

Understand estate planning

What is estate planning?

If you've got people in your life who you love and want to take care of, it's wise to build an estate plan. This plan, which you can put together with the help of an estate planning specialist, will make sure loved ones are taken care of in the event of your death.

An estate plan is more than just drawing up a will. It also involves formalising how you want to be looked after (medically and financially) if something happens to you, or if you're unable to make your own decisions later in life. Your estate plan will also clarify how you want your assets to be protected during your lifetime and distributed after your death.

How does an estate plan help?

You can make your wishes known

One of the benefits of a sound estate plan is the ability to formalise your wishes in writing. This can help if someone contests what you've said you want after you've passed away, or if you're unable to speak for yourself.

You could minimise disagreements

Unfortunately, disputes often arise when unsettled assets need to be distributed among others—especially if there are no clear guidelines set. Being prepared with an estate plan could go a long way in preventing disputes should family members need to divide assets among themselves or make other hard decisions on your behalf.

You may improve tax consequences for your heirs

As the distribution of assets (including your income) can come with different tax obligations, a good estate plan might also minimise any tax that your heirs would need to pay. For instance, if they decide to sell something they've inherited, depending on the type of asset, they may need to pay capital gains tax. Estate planning, particularly with the guidance of estate planning specialists, could reduce these extra tax costs.

Key points when creating your estate plan

Consider drawing up a will and whether you want something legally binding

A solicitor or estate planning lawyer can help you draw up a will that is legally binding and covers what you'd like to happen with your assets, children (if you have any) and funeral when you die.

It's important this document is kept up to date, and be sure any changes to your situation (marriage, divorce, separation or otherwise) are accounted for, so those who matter most are taken care of.

While it's also possible to draw up your own will (there are various kits available online), these may not be adequate in complex situations, which is why engaging a professional is still worthwhile.

A word of warning: if your will is deemed invalid, your estate will be distributed according to the law in your state (which may not align with your wishes), and claims could be made by unintended recipients. This is why it's a good idea to enlist the services of an estate planning specialist, even if you think your situation is relatively simple.

Review your nominated beneficiaries for any super or insurance you might have

When it comes to your super, you'll need to do some planning in advance to make sure it's distributed properly in the event of your passing.

During this process, take the time to nominate your beneficiaries with your super fund, and make sure you're across how long different nominations are valid for. If you don't make a nomination, the super fund trustee could use their discretion to determine who your super money goes to.

In addition, if you have insurance outside of super, make sure you've listed your beneficiaries on your insurance policy and that those beneficiaries are also kept up to date.

Consider appointing an enduring power of attorney to make decisions if you can't

There may come a time when you're unable to make legal or financial decisions on your own because of advanced age or medical issues. Granting power of attorney means you are designating an individual to make these decisions on your behalf if such a scenario arises.

For this reason, it's important to choose someone you trust, as they'll be responsible for looking after your bank accounts, ongoing bills, and even selling your house if you need to move into a care facility.

It's also worth noting that you may be able to appoint a different type of power of attorney depending on what tasks you'd like this person to carry out on your behalf. For example, you may want your son or daughter to make general lifestyle decisions for you, while you appoint a financial adviser to make financial decisions.

Choose an executor to help carry out your wishes when you're gone

Generally, an executor is the legal individual who manages and distributes the estate with the assistance of a solicitor, according to the terms you've set out in your will (which your solicitor should have a copy of).

When you nominate an executor in your will it's important to let your family know, to avoid disputes after you die. Make sure the executor also has a good understanding of their duties and where your will and other important documents are kept. You may also want to let your family know where this information is stored.

The executor will typically be responsible for things like making funeral arrangements, ensuring your debts are paid and bank accounts closed, and collecting any life insurance.

They will also usually need to apply to the court for a grant of probate, which is a required legal step before your estate can be distributed. A grant of probate certifies that your will is valid.

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