



**A GUIDE TO SUPERANNUATION
ESTATE PLANNING**

PROTECTING YOUR FAMILY, PROTECTING YOUR ASSETS



MACQUARIE

FORWARD THINKING

CURRENT AT 1 JULY 2002

WELCOME

“In this world nothing can be said to be certain, except death and taxes.”
Benjamin Franklin

Benjamin Franklin may have been right, but that doesn't mean you should resign yourself to death and taxes and do nothing about them.

This booklet is about planning – estate planning. That's a technical term which really means preparing for what will happen financially when you die.

There's nothing morbid about planning for your own death. In fact it's some of the most rewarding planning you'll ever do because it results in benefits for the people you care about.

Estate planning means:

- taking control so you have the final say in what happens, not the government or somebody who doesn't know you or your family;
- getting rid of uncertainties, so the people who rely on you can make their own plans for their futures;

- not leaving problems for other people to work out;
- paying no more tax than is necessary on what you leave behind;
- peace of mind, for you and your dependants.

Macquarie has produced this booklet to help you identify some of the estate planning issues that may affect you, particularly in relation to your superannuation. Where we have used technical terms (shown in **bold italic** type) these are explained either as they occur or in a separate section near the end of the booklet.

Estate planning is an area where professional advice is essential. We strongly recommend that you discuss your personal situation with your financial and legal advisers.

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The information in this booklet is based on interpretation of the income tax, superannuation and other laws current at 1 July 2002. We believe it is correct. However, it is a general summary only, and under no circumstances are we providing advice. As each individual's needs and taxation position

are unique, we recommend that you contact a professional adviser before making an investment decision. This booklet is no substitute for professional advice. It is published by Macquarie Investment Management Limited, ABN 66 002 867 003, Level 11, 20 Bond Street, Sydney.

ESTATE PLANNING – WHAT’S IT ALL ABOUT?

Estate planning is all about arranging your financial affairs while you’re alive so that when you die, your assets pass:

- *to the people you want to receive them;*
- *the way you intend them to;*
- *as quickly and simply as possible; and*
- *with the minimum of tax payable.*

MAKING A START

The starting point for any plan is to work out what you’re trying to achieve. That means sitting down and working out what you would want to happen if you were to die.

Rather than think about what to do with each asset you own, the important thing at this stage is to set some basic objectives. You need to focus on what the immediate and future needs of your family would be. What sort of income would they need to live on? Are there mortgages or other debts that would need to be paid off? Or children whose education would need to be paid for?

Once you’ve decided on those basic objectives, you can begin to formulate a strategy to achieve them.

Now’s the time to bring in your professional advisers, because there are many complications to work through and it’s important to get it right.

WHY SPECIAL TREATMENT FOR SUPERANNUATION?

Estate planning needs to take account of all your assets if it’s to be effective. You may wonder, therefore, why superannuation rates a special mention.

One reason is that your superannuation payout is likely to be one of the biggest financial assets available to your family when you die. It may even be worth more than your home, so it needs to be thought about very carefully.

A second reason is that your superannuation is treated differently from other assets. While your house, your car, your valuables and most other investments form a part of your *estate* if you die, that doesn’t happen automatically with your superannuation.

Thirdly, the tax rules that apply to your superannuation when you die are not the same as those applying to other assets, so superannuation needs to be dealt with specifically in your plan.



Finally, unlike most other assets, you can easily add to your superannuation by “topping up” your life insurance cover to pay a larger benefit if you should die.

This extra flexibility in superannuation is very useful in estate planning. Your financial adviser can help you use that flexibility to shape your plan precisely to your objectives.

DON'T WAIT UNTIL IT'S TOO LATE

Anyone who has superannuation should also have some sort of estate plan. It doesn’t need to be complex. Just a few simple preparations now can eliminate uncertainty and possible hardship for those you leave behind, as well as avoiding unnecessary tax.

SETTING OUT TOGETHER

Included in this section:

- dealing with financial liabilities;
- the importance of making a will;
- nominating who you want to receive your superannuation death benefits;
- low cost life insurance through superannuation;
- insurance to provide a replacement income if you become sick or injured.

The time to start thinking about estate planning is as soon as you have someone in your life whose future you want to protect. That time usually comes when you stop being a carefree single and take on the responsibilities of a relationship.

In these early stages, it's common to have liabilities (mortgages and other loans) without the same value in assets to pay them off in an emergency.

Top-up insurance through superannuation solves the problem efficiently, tax effectively and cheaply.

Making a will and linking it with your superannuation by giving consistent instructions to the fund

trustee helps make sure that, if you should die, the money gets to the people you intend it to go to.

DEPENDANTS, DEATH BENEFITS AND TAX

A *dependant* for tax purposes is:

- your spouse or de facto (ie a person who lives with you on a genuine domestic basis as husband or wife)
- your child under the age of 18
- a person who is financially dependant on you at the date of your death.

A superannuation death benefit paid to a dependant as a lump sum is generally tax-free, as long as your *pension RBL* has not been exceeded. (\$1,124,384 for the 2002/2003 tax year).

A benefit can be paid to someone who is not a dependant, but it will count as an *Eligible Termination Payment* in their hands and they will be taxed accordingly – generally at either 15% or 30% (plus Medicare levy) as long as your pension RBL has not been exceeded.

CASE STUDY

Introducing Paul, Sarah and Clive

To help understand the ideas involved in super estate planning, we'll follow the fortunes of a fictional couple, Paul and Sarah.

With the help of Clive, their financial adviser (also fictional), Paul and Sarah learn how to make the best use of superannuation to protect each other and their family at different stages of their lives. (For simplicity, all figures used are in 2002/2003 terms.)

Using your imagination, you can adapt these snapshots from Paul and Sarah's lives. While your own circumstances may be different, some of the concepts Paul and Sarah learn about are universal.

Paul, aged 26, and his partner Sarah, 24, are in the process of buying a home unit together. They have no children, and both are working full-time – Paul for a large computer firm and Sarah as a self-employed website designer.

To buy their unit, Paul and Sarah are taking out a mortgage of \$160,000 and they will each contribute half to the monthly repayments.

“What would happen if?”

Paul and Sarah get to talking about what would happen if one of them was to die or become seriously ill or involved in an accident. They're not sure if either of them could afford to keep the mortgage going alone, and they're worried the unit would have to be sold. They decide it's time to see Clive, a financial adviser who has been recommended to them.

Clive asks some questions and makes the following recommendations:

STEP 1

Both Paul and Sarah should make wills. He explains:

“If you die without leaving a valid will (called dying *intestate*), your assets will be distributed to your relatives as set out by law, without you having any say over who gets what.

“The process can be slow and costly, and even then the end result may not be as you intended. Not only that, it can lead to assets being sold, and tax being paid unnecessarily, when what you really wanted was for the assets themselves to go to your *beneficiaries*.

“A will gives you control over what happens when you die. It saves time, expense and unnecessary tax and – most importantly – it creates some certainty and peace of mind for you both.”

STEP 2

Paul should nominate Sarah as his beneficiary for the death benefits under the company super fund. Clive tells Paul:

“If you die, the fund will pay out just over \$100,000. If all of that goes to Sarah, she won’t pay any tax because she qualifies as a dependant. She’ll be able to use the money to reduce the mortgage to about \$60,000, so meeting the monthly repayments won’t be a problem.

“The company fund allows you to nominate Sarah as your preferred beneficiary for your death benefits. That’s not binding, but the trustee will take account of your preference when deciding who to pay.”

STEP 3

Sarah should take out some life insurance through a super fund.

“All you have in super at the moment is \$6,000 in two different funds from your earlier jobs. If something were to happen to you, Paul would be faced with a mortgage of nearly \$150,000 all on his own, which he just can’t afford.

“Now you’re in business on your own you’ve got the ideal opportunity to bring all your super together under one fund and add some insurance protection. I’d recommend Macquarie because they give you an excellent range of investment choices, designed to make estate planning easy, and the service is always first class.

“With Macquarie you can obtain life insurance cover at very reasonable rates. At your age, as a non-smoker, you can arrange say \$80,000 of cover for just \$15.20 a year. That’s great value, and because you’re paying the premiums through the super fund your super account will also be credited with a tax deduction.

“Macquarie’s also one of only a few fund managers I know that takes advantage of a special tax rule so, if you were to die, Paul would receive your account balance **plus** the extra life insurance **plus** a refund from the Tax Office of any contributions tax paid on contributions to your account. That’s an added bonus which costs you nothing.”

Annual cost of \$80,000 insurance – female aged 24

Non-smoker	
Death only	\$15.20
Death and/or total and permanent disablement	\$32.80
Smoker	
Death only	\$21.60
Death and/or total and permanent disablement	\$52.80

STEP 4

Both Paul and Sarah should take out income protection insurance.

“Your ability to earn an income is one of your most important assets. You don’t want an illness or injury to disrupt your plans any more than necessary, so it makes sense to insure against it.

“At your ages the cost is very little. Paul can get cover through his

employer’s fund and Sarah can do the same very easily through Macquarie.”

STEP 5

Both Paul and Sarah should execute Enduring Power of Attorney documents providing each of them with power over the other’s financial affairs. They should also nominate a secondary attorney should both of them become incapacitated.

“Maintaining control over your financial affairs is very important. If you became legally incapacitated, you wouldn’t be able to carry out any financial transactions. That would mean control over your super (and any other assets in your name), could pass to a public body, or someone nominated by that body.”

“Executing an Enduring Power of Attorney will help to prevent that situation occurring.”



FAMILY RESPONSIBILITIES

Included in this section:

- consolidating your superannuation;
- calculating how much life insurance cover you need;
- how binding non-lapsing nominations provide certainty about who receives death benefits; and
- the tax benefits of investing money in your spouse's superannuation.

As families grow, the financial stakes become greater and so does the need for serious estate planning.

Your estate plan can never be a 'set and forget' affair, because as life unfolds something will always come along and change things.

It might be the birth of another child, a career change, a new home, an inheritance, a marriage, divorce, separation or death in the family. Any one of these should prompt you to review your plan and make whatever changes are necessary.

NON-LAPSING BINDING NOMINATIONS – HOW THEY WORK

You can make a binding nomination in favour of any one or more of your dependants*, or your estate.

You can specify the proportion of your total benefit to go to your various dependants or your estate.

Your nomination must be given in writing to the trustee and witnessed by 2 people over age 18 who are not themselves named as beneficiaries.

Binding nominations are typically valid for up to 3 years after which time they lapse. However with Macquarie, your binding nomination doesn't lapse. It remains effective until you choose to update or amend it, which can be whenever you like.

For any nomination to remain valid, the person you nominate must continue to be your dependant. If they're not, they can't receive the benefit so the nomination becomes invalid. In those situations the trustee will have a default procedure which in Macquarie's case is to pay that part of the benefit to your estate. So if, for example, you've nominated A and B to share your benefit equally and A ceases to be your dependant, then B will still receive their share while A's will be paid to your estate.

You should review your nominations from time to time, to ensure they're still valid and properly reflect your wishes.

** The definition of dependant for this purpose includes children of any age, but the tax treatment is different for children over age 18.*

CASE STUDY

Paul and Sarah are now 35 and 33. They have a 7 year old daughter, Anna, and young Ben who is just 3 months old. They are buying a new home, which will take their mortgage to over \$200,000.

Sarah carried on working after Anna was born, but with the arrival of Ben she's decided to put her business 'on hold' and enjoy being with the children full-time. Meanwhile Paul's career is going well.

On hearing about the arrival of Ben, Clive has brought forward their regular review meeting. Paul starts by asking for some advice on his super. He explains that his employer has decided to close the company super fund and has offered to pay contributions into any complying fund he chooses.

Clive suggests:

STEP 1

Paul should consolidate his superannuation investments by directing his employer to pay future contributions to Macquarie, and ask for

his existing plan benefits to be transferred to Macquarie as well.

"I think you should invest with Macquarie for much the same reasons as I gave to Sarah, plus I know that Macquarie is always looking to add useful new features that will make your estate planning a lot easier.

STEP 2

Paul should top up his insurance through Macquarie to a level which, if he were to die, would pay out any debts, leave enough income for the family to live on and pay for the children's education.

"I'll do some proper calculations later, but as a rough estimate I believe you'll need a total benefit of \$800,000. Your super account balance is about \$140,000 now, so that means topping up with \$660,000 of insurance cover. On Macquarie's rates, that will only cost \$363 a year."

CALCULATION SHEET —

TOP-UP COVER FOR PAUL

Mortgage payout	\$200,000
Capital to generate family income (allowing for Sarah to resume work later)	\$350,000
Present value of future education costs	\$150,000
Cash for Sarah to re-capitalise own business	<u>\$100,000</u>
Total death benefit required	\$800,000
less super account balance	<u>\$140,000</u>
Top-up cover required	\$660,000

ANNUAL COST OF \$660,000

INSURANCE — MALE AGED 35

Non-smoker	
Death only	\$363.00
Death and/or total and permanent disablement	\$514.80
Smoker	
Death only	\$825.00
Death and/or total and permanent disablement	\$1,161.60

STEP 3

Both Paul and Sarah should make binding nominations, specifying exactly who should receive their death benefits, and in what proportion.

“Macquarie was one of the first in Australia to allow you to make death benefit nominations that don’t lapse and are binding on the trustee. That gives you the final say as to who receives your death benefits, not the trustee. It removes uncertainty, and that means the benefit will be paid quickly which can be important.

“In both your cases your benefits will fall within the tax-free threshold. That means there are no tax complications to consider, so I suggest you each nominate the other at this stage. We’ll review your nominations regularly and maybe include the children as beneficiaries later if there’s an advantage in doing so.”

BINDING NOMINATION FORM FOR PAUL

Beneficiary	Sarah
Relationship	Spouse
Proportion	100%

STEP 4

Paul and Sarah should both update their wills.

“You should make sure the terms of your wills correspond with the changes you’re making to your super, as well as taking Ben into account. They should make reference to the new binding nominations, so everyone knows exactly what your intentions are.

STEP 5

Paul should contribute \$3,000 a year from his after-tax income to Sarah’s super account with Macquarie.

“*Spouse contributions* are a tax-effective way of income splitting through super. While Sarah is earning

less than \$10,800 a year you can get an 18% tax rebate on contributions you make to her account – that’s a maximum of \$540 a year if you contribute \$3,000 or more.

“The other advantage is that contributing to Sarah’s super, rather than investing elsewhere, keeps the money in the super system where it’s concessional tax. By balancing your super you can both get more out of the system.”

Super is changing, and individuals are being given increasing control over their own futures.

As Paul and Sarah have found, with developments such as binding nominations you can now shape your super far more easily to your own needs – and that includes your estate planning.

WE’RE IN BUSINESS

Included in this section:

- *the additional responsibilities that come with running your own business;*
- *how insurance needs aren’t confined to the main breadwinner; and*
- *how child allocated pensions can provide the ideal solution for funding education and other costs if one parent should die.*

Estate planning is important at any time, but never more so than when you are working for yourself.

If your business is the sole source of your family’s income, it may need to be protected just as much as your individual family members.

CASE STUDY

In their mid 40s, Paul and Sarah are in business together running an internet consultancy. Paul spends a lot of time travelling to see clients while Sarah runs the office. Both their roles are integral to the profitability of the business.

Anna is now 19 and in her first year at university. Twelve year old Ben has just started attending a private school and Sam, who is 18 months younger, will be going to the same school when he turns 12. The family lives in a large house, with an equally large mortgage.

While Paul's death would result in around \$1.4 million being paid from the super fund, Sarah's cover is far less. They realise that if either of them were to die, the other would suddenly be responsible for raising Ben and Sam, managing the home, seeing all three children through the rest of their education and fulfilling their plan of setting the children up with enough money for deposits on homes of their own.

Clive's advice is:

STEP 1

Adjust Sarah's insurance cover to bring her total death benefit up to around \$1.4 million as well.

"Insurance protection is still very affordable at your age, so I suggest you bring your cover up to a level that would allow Paul to pay for the assistance he'd need without jeopardising the business.

"With Macquarie, that adjustment can now be done automatically. You set the total benefit you need – at this stage around \$1.4 million – and every year Macquarie will insure you for the difference between that figure and your account balance.

"As your account balance grows the insurance cover gradually reduces without you having to do anything. So you're not paying premiums for insurance you don't need, and more of your super contribution is available for investment.

"We'll still review your situation regularly, of course, and change the target level of cover as appropriate."

STEP 2

Revise both Paul and Sarah's binding nominations, specifying allocated pensions for the younger children to minimise tax.

"Macquarie has come up with the idea of *child allocated pensions*, and they're a terrific concept – combined with non-lapsing binding nominations they're perfect for people in your situation.

"Not only can you avoid any possibility of the trustee paying the benefits to an inappropriate person, with special allocated pensions for the children you can:

- make sure the benefits are paid as tax-effectively as possible, and
- control their access to the pension payments and the remaining

account balance up to a specified age – say 18."

STEP 3

"We can structure your nominations so that, whichever of you dies, you'll leave the other with a non-excessive benefit so they don't get hit for tax at the top rate. The balance of the payment would go to the children in the form of individual allocated pension accounts.

"For each of the boys we would target a pension income of \$15,000 a year, indexed to inflation, at least until they reach age 18. I've calculated the proportion of the benefit which could be specified for each of them for this purpose although the exact amount they'll receive is subject to factors such as the investment performance of the fund and the government limits on the level of income that can be drawn each year.*

"The tax rules are very favourable, so if the boys are under 18 when their pensions start they'll pay little or no tax. Meanwhile the investment earnings on their account balances will be tax free. If you want, you can also put in controls to limit their access to the money until they reach 18 or more.

"For tax reasons it would be better not to pay any of the super benefit to Anna. It can be tax effective in some circumstances but I suggest that if you want to even up the benefits between the three children you can do that by specifying some of your non-super investments to go to Anna."

* The proportions are shown in the next column. Clive uses the Macquarie Investment Projector software (Child Allocated Pension module) to do the calculations.

BINDING NOMINATION FORM FOR SARAH

Beneficiary	Proportion
Paul	72.5%
Ben	13.4%
Sam	14.1%

STEP 4

Paul and Sarah should both update their wills.

"I can't stress enough how important it is to have consistency between the instructions you give your super fund and your wills."

TAXATION OF 'EXCESS' DEATH BENEFITS

If, as a result of your death, someone receives a lump sum death benefit which is greater than your pension RBL, the amount by which it is greater is generally called an excess benefit.

*These excess benefits are taxed at the top personal rate of income tax (47% for the 2002/2003 tax year plus the Medicare levy), regardless of whether the person receiving it is a dependant or non-dependant for tax purposes.***

**At the time of writing the Government had announced a proposal to cap the overall effective tax rate on excessive lump sum benefits to take account of tax previously paid on contributions. The proposal was intended to apply from 1 July 2002.

CHILD ALLOCATED PENSIONS – DELIVERING TAX BENEFITS AND CERTAINTY FOR YOUR FAMILY

Benefits of a Child Allocated Pension

- provides a reliable income stream (pension payments) for dependent children to meet costs such as education expenses;
- size of benefit can be targeted to each child's needs;
- income stream (pension payments) can be fixed or indexed;
- the child's access to their account balance can be restricted before a pre-determined age.

Tax benefits

- adult tax-free threshold applies (\$6,000 for 2002/2003 tax year) rather than the normal child limit of \$416;
- if paid to a minor (under 18) the benefit is not counted against their RBL so a 15% tax rebate applies;
- as a result, each child can receive income in the form of pension payments up to approximately \$24,200 pa tax free; and
- investment earnings credited are effectively tax free.

Options that give you control

- can specify an age (18 or over) from which date normal allocated pension rules apply;
- can limit access to account balance by not allowing commutation before a pre-determined age.

ILLUSTRATION – IF SARAH SHOULD DIE IN 2002/2003 TAX YEAR

- Total benefit payable from super fund = \$1.38 million.
- \$1 million paid as tax-free lump sum to Paul.
- Ben will receive \$185,000 in trust, and Sam will receive \$195,000 in trust, rolled over directly into child allocated pension accounts.
- Ben and Sam would each be paid a pension of approximately \$15,000 tax-free, indexed each year to age 18.
- Assuming pensions drawn are \$15,067 for Ben and \$14,945 for Sam indexed each year at 2.5%, and the fund earns 7.5% pa, their account balances would be approximately \$170,000 by age 18 – worth around \$111,000 in today's dollars after lump sum tax is deducted.
- Anna would be provided for out of non-super assets.

EASING TOWARDS RETIREMENT

Included in this section:

- reviewing insurance needs as financial responsibilities reduce;
- saving tax by income-splitting through superannuation in retirement; and
- how special trusts can provide tax-effective solutions when family members need to be provided for.

As you get older, it's natural that you change the way you think about superannuation. The elements of tax-effective savings and family protection remain, but you start to place more emphasis on planning for retirement. After all, the main purpose of building wealth in superannuation is to provide you with an income after you retire.

Your progress from the accumulation phase to the retirement phase is often accompanied by a lessening of financial responsibilities. Mortgages are usually paid off and children have become (relatively) self-sufficient.

This is a time of changing priorities, and an important time to review your estate plan.

TESTAMENTARY TRUSTS

Testamentary trusts are commonly used for the benefit of minor children, or beneficiaries under some disability, or sometimes where the beneficiary might not be responsible enough to manage the money wisely.

The property of the trust is whatever money or other assets in your estate which you specify to be transferred to it. That property is held on trust by a trustee for the benefit of whoever you nominate as beneficiaries.

There are many types of testamentary trusts which can be used in different situations. A professional adviser can help design the most appropriate trust to suit your particular family circumstances.

CHECKLIST

- ✓ *Wills made and up to date?*
- ✓ *Death benefits adequate to meet current and future liabilities without hardship?*
- ✓ *Directions given to super fund to ensure benefits paid as desired?*
- ✓ *Tax consequences OK if death benefits become payable?*

CASE STUDY

At 56 and 54, Paul and Sarah are thinking seriously about retiring within the next few years. They are debt-free, they have money put aside for the last of Ben and Sam's education expenses, and they're enjoying being grandparents to Anna's youngsters.

Clive calls a meeting to review their plan and also to introduce Chris, who he is grooming to take over as senior adviser when he retires.

Clive recommends:

STEP 1

Cancel Paul and Sarah's insurance cover.

"As you know we've gradually reduced your target death benefits as your liabilities have reduced. I think we're now at the stage where the insurance has served its purpose and you can safely cancel it.

"The investments you've built up in the super fund and elsewhere give you a very solid financial base. If either of you was to die now, the other wouldn't face any financial hardship.

STEP 2

Of the money available for super contributions, pay only the minimum into Paul's super account from now on and direct the majority into Sarah's account.

"Because Paul's super had an early boost it now stands at nearly \$400,000 while Sarah's balance is about \$300,000. If you keep putting more money in Paul's name there's a chance he will exceed his lump sum RBL by the time he retires. That would result in him either paying more tax than he needs or being constrained on the type of benefits he receives.

"We could target a larger benefit for Paul and plan around these constraints, but at this stage I recommend you build up Sarah's super. The more you can even out your two accounts the easier it will be to plan your retirement incomes so that you pay as little tax as possible."

STEP 3

Amend both wills and death benefit nominations.

"I know you're keen to make some provision for Anna's children – your grandchildren.

"They're still young, so rather than leave money to them directly you might consider making special provision for them by creating what's known as *testamentary trusts* in your wills. You could make Anna the trustee and primary beneficiary, but allow her discretion to distribute some of the trust income to the children."

TAXATION OF 'EXCESS' RETIREMENT BENEFITS

The government limits the total amount of concessional-tax benefits you can receive from the superannuation system.

*Once these Reasonable Benefit Limits (RBLs) are exceeded, any lump sum benefits you receive are taxed at the top personal rate (47% in 2002/2003 plus the Medicare levy) regardless of your level of taxable income.***

***At the time of writing the Government had announced a proposal to cap the overall effective tax rate on excessive lump sum benefits to take account of tax previously paid on contributions. The proposal was intended to apply from 1 July 2002.*

The people in this case study are fictitious, as are their account balances at the different life stages. The insurance rates in the case study are the current available rates offered by Macquarie (refer to page 22 product details) for people in good health. These rates may vary over time.

ENJOYING THE REWARDS

Included in this section:

- *minimising tax on investment earnings by preserving money in the superannuation environment;*
- *using the tax benefits of allocated pensions to provide an income in retirement; and*
- *different options for the remaining pension account if you or your partner should die.*

When you retire, estate planning takes on a new and different dimension. Looking after the ongoing income needs of yourself and your partner is usually the first priority, and this is where the assets you have built up in your superannuation come into play.

At the same time, there is an increasing focus on how best to convey to your dependants whatever assets are left when you die. The complications of capital gains tax need to be taken into account, as well as the complex tax rules that apply to different types of superannuation death benefits.

All this calls for expert advice, both at the time you retire and regularly from then on.

CHECKLIST

- ✓ *Wills made and up to date?*
- ✓ *Death benefits adequate to meet current and future liabilities without hardship?*
- ✓ *Directions given to super fund to ensure benefits paid as desired?*
- ✓ *Tax consequences OK if death benefits become payable?*

CASE STUDY

It is now six years since Paul and Sarah retired. Most of the value of their business was in their own knowledge and contacts, but they did receive \$120,000 when they sold their specialised equipment.

Chris has been looking after their finances since Clive retired, and on his advice they have been living on that \$120,000 and other investments they held outside super. That way they've kept most of their money in the super system as long as possible, where it has continued to grow at favourable tax rates. Now, at 65 and 63, they need to start turning those super assets into income to live on.

Chris's advice is:

STEP 1

Paul and Sarah should use their super account balances (now \$540,000 and \$480,000 respectively) to purchase allocated pensions from Macquarie.

“Allocated pensions allow you to put your super, without paying any lump sum tax, into an investment from which you can draw a regular income stream.

“They're very tax-effective because, although you pay tax on the income, you can also claim rebates that will largely offset that tax. On 2002/2003 rates, for example, you can each draw an income up to about \$26,400 a year without paying any tax at all (Medicare levy will still apply).

“The other great advantage is that, because these pensions form a special part of the super system, the investment earnings credited to your allocated pension account are effectively tax free.

STEP 2

Paul and Sarah should each make non-lapsing binding nominations for the other to receive the balance of their pensions on death.

“There are a number of ways of dealing with a residual allocated pension. One is to leave the discretion with the trustee, which generally has little appeal because you don’t have the final say in where the money goes.

“Another option is to nominate a reversionary pensioner, who must be one of your dependants, to carry on receiving a pension from your account. This has the advantage of certainty because your instruction is binding on the trustee, but it doesn’t allow you to change your mind later. There can be technical advantages with this option but they don’t apply in your case which is why I suggest you make binding nominations instead.

“With non-lapsing binding nominations, you can designate who is

to receive the benefit – either your dependants or your estate. That gives you complete control, and you retain the flexibility to change your instructions if family or other circumstances change. And with Macquarie your nomination won’t lapse, so you’ll have complete certainty that your benefits will be paid as you wish them to be.

STEP 3

Review both wills.

“Again, you should check that your wills are consistent with the instructions you give the fund trustee. That should be done when you first set up your pensions, and again if you decide to change your nominations at any time.”

	Discretionary Option	Binding Option (non-lapsing)	Reversionary Pension Option
What happens on death?	Trustee decides: <ul style="list-style-type: none"> ■ who to pay; and often ■ whether to pay a lump sum or pension. 	You choose: <ul style="list-style-type: none"> ■ who to pay; ■ in what proportion. 	Pension is paid to nominated dependant.
Tax treatment: initial deductible amount, if any	Based on the pensioner’s life expectancy. Generally higher than the reversionary option.	Based on the pensioner’s life expectancy. Generally higher than the reversionary option.	Generally lower as it is based on the longer life expectancy.
Is the deductible amount recalculated on death?	Yes	Yes	No

TO MAKE THE RIGHT DECISIONS, FIRST TAKE SOME ADVICE

Estate planning is not only very important, it can also be quite complex. In the space available in this booklet we have only been able to touch on some of the essential elements of estate planning through superannuation.

No two people’s circumstances are exactly the same, so you should seek advice from a qualified, professional adviser before you make any decisions. They will take account of your personal situation and what you want to achieve and recommend appropriate strategies and products.

As well as the concepts discussed in this booklet, your adviser will also be able to explain related topics such as:

- pre-retirement contributions;
- timing the withdrawal of superannuation benefits;
- income splitting through superannuation;
- the use of complying pensions and annuities;
- ownership of assets, including the difference between joint tenancy and tenants in common;
- CGT rollover exemptions for small businesses;
- re-contribution strategies; and
- planning for the Age Pension and other Social Security benefits.

MACQUARIE’S FORWARD THINKING CAN HELP

We hope this booklet has helped you understand how important estate planning is, not just in your later years but right through your lifetime.

We’ve tried to show you, too, how superannuation can play a key role in estate planning. The tax benefits and flexibility now available in super make it the ideal vehicle around which to base your estate plan.

SHARING STRATEGIES, TIPS AND TECHNIQUES

Estate planning is an area where expert advice is needed from both legal and financial planning. Macquarie works closely with advisers, providing the technical knowledge, innovation and support for which we are renowned, as well as helping them devise strategies and solutions so you can make the most of the estate planning opportunities that superannuation offers.

MACQUARIE'S SUPER FUNDS ARE PLANNED WITH YOUR FUTURE, AND YOUR FAMILY'S FUTURE IN MIND

Macquarie's technical solutions are also built in to the products we offer. Our innovations, such as child allocated pensions, binding death benefit nominations and non-lapsing nominations all made their first appearance in Macquarie's super funds.

MACQUARIE SUPEROPTIONS

Macquarie SuperOptions offers flexibility and choice with an investment selection covering 29 funds from 13 managers, including a geared growth fund, and model portfolios. It has technically superior estate planning features including binding nominations that don't lapse and a child allocated pension facility that allows you to provide a tax effective income for your children if you die. With Macquarie SuperOptions, your objectives for your

superannuation or pension savings can be met more easily and with more flexibility than with most other funds.

MACQUARIE SUPER AND PENSION MANAGER

Macquarie Super and Pension Manager provides both choice and control: an extensive investment selection and a range of smart tools that give a portfolio plenty of flexibility for effective wealth creation at any stage of your life. It offers a choice of around 200 managed investments, including absolute return funds and geared growth funds, and you can also invest in shares directly. As an investor you can access detailed information about your portfolio, such as asset allocation and portfolio valuations, at any time via the internet. Macquarie Super and Pension Manager is the ideal solution for investors who want to be more involved in their superannuation, in conjunction with their financial adviser.

NEED HELP FINDING AN ADVISER?

If you don't already have a financial adviser, the Financial Planning Association of Australia (FPA) can provide a list of advisers located near you.

The FPA have also prepared a helpful booklet in conjunction with the Australian Securities and Investments Commission called 'Don't kiss your money goodbye'. The booklet explains how to choose a financial adviser to suit your needs. You can contact the FPA by calling: 1800 337 301.

SOME TECHNICAL TERMS EXPLAINED

You may not be familiar with all the terms you come across when discussing superannuation and estate planning. Here are the meanings of some of the terms that have not already been fully explained.

An *allocated pension* is a superannuation investment that provides regular, flexible and tax-effective income when you retire.

An *annuity* is an income stream purchased with a lump sum, generally from a life insurance company. Annuities can be payable for life (*lifetime annuities*) or for a fixed period (*term annuities*).

A *beneficiary* is someone who has an entitlement to an asset, either immediately or in the future, such as under the terms of a will or a trust.

A *child allocated pension* is a special form of allocated pension devised by Macquarie. It provides parents with an extremely tax-effective way of leaving money to meet their children's financial needs (especially education expenses) in the event of their death, while controlling the children's access to the capital.

To *commute* a pension means to convert it to a lump sum.

A *complying pension or annuity* is one which qualifies towards the pension RBL or which receives favourable social security assets test treatment. To comply with Government regulations, the pension or annuity has the following features:

- it must not be commutable (except in limited circumstances);
- it must either run for life or have a term equal to the person's life expectancy (or a minimum of 15 years, if life expectancy is greater than 15 years);
- there must be no residual capital left at the expiry of income payments; and
- the size of payment in a year is fixed.

The *deductible amount* of a pension is an annual tax-free amount included in the total pension payments. It represents the return of any contributions you've made for which you've not received a tax deduction, plus any CGT-exempt proceeds from the sale of a business plus any post-1994 invalidity component (undeducted contributions), spread out over your expected lifetime.

Your *dependents* for tax purposes are your spouse, your children under 18 or a person who is financially dependant on you at the relevant date.

Your dependents for other superannuation purposes are your spouse, children of any age (whether an adopted, step-child or ex-nuptial child or not) or a person who is financially dependant on you at the time.

A spouse for these purposes includes a person who lives with you on a bona fide domestic basis as your husband or wife (and does not include a person who lives separately from you on a permanent basis, nor a same sex partner).

An *Eligible Termination Payment* (ETP) is a lump sum payment, usually from a superannuation fund or rollover fund, which is taxed differently from other income.

When you die, most of the things you own become part of your *estate*. The exceptions are superannuation benefits payable to dependants, assets held as a joint tenant, assets held in trust, and life insurance policies owned by others, which are subject to special treatment.

An *excess benefit* is that portion of a superannuation payment which exceeds your *RBL*. In the case of a lump sum benefit paid on your death, an excess benefit may arise if your total benefits exceed your *pension RBL*.

Your *executor* is the person you appoint in your will to distribute your estate to your beneficiaries. To do so, they have to apply to a court for a *grant of probate*. Your will gives them the instructions they need to make the distribution in accordance with your wishes.

If you die without making a will, or if the will you leave is invalid, you are said to have died *intestate*. In that case someone, usually a person with some interest in the estate, will apply to the court for *letters of administration*. That gives them official approval to act as *administrator* and to deal with the assets of the estate as set out in the legislation.

The government sets limits called *Reasonable Benefit Limits (RBLs)* on the total amount of concessionally-taxed benefits you can receive from the superannuation system. There are different RBLs depending on how you receive your superannuation benefits.

RBLs are indexed each year and for the 2002/2003 year the standard limits are broadly:

- \$562,195 if the benefit is received as a lump sum (the *lump sum RBL*)
- \$1,124,384 if at least half of your RBL assessable benefits are taken as a complying pension or annuity (the *pension RBL*).

A *reversionary pension* is one that starts after you die. The reversionary pensioner is usually your spouse or some other dependant you nominate at the time your pension commences.

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SEE YOUR FINANCIAL ADVISER OR ASK MACQUARIE

We hope this booklet has helped you understand the relevance of estate planning and the role that good advice – and a good superannuation fund – can play in it.

If you have any questions, or require more information, we recommend you talk to your financial adviser, or Ask Macquarie on 1800 808 001.

Macquarie Investment Management Limited (MIML) is the trustee of Macquarie SuperOptions, Macquarie Super and Pension Manager and the ADF Superannuation Fund and adviser to Macquarie Life Limited ABN 56 003 963 773. Macquarie SuperOptions invests in policies offered by Macquarie Life. None of MIML or any member of the Macquarie Bank group of companies guarantees the capital value or performance of the funds (other than as separately detailed in the current brochure) and the value of units may rise or fall.

Care should be exercised in using past performance as a basis for assessing long term performance as future yields may bear no relationship to published yields. Funds will only be accepted on receipt of a form of application attached to a current brochure. These are available upon request from Level 11, 20 Bond Street, Sydney. Current brochures are dated as follows: Macquarie SuperOptions 25/3/02, Macquarie ADF Super Fund 6/5/02, Macquarie Super and Pension Manager 20/8/01.

**IF YOU HAVE ANY QUESTIONS, OR REQUIRE MORE INFORMATION,
WE RECOMMEND YOU TALK TO YOUR FINANCIAL ADVISER, OR
ASK MACQUARIE ON  1800 808 001.**