Financial **Focus**

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Welcome to Financial Focus. I hope you enjoy the articles and find them interesting and informative. If you have any feedback, questions, or would like to review your financial plan, please feel free to contact me.

Coming into inheritance

The death of a parent can be a hugely distressing time. It may also mean coming into an inheritance. Working out what to do with an inheritance isn't always straightforward, so here are some tips on how to approach it.

Receiving a financial windfall isn't always an occasion for celebration. If it comes in the form of inheritance following the loss of a parent, it's likely to be a time of sadness and reflection – for you and your extended family. In time, deciding how to manage any inheritance will become more pressing and getting professional advice could help smooth the process. Here are some of the things you may need to work through when that time comes.

Understanding what you've inherited

Inheritances can take many forms: cash, property, shares, superannuation interest or simply treasured personal possessions. There can be complicated tax considerations associated with some bequests. The form yours takes is likely to influence whether you choose to retain or sell it and the timing of any sale. It can be helpful to get professional legal and or financial advice before making any decisions.

Managing shared ownership

If an inheritance is shared among two or more people, settling an estate can become complicated, particularly if there are different ideas about whether assets should be retained or sold. It can be a stressful time and clear, open communication is the key to ensuring relations don't become strained while you work towards an agreement. This might involve people accepting unequal shares of the various assets. For example, a brother or sister may opt to buy the others out of the family home, or trade their share of cash or a superannuation interest for a larger share of the property. This is where professional help can be really useful, particularly if the arrangements are complex or involve large sums.

Discussing inheritance with your parents can make things simpler down the track. It can be a difficult topic to tackle but talking through the terms of the will with everyone in advance, including who's been chosen to act as executor, can ensure everyone knows where they stand.

Establish your priorities

It's possible you'll decide on a combination of saving, sharing and spending your inheritance. However, taking the time to think things through before deciding anything is key. Talking through your priorities and plans with a financial adviser can also help you choose how to put your funds to best use.

Your life stage and financial position are likely to influence what you do with a lump-sum inheritance. If you still have a mortgage on your home, you may decide to reduce or discharge it. Alternatively, you might top up your super with a non-deductible lump sum contribution.

Sharing the inheritance with your children may also be something you want to consider. It's become common for parents to help their kids get a foot on the property ladder by investing a lump sum or buying an investment property for them.

If you've been thinking about a major purchase or have something you'd love to tick off the bucket list, you may decide the time has come. It can be a lovely way to honour your parent's memory.

Navigating redundancy: make it work for you

Redundancy unfortunately affects increasing numbers of Australians. What if it happens to you later in your working life, and involuntarily? With the right approach and professional advice redundancy could open up opportunities and, ultimately, work in your favour.

Even though redundancies are often part of business, being told your role has become redundant can still leave you feeling blindsided. If it happens towards the end of your career it can really throw plans into disarray if you'd hoped and expected to keep working longer. The key is not to panic.

Some people discover that a redundancy at this stage of life can in fact open doors to new financial and lifestyle possibilities.

Threat or opportunity?

While every situation is different, an unexpected redundancy could be turned to your favour. It might not be the timing you wanted but, if you consider what you could end up with, it could in fact be a windfall.

You might even be able to use it to achieve the kind of goals and objectives you've been talking about and dreaming about for years.

Understand the payment

A redundancy payout can be complex, with a range of tax implications – especially if it covers a long period of employment or is a large sum. One of the first things to do is make sure you completely understand the payment.

Knowing your rights and checking you're receiving what you're entitled to, is important.

As soon as possible, get a copy of the proposed payout so you can assess the financial implications and options available to you. An accountant or your financial adviser can help you with this. If your employer is flexible, you might even be able to use it to your financial benefit. For example, you may be able to defer receiving the payment to a new financial year by taking annual leave or long service leave in the interim. This could help you reduce your tax liability. Delaying your termination date may also have the added benefit of boosting your super as you would still be receiving super contributions for this period.

Review your options

Once you're clear on the offer, but before making any financial decisions, ensure you take the time to assess your position and get some perspective on the situation.

Meeting your immediate needs

Depending on how long you've been with your employer, a redundancy payment could provide you with the equivalent of six months to a year of salary as a lump sum amount. Assuming you wish to continue working, if you were able to get another job within that time frame, you could be better off.

However, as it's difficult to know when you might get another job, you may want to think about placing your redundancy payment in a bank account (or a home loan offset account) that you can readily access. Another, key consideration during this time is to review your spending to make sure you don't deplete your redundancy payment too soon. This is particularly relevant for smaller redundancy payments which may apply if you were only with that employer for a short time.

A budget calculator can help you to review your spending patterns and identify areas for adjustment. Understanding the size of your redundancy payment, and how long it's likely to last based on your current spending, can provide a useful guide on how quickly you'll need to find alternative employment.

Dealing with the remainder

If you are fortunate enough to find a new job quickly, and/or your redundancy payment is more than adequate to cover your living expenses for an extended period of time, you'll need to decide what to do with the remaining balance. Some of the options you may consider include:

- if you still have a home loan, using this amount to pay down or discharge the loan,
- if your super is still in accumulation mode, contributing all or a portion of the payment as an after-tax super contribution to boost your retirement savings (being mindful of contribution caps), or
- investing the payment outside super if you're saving for a more immediate goal.

Deciding how to spend or invest your redundancy payment can make a significant difference towards your financial future. As the best approach will depend on your specific circumstances and financial objectives, speak to your financial adviser.

Moving towards retirement

For some people, a redundancy later in life can create an ideal position to begin a move towards retirement.

If you are entitled to a large payment, it might allow you the financial freedom to start working less and ease your way into retirement.

For those with access to their superannuation, taking some part of that as a transition to retirement pension could also be an option. You might, for example, be able to maintain your current standard of living by drawing a modest amount from the pension, while also working part time to make up the shortfall.

Embracing the change

Finally, once you've had a chance to review your position, a redundancy can lead to new options and new ways of thinking. Some people may choose to continue working but embrace the freelance life; some may wish to focus on enjoying their free time more; while others may follow a passion they've always held.

By taking your time to understand and evaluate your options, you could well be able to turn an unexpected redundancy into an unexpected opportunity.

Estate planning: what your will doesn't cover

Most of us think of estate planning as simply writing a will. However, ensuring your assets are distributed according to your exact wishes after you pass away can be more complicated than that.

Having an up-to-date will is an essential part of the estate-planning process. Some assets automatically form part of your estate when you die, which means they can be distributed according to the terms of your will. These include individually owned bank accounts, listed securities, managed funds and terests in any property co-owned with someone else.

There are also assets your will doesn't cover such as superannuation. These can make up a significant proportion of your wealth and you need to plan carefully to ensure they go to the people you want them to.

These are some common assets not covered by a will:

Superannuation and life insurance

It's possible to ask your super fund trustee to pass your superannuation on to family members who are dependents. All you have to do is complete the death benefit nomination. You can nominate your partner, children or other dependents or you can elect your estate.

It's important to review your nominations regularly, particularly when your personal circumstances change. If you fail to nominate a beneficiary or your nomination has lapsed, your super fund trustee will decide how your benefit is paid.

If you have dependents, there's a fair chance you hold life insurance (inside or outside your super fund) that will provide for them financially if you die or are unable to work. This lump sum payment can be paid to the policy owner, a named beneficiary or to your estate, depending on how the policy was established.

Check with your financial adviser or the company supplying your insurance to ensure it will provide for the people you want it to.

Some jointly owned assets

Assets that you own with another person will automatically pass to the surviving owner, regardless of the terms of your will. Things commonly held in joint arrangements include the family home and bank accounts shared between spouses.

Assets in trust

If you're a trustee or beneficiary of a discretionary family trust, any funds you hold there will remain in the trust when you pass away.

Making sure your wishes are carried out efficiently

If your affairs are complex, it's especially important to ensure all your wishes are properly documented. A financial adviser can work with you and your solicitor to ensure the right assets go to the right people in a tax-effective way.

As part of the planning process, you may like to appoint an executor to carry out the instructions in your will. This takes the pressure off your loved ones in what can be very a difficult time.

Organising your estate may not be easy or particularly comfortable but planning ahead makes it easier for your loved ones to settle your affairs when the time comes.

Plan ahead for the aged care you want, for your parents

Helping parents make the transition into supported living can be challenging, but forward planning and open communication can help everyone. Here are some things to consider together.

There are good reasons to start discussing aged care options with your parents well before they're needed. Your parents' circumstances could change quickly and assistance in or outside the family could be necessary years before you anticipated. The impact on your parents, you and your entire family can be dramatic – both emotionally and financially. Ensuring everyone understands what's involved is vital.

Weighing up your parents' options

We tend to equate aged care with residential or nursing home living, but there are other possibilities. You'll need to discuss what mix of the following options your parents prefer.

1. Home care

Home care usually involves a government home care package that subsidises services such as cleaning and transport to appointments. There's a huge range of approved providers, all pricing their services differently, so it pays to shop around and ask about other people's experiences.

The My Aged Care website helps you understand the government assessment process before booking one.

It's important to remember that just because someone has been assessed as needing a certain level of care, it won't necessarily be immediately available. They may be put on a waiting list or offered a temporary solution. If you have the money, another option is to go private.

Your parents may also need some modifications to their home. You can pay for them independently or your parents may qualify for subsidised modifications to help with independent living. Handrails, non-slip flooring in the shower and easy-turn taps are typical recommended changes. Talk to your package provider about an assessment.

Technology is playing an increasingly significant role in keeping the elderly safe and independent. Devices can include digital bed and chair-fall guards, reminder devices and emergency alert pendants. Some are heavily subsidised and included in the government's home care packages, while other, more sophisticated, devices may cost extra.

2. Retirement village or low-care facilities

These offer varying levels of independent living. Once in this environment, people can change the services they receive to match their rising level of need. People typically go from independent living to low-care assistance with everyday tasks such as home maintenance, cleaning, laundry and cooking.

Waiting lists for popular retirement villages and nursing homes can be very long. Again, do your research and if your parents want this option on the table, get their names added to the waiting list.

You'll also need to look at the cost of 'buying' accommodation. Some can be as expensive as a city apartment. If funds are limited, your parents might have to sell their home to fund a place. They'll also need to consider what happens if one needs a nursing home while the other wants to stay at home.

It's important to discuss other factors such as location, too. Would it be preferable to move into facilities nearer adult family members or remain close to existing social networks? Understanding what's important to your parents can help them decide which waiting lists to join.

3. High-care nursing homes

High-care nursing homes provide continuous nursing care for the frail. If one of your parents is already in a low-care facility or retirement village run by the same provider, the transition to full care can be quite smooth – providing a place is available. The existing refundable accommodation deposit or daily accommodation payment is usually transferred to the new accommodation.

Weighing up your options

Caring for ageing parents can be as emotionally and financially taxing for you as for them. It's important to talk to siblings and children about the care that may be required from family members as well as other providers.

It may be important to define which sibling does what. For example, one may volunteer to drive your parents to appointments, another to manage the care home admin. You may also have to reorganise your work hours to accommodate care or visits. This could reduce your income and place a strain on your family life, so it's just as important to address these topics, making clear your boundaries.

Seek advice

Making the transition to supported living is a major life event and your parents may require significant support to put the necessary arrangements in place. A financial adviser can help you and your parents work through the options and plan ahead.

An adviser can help your parents:

- decide whether to sell their home, liquidate other assets, or access equity finance in the form of a reverse mortgage
- determine whether their preferred care option is affordable
- ensure all estate planning and advance health directives are in order
- reduce aged care fees and maximise benefits.

An adviser can help you work out if you can:

- afford to reduce your working hours to care for your parents
- pay for renovations to your home so they can live with you
- contribute to the cost of care.

Accepting that elderly parents can no longer live independently and helping them transition to the next stage can be a difficult time for families. Talking together, planning ahead and seeking professional advice can go a long way towards helping your parents enjoy the best possible lifestyle.