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BEYOND THE WILL
A COMPREHENSIVE GUIDE TO MODERN ESTATE PLANNING

BY WEALTH ADVISER

INSIDE

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Introduction: The importance of estate planning in the modern era

Estate planning is a crucial aspect of financial management that extends far beyond simply writing a will. It encompasses a range of strategies and legal arrangements designed to manage and distribute your assets after your death, as well as to plan for potential incapacity during your lifetime. Despite its importance, estate planning is often overlooked or misunderstood by many individuals.

As Noel Whittaker points out in his book 'Wills, death & taxes made simple', "It's a sad indictment of our attitude to this important topic that almost 50% of Australians still die without a will. But it gets worse - apparently for those who do have a will, 70% of them don't know where it is, couldn't locate it easily if asked to, and haven't reviewed it in the past 20 years."

BEFORE YOU GET STARTED

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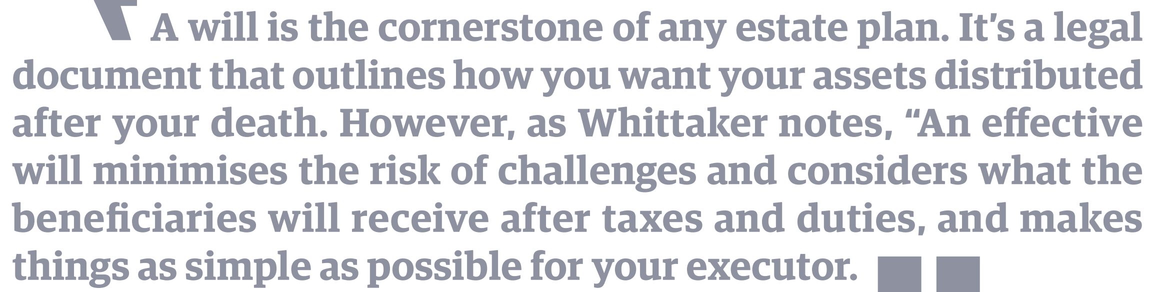


This statistic underscores a common misconception about estate planning - that it's a one-time task involving the creation of a will. In reality, effective estate planning is an ongoing process that requires regular review and updates to reflect changes in your life circumstances, financial situation, and the legal landscape.

In this comprehensive guide, we'll explore the key components of modern estate planning, including wills, asset ownership structures, superannuation, and other often-overlooked aspects. We'll also discuss practical steps you can take to ensure your estate plan accurately reflects your wishes and provides for your loved ones in the most effective way possible.

Understanding Wills and Asset Ownership

The Critical Role of Wills in Estate Planning

A will is the cornerstone of any estate plan. It's a legal document that outlines how you want your assets distributed after your death. However, as Whittaker notes, "An effective will minimises the risk of challenges and considers what the beneficiaries will receive after taxes and duties, and makes things as simple as possible for your executor."

Creating an effective will involves more than just listing your assets and beneficiaries. It requires careful consideration of various factors, including:

1. The relevance of asset ownership
2. Which assets will be distributed as part of the estate and which separately
3. The characteristics of different types of assets
4. The various types of trusts that may be relevant to inheritances
5. Centrelink issues, particularly relevant to anyone receiving the age pension
6. Property considerations
7. Extra needs for your will if you have dependent children

Types of Asset Ownership and Their Impact on Inheritance

One of the most crucial aspects of estate planning is understanding how different types of asset ownership affect the distribution of your estate. Whittaker explains that assets can generally be categorized as either estate assets or non-estate assets.

Estate assets are those held:

- In your name only
- As tenants in common

Non-estate assets are those held:

- As joint tenants
- In discretionary trusts
- In superannuation

Estate vs. Non-Estate Assets: What You Can and Can't Control Through a Will

Estate assets can be bequeathed through your will. These may include household goods, a share portfolio, or your share of property held as tenants in common. On the other hand, non-estate assets cannot be disposed of via your will.

For example, if you own a property as joint tenants with your spouse, upon your death, the entire property will automatically pass to your spouse, regardless of what your will says. This is known as the "right of survivorship". Whittaker advises, "Obviously, you should not hold an asset as joint tenants unless you wish the other holder to have your share if you die first."

Understanding these distinctions is crucial when planning your estate. As Whittaker notes, "It's important to think about the ownership if you are considering making a bequest of a specific property or proposing a testamentary trust in your will. Because a jointly owned property automatically goes to the surviving owner and is not part of your estate, it cannot pass to a testamentary trust."

Superannuation and Death Benefits: An Often Overlooked Aspect

How Superannuation Fits into Estate Planning

Superannuation is a significant part of many Australians' wealth, yet it's often overlooked in estate planning. As Brooke Logan from UniSuper explains, "When you die, your superannuation (super) death benefits can be paid to

anyone who meets the definition of 'dependant' under the Superannuation Industry Supervision (SIS) legislation and/or the Legal Personal Representative (LPR) (i.e. the trustee of your deceased estate)."

It's crucial to understand that your superannuation does not automatically form part of your estate and is not governed by your will. Instead, the distribution of your superannuation death benefits is determined by the rules of your superannuation fund and any valid beneficiary nominations you have made.

Nominating Beneficiaries for Your Superannuation

Logan emphasizes, "Nominating beneficiaries with your super fund is the only way to direct your death benefits to the people you want to receive it." There are several types of nominations you can make:

1. Binding nominations: These direct the trustee of your super fund to pay your death benefit to the person(s) you nominate.
2. Non-binding nominations: These act as a guide for the trustee, but the final decision rests with them.
3. Reversionary nominations: These are available for some pension accounts and allow you to nominate a beneficiary to continue receiving your pension after your death.

When nominating beneficiaries, it's important to consider who qualifies as a 'dependant' under superannuation law. This can include your spouse, children (with some restrictions for adult children), and anyone financially dependent on you or in an interdependent relationship with you.

Tax Implications of Superannuation Death Benefits

The tax treatment of superannuation death benefits can significantly impact the amount your beneficiaries receive. Logan explains, "Children under 18 are considered dependants for tax purposes, so they can receive death benefits tax-free and have the option of receiving death benefits as a lump sum or, in some cases, as a pension."

However, for adult children who are not financially dependent, the situation is different. Logan notes, "Adult children who are not financially dependent may pay tax of up to 17% on the taxable component of a super death benefit (15% plus the 2% Medicare Levy)."

These tax implications highlight the importance of careful planning when it comes to superannuation death benefits. In some cases, it may be more tax-effective to direct superannuation benefits through your estate rather than paying them directly to non-dependent beneficiaries.

Comprehensive Estate Planning: Beyond the Basics

Considering Different Family Situations in Estate Planning

Modern families come in all shapes and sizes, and effective estate planning needs to account for these diverse situations. Whittaker provides a case study that illustrates this point:

"David and Susan have both been married before. He has two children from a previous marriage, and she has four. As they don't intend to have any more children, they hold assets as tenants in common. This enables David's children to have half the proceeds when he dies and Susan's children to have half the proceeds when she dies."

This example demonstrates how asset ownership structures can be used to ensure fair distribution in blended families. However, it also raises additional considerations, such as what should happen to the family home when one partner dies. Should the surviving partner have the right to continue living there? Should the property be sold and the proceeds distributed? These are complex questions that require careful thought and often, professional advice.

Planning for Incapacity: Enduring Power of Attorney and Advance Care Directives

Estate planning isn't just about what happens after you die; it's also about preparing for potential incapacity during your lifetime. Two key documents in this regard are:

1. Enduring Power of Attorney (EPA): This legal document allows you to appoint someone to make financial and legal decisions on your behalf if you become unable to do so.
2. Advance Care Directive: This document outlines your wishes for medical treatment and end-of-life care if you're unable to communicate these yourself.

Whittaker emphasizes the importance of having these documents in place and easily accessible: "Are these documents up-to-date and readily available to the family? True, the EPA ends on your death but if you lose capacity – or just the desire – to deal with practical matters as time passes, the EPA could be essential for a range of financial and medical matters."

Digital Assets and Loyalty Programs in Estate Planning

In our increasingly digital world, estate planning needs to consider digital assets and online accounts. Whittaker advises, "Ensure that you have put in place the appropriate delegations for your online accounts to enable another person to access your accounts to operate, close, or delete them."

This can include social media accounts, email accounts, online banking, and cryptocurrency wallets. It's important to provide instructions on how these should be handled after your death.

Loyalty programs and points are another often-overlooked aspect of estate planning. Whittaker notes, "Loyalty programs and points are often not transferable after death (they usually revert back to the provider); however, it is

sometimes possible to transfer these points during your lifetime to another family member."

Preparing for the Future: Practical Steps and Considerations

Organizing Important Documents and Contacts

One of the most practical steps you can take in estate planning is to ensure all your important documents are organized and easily accessible to your executor or family members. This includes your will, EPA, advance care directive, superannuation statements, insurance policies, and details of your assets and liabilities.

Whittaker suggests creating a list of important contacts, including "your plumber, electrician, gardener, bank staff, solicitor and various healthcare professionals." This information can be invaluable to those managing your affairs after your death or during a period of incapacity.

Discussing Your Plans with Family and Executors

Open communication with your family and executors about your estate plan can help prevent misunderstandings and conflicts after your death. Whittaker recommends meeting with your executors "to discuss your affairs in depth and give them an idea of how you would like things managed after you die."

This is particularly important if you have made decisions that might be seen as unequal or unexpected. Explaining your reasoning can help prevent hurt feelings and potential legal challenges to your will.

Regular Review and Updates of Your Estate Plan

Estate planning is not a one-time event but an ongoing process. Your estate plan should be reviewed regularly and updated whenever there are significant changes in your life circumstances, such as:

- Marriage, divorce, or remarriage
- Birth or adoption of children
- Death of a beneficiary
- Significant changes in your financial situation
- Changes in tax laws or other relevant legislation

Whittaker advises, "Take a close look at your will. Have there been any major changes to your assets since you made the will? What about the beneficiaries: look for any changes in their situation since the will was executed."

Conclusion

Estate planning in the modern era extends far beyond simply writing a will. It requires a comprehensive approach that considers various aspects of your financial and personal life, from asset ownership structures to superannuation, digital assets, and planning for potential incapacity.

By taking a proactive approach to estate planning - understanding the complexities, seeking professional advice when needed, and regularly reviewing and updating your plans - you can ensure that your wishes are carried out effectively and your loved ones are provided for in the way you intend.

Remember, as Whittaker points out, "The more transparent you keep the finances, the less chance there is of squabbles later." Open communication, careful planning, and regular reviews are key to creating an effective estate plan that truly reflects your wishes and provides for your loved ones in the best possible way.

References:

- *Estate planning made simple, Part I (firstlinks.com.au)*
- *Estate planning made simple, Part II (firstlinks.com.au)*
- *What happens to your super when you die? (firstlinks.com.au)*

Are brighter days in store for bond investors?

EXECUTIVE SUMMARY

- Two years ago, the Fed's aggressive rate-hiking campaign led to steep losses in the bond market. Today, with rate cuts on the horizon, the outlook for bonds appears much brighter.
- If interest rates decrease over the next 12 months, as the market expects, long duration bonds could potentially provide equity-like returns for investors.
- Regardless of where rates go next, we believe U.S. bond investors are likely to be in better shape today than two years ago. This is because with bond yields at 5%, the compensation investors receive to own bonds is much higher.
- We believe that increasing allocations to bonds today may help improve investors' chances of attaining their financial goals.

BY MIKE GAVAN, RYAN KATONA, AUSTIN O'NEILL

Republished from russellinvestments.com

In March of 2022, the U.S. Federal Reserve (Fed) began its fight against the highest inflation the U.S. had seen in decades, raising the federal funds rate for the first time since 2018. What followed over the next 15 months was the most aggressive hiking campaign by the Federal Open Market Committee (FOMC) since the 1980s:

- The FOMC increased the cash rate 11 times from March 2022 to July 2023
- Of the 11 rate hikes, they raised by +0.25% (5x), +0.50% (2x), and +0.75% (4x)
- The first +0.50% hike occurred in May of 2022, their largest since 2000
- The first +0.75% hike occurred just one month later (June 2022), their largest since 1994
- The FOMC raised by +0.75% across four consecutive meetings from June to November 2022
- The final hike resulted in a total increase of +5.25%, the equivalent of 21 +0.25% hikes

For diversified investors with bond exposure, this resulted in one of the most difficult bond environments on record given the relationship between rising interest rates and falling bond prices. As the Fed raised interest rates aggressively, bond yields followed suit, causing their prices to fall dramatically.

Today, the situation shows signs of changing. Specifically, we believe that bond investors who fled for the safety and high rates of cash-like investments over the past couple years may find better balance from bond returns going forward. Consider that:

- The "rate reset" is squarely in the rearview, with the Fed holding rates steady for over a year

- Interest rates are still at higher levels relative to recent history
- The market is beginning to price in interest rate cuts by the FOMC later this year, starting as soon as September.

We'll expand on these points and their implications for bonds going forward in the sections below, providing additional context and talking points to help with client conversations on the case for fixed income and diversification.

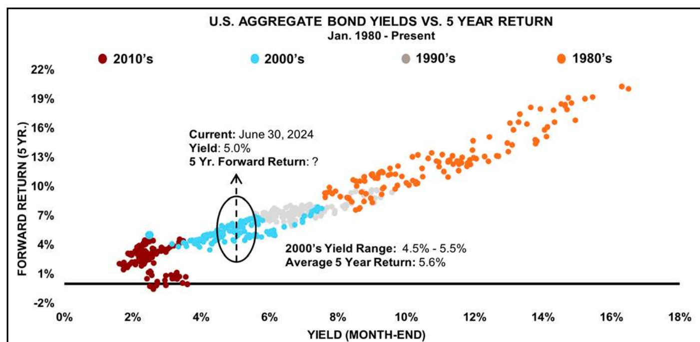
History shows higher rates led to higher returns

To help illustrate the relationship between starting yields and future bond returns, we can lean on history as a guide.

The graph below plots the month-end yield (x-axis) and subsequent 5-year returns (y-axis) of a diversified portfolio of high-quality bonds, as measured by the Bloomberg Aggregate Bond Index, by decade since 1980.

You'll see we've experienced a wide range of interest rate levels over the years, with some decades much higher than others, yet the graph clearly illustrates the positive relationship between starting yields and future bond returns.

In the 2000s, for example, bond investors were able to purchase a bond portfolio with interest rates between 4.5%-5.5%. Those same investors averaged a 5-year return of 5.6%, slightly above the interest rate they started with:



Source: Barclays and Morningstar Direct, as of 6/30/2024. U.S. Bond: Bloomberg U.S. Aggregate Bond Index. Yield: Yield-to-worst; Forward Return: 5-year, annualised, starting in the following month of each yield measure. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

While today's environment doesn't provide bond investors with the same potential return opportunity as the 1980s, we do find ourselves back to higher interest rate levels like those in the 2000s. History suggests that could result in higher returns going forward.

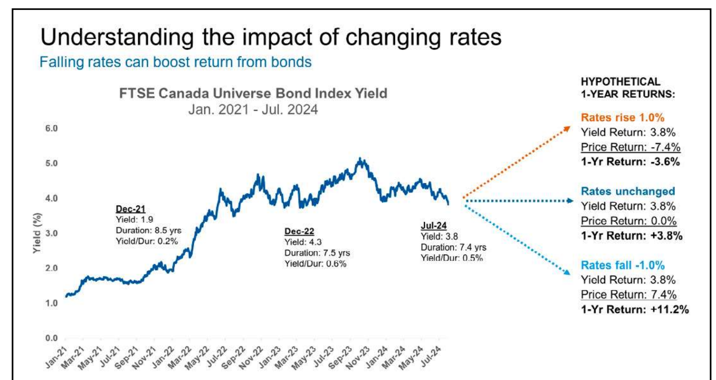
Bond math: Applying it to where we stand today

The Fed has closely monitored the state of inflation in the U.S. and the health of the economy over the last few months, and will continue to do so the rest of this year.

If inflation and/or the economy continues to show signs of slowing, the Fed will likely start cutting interest rates, which may bode well for bond investors. However, if inflation and/or the economy reaccelerates, and rates remain at their current levels or even trend higher, then bond investors today will be in a much better position than they were just a few years ago.

Why? How can today's bond investors benefit from both declining and rising inflation? The key reason is that with bond yields at 5%, the compensation investors receive to own bonds is much higher regardless of where rates go next. To understand why this is the case, it may be helpful to revisit the fundamental relationship between changes in interest rates and the impact they have on bond prices.

Holding all else equal, there are three potential paths rates may take over the next 12 months. Interest rates may increase, decrease, or stay the same. The graph below illustrates how the direction of change in interest rates could impact bond returns experience by investors over the next 12 months:



Source: Barclays. Data as of 6/30/2024. U.S. Aggregate Bond: Bloomberg U.S. Aggregate Bond Index. Yield: Yield-to-Worst of the Bloomberg U.S. Aggregate Bond Index. Duration: Modified Adjusted Duration of the Bloomberg U.S. Aggregate Bond Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Direction of Rates	Thanks to higher yields...	For Example, if rates;
Rise 1%	Bond investors have more of a cushion against negative price impacts from further rate increases.	**RISE +1.0%**, the price return would be -7.4% (-7.4 yrs x 1.0%), but the +3.8% yield return would help to mitigate the negative return experience, resulting in a total 1-year return of **-3.6%**
Flat	Bond investors would not be impacted from rate moves but would benefit from the current yield.	Stay **FLAT**, a bond investor would benefit from its yield return and experience a 1-year total return of **3.8%**.
Fall 1%	Bond investors get a double benefit of yield return and price return from rate decreases.	**FALL -1.0%**, the price return would be +7.4% (-7.4 yrs x -1.0%), while the 3.8% yield return offers additional compensation resulting in a total 1-year return of **+11.2%**.

Recently, inflation and economic data have started to soften, and markets are now expecting the Fed to cut rates next month. While we cannot predict the future path of interest rates and the speed with which they get there, signs are pointing to a lower destination. As the bond math above indicates, it could be a windfall for those who have stayed patient with their bond allocations.

Duration: Not all bonds are created equal

This benefit is also more attractive as you consider bonds with higher sensitivity to interest rate moves. For instance, bonds with longer maturities tend to have higher levels of duration (interest rate sensitivity) and would be expected to offer a larger benefit if rates were to fall over the coming months.

Currently the federal funds target rate is 525 to 550 basis points. Where does the market expect it to be a year from now? According to CME Group's Fed Watch, by next July there's an 85% probability the target rate will be in the range of 375 to 475 basis points. This implies 75 to 175 basis points of interest rate cuts over the next 12 months.

Now, if the last few years have taught us anything, does anyone know exactly where rates will be in the next year? Of course not. However, it's safe to say the market currently expects them to be lower than where they are today. If you agree with this viewpoint and are willing to accept some volatility, adding more duration to your fixed income allocation has the potential to increase returns.

The table below summarises the bond math (as discussed above) for short duration, intermediate duration and long duration bonds. If interest rates decrease as the market expects, long duration bonds could potentially provide equity-like returns for investors.

Hypothetical 1 Year Returns Across Maturity

Bonds	Yield	Duration	Yield Increase				FLAT	Yield Decrease			
			3.0%	2.0%	1.0%	0.50%	0%	-0.50%	-1.0%	-2.0%	-3.0%
U.S. Aggregate	5.0%	6.1	-13.4%	-7.3%	-1.1%	1.9%	5.0%	8.1%	11.1%	17.3%	23.4%
U.S. Short	5.0%	1.9	-0.6%	1.3%	3.1%	4.1%	4.8%	5.9%	6.8%	8.7%	10.5%
U.S. Intermediate	4.9%	5.1	-10.5%	-5.3%	-0.2%	2.4%	4.9%	7.5%	10.1%	15.2%	20.3%
U.S. Long	5.2%	13.6	-35.7%	-22.1%	-8.5%	-1.6%	5.2%	12.0%	18.8%	32.4%	46.1%

Source: Barclays. Data as of 6/30/2024. U.S. Aggregate: Bloomberg U.S. Aggregate Bond Index, U.S. Short: U.S. Aggregate 1-3 Year Index, U.S. Intermediate: U.S. Aggregate 5-7 Year Index, U.S. Long: U.S. Aggregate 10 Years or Higher Index. Yield: Yield-to-Worst of the Bloomberg U.S. Aggregate Bond Index. Duration: Modified Adjusted Duration. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

Implications for financial plans/diversified portfolios: Increased likelihood of success

The silver lining for diversified investors is that higher interest rates are a GOOD THING for their portfolio's chances of achieving their financial goals. Let's walk through a quick example to see the real-world implications.

Consider a client who is saving for retirement. Based on their current savings and future spending needs, a 7% average return over their investment horizon should be sufficient to meet their retirement goals.

A few years ago, when interest rates were much lower, that client needed two things from their retirement portfolio:

1. They needed the stocks in their portfolio to perform VERY well
2. They needed to allocate MORE of their portfolio to stocks

As the graphic below illustrates, to achieve a 7% total return when assuming bond returns of only 2%, this client not only needed to take on more risk through a higher stock allocation (60% to 80% stocks), but was also dependant on a great result (10%-12% return) from an asset class that, historically, has a wider range of returns:

DIVERSIFIED STOCK/BOND PORTFOLIO RETURNS

Assuming Bond Returns of 2%				Assuming Bond Returns of 4%				Assuming Bond Returns of 6%			
If Stocks Return:	40% Stocks	60% Stocks	80% Stocks	If Stocks Return:	40% Stocks	60% Stocks	80% Stocks	If Stocks Return:	40% Stocks	60% Stocks	80% Stocks
6%	3.6%	4.4%	5.2%	6%	4.8%	5.2%	5.6%	6%	6.0%	6.0%	6.0%
8%	4.4%	5.6%	6.8%	8%	5.6%	6.4%	7.2%	8%	6.8%	7.2%	7.6%
10%	5.2%	6.8%	8.4%	10%	6.4%	7.6%	8.8%	10%	7.6%	8.4%	9.2%
12%	6.0%	8.0%	10.0%	12%	7.2%	8.8%	10.4%	12%	8.4%	9.6%	10.8%

Thankfully, stocks delivered (and then some) for most investors over the past few years, but relying on best-case scenarios from a riskier asset class like stocks is not exactly a comfortable way to reach your financial goals.

This is especially true as you introduce new variables to the situation like a shorter time to retirement (i.e., sequence risk), or an inability to increase your savings rate to cover shortfalls from the returns generated by the portfolio.

Now, let's apply that same client situation to a higher bond return assumption of 4% instead of 2%. Going back to the table, you can see how much the picture changes. What are the implications of the higher return for the bond portion of the portfolio?

1. The client no longer NEEDS stocks to provide double-digit returns. Instead, a more realistic assumption of 8% can get the client at or close to the 7% target return, which increases the chances of success
2. The client can REDUCE their reliance on stocks (and increase their bond allocation), lowering the overall expected risk of their portfolio, and increasing the odds of success

The primary objective for any investor saving for their financial goals, especially one as important as funding their retirement, should be to achieve the rate of return needed with the highest likelihood of success.

Hopefully, this exercise helps demonstrate why increasing allocations to bonds today can potentially deliver just that.

The bottom line

While the future path of interest rates remains unclear, bonds now offer investors a more meaningful compensation. This compensation becomes more attractive for longer maturity bonds and also helps achieve total portfolio return targets at a lower level of risk.

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STOP PAYING ATTENTION

BY JOE WIGGINS

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Improving our investment behaviour is difficult.

Our choices have a messy confluence of influences ranging from the explicit (financial incentives) to the implicit (our own psychological wiring). It is impossible to ever understand precisely why we made a particular decision – it is just too complex. This doesn't mean, however, that we are helpless bystanders.

In fact, there are many seemingly innocuous areas that we can change to improve the chances that we might make sound judgements. Foremost of these is what we pay attention to – our investment decisions are inextricably linked to what we see and the impact it has on us.

A useful activity for any investor is to note down the major financial market issues that are in focus each week. After a year or so we can review these and realise how unworthy of our attention they were. As an added bonus, we might also want to make a prediction about how these issues will unfold so – on the rare occasion they are meaningful – we can see how lousy we were in forecasting them.

This might seem glib, but it is not. As investors, what we pay attention to dominates our decision making. We are bombarded with information (noise) that encourages costly choices at the expense of our long-term goals.

Our attention is drawn towards things that are available (easily accessible) and salient (provoke some form of emotional response). For investors this means whatever narrative thread is being weaved around random and unpredictable fluctuations in market prices. This is a major problem as the things we are being constantly exposed to are exactly the things that most of us should be ignoring.

For the majority of investors – those who invest over the long-term for profits, dividends and coupons – there is no need to have six screens providing a plethora of real time financial market information. Knowing what equity markets did yesterday is an irrelevance, and it is okay to ignore the latest hot topic.

Even the areas that the industry treats as the most important thing in the world – such as what the Fed will do at its next meeting – just don't matter that much to fundamentally driven investors with long-run horizons. The asset management industry compels us to engage with all of these distractions, when the route to better decision making is finding ways to avoid them.

The problem, of course, is that avoiding them is incredibly difficult. Not only are we designed to care about what

What we pay attention to tends to drive the decisions we make, and investors are persistently exposed to meaningless noise masquerading as meaningful information. We tend to perceive investment acumen in those individuals with an intimate knowledge of these daily market gyrations, but we have this entirely backwards – the ones with real skill are those who find ways to ignore it.

is happening right in front of our eyes, but everyone else behaves as if every move in markets is based on a vital new piece of information. Looking one way while the crowd looks in the opposite direction takes incredible resolve.

Is there anything we can do to stop us paying attention to the wrong things?

The first step is to separate the investment industry machine with its '9 seconds until markets open' or 'German equities were down 1.2% over the month after weak industrial production numbers' from actual investing. In most cases, the incessant cacophony of financial market news flow is nothing more than advertising – it is designed to grab our eyeballs, our clicks or our money in one form or another – it is an irrelevance to the real reason most of us are investing. Treat it for what it is – interesting but meaningless at best, a damaging distraction at worst.

Next, we need to clearly and explicitly define what we should be paying attention to. Based on our goals, what are the things that are worthy of our focus and attention? What are the aspects that really matter to meeting our objectives? These will be specific to each individual but will inevitably be stable and boring, and come with no requirement to care that the US ten-year treasury yield fell by 7bps last week.

Asset managers – who are inevitably heavily complicit in this chronic attention challenge faced by investors – will say that financial markets are constantly in motion and that it is not feasible to simply act as if nothing is happening. Clients would be left uncertain, anxious and prone to even worse decisions. Although this sounds credible, it doesn't really hold water. There is not a choice between adding to the gobbledygook or saying nothing at all. How about putting short-term financial market fluctuations in their appropriate context and explaining why it is rarely that worthy of our attention or action?

Talking about topics also bestows credibility to them. If asset managers spend time discussing monthly market fluctuations and performance, they shouldn't be surprised if clients consider it to be important. Professional investors should always be asking themselves – how is what I am saying likely to influence the behaviour of my clients?

What we pay attention to tends to drive the decisions we make, and investors are persistently exposed to meaningless noise masquerading as meaningful information. We tend to perceive investment acumen in those individuals with an intimate knowledge of these daily market gyrations, but we have this entirely backwards – the ones with real skill are those who find ways to ignore it.

Joe Wiggins is Director of Research at UK wealth manager, St James's Place and publisher of investment insights through a behavioural science lens at www.behaviouralinvestment.com. His book The Intelligent Fund Investor explores the beliefs and behaviours that lead investors astray, and shows how we can make better decisions.

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Q&A: Ask a Question

Question 1

My friend's financial adviser recommended him to invest in term annuities. When I was doing my research, I discovered that there was an option to choose RCV 0 and RCV 100. What do these refer to?

The term "RCV" refers to "Residual Capital Value," which denotes the amount of capital left at the end of the annuity period. An RCV0 annuity means that the entire capital is paid out during the term of the annuity, leaving no remaining value once the payments have been completed. This typically results in higher payments for the recipient since the capital is fully utilised.

Conversely, an RCV100 annuity retains the full initial capital value at the end of the annuity term. This means that when the annuity ends, the original capital is preserved and will be returned. This preservation of capital generally results in lower periodic payments compared to RCV0 annuities, as part of the payments are used to maintain the residual value.

Before deciding whether to invest in an annuity, you should consult with your financial adviser to determine whether this is suitable to your current financial situation, needs and objectives.

Question 2

I am wanting to retire soon and want to get money out of my superannuation. When can I get unrestricted access to my super?

You can gain unrestricted access to your superannuation when you reach age 65, regardless of whether you are still working or have retired. Alternatively, if you have reached your preservation age (now 60 for everyone) and have retired, you can also access your super without restrictions. Other conditions allowing unrestricted access include being diagnosed with a terminal illness or being permanently incapacitated. For those between preservation age and 65, a Transition to Retirement (TTR) pension allows partial access to super, but not full unrestricted access. Early release of super due to severe financial hardship or compassionate grounds is possible but generally comes with limits and specific conditions.

Question 3

Someone at work told me that my pension fund is subject to sequencing risk because it is only invested in 1 diversified fund. What is sequencing risk?

Sequencing risk is the risk that the timing and order of investment returns will adversely affect a portfolio, particularly during retirement when withdrawals are being made. This risk is heightened if significant losses occur early in retirement, as it can deplete the portfolio more quickly and leave less time for recovery. In other words, poor returns early on can undermine the long-term sustainability of the portfolio, as subsequent withdrawals can magnify the impact of these early losses.

You should see your financial adviser who can help you design a suitable portfolio to help you manage sequencing risk.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**

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