

Understanding Estate Planning



This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to investment concepts.

Important information

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This document contains general information about some of the benefits, costs and risks associated with certain product classes and strategies and should not act as a substitute for receiving appropriate legal advice. It is designed for use in conjunction with a Statement of Advice that takes into account the circumstances and objectives of an individual. Before making a commitment to purchase or sell a financial product, you should ensure that you have obtained an individual Statement of Advice.

As legislation may change you should ensure you have the most recent version of this document.

How to read this document

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task.

Managing your finances to meet your day to day requirements as well as your long-term goals can be a complex task. There are all sorts of issues you need to consider such as taxation, legislation, protecting your wealth and assets, associated costs and the inherent risks of investment. When undertaking a financial plan it is important that you understand how these issues will impact on you and what you should expect over time.

Your financial adviser will provide you with a Statement of Advice (SOA) which sets out the details of the advice and how it will meet your goals and objectives.

This document provides some additional information to help you understand the financial planning concepts discussed in the SOA in relation to **estate planning**.

It is very important that you read this document to help you understand the benefits of the strategies recommended to you, and the associated costs and risks.

If you do not understand anything or need further clarification, please contact us.

Understanding Estate Planning

Estate Planning

An effective estate plan includes tax effective Wills to protect your estate and the interests of your beneficiaries in the event of your death.

Jointly held assets, trust assets and superannuation, however, are not necessarily dealt with by the terms of the Will. These are usually considered 'non-estate' assets for estate planning purposes. However there may be specific State legislation that classifies non-estate asset as 'notional estate' for the purposes of a Family Law challenge.

It is therefore important to have a considered and comprehensive estate plan to ensure that all assets are transferred according to your wishes in the most effective and efficient manner.

Outlined below are some factors to consider when developing your estate plan.

Your Will

Dying without a Will or an invalid Will is known as dying Intestate. In such an event, laws are in place in each State to determine how your estate will be administered. This may result in your estate assets being distributed against your wishes as well as incurring unnecessary tax liabilities for your beneficiaries.

Your Will is the document that directs how your estate is to be distributed amongst your nominated beneficiaries.

Most people wrongly believe that their Will covers all of their assets, so special care should be taken to ensure that the ownership and control of all of your assets, including 'non-estate' assets pass to beneficiaries in the way you intend.

You are required to nominate an Executor in your Will. The Executor has the duty of carrying out your wishes in the Will and is granted power to administer the estate. This is likely to include collecting assets, paying off any debts and distributing the benefits to those entitled.

Careful consideration is required when appointing the Executor. It is recommended you discuss the appointment with that person prior to the making of the Will. In addition to estate beneficiaries, Executors may also be your solicitor, accountant or a public trustee.

Your Superannuation

Your Superannuation is an asset excluded from your Will. Any benefit payable upon death is distributed by the Superannuation Trustee in accordance with the Trust Deed. This usually gives the Trustee the discretion to decide who should receive your Superannuation entitlements. Eligible beneficiaries are detailed in superannuation legislation and include your legal personal representative and your 'dependents'. A dependent for this purpose includes; your spouse, your children, any financial dependent or a person in an interdependency relationship with you.

A Binding Death Nomination is a written declaration to the Trustee outlining of the beneficiary or beneficiaries who you wish your superannuation entitlements to be paid to in the event of your death. The nomination is able to be amended or cancelled at any time via written declaration to the Trustee.

Understanding Estate Planning

Testamentary Trusts

A Testamentary Trust is a trust created pursuant to your Will and may have several significant advantages. There are different types of Testamentary Trusts, including Discretionary Trusts and Special Disability Trusts which is a trust established for a vulnerable person.

Testamentary Trusts may assist to distribute your estate to your beneficiaries in a more tax-effective manner and may reduce the likelihood of a successful challenge to your Will.

As with any trust, the trustee must act according to the terms of a trust deed and has the duty and responsibility to look after trust property for the benefit of others. Appointing a trustee may involve a financial cost and as the trustee will have discretion over the assets, you should carefully consider who you appoint as trustee.

The terms of the trust deed of a testamentary trust are contained in the Will.

As with most trusts, a testamentary trust will normally give the trustee:

- the discretion to allocate income and capital among any of the Beneficiaries,
- wide powers of investment,
- the power to wind up the trust at any time.

If the gains derived by a trust are allocated to the beneficiaries, then those beneficiaries are liable to pay tax on those gains at their normal marginal tax rates. It is therefore a common practice for the trustees of a discretionary trust to distribute any derived gains to those beneficiaries who have the lowest marginal tax rate in the distribution year. This is one of the main advantages of using testamentary trusts.

Normally if a beneficiary of a trust is under 18 years of age then the trust income that is distributed to that person is taxed at penalty tax rates. Under these rates the child only has a limited tax-free threshold of \$416. However if the income derived by the trust was generated from inherited assets then the child will be taxed at normal adult tax rates. That is, each child has a full tax-free threshold of \$6,000 and access to the low income offset of up to \$1,200.

A Testamentary Trust may also provide asset protection for beneficiaries of your estate who may face certain legal claims on their assets, divorce or bankruptcy for example. Until such time as the trustee exercises their discretion to pay an income or asset entitlement to a beneficiary, all trust assets and income remain the property of the trustee. However, if the trust is established in contemplation of frustrating the claims of, for example, legitimate creditors, the courts may effectively unwind the arrangement.

These and other factors, require careful consideration by your solicitor in conjunction with your financial adviser.

Power of Attorney

Granting a Power of Attorney means that you legally appoint a person or an organisation to make decisions, sign documents, and act on your behalf in various matters.

When you grant a Power of Attorney you may choose to limit the actions which the attorney can perform on your behalf (Limited Power of Attorney) or give the attorney wide powers to undertake actions on your behalf (General Power of Attorney).

Specific details as to the powers under a Power of Attorney are determined by the State legislation to which the Power of Attorney relates. This may present difficulties if for example you have property in more than one state.

Enduring Power of Attorney

One of the limitations of a Power of Attorney is that it generally ceases when the person suffers a loss of mental capacity. This can be overcome with the use of an Enduring Power of Attorney. This type of Power of Attorney does not cease on mental incapacity and can therefore provide an important tool in estate planning.

Understanding Estate Planning

Medical Treatment and Lifestyle decisions

It is important to note that different States have different ways of dealing with medical and lifestyle decisions for a person who is mentally incapable of making such decisions.

Such methods may include:

- **Power of Attorney (Medical Treatment)** – attorney has the power to give and, in certain circumstances, withhold consent to medical treatment on your behalf.
- **Enduring Guardianship** – guardian has the power to make personal and lifestyle decisions for you should you lose mental capacity, including decisions as to where you live and who with.
- **Enduring Power of Attorney** – attorney has the power to act on you behalf during your life, in relation to your investments and other financial matters.
- **Advance Health Directive** – a document in which you can express your wishes about medical treatment and how you would like your body to be dealt with in the event of an accident.

As State based requirements differ, it is important to seek advice from an appropriately qualified legal professional on these and other issues when putting together your estate plan.