

# CASH FLOW AND INHERITANCE ADVICE

## Relevant Information

John is 43 years of age while Karen is 45 years of age. They are both in excellent health. John and Karen have two children in primary school.

John is an engineer in the property industry and earns a gross salary of \$550,000 per annum. After tax he nets approximately \$6,255 per week (\$325,000 per annum). At present Karen is occupied with home duties.

John and Karen's assets include their family home (\$6.1 million), superannuation (\$500,000), \$80,000 in an offset account, and \$21,000 in a savings account. They have no credit card debt as it is paid off each week.

Their mortgage on their family home is \$2.6 million.

Within their superannuation funds they have sufficient life and Total & Permanent Disability insurance to pay out their mortgage should either of them suffer an early demise or suffer illness or injury. John has income protection covering 70% of his salary.

## Objectives and Aspirations

John and Karen were referred by Karen's mother and sought strategic advice to achieve the following financial and life aspirations:-

1. John has indicated that it is time to get serious about their finances and they have sought our advice on financial management of their cash flow;
2. They have been unable to save from John's significant wage due to the cost-of-living crisis, their mortgage repayments, overseas holidays and substantial car lease;
3. Karen will receive an inheritance from her terminally ill mother over the next 12 months and will have the opportunity to purchase her mother's Avoca property for approximately \$2.6 million from the estate and receive additional cash distribution of \$1.7 million; and
4. John and Karen's cost of living is approximately \$15,500 per month, their mortgage repayments are \$14,910 per month which results in no monthly savings.

John and Karen's plan is to use \$2.6 million from Karen's share of the estate to purchase the Avoca property and use the \$1.7 million cash to pay off their mortgage on their Neutral Bay home.

They plan to rent the Avoca property out throughout the year and use it at Christmas time for the family. Based on the expected rent received and outlays, John and Karen expect the Avoca property to be \$7,000 per month negatively geared.

## Cash Flow Management

Based on John and Karen's relevant information along with their goals and aspirations, we provided financial advice in regards to cash flow, debt reduction, wealth accumulation, retirement planning and inheritance advice to place them in the best financial position.

Firstly, we had John and Karen analyse their living needs and discretionary expenditure. We then arranged for them to allocate John's weekly wage into two separate bank accounts – one to pay for their basic living needs, and a second bank account to set aside funds for those one-off expenses, such as holidays and home maintenance, that they incur but not on a regular basis. This also provided them with the satisfaction of watching their savings grow and provided a feeling of being in more control of their finances.

### **Inheritance Advice**

Paying down \$1.7 million from Karen's inheritance off their Neutral Bay mortgage would leave a mortgage balance of \$900,000 and monthly repayments of \$5,162. The interest on their family home is not tax deductible so it will be smarter to have the mortgage on their Avoca property that will be primarily tax deductible.

Overall, Karen's share of her mother's estate is \$4.3 million. Our inheritance advice was to use \$2.6 million of Karen's inheritance to pay off the mortgage on their family home, borrow 100 percent of the purchase price of the Avoca property, and invest the balance of \$1.7 million into a family trust structure.

The funds invested in the family trust were diversified in equity across 15 of Australia and the world's best companies and were projected over a 20-year period to earn at least 5 to 7 percent more than the tax-deductible interest paid on the mortgage on the Avoca property.

Using our Timeline Investing approach, from the Family Trust's investments John and Karen were able to draw a monthly income stream of \$7,000 to meet the deficiency in the cash flow of the Avoca property.

The capital growth in the investments would be left to accumulate over the 20-year-period and at retirement they would use the account balance to pay out the Avoca mortgage. This would enable John and Karen to be debt free in retirement.

### **Retirement Planning Advice**

Over the last 32 years we have provided Karen's parents with retirement planning advice that has ensured they have always had a sufficient monthly income to meet their living needs. Crucial to this success has been our Timeline Investing approach which has ensured that Karen's parents have never had to take risk by chasing a higher income return.

Over the next 20 years we will also provide John and Karen with Retirement Planning advice to ensure that they will have sufficient funds to provide an income stream under our Timeline Investing approach to meet their living needs.

### **Tailored Advice**

Inheritance advice is not an exact science. Every person's situation is different. In Karen and John's case, their aspirations are different to Karen's two siblings, and their aspirations are different to everyone else's.

Our strategic inheritance advice is always tailored to each unique individual's circumstances and aspirations.

*This information is general advice only and does not take into account your personal objectives, financial situation, or needs. Before acting on this advice, you should consider its appropriateness to your circumstances. If the advice relates to acquiring a financial product, you should read the Product Disclosure Statement (PDS) and Target Market Determination (TMD) before making any decisions.*