

people in focus

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focussing on people and
relationship issues in management

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In this edition of People in Focus, we look at **retirement and estate planning...**

In the recent Grant Thornton International Business Owners Survey, 79% of business owners surveyed indicated that they expected the ownership of their businesses to change within five years. This leads to the question - are businesses and their owners prepared for a change in ownership through retirement, unexpected illness or even death?

Retirement planning

A modern business owner has two main issues to deal with in retirement planning. Firstly, and most importantly for the retiring business owner, is the question "how much money will I need in retirement?" Secondly "what will happen to the business?"

1. What do I need to live?

The most critical issue for a retirement plan is what does the owner need to set aside to live how they wish to live in retirement? This not only includes the necessities of life such as food and shelter but also the discretionary spending like holidays, new cars and gifts for children.

The amount that needs to be set aside for retirement will vary from person to person but one thing which does not change is that everyone should have a clear understanding of the amount of money they need to fund a comfortable retirement. The exact amount required depends on many factors including long term investment returns, inflation and the person's life expectancy.

The next step is to make sure that the capital is held in the best structure. This includes careful consideration of both income tax and capital gains tax implications during retirement and upon death. While superannuation is generally the best structure for most of your retirement wealth and can provide significant benefits in retirement, some assets must remain outside (in particular the family home and business equity) and some additional factors need to be considered

(eg. reasonable benefits limit and inability of the superannuation fund to borrow).

The following table provides an estimate of the minimum amount of capital required to fund different annual retirement income levels.

Annual Retirement Income (after tax)	Minimum Capital Required @ 65 Years
\$20,000	\$314,000
\$30,000	\$483,500
\$40,000	\$678,500
\$50,000	\$903,000
\$75,000	\$1,590,500
\$100,000	\$2,331,500

Please note: This table's retirement income is after tax, based on minimum drawing from an allocated pension with 8% annual earnings, assessed against the standard Lump Sum Reasonable Benefit Limit.

2. What about the business?

Quite often a retiring business owner has spent years building up a business and when it comes time to retire, numerous key issues need to be addressed including:

- Will the business be sold or passed on to family members?
- Is there an obvious family successor to carry on the business or will a new, external manager need to be appointed?
- What are the expectations and opinions of the non-family management team upon retirement of the owner?
- How dependent will the retiring owner be on an income stream from the business?

It is clear that for an orderly transition upon retirement an early, detailed plan of these and other issues, allowing input from all affected parties, would be highly desirable. The additional benefit of an early retirement plan is that it also acts as a valuable document in the unfortunate event of the death of the existing owner.

Estate Planning

Whilst most of us prefer not to think about it, death is inevitable. To ensure that your family is taken care of and conflicts are minimised it is vital that appropriate plans are in place. The important issues can be split into four key areas:

1. Business Assets

It is here that the aspects of your retirement and succession planning will come in very useful, particularly in the case of an unforeseen event. These plans can make clear what is to happen to the business and should be combined with other issues including key person insurance.

2. Personal Assets

Planning will allow your personal assets to be dealt with in the manner you wish, allowing equality between the family members and minimising conflicts.

3. Superannuation

A common misconception is that your superannuation can be bequeathed via your Will. This generally will not occur.

In the event of your death, the trustee of your superannuation fund must determine how to deal with your entitlements, including how to pay the benefit (via a pension or a single lump sum payment) and to whom.

Most trustees require each member to nominate who they would like their

entitlement to be paid to in the event of their death. This nomination is not binding on the trustees, but is used as a guide to the individual's intentions. However, if required, a "Binding Death Benefit Nomination" (similar to a Will) can be prepared, binding the trustee to make payments in accordance with your wishes.

4. Essentials

Essentials you must consider include:

- Do you have a valid will? Is it up to date?
- Nomination of superannuation beneficiaries (is this consistent with your most recent will)? Do you need a Binding Nomination?
- Have you chosen the Executor?
- Have you appointed an Enduring Power of Attorney?

Case Study

After 25 years at the helm of their business, Grant and Amanda (both aged 65) are looking forward to retirement. They have two children, a daughter - Charlotte, who has taken control of the business and is doing a great job, and a son - Andrew, who is forging a career as an actor and has no interest in the family business. Each of their children have one child, and these are Grant and Amanda's only grandchildren.

They own their own family home and a holiday home at the Gold Coast. They have \$1,400,000 in their self managed superannuation fund but have no other

investments, other than the equity in the business. Grant and Amanda estimate that they need \$75,000 each year to fund living costs (which includes provision for an annual overseas holiday and a new car every four years). Grant and Amanda want to split their wealth equally between their two children.

Key strategies Grant and Amanda can employ are as follows:

- Update their wills to bequeath the family home and the holiday home to firstly the surviving spouse, but ultimately to Andrew. Secondly, bequeath their equity in the business to Charlotte, as it is approximately the same value as the houses.
- They each establish two allocated pensions in their superannuation fund, with one beneficiary nomination for Charlotte and one for Andrew. This approach will provide sufficient income in retirement, but will give added flexibility in the event of death, as each pension either reverts to the children, or could be commuted (i.e. paid out in a lump sum).
- Establish a testamentary trust to keep assets in tact and pass the wealth to beneficiaries over a number of years, which includes making tax effective provisions for the grandchildren.

The case study above is just the tip of the iceberg. Both your retirement and estate planning requirements can be mapped out in intricate detail. There are a vast array of alternatives particularly in relation to superannuation funds and allowable income streams.

For further information please contact:



Ian Judson
T 07 3222 0200
E ijudson@gtqld.com.au



Tony Markwell
T 07 3222 0200
E tmarkwell@gtqld.com.au



Mark O'Hare
T 07 3222 0200
E mohare@gtqld.com.au

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