



Financial planning for inheritance and windfalls

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Introduction

A professional financial planner helps clients build and manage wealth over time with a well-considered strategy and implemented actions. While a sound process for wealth creation, sometimes life takes an unexpected turn and you find yourself in possession of an asset or sum of money through an inheritance or windfall.

When this happens many are unsure of how to proceed. Should you spend it? Should you invest it? Should you pay down debt? Do you need to pay tax on it? These questions and others need to be carefully considered.

We have developed this eBook to help clarify these questions and provide some insights if you find yourself the beneficiary of a windfall or inheritance.



The first steps

Windfalls

While hard to believe, 70 per cent of people who receive an unexpected windfall, such as a lottery win, spend it all within three years. Interestingly, research suggests that if you haven't earned the money yourself you may not appreciate or value it as much, leading to it being squandered.

If you are one of those 70 per cent, early intervention and seeking the right guidance and advice may well save your wealth and allow you to benefit from it for the rest of your life.

Inheritance

Like windfalls, it is unfortunate to see many who receive an inheritance squander this wealth within a few years. Making it worse, an inheritance is often a personal bequest from a loved one who has worked hard to make this opportunity available to you.

So considering both windfalls and inheritance, how do you enjoy the benefits while still making this legacy work for you in the long-term?

First actions

Once your feet are back on the ground and you can view your situation objectively, you may feel unsure of your next steps.

There are many things to consider. From a spending point-of-view you may be considering a holiday or paying off the mortgage. Perhaps an investment opportunity or helping the family financially.

It's important to remember your short and medium-term plans can make or break your longer-term financial goals. In simple terms, the choices you make now may have a direct impact on your financial life in the future.

Take time to consider your options

What's the rush?

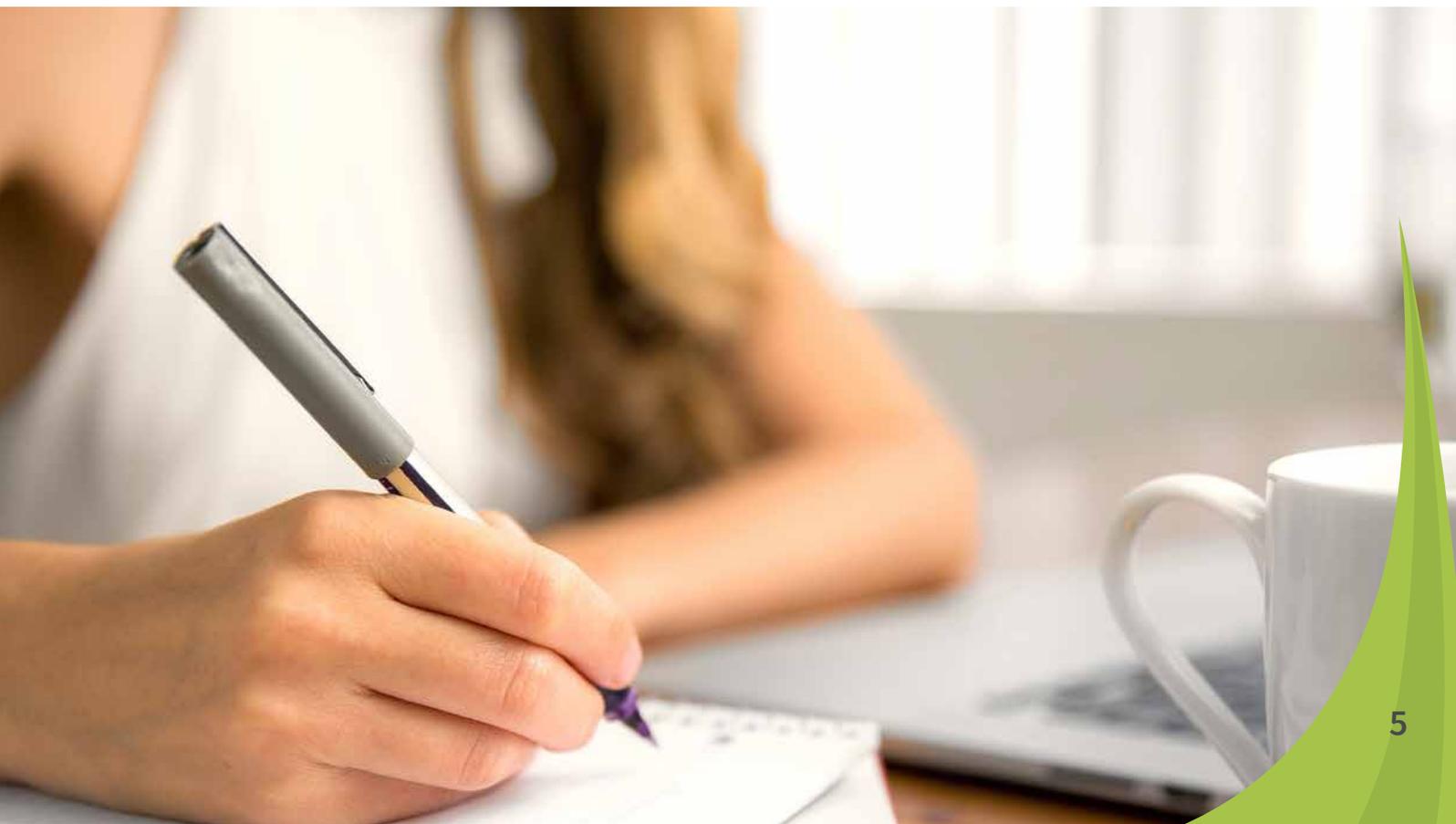
You didn't have it before so what's the rush? Give yourself some time and breathing space to adjust to the impact this new wealth may have on your life. Most importantly, don't feel pressured by yourself or others into making quick decisions. Snap decisions often cost the most in the longer term.

We also strongly recommend you seek the advice of a professional financial planner. They can offer objective and impartial advice to help you make decisions. As important, they'll also identify any tax liabilities your new wealth may attract.

Short term investing

While you may already have some ideas on how to handle your new wealth, it's often best to invest the money somewhere short-term that is safe and can easily be accessed when the dust settles. Some recommended short-term investment options include bank savings accounts, cash investment trusts and short term deposits.

Human nature suggests many people will want to spend the new wealth immediately, so 'out of site, out of mind' is a good first option. This will also give you time to consider a longer term plan for your new wealth.



It's OK to spend

With windfalls in particular, it's only natural to spend some of your new found wealth on the fun things in life. From a dream holiday to a new car, there's no problem indulging a little. After all, life's short and you want to enjoy it.

What's important is planning how much you're prepared to spend. Unfortunately many people get so caught up in the spending that it's gone before they realise it. Spend with thought and consideration. Remember, by using your new wealth wisely it can benefit you and your family in a host of ways you may never have thought of. For example, it could supplement your income so you could afford to take a smaller holiday every year for life instead of one enormous one now.



Debt management

It may seem dull, but using wealth to pay off pre-existing debt is a great idea particularly if the debt is attracting a high level of interest, such as a credit card.

By paying off or at least reducing your debt you'll save a surprising amount in interest, while improving your overall credit rating.

If you're not sure about how much or how often to pay down existing debt, talk to a professional financial planner. They can help you consolidate and reduce debt while helping you manage your new wealth.

A quick debt case study

Sarah recently won a large sum of money. Before her windfall she had a \$300,000 mortgage on her home at an interest rate of 5 per cent.

After seeking financial advice, it was determined that by increasing her monthly repayment by only \$200, she could save almost \$69,000 in interest and pay her loan off five years earlier.



Tax implications

Your new found wealth may also attract tax that will need to be identified and managed. Seek advice on this in a timely manner so you don't end up losing more than necessary to the tax man.

The good news is that not all inheritance or windfall situations are liable for tax so it's important to get advice from a professional financial planner. They'll help identify any liabilities and develop strategies to manage and minimise their impact.

If you are considering selling an inherited asset such as a home, Capital Gains Tax (CGT) may apply. Once again, we strongly encourage you to seek professional financial advice on how to best manage these potential tax liabilities.

A brief CGT case study

John's father recently passed away leaving him his home which he had originally purchased for \$250,000. At the time of his passing, the home was valued at \$300,000.

John put the home on the market three years after his father's death and it sold for \$345,000.

John's capital gain was calculated as the difference between the sale price of \$345,000 and the \$300,000 valuation at the time of his father's death,

This leaves John with a CGT liability of \$11,025.

*John is on the highest marginal tax rate (49 percent including Medicare levy)



Wealth complexity

While new wealth can add numbers to your bank account, it can also add complexity to your existing financial life.

Here are a few areas that may change:

- **Insurance:** Life, home and contents and car insurance
- **Legal:** Wills, estate planning and trusts
- **Gifts and donations:** Charity donations, gifts to family and friends
- **Personal finance:** Income, expenses, budgeting and investments
- **Housing:** New home, renovations and property investment
- **Tax:** CGT other tax implications
- **Structures:** Including companies, trusts and superannuation funds

Don't be daunted. An experienced financial planner can assist in evaluating all these areas and create a financial plan to manage them over the longer term.



A financial plan for the future

Once you've had time to evaluate your new financial position, it's time to develop a plan.

Of course your options will vary depending on the windfall or inheritance but as an example you may be able to:

- Purchase a new home, or renovate your current one
- Purchase an investment property
- Purchase a holiday home
- Leave a legacy to your children or friends through trusts
- Retire early (or immediately)
- Start a new career
- Start full-time study
- Pursue full-time charity work

Regardless of the opportunities you seek, you will need a sound strategy to ensure you achieve your goals. If you are lacking guidance, seek a professional financial planner who can work with you to review your situation, discuss your goals, develop a strategy and implement agreed initiatives.

In these situations, professional advice can be critical to success.



Case study: Ann's experience

A regular working mother, Ann unexpectedly inherited a large sum of money on the death of her great-aunt. Ann was unsure about how to manage her new wealth, but did want to ensure it was invested to make a long-term financial difference to her family's life.

To help her understand and manage the issues, Ann sought a Financial Spectrum financial planner that helped:

- Consider, review and manage the added complexities of her inheritance, such as tax and CGT implications
- Provide guidance on appropriate investment opportunities to ensure the windfall would make a long-term financial difference to her family
- Establish a trust to ensure her children would benefit into the future

Thanks to her financial planner, Ann was able to implement a sound financial plan while being able to enjoy her great-aunt's gift to her.

Most importantly, she now has comfort in knowing the inheritance will have a positive impact on her family's financial future.



How Financial Spectrum can help

Now you've read this eBook, we hope you have a better appreciation of how complex managing new wealth can be. Receiving an inheritance or a windfall impacts on every area of your financial life.

As they are typically an uncommon situation in a person's life, we encourage you to seek professional financial advice so you can make the most of the opportunity and secure you and your family's future.

At Financial Spectrum, we help people make exceptional financial decisions so no matter what stage of life you're at, we have the people and proven strategies to help you achieve your financial goals, whatever they may be.



About Financial Spectrum

Financial Spectrum is a privately owned financial planning practice. We develop tailored financial strategies to help you build your wealth and achieve your lifestyle aspirations.

We offer so much more than investing. We take the time to understand you, and then help you make the right decisions to achieve the future you're aspiring to.

We can help you to:

- Plan for the future
- Build your investment strategy
- Grow your personal wealth
- Simplify your budget
- Minimise bad debt
- Increase your super
- Reduce your tax
- Protect your family

Let us help you take control of your finances, build your wealth and achieve your future lifestyle aspirations. Contact us for a complimentary, no obligation meeting today.





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