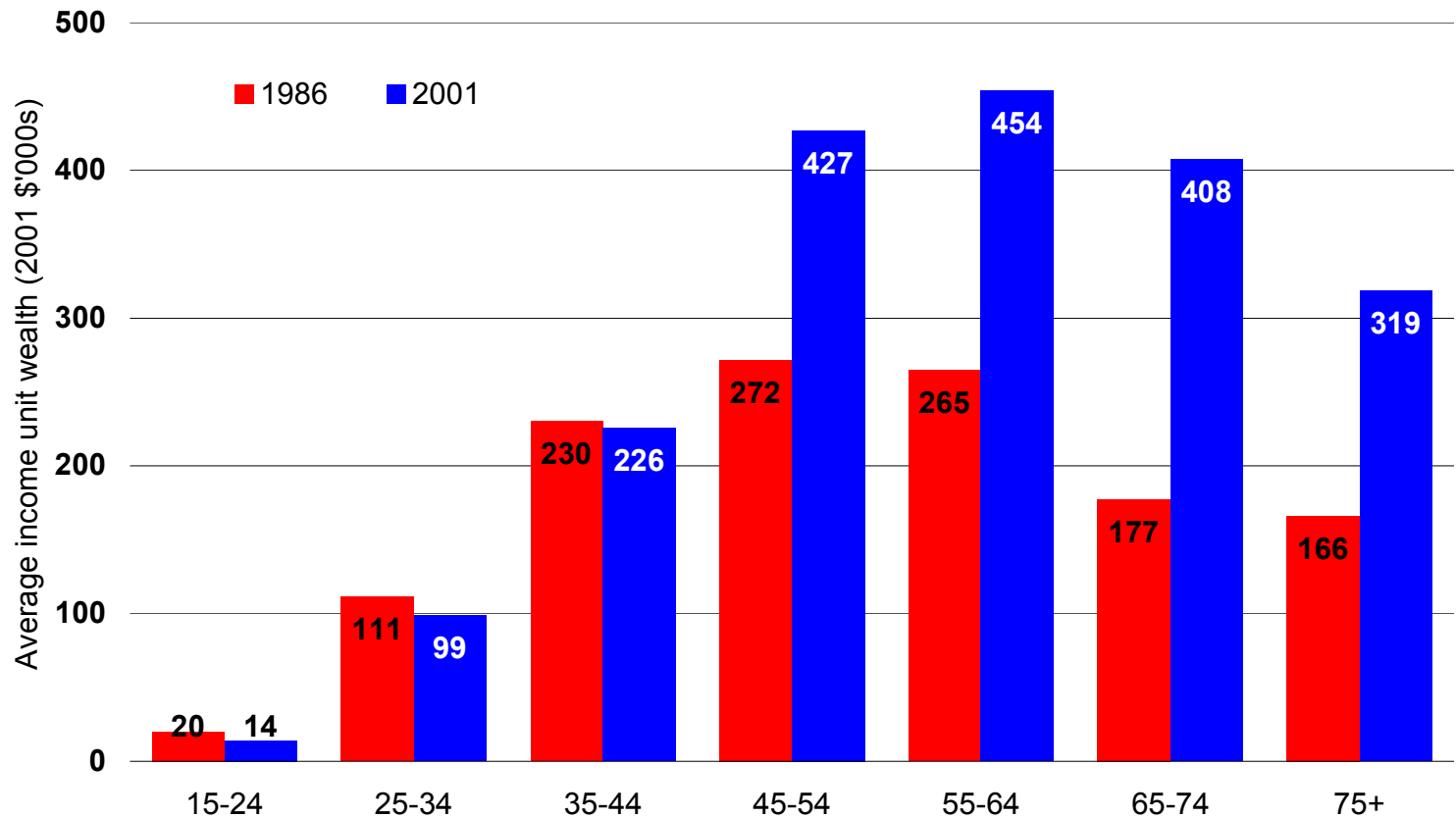
Growth has averaged almost 10% per year



Distribution of wealth

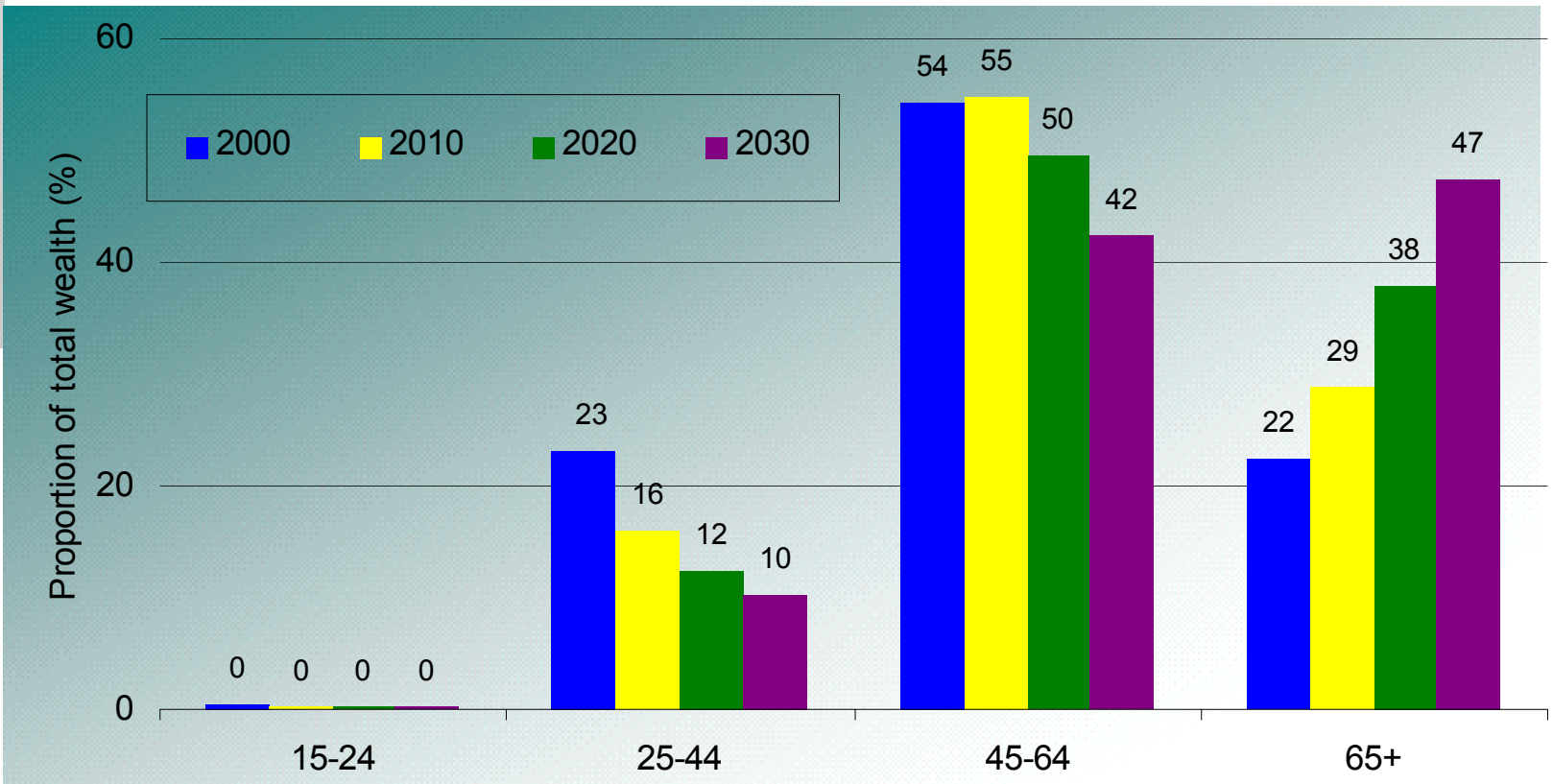


Major shift in wealth towards older Australians



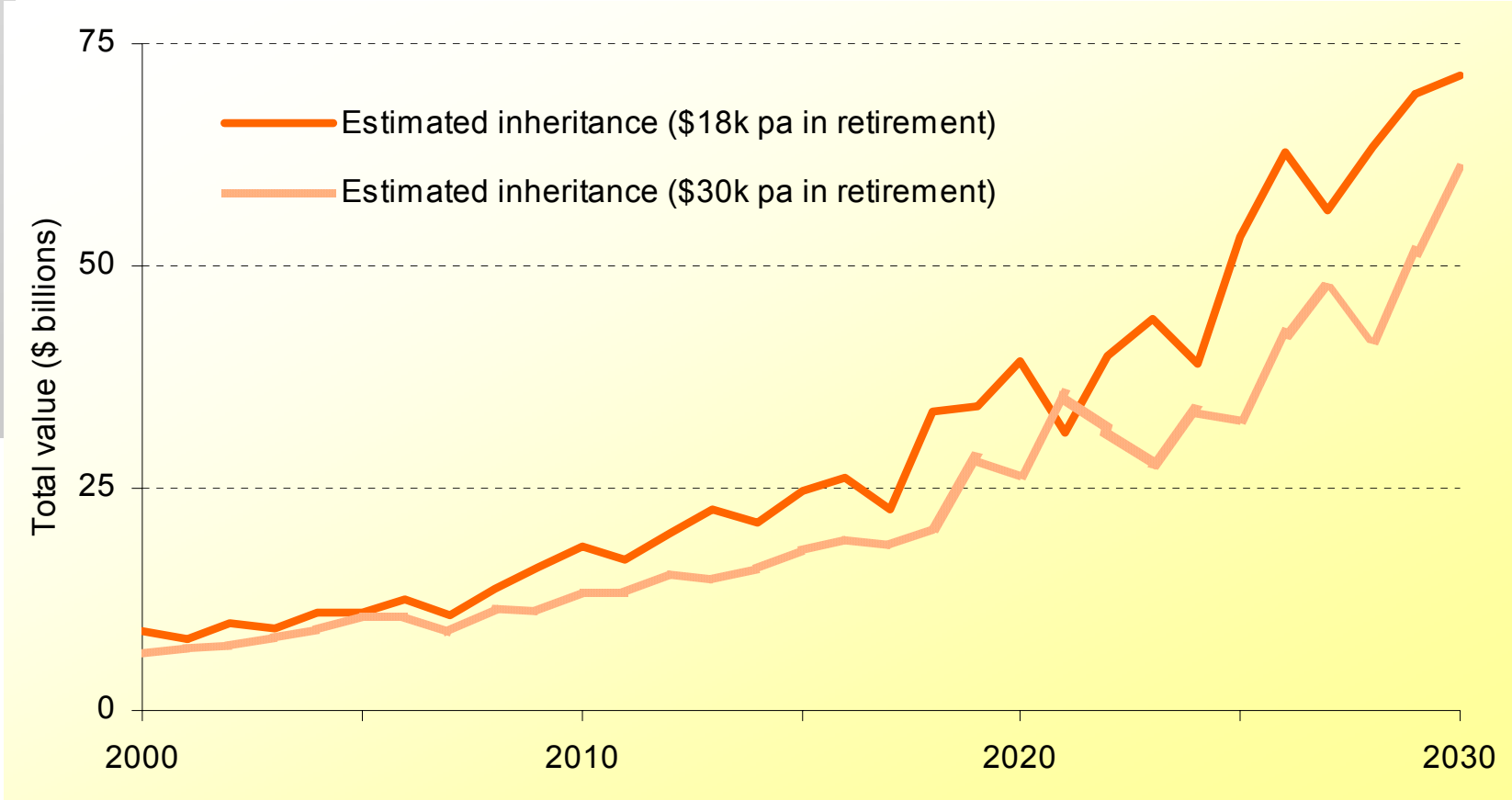
Kelly, 2003

Estimated share of wealth by age group



Source: Kelly, 2003

Growth in inheritances



Source: Kelly and Harding, 2003

Possible (but fraught) conclusions for baby boomers

- Wealth is growing strongly, especially for older Australians, and the baby boomers will inherit this wealth
- Continue spending as we have for the past 30 years
- No need to save for retirement, inheritance will cover it

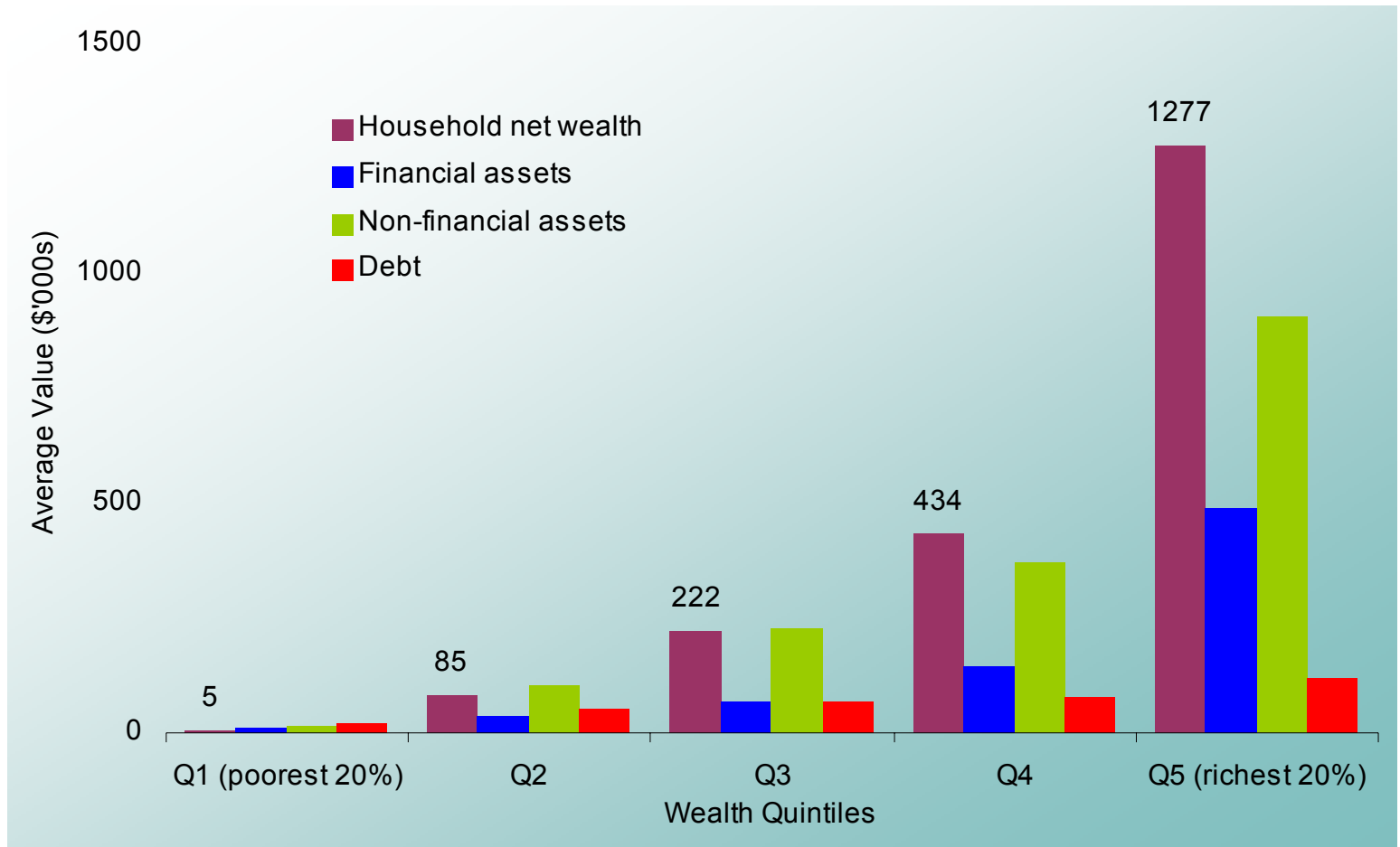
Bad news for Baby boomers

- you can't rely on the old folks' money

- Uneven distribution of wealth
- Generation skipping
- Changing attitudes to bequests
- SKI'ing
- Escalating costs of medical and aged care

The distribution is heavily skewed

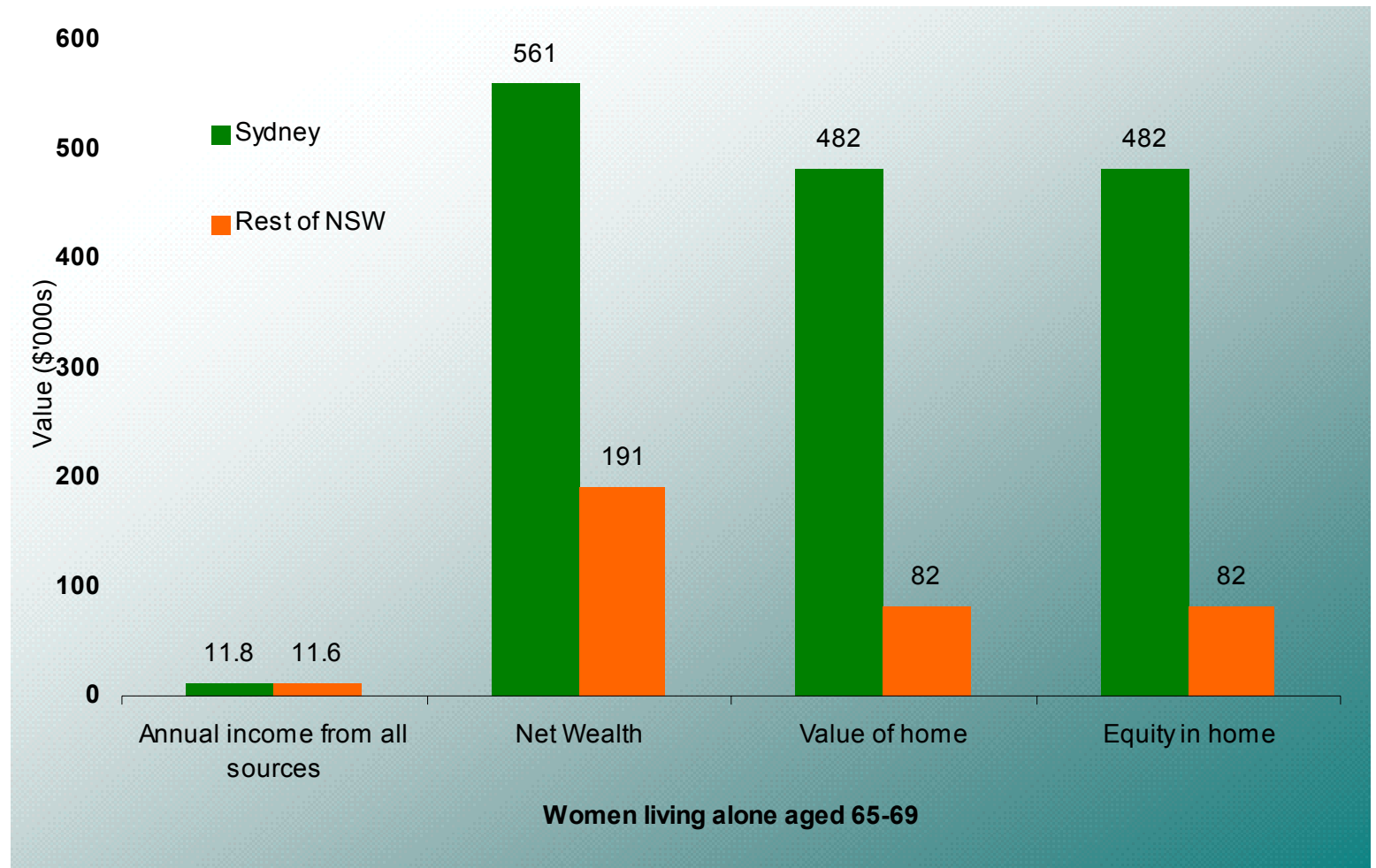
- richest quintile have 63% of total net wealth



Source: Kelly, 2004

Older women in Sydney

- the classic "asset rich, income poor"



Source: Kelly, 2004

Generation skipping

- Greater longevity means parents could live to 90 years old
 - Children may be around 60 years old
- Grandchildren (aged around 30) in greater need of financial help
- UK research shows attitude varies with income
 - People who were better off more likely to skip a generation

Changing bequest ethic

Past behaviour based on

- Intergenerational altruism
 - parents believed their children had a greater need than themselves
- Parents gained pleasure from the giving
- The inheritance was used to induce desired behaviour
- Bequest was an unintentional by-product of not knowing exactly when they would die

Changing bequest ethic

But ...

- Children are better educated and have higher incomes than parents
- Many have dual incomes
- Many choose to live independently interstate or overseas
- Few children continue in the family business

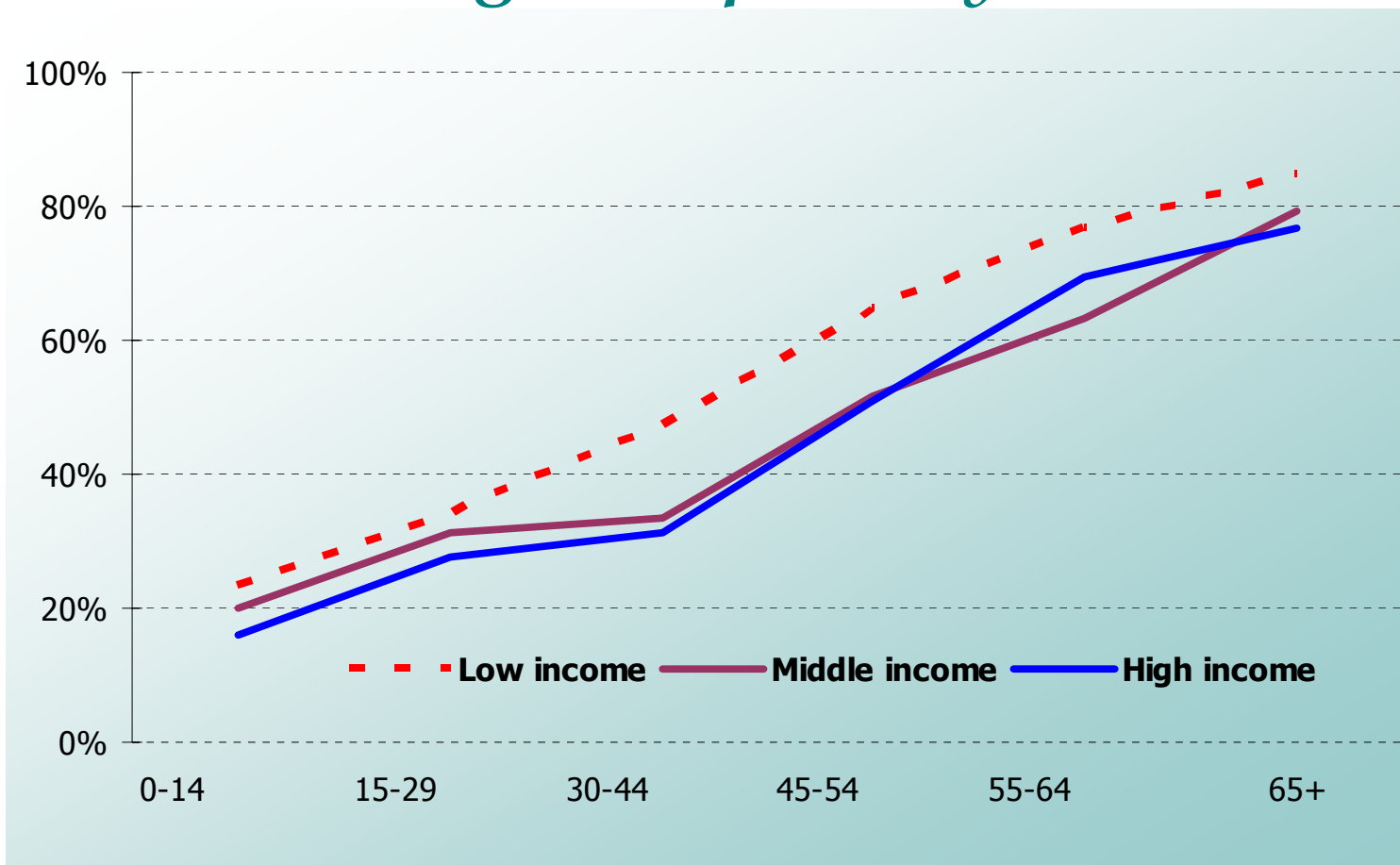
Spending it

- Parents may choose to spend it on themselves
 - SKI (Spending the Kids' Inheritance)
 - If you don't travel first class – the kids will !!
 - In the US those in their 60s are bigger spenders than those in their 30s
 - Reacting to the fact that no-one helped them
 - Many think children will lose ambition if they are given too much

- Donating a sizeable chunk to charity

- Living longer costs more in terms of health and aged-care

% with 1+ long term priority diseases

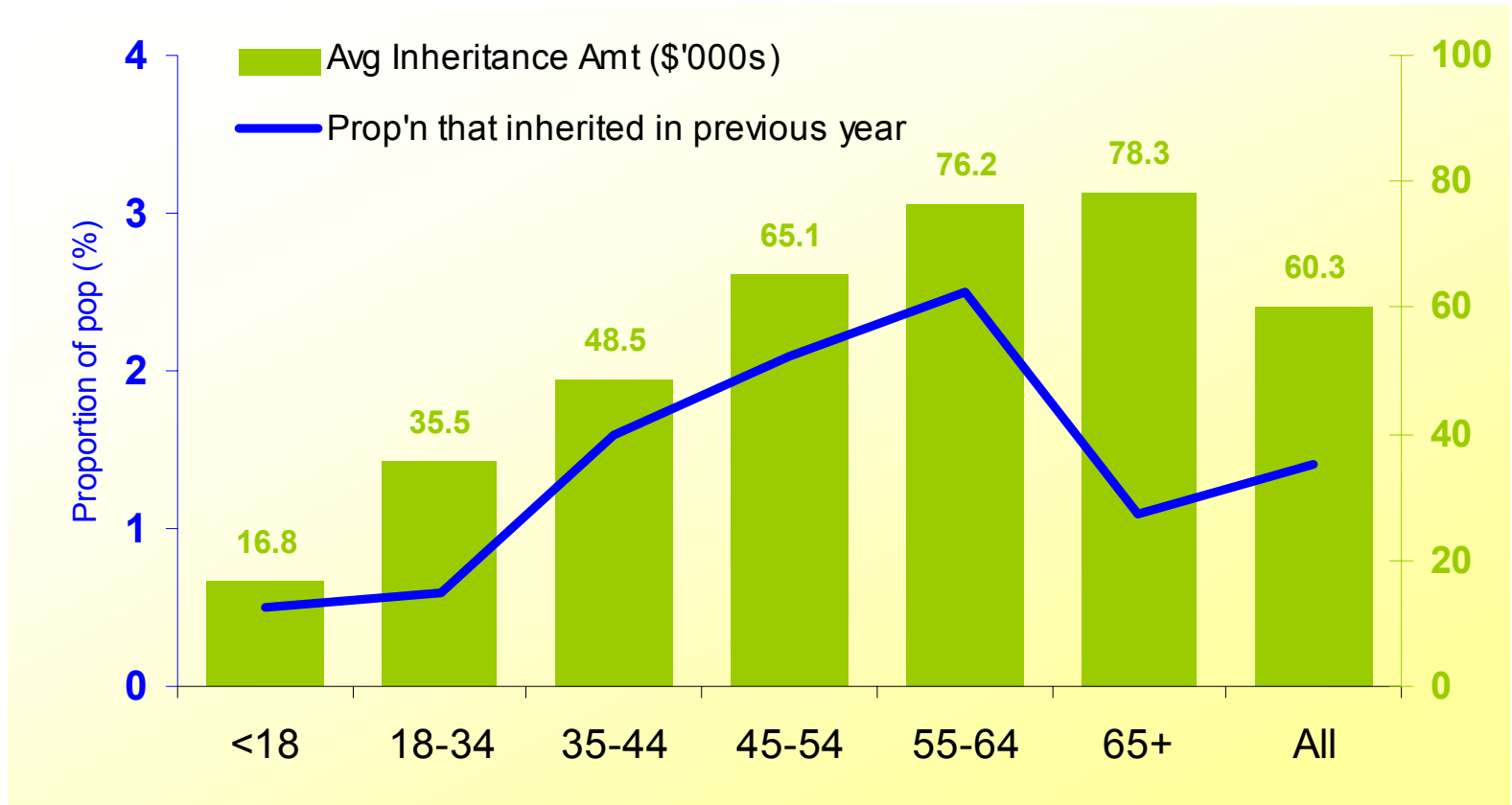


- Asthma
- Cancer
- cardiovascular health
- Diabetes
- Injury prevention
- Mental health
- Arthritis
- Musculoskeletal conditions

Australian Distribution of Inheritances

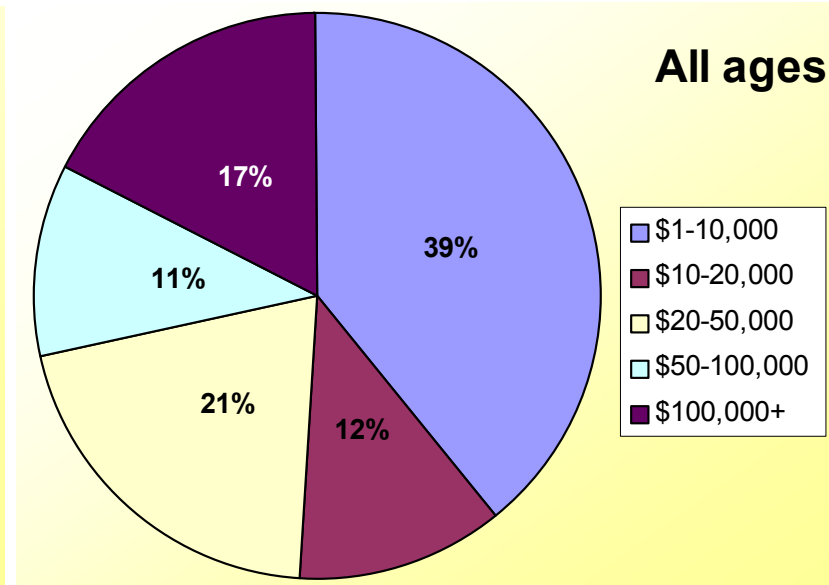
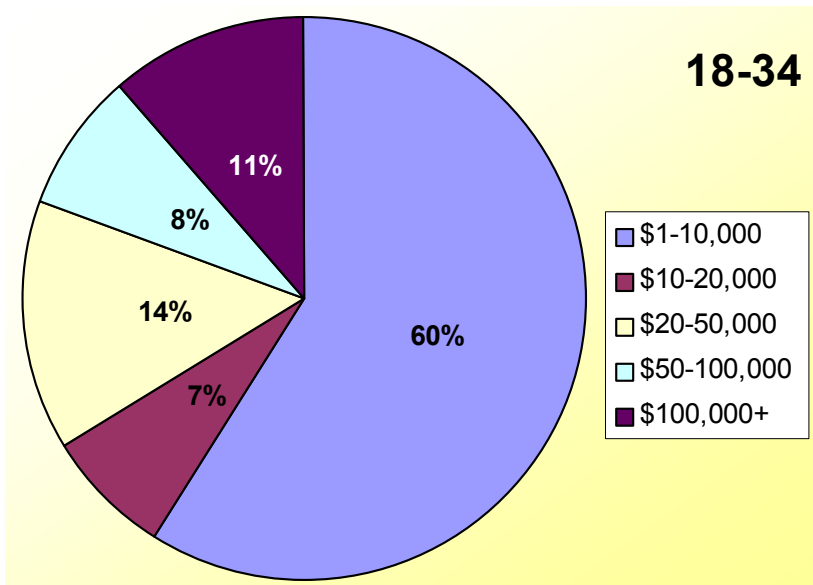


How many inherit and how much do they get?



Source: HILDA wave 2 (2002)

But averages can be deceptive...



Source: HILDA wave 2 (2002)

Summary

- **Good news for baby boomers**
 - Parents lived a frugal life
 - Families are now smaller
 - Wealth has grown at almost 10% per year over the last 20 years

- **Bad news**
 - Very uneven distribution of wealth
 - Generation skipping
 - Changing attitudes to bequests
 - SKI'ing
 - Escalating costs of medical and aged care

- **Only 1-2% inherit each year**
 - The average for those most in need (aged 18-34) is \$35,500
 - Even this average is deceptive
 - Six in ten get less than \$10,000

References cited in presentation

- Kelly, S. 2003, *Forecasting wealth in an ageing Australia – an approach using dynamic microsimulation*, Paper presented at the 7th Nordic Seminar on Microsimulation Models, Helsinki, Finland, 13 June.
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