What to do when you are told it's terminal

Theo Marinis outlines a number of financial strategies to keep in mind when faced with a terminal illness.

Dying is the harsh reality of life.

For those of us lucky enough to get a bit of advanced notice (although feeling lucky will probably not be the prevailing sentiment at the time), the phycologists tell us that there will be the inevitable visit from SARA – otherwise known as 'shock', 'anger', 'recognition'; followed by 'acceptance'.

It is in the acceptance phase that we need to move quickly.

There may be a chance to use this window to make a significant difference to your estate.

For example, most people don't realise there is a 'Death Benefits' tax on their unused superannuation. They also don't realise that this tax (currently levied at the rate of 17 per cent) is optional.

A simple 'cash out and re-contribution' strategy undertaken in conjunction with your financial planner could save your estate up to $272,000* and it is perfectly legal.

Even if your affairs are in order, it pays to remember that 'you don't know what you don't know'.

Arrange a meeting with your financial planner, accountant and lawyer at your financial planner's office.

The benefit is not just in having to go through your situation once; having your professional advisers together in one place will facilitate maximum clarity and provide them all with the opportunity to work together to get the most beneficial outcome for your estate.

When you have the meeting booked in, make up a list of all your assets and get together the original documents, such as deeds to the house, share certificates, and superannuation fund details.

Dust off any life insurance policies that are still current – and yes, it is too late to take out a new one.

Know how much your estate is entitled to – and keep up the premium payments. You may also decide to drop some insurances (e.g. an income protection policy with a two-year waiting period).

It is also time to decide who you can trust completely, usually an adult child, or close relative.

My advice would be to have two people involved, as this will ensure that each party is accountable. Remember to share your passwords with them; being locked out of accounts can create a real hassle.

In some states, a binding medical power of attorney (often called an Advance Care Directive) is available. This legal instrument puts responsibility for your care in the hands of a trusted person, usually a family member. There are similar powers over your finances that can be put in place.

Consider revisiting your Will. Is it up to date? Does it accurately reflect your wishes? Now is the time to engage with your lawyer to implement the changes you need to make so that you don't leave a mess.

As well as your Will, review ALL beneficiary nominations on your superannuation. Ensure that there are no oversights which leave an ex-partner or a deceased relative as a beneficiary. Your financial planner will usually have this covered.

Before meeting your advisers, you also need to think deeply about how you want your estate to be divided.

Knowing your wishes regarding this can assist your professional advisers to address issues that may not otherwise have been considered.

For example, there are rules and timelines about when capital gains tax starts and ends. Generally speaking, the capital gains tax clock on your home starts ticking two years after you have died.

Will your family want to keep it? Or is it simpler to sell it now/in the near future?

If you really want to make a difference on the financial well-being of the next generation, I recommend directing that beneficiaries contribute the first $300,000 of any inheritance goes into their superannuation account, then next to pay off any mortgages. This directive will not be legally binding, but it may have the effect of creating a moral obligation.

Whilst some of us will be tempted to race out after a terminal diagnosis and buy the sports car we have always wanted or go on a first-class trip around the world (and that is fine), these decisions are best in the cold light of day with an outside perspective – particularly if you have an intergenerational wealth transfer to consider.

If you hold investments outside of super, it may be more appropriate to reduce the amount of superannuation you are drawing down and use any investments or cash reserves outside of super for discretionary and other expenses. Your financial adviser will be able to guide you in this regard.

A note of warning: during this phase of our lives we can be vulnerable to selfish and greedy people.

Due to medications and/or emotions, we often don't make great decisions. I strongly recommend getting your professional advisers in place as soon as practicable.

**Based on the estate of a single homeowner with non-dependent children and $1.6m in a super drawdown phase. Note: a cash-out and re-contribution strategy is limited to a maximum of $300,000 every three financial year period and generally, has to be actioned, prior to age 65. Clearly, therefore, such a strategy needs to have been actioned well before diagnosis.*

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