Prepare for life
+ wealth + security
Issue 9 | 2013

Helping the kids buy a home and protecting parents' interests

A recent survey of Australians aged 50 and over has revealed that parents give $22 billion a year to their adult children to help them get established, buy property and tide them over tough times.

Gift, loan or other?

One way to help adult children buy a home is providing them with money to help with a deposit. The gift may be given directly or contributed to a First Home Saver Account, a tax-effective way to save for a home. Any asset or amount over or above $10,000 gifted by a single person or couple in a single financial year or above $30,000 over a five-year rolling period impacts on parents' pension entitlements for five years.

A better way to provide support and to protect parents' interests is through a written loan agreement. This would ensure that the parents' rights are protected in the event a child's relationship with his or her spouse or partner broke down.

Another option is for parents to provide guarantor support for their children by providing either the parents' home or term deposits as security.

Finally, parents could consider buying the property jointly with their children, but this would mean the parents would have their names on the title deeds. For both guarantor support and joint ownership of property, parents need to be aware that they are fully liable for their child's loan obligations. The possible effect on parents' pension entitlements should also be a consideration in both arrangements.

As further protection, parents who gift or lend money can insist that their child and spouse or partner enter into a binding financial agreement to ensure that the gift or loan is repaid if the relationship fails.

Parents should always obtain specialist legal and taxation advice when setting up a loan for their children.

Here are some options to consider:

- Should the loan be on interest free or commercial terms?
- If interest is charged, will it be fixed or variable or pegged to a bank interest rate?
- Should the loan be open ended or does it need to be repaid within a certain time frame?
- Should parents request security over the debt, even through the agreement is classed as a personal debt?

The importance of life insurance

If illness, injury, or even death were to happen to an adult child who had just purchased a home, it would be quite likely that the child would have trouble meeting mortgage repayments and could possibly even lose the home.

With lump sum covers, the easiest way to do this is to set up a non-super life policy owned by the parents on the life of the child. This ownership structure would satisfy CGT exemptions under section 118-300 ITAA97 for term life and section 118-37 ITAA97 for TPD and trauma.

The level of cover should at least be the amount of the loan or gift, so that the parents would not have a shortfall if an insurable event occurs. Income protection for the child should also be considered. This must be owned by the child to ensure that a tax deduction can be claimed. Once the loan is repaid, the parents have the option of transferring the insurance cover to their adult children, so they could assume premium payments.

Contact your financial adviser today to find out the best option for you.

Source | CommInsure

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Serious illness

and the chink in your financial armour

If you have income protection insurance and private health cover you may think you are in a strong financial position to face a serious illness. The truth is quite different.

Consider the case of Kathy, a 41 year-old self-employed marketing consultant, married with one young son. She was healthy, active, and with death cover, income protection and private health insurance in place, she thought she was well protected against any eventuality.

Kathy knew the missing piece in her protection portfolio was trauma insurance. But with income protection and private health cover in place, she wondered did she really need it?

It turns out she did.

In November 2009, Kathy was diagnosed with breast cancer. Two rounds of surgery followed, then chemotherapy and radiotherapy, and then the reconstruction surgeries.

Kathy wasn't just a few hundred dollars out of pocket, or even a few thousand. After Medicare and the health fund had paid their parts, the gap costs came to tens of thousands of dollars.

'For example, my out of pocket costs for radiotherapy were about $2,000 after Medicare and my health insurance had kicked in. The out of pocket cost I was quoted for reconstruction surgery was $10,000. And to pay for a year of Herceptin - a drug that has been shown to reduce the chance of breast cancer coming back by 52% compared with chemotherapy alone - I would have had to pay something like $80,000', said Kathy.

'That's nearly $100,000 in out of pocket costs. Of course when your life is at stake you naturally don't question the cost, you spend whatever it takes, provided you have the money in the first place.'

Kathy says that she would love to spend more time with her children and to scale back her work, but the reality is that she just can't afford to.

'If I'd had trauma insurance when I was diagnosed, it would have given our family that financial cushion to allow me to work less. To have a lump sum payout in the bank would get rid of that everyday financial stress, and the one thing you really need to do once you've been seriously ill is to avoid stress.'

But what about income protection?

'I wouldn't dream of being without income protection cover, but the reality is that in my circumstances it didn't really help this time. My policy would only pay out after two weeks of not working, and even though I had several bouts of surgery and chemo, I tolerated the treatments relatively well, and I was only in bed for about a week each time. I wasn't actually away from work for long enough to qualify for a benefit.'

Ironically, Kathy's financial adviser had previously encouraged her to take out trauma cover.

'I really hope that I can stop other people making the same mistake by telling my story. If you don't have a large amount of cash set aside to cope with something like a serious illness, don't put it off. Just talk to your adviser straight away.'

Trauma cover

Trauma cover is designed to pay a lump sum in the event that you suffer one of the pre-defined traumatic events, which generally include cancer, heart attack, bypass surgery or stroke, plus many other conditions. This lump sum can help you meet the many out of pocket costs you can be faced with in the event you suffer a traumatic condition and - by reducing the financial and emotional stress you may otherwise face – can ultimately improve your recovery.

For information on trauma insurance, contact your financial adviser.

Source | Zurich

MINING FOR INSURANCE

IT HAS BEEN DIFFICULT FOR SOME MINING OCCUPATIONS TO ACCESS LIFE INSURANCE IN THE PAST. BUT TIMES ARE CHANGING.

There are a number of reasons why working in the mining industry is very different to many other occupations.

In addition to working in a fast-paced, high-pressure environment, mining workers are often forced to live a long way from their loved ones. This is one of the reasons miners don't always stay in the industry all their careers.

Compared to many other occupations, mining can also be dangerous. Whether working above or below ground, mining workers are often exposed to risks associated with heavy machinery, vehicles and working with explosives.

Despite improvements in workplace safety over the last decade, the mining industry still had 2,555 serious workers compensation claims in 2009/10.

Mining is also one of the riskiest industries in terms of fatalities, with an average of 3.5 deaths per 100,000 workers in 2009/10. That's almost double the national average of 1.92.

Combine these threats with the risks everyone faces in their day-to-day lives – like cancer and heart disease – and it makes sense for miners to have a contingency plan for sickness or injury.

LIFE INSURANCE CONSIDERATIONS FOR MINERS

Traditionally, miners have found it difficult to access life insurance on standard terms. However, there are now insurers who offer affordable protection to many mining occupations.

The most common types of life insurance are:

- **LIFE COVER** pays a lump sum if you die or are diagnosed with a terminal illness. The lump sum can be used to meet final expenses, pay off the family mortgage so that your family isn't left without a home, fund future child education fees and set aside money to meet your family's ongoing living needs.
- **INCOME PROTECTION COVER** pays up to 80% of your income if you can't work because of sickness or injury. This money is essential in helping to meet your ongoing living needs, including meeting your mortgage repayments, while you are unable to work.
- **TPD COVER** pays a lump sum if you are totally and permanently disabled. This may help you repay debts and medical bills, make modifications to your home and motor vehicle, as well as meet lifetime living costs.
- **TRAUMA COVER** pays a lump sum if you are seriously injured in an accident, or if you are diagnosed with one of a number of serious medical conditions, like cancer and heart attack. The proceeds can be used to meet medical treatment costs as well as provide financial support if your spouse wishes to take time off work to look after you.

In addition, miners should look for insurance policies that provide additional protection for accidents and that recognise the true extent of your earning potential – helping you protect the rewards of your hard work.

With so many different types of life insurance available, it's important to discuss your own life insurance needs with your financial adviser.

Source | Onepath

Leave a lasting legacy

not lingering legal bills

We all like to think we'll leave a lasting legacy. But without a valid will, there's a good chance your most memorable legacy could be a costly court battle over your estate.

Dying without a professionally drafted, up-to-date Will opens the door to the confusing and often expensive world of intestacy. It's a world in which lawyers could be the key beneficiaries while family, friends and even business associates are left emotionally and financially drained.

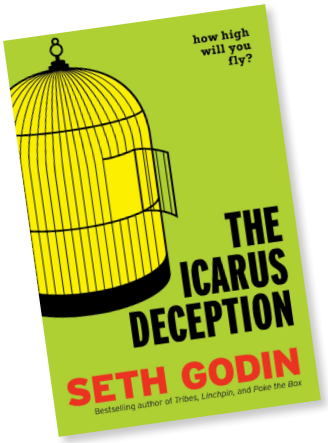
A valid Will specifies how you would like your personal assets (or 'estate') distributed following your death. It works in concert with the rest of your estate plans, which can be used to make provisions for children – as well as yourself while you are alive, through various powers of attorney and guardianship.

Despite the importance of a Will, it's estimated that around 45 per cent of Australians don't have one. Among those that do, many could find their Will doesn't meet strict legal requirements, effectively leaving loved ones no better placed than if there was no Will at all.

Having a watertight Will plays a vital role in wealth management. Yes, there is a cost involved in having your Will written by a skilled legal representative. But this could be a tiny fraction of the costs racked up by loved ones if they have to fend off unexpected claims on your estate. Knowing that your final wishes are set in cement can bring priceless peace of mind to those who matter in your life.

Source | BT

GOOD READ



The Icarus Deception

Seth Godin

What are you afraid of?

The old rules: Play it safe. Stay in your comfort zone. Find an institution, a job, a set of rules to stick to. Keep your head down. Don't fly too close to the sun.

The new truth: It's better to be sorry than safe. You need to fly higher than ever.

In his bravest and most challenging book yet, Seth Godin shows how we can thrive in an economy that rewards art, not compliance. He explains why true innovators focus on trust, remarkability, leadership, and stories that spread. And he makes a passionate argument for why you should be treating your work as art.

To work like an artist means investing in the things that scale: creativity, emotional labor, and grit. The path of the artist isn't for the faint of heart—but Godin shows why it's your only chance to stand up, stand out, and make a difference.

The time to seize new ground and work without a map is now. So what are you going to do?

WIN One of 3 copies of "The Icarus Deception" by Seth Godin. To be in the running, visit www.profinvest.com.au/goodread and submit your contact details, including postal address and the name of your accountant or financial adviser. Terms and conditions apply.

Winners will be notified via email of their success!

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