Managing an inherited wealth transfer from a spouse

By Perpetual Private Insights

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What you need to know about overcoming the challenges of transferring wealth.

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It's hard enough going through the grieving process when you lose a partner or spouse, but when you also have the sudden responsibility of inheriting significant wealth it can be completely overwhelming.

This is exacerbated even further when you're not quite up to speed on the complex financial matters involved.

Women are proportionately more affected

"I've found that it's really common within a couple, that one person tends to make more of the financial decisions and assume responsibility for understanding the financial position," says Carolyn O'Reilly, Partner at Perpetual Private.

"What this means is one party will have a lesser understanding of their financial situation. Difficulty may arise when this individual is faced with making significant financial decisions upon the death of their spouse.



Source: Getty Images

"They often don't understand the complexity of their financial arrangements and have not developed a trusted relationship with their financial adviser."

While it’s a generalisation, it can be the case that it’s the male in the partnership who has been largely responsible for financial matters, while the female – who is often the surviving spouse – has not.

“Proportionately the female is the survivor and therefore they are the one confronted with these financial choices,” says O’Reilly.

Perpetual’s 2023 research study of 3000 Australians* found more men feel confident about managing their finances and achieving their financial goals than women. 55% of men are confident about achieving their financial goals compared to only 44% of women. Men are far more likely to declare themselves the main financial decision maker in the household (64%) than women (53%). Unequal involvement in decision making can lead to loss of confidence and a tendency to limit involvement in financial decision making.

Building or attaining the same degree of financial literacy levels during a period of grief can prove to be difficult, but it must be done to preserve the wealth inherited and secure the surviving spouse’s future.

What are the typical challenges older spouses face when inheriting significant wealth?

"When wealth is transferred upon the passing of a partner, it can introduce a myriad of intricate financial considerations that need to be carefully navigated" says O'Reilly.

For many beneficiaries, the inheritance will come with tax implications. For older beneficiaries, there could be a potential impact on means testing for retirement income. There will also be restrictions on how a superannuation death benefit can be managed.

Tax implications are one of the major considerations and will start with considering the residency status of the deceased individual and the beneficiaries, the capital gains position of estate and non-estate assets, the most appropriate structuring of superannuation death benefits and whether the estate is income-producing, explains O'Reilly.

"The complexities surrounding social security programs like the Age Pension and Commonwealth Seniors Health Card must be taken into account, as they involve means testing based on both asset and income thresholds." says O'Reilly. “Receiving an inheritance can impact the surviving spouse’s ability to continue accessing these benefits.”

As mentioned, superannuation is another major consideration in the wealth transfer process from a partner, with the first step being to understand the nature of the interest – whether it is a self-managed super fund or a retail fund – and whether there is a beneficiary nomination in place that will determine who will receive the funds.

"Evaluating any existing income streams and determining if it's prudent for assets to remain in the superannuation environment will be a critical consideration." says O'Reilly.

For many retired couples, it is difficult to combine the deceased spouse's superannuation balance with the surviving spouse's as they won't be able to retain all the assets in super – some will have to leave the superannuation environment due to the transfer balance cap, says O'Reilly.



Source: Getty Images

"The question then is what do they do with their investments – in what structure and how should it be invested?"

There are certain time limits that need to be adhered to when it comes to financial decision making after the death of a spouse or partner, although the probate process is likely to take some time.

Having an up-to-date will, estate plans and other key documents can minimise some of the issues a surviving spouse faces upon their death. For example, where there are entities such as trusts and companies controlled by one person, understanding how the nature of any control will pass to others is key.

A concern that some may have, is the ability for previous spouses to make a claim upon their estate, at some future point in time.

"If superannuation is payable to a nominated beneficiary it generally can be difficult to be challenged, but if there are assets within the estate of the deceased spouse, in certain circumstances previous spouses may have standing to challenge," says O'Reilly.

"This includes where it was deemed inadequate provision was made for them during their life or if they were financially reliant upon the deceased upon the time of death."

Issues with previous spouses can also arise if financial structures haven't been revisited in a long time and perhaps the previous spouse is still a shareholder in a company or trust, says O'Reilly.

What should older inheritors do to build financial literacy?

Trying to build financial literacy during a period of loss for a surviving partner can be very difficult while they are also grieving, so it's often optimal for both spouses to be involved in a couple's financial affairs from the outset.

This ranges from the consideration of having joint bank accounts to ensure funds aren't frozen upon the death of a spouse, to setting up and running financial structures and being part of financial decision-making and estate planning together as a team.

Not only does this make the process of wealth transfer less challenging when a partner passes away, but it gives both parties confidence, and prevents the grieving spouse from having any financial surprises upon the death of their loved one, says O'Reilly. It also helps them to understand the wishes of their loved one and how their estate is to be dealt with.



Source: Getty Images

Whether there is an existing relationship or not, an adviser will be there to help older spouse inheritors to navigate what can be a complex path, so they won't be alone.

But there is no one-size fits all approach, says O'Reilly.

"The advice is different for everyone depending on their situation," she says. "The first step is to gauge the level of the inheritor spouse's understanding of the financial circumstances and

then guide them in the right direction.

“It’s about identifying what their immediate needs are but also making them aware of what needs to be done and prioritising on a short-term and long-term basis, with future planning also required.”

*Source: Lembit, G., (2023) 'What do you care about: The Life Project', Perpetual Client Insights September 2023.

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