Intergenerational Conversations

– planning your family's financial future

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Plan behind

We spend our life planning for what lies ahead. But it's also important to plan what we leave behind.

What if something were to happen to you? Would the people and possessions that matter most to you be well cared for? Where would all your hard-earned assets end up? How would your children or grandchildren manage their inheritances?

These are questions many people don't like to think or talk about. Combine money, love, relationships and family dynamics in one conversation and things are likely to get a little emotional. Add blended families to the mix and things may become even more impassioned.

That's why it's important to develop a clear plan and talk through it with everyone concerned – before it's too late.

A professional financial adviser can facilitate these discussions, help younger generations learn vital money skills and assist you in planning what you leave behind.

You've spent a lot of time accumulating your assets so it makes sense to spend some time working out what happens to them.

These conversations are not just for the very wealthy. It's important for all your family members and can be especially important if dependant children, debts, blended families or family businesses are involved.

In a nutshell, family succession planning involves preparing for what will happen financially when you die or if you are incapacitated.

Done well, it may help to reduce or eliminate family squabbles and legal challenges. It can take into account Wills, trusts, superannuation, life insurance, tax implications, business succession planning, social security repercussions, provisions for family and gifts to charity.

Also important to consider is whether to have a power of attorney, where you nominate a person you trust to act on your behalf if you are unable to.

You may also want to establish an enduring guardianship, where you appoint someone to make lifestyle decisions for you, if you are no longer able to make them yourself. For example, if you suffer from dementia, a brain injury or even a temporary illness.

The laws regarding powers of attorney and enduring guardianship are complex and different rules apply in different states or territories. Professional advice is recommended to help you work through the rules.

If you have a child under 18, consider naming someone to become their legal guardian if something happens to you. You may also want to protect against loss of money in the event of a relationship breakdown, in case they struggle with addiction, mental illness or potential bankruptcy. Whatever the circumstances, we can help you work through the issues and plan accordingly.

It takes more than Will power

Wills

Making an effective Will can provide peace of mind for you and your dependants. Without a valid Will, the government or the courts may end up determining how your assets are distributed, taking into account your family situation. This could result in a very different outcome to what you anticipated, and may cause delays in settling your estate.

Super and life insurance

If you own a personal life insurance policy and don't nominate a beneficiary, the proceeds will go to your estate and dealt with via your Will, if you have one. However, where a beneficiary (other than your estate) is nominated, life insurance or super proceeds don't form part of the deceased estate*. This means that in these instances, the Will cannot be used to direct proceeds of such policies. Carefully nominating your beneficiary for superannuation and life insurance policies is just as important as having a Will. Generally, superannuation death benefits can only be paid to your estate or to dependants as defined under superannuation law.

If you don't make a nomination, the nomination is defective or you don't use a binding nomination, who receives your death benefit may be subject to the fund rules and trustee's discretion – which may lead to an outcome quite different from what you intended. Binding nominations are binding on the trustee. Some binding nomination have to be renewed every three years. If you don't use a binding nomination, your nomination is invalid or defective, who receives the superannuation death benefit may be subject to the trustee's discretion and/or the rules of the fund – which may lead to an outcome quite different from what you intended.

Testamentary trusts

Depending on your situation, asset ownership structures and tax matters can deliver different outcomes to different people so it may make both dollars and sense to take these into account.

Testamentary trusts may offer particular estate planning advantages. Established on your death and created by your Will, these trusts may help to reduce tax, protect assets against claims arising from a relationship breakdown or bankruptcy of your children, and allow special provisions for young children. By creating trusts rather than giving money to your beneficiaries outright, you may also be able to manage how much your children or grandchildren can spend while they're maturing and developing their financial skills.

Your adviser can help you choose a structure that suits your circumstances.

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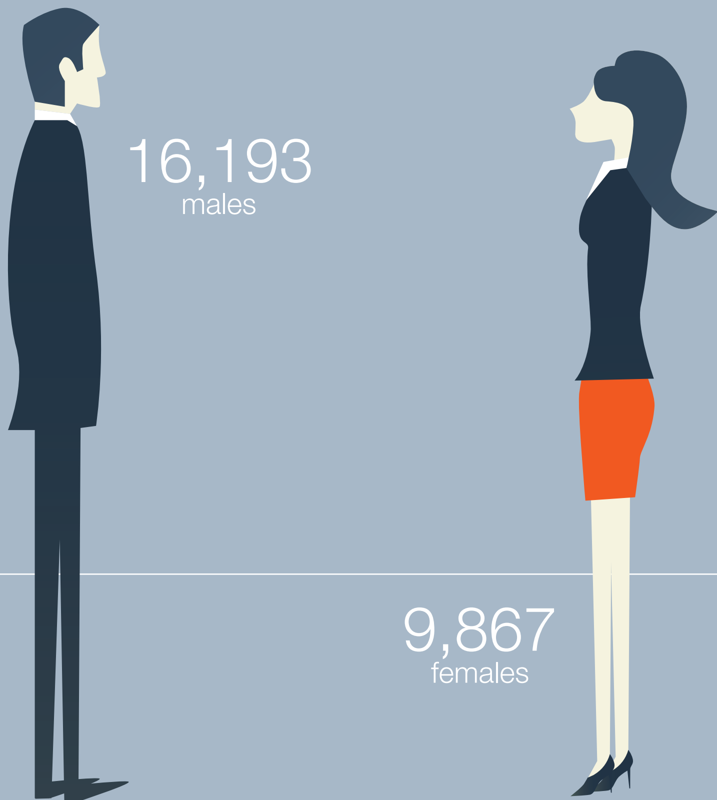
*Special rules apply to NSW. Life insurance and super proceeds may still form part of the notional estate.

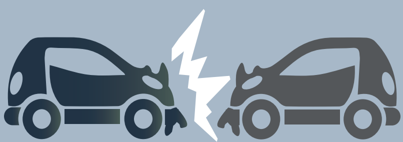
Overall deaths in Australia in 2018 of people aged between 25 and 64 were 26,060[1]



Accidents happen and no one is immune

2,952
deaths due to falls[2]

182
work-related deaths[4]



1,121
road deaths[3]

1. **Source:** ABS, Deaths, Australia 2018
https://www.abs.gov.au/statistics/people/population/deaths-australia/2018
2. **Source:** ABS, Causes of Death, Australia, 2018
3. **Source:** Road Deaths Australia 2020
https://www.bitre.gov.au/sites/default/files/documents/rda_aug_2020.pdf
4. **Source:** https://www.safeworkaustralia.gov.au/statistics-and-research/statistics/fatalities/fatality-statistics

Case study: Jim & Joanne

Jim and Joanne Morris had always considered themselves careful with money and fiercely protective of their family security. They decided to do a long overdue update to their Wills, but nothing could have prepared them for what they were about to discover.

Before meeting with a solicitor they decided to speak with Steve, a financial adviser whom a friend had recommended. After a brief chat they could hardly believe just how exposed they actually were and how a Will was only one piece in a much bigger puzzle.

Joanne is a full time mum to their two young children and Jim runs his own plumbing business. They thought their estate situation was reasonably straightforward, but Steve quickly pointed out a range of threats that needed urgent attention.

Payment of super fund death benefits

They had no Binding Death Benefit Nominations on their super, which could have resulted in benefits being delayed and misdirected in the event of death of either of them.

Taxation threats on life insurance proceeds

They had a life insurance policy but were unaware of potential tax issues if they ever invested the money from a claim they made against their policy. Steve discussed how a simple testamentary trust could potentially save thousands of tax dollars on investment income.

Preventing estate benefits from being misused

Jim has an adult son from his previous marriage and wanted to leave him a share of his estate, but did not want the money spent frivolously. Steve suggested a trust be set up with spending controls to be put in place.

Easing the stress on the surviving spouse

Steve pointed out how documenting key personal information, could assist a surviving spouse in dealing with issues such as closing bank accounts, deleting social media pages and locating vital documents such as the Will, superannuation accounts, contracts or loans you have in your name.

Ensuring care of children

Jim and Joanne hadn't realised just how uncertain the care of their children would be if they both died. Steve explained how arranging Testamentary Guardianship would increase the likelihood that this will be granted to a person they trusted. Someone they had discussed the caring for two young children if they were no longer around.

Following their meeting with Steve, Jim and Joanne felt much more secure and in control.

Be remembered for getting it right

Taxing matters

Understanding tax implications and structuring your affairs tax efficiently can be an important part of the intergenerational conversation. For example, an asset you leave to one child may be subject to capital gains tax, where another asset left to another child may be exempt, resulting in different final amounts to each child.

Your superannuation benefit, which includes death benefits from insurance through super, can be paid as a tax-free lump sum and in some cases, an ongoing pension. Taxation will depend on whether it is paid to a dependant, non-dependant, your and your beneficiary's personal circumstances and the components of your superannuation benefit. A lump sum death benefit paid to a dependant for tax purposes (which includes the deceased's spouse) is tax free.

Don't leave a mess

The last thing a family needs when dealing with the injury or loss of a loved one is confusion and uncertainty. Locating important documents, dealing with payments and sorting through financial matters can be a nightmare.

Now there is a simple way to ease this burden. Our advice service will capture all your personal and financial details, identify key risks in your plans, define corrective actions and create a 'crisis management plan' – a crystal clear process to support your loved ones in making key decisions and managing your affairs if something happens to you.

This service will help you by identifying and capturing all your relevant information and documents in one place. It can help you prioritise and tackle important issues, such as properly delegating authority over your affairs if something happens to you and thereby enabling your superannuation to be distributed according to your wishes, reducing the chance of challenges to your estate and ensuring your executor will have adequate information and empowerment.

Once your plan is in place, it's easy to keep it updated with the inevitable changes that occur in your life from year to year. A simple regular review can keep your plan relevant and accurate.

Seek advice – we’re ready to assist

Intergenerational conversations can be very complicated. Get it wrong and your legacy can be one of heartache, headache and wasted opportunity. Get it right and you’ll be make it as easy as possible for those you leave behind, and you’ll optimise the benefits they receive.

It makes sense to seek advice and assistance from an experienced financial adviser. Someone who has your goals firmly and clearly in mind and is well equipped to help you achieve your goals.

If you would like more information, please call us.

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