

Planning for the unthinkable

Insurance and wills are two areas of financial planning that are difficult for most of us to confront. In many cases, they involve us committing the time and cost to set up arrangements that we hope we will never need to use! However, the results of avoiding this area can add significant stress to your family's life when they least need it.

If you have been delaying a decision on these important issues, consider the following.

Family with life insurance

A properly constructed financial plan will include an assessment of the risks that something could go wrong. For instance, what will happen if the major breadwinner dies? When the insurance policy pays out, a key question will be to decide how the money should be used. Typically funeral expenses and debts will be paid and the balance invested to provide a replacement income for the family. Some life policies will pay an extra amount to cover financial planning costs.

The surviving partner will have to take responsibility for the financial management of the household and may need to take on extra work to make ends meet. Sadly, families often behave badly after a death and disagreements over money are not uncommon so a current Will is crucial.

Family without enough life insurance

Most working people will have some life insurance through their superannuation fund, but often not enough. The amount paid out may just meet final medical expenses, funeral costs and legal fees. If the surviving partner is the major breadwinner they may need to pay for home help and childcare assistance to continue working to support the family.

When the surviving spouse is not the major breadwinner, they may need to return to work or seek assistance from Centrelink for their family to maintain their lifestyle. That's not a good scenario when you also have to deal with grief.

Holding assets

One issue that makes reorganising affairs after the death of a partner easier is to hold assets as joint tenants. This means if one party dies, ownership automatically passes to the survivor. Arranging ownership of the home, vehicles, boats and other lifestyle assets this way can simplify asset transfer on death.

On the other hand, there may be tax and asset protection reasons not to own assets this way and it is an area where getting good advice is recommended.

Age pensioners

The age pension is assets and income tested. A home-owning couple can have assets of \$258,000 and still qualify for the maximum age pension of \$539.80 each per fortnight. A single home-owner can have assets of \$181,750 and still qualify for the maximum age pension of \$716.10 per fortnight.

When one partner dies the surviving partner will receive the lower single person's age pension and may have it limited by the more stringent assets test. At the same time, the home that was suitable for two people may be too much for one person to manage.

To avoid adding financial stress to the obvious emotional issues you and your family might be dealing with at this time, it is crucial to seek advice as early as possible.

Riverina Financial Planning are dedicated to providing you with information so that you can make the decision that is right for you. We invite you contact us on (02) 6921 7853 or email admin@riverinafp.com.au to make an appointment today.

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