Strategy 6
Treat your beneficiaries equitably

If you have a family business, you should consider using Life insurance as part of your broader succession planning.

What are the benefits?

By using this strategy, you could:

- provide additional funds to equalise your estate in the event of your death, and
- ensure your beneficiaries receive sufficient assets to achieve your estate planning objectives.

How does the strategy work?

When planning the distribution of their wealth, some parents want to leave the family business to one or more of their children.

This may be common in the farming community, or where a parent has been grooming a child to take their place in the family business.

But problems could arise if you cater for certain children in this way and your other children feel they have not been treated fairly.

Your Will could be contested and, if the challenge is successful, the business or other assets may need to be sold to distribute the proceeds, often with an accompanying Capital Gains Tax (CGT) bill.

To prevent family arguments and reduce the risk of your Will being challenged, you could consider taking out an appropriate amount of Life insurance cover.

In the event of your death:

- the farm or family business could be passed on to one or more of your children, and
- the proceeds from the Life insurance policy could be used to provide an asset of equivalent value to your other children.

Because the law can vary in each state, you should seek professional legal advice before using this strategy.

You should also ask your accountant to value the farm or family business and determine how much CGT would be payable if the asset was to be sold by the beneficiaries who inherit it.

This will help you determine how much Life cover you should take out to equalise your estate and treat your beneficiaries equitably.

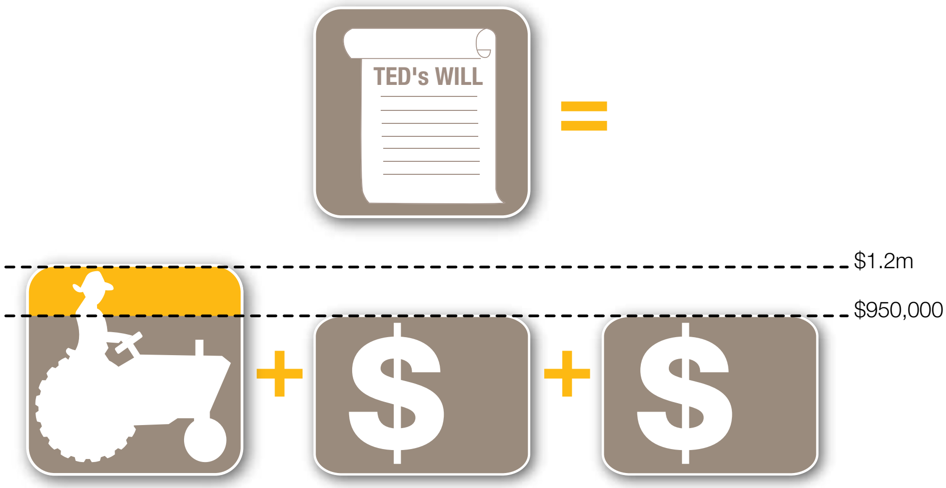
Case study

Ted, a third generation farmer and widower, has worked on the family farm his whole life and has groomed his son, Stephen, to take ownership when he dies. The farm is worth $1.2 million and the net value is $950,000 (after allowing for CGT that would be payable if the asset was sold).

He also has two daughters (Carol and Lauren) who he would like to share equally in his wealth in the event of his death. But the problem he faces is he doesn't have any other significant assets he could pass on to them to ensure they are treated fairly.

To achieve his estate planning objectives, Ted decides to speak to a financial adviser. After assessing his goals and financial situation, his adviser recommends he take out $1.9 million in Life insurance and make arrangements so that the benefit is split equally between Carol and Lauren.

By using this strategy, Ted ensures that Carol and Lauren would receive $950,000 each and all three children would receive an asset of equivalent value.



Stephen
Will receive the family farm (valued at $1.2m including current $250,000 CGT liability)

Carol
Will receive insurance proceeds equivalent to net value of farm ($950,000)

Lauren
Will receive insurance proceeds equivalent to net value of farm ($950,000)

Note: This case study highlights the importance of speaking to a financial adviser about using Life insurance to equalise your estate. A financial adviser can also address a range of potential issues and identify other suitable protection strategies – see Tips and traps.

Tips and traps

- There are a number of ways to ensure the Life insurance proceeds are received by your intended beneficiaries. Some of these include having the intended beneficiary as the policy owner, nominating them as a beneficiary of the policy or distributing the money via your Will. Each alternative may have different implications which you should consider before choosing a particular option.
- There may be some advantages in taking out the Life insurance in a super fund (see Strategy 7).
- It may be more cost-effective over the longer term if you pay level premiums, rather than stepped premiums that increase each year with age (see Strategy 8).
- To ensure your wishes are carried out upon your death, you should consider your entire estate planning position, including which assets will (and won't) be dealt with by your Will. The best way to do this is to seek professional estate planning advice.