



Investing inheritance

OVERVIEW

The loss of a loved one is a deeply challenging experience that can have far-reaching emotional and financial implications. These are often paired up with additional complexities of having to make financial decisions which never had to be made before. This case study looks at a couple in their late 40s, who inherited a large sum of money after sudden passing of the wife's parents and the SFP's approach in assisting them with making the right financial decisions.

STARTING POINT

- Jess and Michael have received \$1.6M in inheritance proceeds. After paying off their mortgage, they were left with approx. \$960,000.
- The funds were sitting in their offset account, which wasn't providing them with any financial benefit since the mortgage has been paid off.
- They both work in a high-pressure job and have 2 teenage children.
- Clients feel overwhelmed with the sudden large amount of money and their initial enquiry was seeking help with clarification of their family goals and priorities.

CLIENT OBJECTIVES

1. After couple of meetings, we have clarified their priorities to invest the funds in three main areas – financial help for children, smooth transition to retirement (potential earlier retirement), enough capital to have comfortable retirement.
2. Have ability to spend more time with children without having pressure to work long hours and/or worry about future expenses.
3. Earn better returns than term deposit but keep the funds safe.
4. Look for more tax effective way to manage the savings.
5. Flexible investment with option to access the funds if circumstances change.



IDENTIFIED RISKS

1. Current negative real returns (after inflation and taxes).
2. Inability to increase the future income (interest) to offset the increases in the cost of living.
3. Lack of investment experience and being 'in charge' of big investment decisions was making them nervous about managing the large sums of money now and into the future.
4. Making expensive mistakes while holding volatile investments.

SFP WORK IMPLEMENTED

- Retain cash reserves of \$175,000 for peace of mind and gaining control over their time.
- Provided practical education on investment fundamentals (initial and ongoing)
- Invested total of \$185K into super accounts by maximising available catch-up contribution caps and optimised their super investment strategies, aligning them with their retirement objectives.
- Divided the balance of \$600K between a kid's financial future fund and an early retirement fund
- Kids portfolio was invested in a mix of growth assets via tax effective (tax paid) education bond, allowing them to access the funds in the future tax free (no CGT).
- Utilised the leftover capital by creating early retirement fund, invested in low cost, diversified portfolio of Australian and international shares, in joint names.
- Provided ongoing guidance of emotional investment decisions via investor behaviour program to ensure rational investment decisions moving forward.
- Reviewed the existing insurances, as those needed to be adjusted given the significant

ACHIEVED FINANCIAL OUTCOMES

- The pre-tax contributions to super have reduced clients' taxable income and saved them a total of \$75k in tax.
- Funds invested in the education bond over 10 years have doubled in capital over that period and provided the children with a solid start to life, providing them a tax-free lump sum of approximately \$300k each.
- Funds invested for early retirement allowed Jess and Michael to start transitioning to retirement early, providing them access to a large sum of over \$600k, without having to touch super.
- Their optimised super strategies helped them accumulate an additional \$430K in super which enhanced their lifestyle in retirement.
- Clients saved a combined amount of over \$45k in insurance premiums after reviewing their insurance portfolio.



VALUE CREATED



Created more clarity and confidence in financial decisions through regular practical guidance.



Created practical understanding of investment fundamentals (income, growth, risks, volatility etc.) and redirected focus on variables we can control together.



Met clients' desires to confidently invest the inheritance as per their family's priorities.



Removed the pressures and fears of running out of money in the long run.



Peace of mind of creating a simple and effective investment vehicle to meet their financial objectives without a need to actively manage them.



Remain a sounding board for any future financial decisions should her situation change.


ASSUMPTIONS



This Case Study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur. This Case Study is based on the following assumptions:

- Both Jess and Michael are on top marginal tax rate.
- We have assumed that Jess and Michael remain invested for the remainder of their lives.
- We have not taken into account any fees, costs or tax implications of the strategies in this case study.
- We have assumed that the capital invested would produce an average of 4.45% income and 5% growth over the length of time invested.

GET EXPERT HELP

Speak to one of our financial advisers at Sydney Financial Planning, contact our team to make an appointment to get started.

 **Sydney: 02 9328 0876**
Illawarra: 02 4229 8533

 email@sydneyfinancialplanning.com.au
 www.sydneyfinancialplanning.com.au
www.illawarrafinancialplanning.com.au

Edgecliff





Suite 13
201 New South Head Road
Edgecliff, NSW 2027

Crows Nest

Suite 11
300 Pacific Highway
Crows Nest, NSW 2065

Corrimal

Shop 1
225 Princes Highway
Corrimal, NSW 2518

 Sydney.Financial.Planning
 @SydFinPlanning
 sydney-financial-planning
 sydneyfinancialplanning

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advice that stands the test of time