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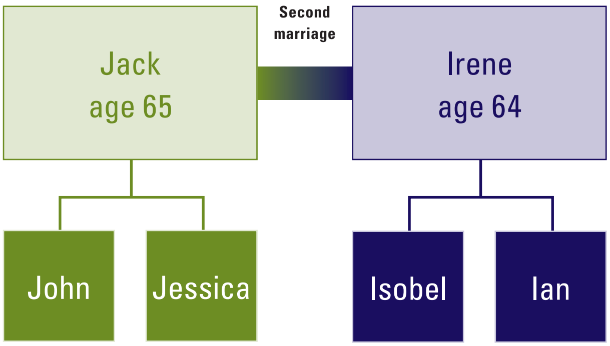
Small APRA fund solutions for blended families

Do you have clients with blended families? The following case study outlines how a small APRA fund can be used to protect their assets.

Jack has been married to Irene for five years and both have children from previous marriages. Although the step-siblings usually get on well, Jack and Irene's marriage has created a complex family structure and, needless to say, there have been a few squabbles.



Joint assets

When Jack and Irene married, they each sold their own home and bought a new home which they own together after contributing $500,000 each. They are now retired and have a self-managed super fund (SMSF) from which they are both drawing account-based pensions tax-free. Currently, Jack's balance is $500,000 and Irene's is $600,000.

	Jack	Irene
Family home	$500,000	$500,000
SMSF balance	$500,000	$600,000

Maintaining their lifestyle

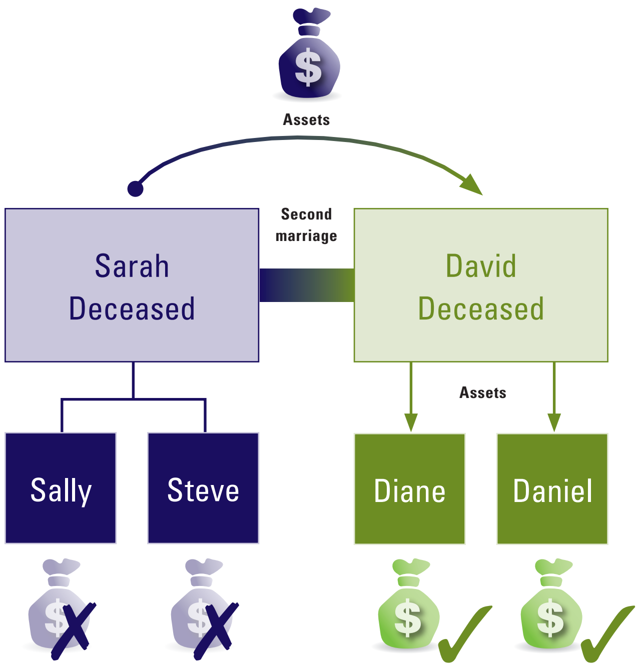
Jack and Irene enjoy a comfortable lifestyle, taking two holidays each year either overseas or in Australia and they hope to continue travelling in the years to come. In the event that one of them was to die, they would like the survivor to be able to maintain a comfortable lifestyle and remain in the same home.

The importance of estate planning

Jack and Irene recently had lunch with Irene's niece, Sally, the daughter of Irene's late sister, Sarah, who sadly passed away eight years ago. Like Irene, Sarah had combined her assets with her second husband (David) and, after her death, all her assets passed to David according to her wishes.

A few years later, however, David also died. Sally thought that her mother, Sarah, and David had an understanding that when they had both passed away, their assets would be split evenly between the four children. Because all the assets were in David's name, they were passed to David's children, Diane and Daniel. Sally and her brother, Steve, received nothing.

Sally spoke to her solicitor, who told her that because the understanding between her mother and David was not legally documented there was nothing she could do. Sally knew her mother would be 'turning in her grave' if she knew this had happened.



Learning from past mistakes

Jack and Irene were shocked because they too had a similar understanding. They wanted their respective assets to pass to their own children, but not until after they had both passed away. Sally's story prompted them to contact their financial adviser who recommended they speak to an estate planning specialist and referred them to us.

Getting their estate affairs in order

The estate planning specialist recommended some changes to Jack and Irene's estate plan to ensure their wishes were carried out after they had gone.

	Jack and Irene's estate planning strategies	After death of one of them	After the death of the survivor
Home	Jack and Irene's home ownership was changed from joint tenants to tenants-in-common. This way, they each have a 50 per cent interest in the property that can be dealt with in each of their Wills. Their Wills were restructured as a result.	Each of them have provided the other with a right of residence for their interest in the property. This means that the survivor will be able to remain in the property for the duration of their lifetime.	The ownership of the property would pass equally to their respective children. In practice, it is likely that the property will be sold and the proceeds will pass equally to their respective children.
Super	Jack and Irene's super was converted from an SMSF to a small APRA fund (SAF) with an independent professional trustee. The use of a professional independent trustee ensures that the wishes of the deceased are carried out. While the wording within an SMSF can be structured so that there is a direction to pay an agreed pension, if the surviving spouse controls the cheque-book, the level of security for the deceased's surviving children to receive the balance of their parents super can be significantly reduced.	The survivor receives a tax-free pension from the deceased's super. The annual amount of the pension has previously been set by the deceased as a multiple of AWOTE*. The annual pension benefit is indexed each year as AWOTE changes.	Any balance of Jack's super will be paid to his children (John and Jessica). Any balance of Irene's super will be paid to her children (Isobel and Ian).

* Average weekly ordinary time earnings

As a result of the planning they have put in place, Jack and Irene have been able to ensure that the survivor is able to live comfortably and after they have both passed away their respective families will inherit their remaining wealth.

Incorporating a small APRA fund as part of their estate planning strategy, gave Jack and Irene peace of mind that their super would be distributed according to their wishes.

If you would like further information or advice on providing small APRA fund solutions for blended families or estate planning, please call your financial adviser, estate planning lawyer or contact our client services team on **1800 254 180**.

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