YOUR MONEY

Act now to protect inheritance pot earmarked for loved ones

Nursing home bills, legal fees, and tax could reduce the money left in your will by tens, or hundreds of thousands of euro, writes **Louise McBride**

MANY parents will have little, if anything, left to pass onto their children when they die due to prohibitive healthcare and nursing home costs, longer life expectancy and the rising cost of living. Crippling inheritance tax bills are also eating into today's inheritance pots. There are, however, some steps you can take to protect the inheritance you planned for your loved ones — here are some of them.

FOREIGN PROPERTY

"If you own property abroad, be ultra-careful as property inheritance laws in other countries are quite different to ours," said Paul Kenny, the former Pensions Ombudsman who is now a course leader with the Retirement Planning Council.

Should you own a European property for example, in addition to your Irish will, you must usually make a foreign will in the country where your property is situated — where you set out who you wish to pass that property onto.

"If you have property in France and you don't have a French will, automatic intestacy comes into force," said Kenny. With intestacy, it is ultimately the law that decides who inherits your wealth and property and so if you have a French property and haven't drawn up a French will for that property, French intestacy rules will apply to it after you pass away. "Under French intestacy rules, children have a higher priority than a spouse — and it's a similar situation in Spain and Portugal," said Kenny.

This is different to Irish law, as under Ireland's intestacy rules the spouse typically has a higher priority than children.

Another complication which might arise in relation to foreign property is that the foreign jurisdiction might not recognise an Irish will.

"So if you have foreign property, take legal advice and draw up a separate will in that jurisdiction," said Kenny. "However, be careful not to draw up a foreign will in such a way as to make your Irish will invalid." Furthermore, if you made a foreign will before mid-August 2015 for a European property which you own, it may no longer be valid and need to be reviewed in light of changes in regulation since then, according to Kenny.

YOUR PENSION

One of the biggest questions you will face before you retire is whether or not to use the money in your pension pot to buy an annuity — or to invest it in an Approved Retirement Fund (ARF).

An annuity is a type of pension which guarantees to pay you an income for the rest of your life. With some annuities, your pension simply stops when you die — even if you pass away shortly after retiring. For this reason, if you are married, it may be worth buying a joint-survivor annuity. With a joint-survivor annuity, a pension continues to be paid to the surviving partner when the other partner dies. There are also guaranteed annuities where your pension will continue to be paid to your estate (or your spouse or civil partner) for a certain amount of time (usually for either five or 10 years) — even if you die shortly after buying your annuity. "However, a guaranteed annuity of five years isn't that long in terms of people's life expectancy today," said Kenny.

Joint-survivor and guaranteed annuities are typically more expensive than standard annuities — but the extra money may be worth the peace of mind and can help ensure your pension passes to your family or spouse after you die.

An ARF is a personal retirement fund where you keep your money invested after retirement, as a lump sum. You can withdraw money from your ARF regularly to give yourself an income when you retire. One of the big advantages of ARFs is that any money remaining in your ARF after your death can be left to your next of kin. "However, you need to specify in your will that you want your ARF left to your spouse [or other family members]," said Kenny. "Otherwise your ARF slides into the residue of your estate."

Should you opt for an ARF, invest the money in your fund wisely — to help ensure that the money in your fund lasts for the reminder of your life (assuming you have sufficient pension savings in the first place) and that there is something left in your ARF to pass onto your loved ones."

FAIR DEAL

As it can cost more than €104,000 a year for a bed in a nursing home, nursing home fees are a huge financial pressure for many families. Such fees can easily gobble up life savings — while for those without significant savings, income or financial resources, the only hope of affording nursing home care is through Fair Deal (the State scheme set up to provide financial support to those in need of nursing home care).

Under Fair Deal, you pay a contribution towards the cost of your nursing home care — the State picking up the rest of the tab. The amount you pay depends on your income — as well as any assets, (including savings) which you hold. You typically pay up to 80pc of your income towards the cost of your nursing home care. You also usually pay a percentage (typically up to 7.5pc a year — up to specific limits in certain cases) of the value of any assets you have. Assets can include property, land, savings, stocks and shares. If your only assets are land and property, you can defer using these assets to pay for your care until you die.

Many families, particularly those which are asset-rich but cash-poor, are reluctant to sign up to Fair Deal because doing so could see them lose a good chunk of their assets to Fair Deal and pay more for their nursing home care than someone who has no assets whatsoever. Families can also be concerned that the depletion of assets by Fair Deal would eat into the inheritance pot earmarked for loved ones. "Fair Deal is designed so that those who do have assets pay more than those who don't," said Michael Gaffney, tax expert with KPMG. "In that sense, it is similar to a tax. It's important that individuals consider the Fair Deal rules carefully and see if it works for them."

If most of your wealth is tied up in assets, you could restructure your wealth at least five years before you expect to go into a nursing home — to avoid the State getting its hands on those assets (through Fair Deal) when you die. This is because Fair Deal has a five-year look-back rule which suggests that as long as assets are transferred to others more than five years before an individual applies for Fair Deal, those assets won't be used to help pay for care. However, it can be hard to act early enough to benefit from this.

"A lot of people don't plan, or expect to be, in a nursing home," said Justin Moran, head of advocacy with Age Action, a lobby group for the elderly. "Also, if you're planning to transfer an asset out of your own name and into the name of a son or daughter, it's important that you get legal advice. Otherwise, if your relationship with your son or daughter deteriorates, you could be in a very vulnerable situation." This is particularly true if transferring your own home to a child.

Many people try to cover the charge which Fair Deal puts on their savings or assets themselves — so that they will have something to pass onto loved ones when they die. Don't scrimp on care for the sake of an inheritance pot though. "It's important to use your money to make sure you're as comfortable as you can be in a nursing home," said Moran. There are other ways to limit the impact on your children's inheritance.

Your nursing home bills could work out cheaper if your children pay for them — if one is a higher-rate taxpayer, they would be able to claim back two-fifths of the cost in tax relief. If you own a second property, your family may be able to rent that out and use the rental income to cover the cost of your nursing home fees — rather than going through Fair Deal. Be sure that the costs of renting out the property — including the tax on rental income — are taken into account though.

LEGAL FEES

Legal fees can eat into the inheritance pot of loved ones — if you don't simplify your estate and make a clear will. "Make it very clear who gets what in the will," said Gaffney. "A convoluted estate or an unclear will can give rise to enormous legal and related costs, and the process of resolving the complexity can take years or even decades. It is strange to see cases where hard-earned wealth has been accumulated, only to be lost because of the complexity of the estate on death."

Be careful if you have foreign property as you may need a separate will in that country to specify who it should go to

HOW TO SLASH INHERITANCE TAX BILLS

Inheritance tax bills can be crippling — often forcing children to sell the family home so the tax can be paid. "Sometimes people have to get a mortgage to repay the inheritance tax if they want to hold onto an inherited house — depending on their age and the circumstances," said Oonagh Casey-Grehan, partner with Fagan & Partners. It's important therefore to take steps to reduce, or even eliminate, inheritance tax bills.

REVIEW AND VALUE YOUR ASSETS
"Do a good review of what your assets are — and put a valuation on those assets," said Casey-Grehan. "Then decide who your beneficiaries are — and see if there are any inheritance tax exemptions which could be availed of by them." Bear exemptions in mind when dividing your estate. With the dwelling house exemption, for example, a child may be able to inherit the family home or another property tax-free. Although the rules around this exemption have been tightened recently, making it much harder to inherit property tax-free, it is still worth investigating if any of your loved ones would qualify for it.

TAX BREAKS FOR OVERSEAS DONEES
"If you want to leave something to someone who lives overseas and you have government stock in your investment portfolio, there may be a tax exemption around that," said Casey-Grehan. It is available if the beneficiary "is neither domiciled nor ordinarily resident in Ireland" and other conditions are met.

TAX-FREE LIMITS FOR KIDS & FAMILY
Stick within inheritance tax thresholds when planning your will. These thresholds allow relatives and others to inherit a certain amount of wealth from you tax-free over their lifetime. "To reduce the inheritance tax bill, it's worth using the extended family thresholds and leaving some of your inheritance to your daughter-in-law and grandchildren, for example — rather than leaving everything to your children," said Casey-Grehan.

TAX BREAKS IF PASSING ON BUSINESS
When passing on a family businesses, avail of business relief which can slash the tax bill. "With business relief, there is a reduction in gift or inheritance tax so that instead of the normal 33pc rate, the effective rate is about 3.33pc," said Michael Gaffney, tax expert with KPMG. "There are a lot of detailed conditions, so check and make sure they are met so that the relief applies."

TAX BREAKS FOR TYING THE KNOT
Inheritances between spouses and civil partners are tax exempt — however, this is not usually the case for couples living together but not married or in a civil partnership. "There are many more cases today of couples living together who are neither married nor in civil partnerships," said Gaffney. "Generally, inheritances between such individuals are not tax exempt and attract inheritance tax at the normal 33pc rate. There is an exception where a court makes an order for the survivor of a cohabiting couple where it considers that the person has not been adequately provided for. However, apart from that particular situation, tax applies, and this is often a surprise to the people concerned."

Humble post office is set to be transformed with delivery of a parcel of new services

CHARLIE WESTON

THE future of the humble post office could be radically different under new plans to transform the network. Currently, post offices are places were people go to buy a stamp, or collect the State pension.

The caricature is of a place mainly frequented by older people, with a very limited range of services, favoured by those who are not tech savvy.

Tomorrow's post office is likely to be much more high-tech, and attractive to a younger audience. The post office of the future will be where you collect that parcel from Amazon. But — crucially — you will be able to pick up the parcel after work, or during lunchtime.

The post office will also be a one-stop shop for Government services.

The growth in popularity of online shopping has seen An Post benefit hugely. It has already redesigned its parcels service, extending deliveries to Saturdays.

It now plans to make its post office network the backbone of the surge in e-commerce activity. Pending agreement with the 1,000 members of the Irish Postmasters Union on a new contract, there are plans to offer out-of-hours collections for parcels, and other services such as returns, tracking and redirections from your local post office.

More post offices are set to be located in supermarkets, which will allow shop staff to have a role in handling parcel services outside of post office hours. The aim is to offer a much larger range of financial services.

Already you can open a current account, and An Post sells the State's savings products. You can pay bills, and buy insurance products.

The financial services offering is to be expanded, with loans offered to consumers and small businesses.

To achieve this, An Post may seek a banking licence, or could link up with a bank. There is also a plan for post offices to become a key option to access State services, such as the payment of fines, or a place to file a planning application. But the geographical shape of post office network is set to change.

Currently there are 1,100 post offices — some 50 of these are run directly by An Post.

Some 1,000 are run by members of the IPU. A key part of the deal is an exit package for postmasters. Around 150 offices will close, with services consolidated into larger towns, but 20 new offices will open.

The future number of offices will depend on the take-up of the offer. Some postmasters seeking the pay-off will not be offered it if An Post wants to keep the operation.

An Post insists there will be no compulsory closures, and it is pumping €50m into the network.

For those that remain, the future is set to be very different to the traditional post office.