RESOURCES UNEARTHED

Case Study

The Importance of Correct Insurance Policy Ownership

John owned a successful consulting business while his wife Maria managed their children.

With high schoolers and a mortgage to repay, their overheads were not small, however they were saving a substantial sum each year toward their retirement.

At 49, John developed unfamiliar feelings in his stomach and visited his doctor. Unfortunately, the news was not good. John called Brett Cribb a few days later.

Brett vividly remembers that day: *"I was at a conference when I took John's call. He told me the doctor's initial diagnosis and that he was wondering what he should do. I was immediately able to ease John's concerns about his finances."*

Our Review

John and Maria had been referred to Brett two years previously by their accountant, Charles.

In our early meetings, we discussed their needs and overall financial goals and their wishes for the legacy they would like to leave.

As part of our review, we realised that protecting their most important asset - John's ability to earn an income - was paramount.

While John and Maria already had some insurance in place, we reviewed their cover and recommended that they implement income protection, life and TPD insurance. We explained the benefits of this insurance and recommended that it be structured within their Self-Managed Super Fund (SMSF).

Knowing that protecting the family's current lifestyle was important to John and Maria, we implemented a number of strategies to provide financial safeguards should John ever be unable to work. This included planning for a tax-free income stream for the rest of Maria's life should John pass away. We also recommended a buy-back clause in John's life and TPD policy.

Our Advice

Our goal was to help John and Maria establish asset protection plans, review their financial goals and plan for the unexpected.

We worked closely with them to carefully explain each recommendation so they were fully informed when making their decisions. We also collaborated with their accountant to ensure they had the most appropriate financial structures in place to create tax effective solutions.

We were able to offer the following:

- Advice that would assist John and Maria in fulfilling their financial goals. This included receiving an income protection benefit if John fell ill and couldn't work.
- Reassurance through instigating asset protection strategies and appropriate structures for their personal situation in order to protect their financial security
- Collaboration with John and Maria's accountant and solicitor to establish appropriate tax effective structures for their circumstances. These included the use of franking credits from the business to provide a $30,000 refund to a testamentary trust (establishing the trust aimed to provide a further tax shelter if their SMSF was not able to be used).
- Help and advice in planning a legacy for their beneficiaries.
- Peace of mind through the implementation of a tailored and holistic financial plan.

Our Process

We considered the big picture for achieving financial security.
We spent time to understand John and Maria's current situation as well as their future financial goals so we could prepare the most appropriate financial plan and risk assessment. We recognised areas of need and acted to create a financial safety net. We addressed the matter of protecting their most important asset, not their home, but John's ability to earn an income.

We are experienced in dealing with mining and resources professionals.
Brett Cribb is well qualified to provide financial planning advice for high earning mining and resources industry professionals. He's a seasoned financial planner with almost 20 years' experience, and his previous career as a mining engineer working for Mount Isa Mines (now Glencore) for over a decade adds an additional level of knowledge. He provides first hand insights into the lifestyles of mining and resources industry professionals and the complex, and often difficult to manage financial structures involved.

We collaborated with other professionals.
John and Maria were initially referred by their accountant. We are experienced in acting as the central 'hub of the wheel' coordinator and liaison point with other professionals - including lawyers, risk advisers, bankers and more - who are also involved in our clients' wider financial life.

As central coordinators, we were able to incorporate all aspects of John and Maria's personal and financial life into their planning, creating a seamless plan that was sensitive to and inclusive of the other aspects of their financial life. We were committed to helping them to achieve their financial goals – our role was to implement the strategy, help with the structure and put simply, 'Make it Happen' for them.

The Outcome

When John informed us of his doctor's diagnosis, we were able to confirm that their finances were in order and they could focus on the emotional issues ahead.

John was satisfied with the level of cover we recommended, which was for a significant amount of money, and agreed with the benefits of owning life and TPD insurance in his superannuation.

With the doctor's diagnosis that he was unable to work ever again, John became eligible for a TPD insurance benefit which his insurer paid. He was also eligible to access his super due to his terminal illness and, at under

55 years of age, met the conditions for continuing to make super contributions. We had arranged an insurance contract with a buy-back policy which enabled payouts for both TPD and life insurance.

The recommendations we put in place meant that Maria would receive funds in the form of a tax free pension, payable for the rest of her life[1].

Developing this strategy in collaboration with John and Maria's accountant has resulted in the benefit of the SMSF being in excess of $2 million and it is expected that Maria is unlikely to ever pay tax on any of these funds. She is now able to consider providing a legacy for her children and is making payments to help them fund university education and home loan repayments.

The SMSF also has a tax deduction of almost $1 million which can be used to offset any future taxable income of the SMSF.

Prior to seeking advice from Brett and implementing his recommendations, Maria would have been left with little funds upon John's death and would have struggled to assist her children finish school and fund her own retirement. In fact, the benefit that existed prior to John and Maria taking our advice was less than a quarter of the final benefit paid.

There would have been tax to pay each year as well. Brett's estimate is that if John had personally owned all of this insurance, Maria would have been paying over $20,000 of tax every year[2].

The greatest outcome from an adviser's perspective is that Maria isn't concerned about her financial situation. She is unburdened by the financial issues that many people face in life.

What Maria had to say...
"John and I had never seen a financial planner before and our accountant recommended we meet with Brett, as John was doing well in his business. Brett was friendly and easy to talk to. He is passionate and very knowledgeable. We both enjoyed the fact that he explained everything clearly, and not only gave us advice, but choices as well. We both enjoyed having input into the process.

"We knew we were in good hands with Brett and I am extremely happy with the advice and service offered. He is very approachable and I am never afraid to ask him any questions.

"I would refer Brett without hesitation and I have already referred them to others. I would have been in dire straits without Brett's advice and can honestly say Brett's recommendations are the best advice I have been given."

[1] There are important conditions to this arrangement. Most superannuation structures will be unable to access this benefit. It requires careful and considered planning. You should seek appropriately qualified personal advice prior to making any changes to your situation.
[2] Calculations based on assumption that $2 million invested after John's death would earn approximately 5% taxable income i.e.$100,000 of taxable income in Maria's name would result in well over $20,000 tax to pay.