

You've won! Now what?

Lottery prize pools now amass huge amounts, regularly turning everyday Aussies into instant multi-millionaires. But being 'struck rich' is not only based on luck.

There are approximately 70,000 people whose super funds hold more than \$2.5 million. An inheritance of this magnitude can also be a life-changer. Regardless of the source, most people who receive unexpected money are launched on an emotional roller coaster ride.



Let's use a big lottery win as an example for this article:

1. The first emotion is usually sheer delight –

Woohoo! Aren't I lucky! (although if it's a massive win, the first feeling might be utter shock!).

2. Relief generally follows quickly – *I don't have to worry about money anymore.*

3. Then indecision – *What should I do with it?*

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Regardless of how your windfall landed, here are some ideas to help you make the most of it.

1. Bank it

Put it in a bank account where it will earn a safe and reasonable return. Online savings accounts currently pay similar returns to term deposits and give you easy access to your cash once you've decided how to manage it. On a large sum of money, you could still earn considerable interest - but remember it will be taxed at your marginal tax rate.

2. Spend it

This is a popular action but it may later leave you with the regret of wasted opportunities. The media is full of stories about lottery winners who were broke a few years after they won millions. Sure, put some aside to have a good time, but don't go silly.

3. Clear debt

This is generally the smartest option. Take a lump sum to pay off debts, particularly those that are non-deductible like mortgages, personal loans and credit cards. This strategy will reduce future living costs and increase the possibility of borrowing against the equity in your home to invest further if appropriate.

Discover more ideas to make the most of a windfall on p3

IF YOU WOULD LIKE TO DISCUSS ANY OF THE FINANCIAL TOPICS FURTHER PLEASE CONTACT OUR OFFICE



A good time to review your insurance

Not a year goes by without some part of Australia being devastated by a natural disaster – sadly, this year hasn't been any different. Bushfires, floods, storms and tropical cyclones are a part of our lives. Unfortunately no one knows when or where the next disaster might strike so it's impossible to prepare for an exact event.

With summer here, if you haven't done so already, it's a good time to review your insurance cover to ensure your financial possessions are protected, as well as the security of you and your loved ones.

The pain of under-insuring

The images of families losing all of their possessions during widespread flooding, storms and bushfires over recent years should provide a constant reminder of how a lifetime of hard work can vanish in minutes. It is even worse when so many of these victims were either uninsured or under-insured.

Most people understand the consequences of being uninsured: you bear the total loss of whatever damage is suffered and property lost. On the other hand, being under-insured means that you have not insured your property for its full value, which is considered to be less than 90% of any rebuilding costs.

This may not be intentional. It's easy to fall into this trap, particularly if you don't review your policy in relation to the value of your home and possessions on a regular basis. How much has your property changed in value over the past three years?

This is how easy it can happen

You don't have to lose your entire home to suffer the effects of under-insurance. Partial loss can place a challenging strain on your finances.

Take the example of Craig and Jenny whose home was valued at \$500,000, but to save money on premiums they decided to insure it for only \$375,000 – three-quarters of the value. On a wet afternoon last October, an out-of-control truck plowed through their front fence before coming to rest halfway through their master bedroom. Thankfully they were both at work and nobody was injured. Their home sustained \$100,000 worth of damage but Craig was shocked when he learned that the insurance company would only cover three-quarters of the loss - just \$75,000. They had to borrow the \$25,000 shortfall.

If you look at it from the insurer's perspective, when you insure for less than the real value, they are receiving less money in premiums, so they're not likely to pay the full value in a claim.

How much has your property changed in value over the past three years?

Natural disasters and accidents are not fussy about who they affect so don't let the next one be the catalyst to review your insurance coverage.

And while you're doing this, make sure you have appropriate and adequate life insurance in place. You and your loved ones are far more valuable than your possessions.

Now is the time to act. Give us a call.

Staying smart online

Did you know that the federal government has an online service called "Stay Smart Online" to alert internet users of the current security threats we all face?



This website is supported by an email service reporting the latest threats caused by out-of-date browser software and programs. Plus details of the latest scams doing the rounds and what to do if you are targeted, either online, by phone or via the post.

There are also guidelines on banking safely online and protecting your identity.

You can find this great service at www.staysmartonline.gov.au and sign up for the email alerts.

A final benefit of superannuation

Here's a question you might want to ask of your super fund: does it make anti-detriment payments? If not, your dependents may miss out on a boost to any future death benefit they might receive from your super.

What is an anti-detriment payment?

In a nutshell, prior to 1988 superannuation funds were taxed on exit at a rate of 30%. Death benefits paid to dependents were, however, tax-free. In 1988 contributions started to be taxed at 15% on entry and a further 15% on exit, which meant that death benefits would be reduced by the contributions tax paid. As a result the rules were altered to allow the contributions tax to be returned to beneficiaries. This tax refund is called an anti-detriment payment (ADP) and the amounts involved can be significant.

Take the example of Geoff who joined his super fund in 1990. Over the next 25 years his employer and salary sacrifice contributions added up to a total of \$180,000. On his death in 2015 his super fund opted to pay an ADP, increasing the death benefit paid to his spouse by \$27,000.

Who can receive an ADP?

ADPs are only payable when lump sum death benefit payments are made to eligible dependents of the deceased member. Eligible dependents are a spouse or former spouse, a child, including an adult child, or the trustee of the deceased's estate. When paid to the estate, the amount of the ADP is determined by how much of the death benefit is paid to eligible dependents.

Where does the money come from?

Most large superannuation funds have accumulated reserves from which these payments can be made. They don't come from other members' accrued benefits. The super fund then claims a tax deduction against the earnings of the fund, so the ADP really is a genuine refund by the tax office.

Complex calculations

As Geoff had stuck with one fund that held all of his contributions, calculating the ADP was pretty straightforward. However many people move from fund to fund or have multiple funds, complicating matters. Fortunately there is a formula that super funds can use to calculate ADPs involving the taxable component and days of service. It's a bit complicated, but don't worry, we can assist you with this.

Self-managed challenges

It can be difficult for anti-detriment payments to be made from self-managed super funds (SMSFs). Most SMSFs do not have accumulated reserves, so they may simply lack the ability to make the payment. Although it might be permitted by the trust deed and desired by the members, ADPs cannot be made from the deceased's account or the account of another member.

Seek expert advice

If you have dependents and are a member of a public offer or large superannuation fund, ADPs are a definite plus.

In the case of self-managed super funds, it is crucial to get expert advice on the pros and cons and the ways and means of making ADPs.

Talk to us.



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Now what?
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4. Save it

Putting money into superannuation can be a good strategy to reduce tax on your investment earnings, but it means the money is locked away. Of course, this might be a good thing because it can't be accessed and spent. Remember though there are limits on contribution amounts and financial penalties apply if breached.

5. Invest it

Depending on your goals you could build a portfolio to invest in a range of assets and make it work hard for you over the coming years. Maybe you could live off your investment income without impacting on the capital.

6. Share it

You could share it with family, friends or help the needy. Donations to registered charities are tax-deductible. If it is a substantial amount you could set up a Private Ancillary Fund – ask us for details on these.

7. Do them all!

Of course, you don't have to pick only one of these strategies. Depending on the size of your windfall, you could do it all.

Whether your instant wealth was created through a happy or sad event, often the difficulty is making a choice and everyone around you will have an opinion. Always seek professional guidance. Contact us to help you evaluate the options available for your own circumstances so the money will help your life, not hurt it.

5 ways to give your Christmas a makeover

These days Christmas appears to be more of a retail festival than a religious event, and while it can be a season of joy for many, it is a time of stress or loneliness for others.



If the 'Xcesses of Xmas' have been getting you down, or if you just want to shake up your usual routine, here are some ideas to help you re-write the rules, create a new meaning or start a new tradition for doing Christmas Day your way.

Have an "Orphan's Christmas".

If you have neighbours who live alone or don't have family nearby, why not invite them to Christmas lunch with you? Ask guests to bring a plate of festive food to share and enjoy hearing new stories on Christmas Day.

Take the stress out of gift giving.

If it's getting too difficult to buy gifts for family members, suggest that everyone buy one gift for one person. Or to make sure

everyone gets something they want, what about 'buy your own gift'? You can keep up the tradition of placing these presents under the Christmas tree and un-wrapping them together with each "recipient" sharing the story behind his or her gift choice. What's lost in surprise value is made up for in satisfaction.

Help the needy.

Volunteer at a homeless centre or other charity. Help out in the kitchen or lend a friendly ear to someone who is lonely. Various websites help to connect volunteers with charities, so do an Internet search on 'volunteers for Christmas' and see what comes up in your area. Keep in mind that charities can be inundated with volunteers for Christmas Day but need help before and after, so be flexible if you can.

Create your own purpose.

Whether religious or not, for most people Christmas is a time to spend with family. As a major break from usual routines there's also an opportunity to add further purpose to the day. Make it a day of gratitude, for example, rather than a day of over-consumption. Taking the time to be consciously thankful for what we already have is a great mood lifter.

Do something completely different.

Leave the hot oven behind and opt for a picnic on the beach or in a park. Or head for the city early in the day and take in the magical Christmas window displays without the crowds.

These are just a few ideas to get you thinking of ways to put some extra sparkle into your festive season. However you choose to spend it - Merry Christmas from all of us!