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When the Inheritance Arrives Decisions in the First 12 Months

BY WEALTH ADVISER

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For most of the people who will ever receive a meaningful inheritance, it arrives at a difficult moment. A parent or partner has just died. Somewhere between the funeral and the first quiet weekend afterwards, an amount of money that may significantly change the household's financial position lands in a bank account, and the pressure to do something with it begins almost immediately. Brokers send emails. An adult child mentions a deposit they're trying to scrape together. The bank offers a term deposit "while you decide." Everyone has a view, and the views are not always disinterested.

The single most useful thing to know about inheritances is that the right answer almost never requires speed. Many of the key tax rules are determined by circumstances at the date of death, although the beneficiary's later decisions often determine when the tax is actually paid. The contribution-cap windows that matter run on the financial year. The investment opportunities that look urgent rarely are. And the family conversations that feel pressing in the first weeks tend to land much better in the second half of year one than in the first month.

This article walks through the substantive decisions an inheritance presents – tax, debt, super, investment, and family – and the questions they raise. The thread holding

BEFORE YOU GET STARTED

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it together is the time horizon. The first month is for not deciding. The first six months are for understanding what's actually arrived. The first year is for making the structural choices. And year two and beyond is where the inheritance becomes part of the plan rather than an event sitting outside it. The illustrative figure throughout is a couple in their late 50s, both working, with a partly-paid mortgage and adult children – receiving around \$600,000 from a parent's estate. Where the decisions change materially for a different recipient, those variations are flagged.

The first month: what not to do

The decisions made in the first weeks after an inheritance arrives are disproportionately likely to be regretted. Grief affects judgment in ways that aren't visible at the time. The instinct to do something – anything – with the money can be strong, particularly when family members are watching. And the financial industry knows how to find newly-inherited money quickly.

The counsel here is unglamorous: park it. A high-interest savings account or a short-term deposit is fine. Nothing committed, nothing locked, nothing structurally significant. The first month is for getting through the administrative side of the estate and understanding what has actually been received. This is also where family pressure first surfaces. A sibling may want to discuss how an unequal distribution will be addressed. An adult child may raise the deposit conversation that was already on the horizon. None of these need answering in the first month. "We're still working through the estate" is a complete answer, and if it isn't accepted as one, that itself is information worth sitting with. The cost of holding \$600,000 in cash for six weeks is perhaps a few thousand dollars in foregone return. The cost of committing it badly can be many multiples of that, and harder to reverse.

The first six months: understanding what arrived

The substantive work of the first six months is figuring out what has actually been received and what its tax position is. The inheritance isn't a single transaction – it's a collection of assets and accounts, each with its own treatment.

Cash and bank balances are the simplest. They arrive without further tax consequence to the recipient. During estate administration, investment income may be taxed either to the estate or, later, to the beneficiaries depending on how and when the estate is administered, and the executor or solicitor will normally handle the boundary.

Shares and managed funds inherited from a deceased estate are treated under specific capital gains tax rules. For assets the deceased acquired after 19 September 1985, the beneficiary generally takes the asset using the deceased's

cost base – the original purchase price plus eligible costs – rather than getting a fresh cost base at the date of death. The capital gain that has built up over the deceased's holding period is preserved and becomes the recipient's problem when they eventually sell. For assets the deceased acquired before that date (pre-CGT assets), the cost base is reset to market value at the date of death, which is generally favourable. This distinction matters because it changes the question of when to sell. Inherited shares with substantial built-up gains may carry a meaningful tax liability on disposal, and that liability is the recipient's, not the estate's.

The family home of the deceased is its own substantial area, with rules covered in detail in Issue 139's article on the main residence exemption. The short version is that a dwelling that was the deceased's main residence and not used to produce income can generally be sold by the estate or beneficiary within two years of death without capital gains tax, and there are circumstances where longer windows apply. The two-year clock is the figure most worth knowing, because decisions made in years one and two will land before it.

Inherited rental property is its own situation. The cost base treatment generally follows the same post-CGT versus pre-CGT distinction as shares, but rental property comes with continuing obligations: depreciation schedules that may need rebuilding, existing tenants and lease terms, and the question of whether to keep the property as an income asset or sell it. If kept, any later borrowing against it has its own deductibility questions. The keep-or-sell decision is usually best made in months six to twelve rather than in the first weeks.

Inherited superannuation has the most distinctive treatment of all and creates the most expensive surprises. The form the super takes – whether it was paid directly to a nominated beneficiary, or to the estate, and which nomination was in place – is set by the deceased rather than the recipient, and this often determines the tax outcome. (Article 2 in this issue covers beneficiary nominations from the giving side.) Super left to a tax dependant – broadly, a spouse, a child under 18, a financial dependant, or someone in an interdependency relationship – is received tax-free. Super left to an adult child who is not financially dependent generally attracts tax on the taxable component: the taxed element is generally taxed at up to 17 per cent (15 per cent plus the Medicare levy), while untaxed elements (mainly from older public-sector schemes) can attract higher rates. The tax-free component remains tax-free. For a \$400,000 super death benefit with a taxable component of \$300,000 left to an adult child from a standard taxed fund, the tax cost is in the order of \$51,000 – a figure that takes most recipients by surprise. This isn't a decision the recipient can change after the fact, but it is information worth having,

because it may change the conversations the recipient has with their own adviser about their own super.

The debt question

The instinct to pay down the mortgage with inherited money is the most common one, and it's often a reasonable answer. It isn't always the right one. For a couple in their late 50s with \$300,000 left on the mortgage at current variable levels, applying \$300,000 of the inheritance to the loan is a guaranteed effective return equal to the mortgage rate, after tax, with no further tax to pay. It also frees up cash flow that can be redirected into super contributions for the years still available before retirement. The combination – extinguished mortgage plus increased super contributions – can be a powerful structural shift that simply wouldn't have been possible from ordinary savings.

The case for not paying down the mortgage usually rests on one of two things. The first is the redraw question: money paid into a mortgage is harder to retrieve than money sitting in an offset account, and an offset arrangement can give similar interest savings without the same one-way commitment. For households where flexibility matters – adult children who might need support, parents whose future aged care costs are uncertain, the possibility of one partner stopping work earlier than planned – keeping the inheritance in an offset rather than committing it into the loan can be the better answer. The second is the contribution-cap argument, addressed in the next section. For a recipient already retired with no mortgage, this whole section is moot. The family subtext of the debt question is worth naming: paying off the mortgage closes off the practical ability to redirect the inheritance to adult children later, and that option may be more valuable than the household initially realises.

The super question

Superannuation is the area where an inheritance can create the most leverage, and where the contribution-cap windows are the most consequential to understand.

The concessional contributions cap – the cap on pre-tax contributions including employer contributions and salary sacrifice – is indexed annually. Carry-forward rules allow unused concessional cap from the previous five financial years to be added to the current year's cap, provided the individual's total super balance was below the relevant threshold at 30 June of the prior year. For someone who hasn't made large voluntary contributions in recent years, the available concessional cap can be considerably larger than a single year's amount suggests. Personal deductible contributions made from inheritance money can absorb that accumulated cap and produce a tax deduction at the marginal rate, with the contributions then taxed at 15 per cent inside super. The non-concessional cap – the cap on

after-tax contributions – is currently four times the annual concessional cap and is also subject to the total super balance threshold. The bring-forward provisions allow up to three years of non-concessional cap to be used in a single year if eligible. These caps and the eligibility thresholds change with indexation, so the available amount needs to be checked against current ATO guidance for the relevant financial year.

For the couple in their late 50s with \$600,000 of inheritance, a combination of carry-forward concessional contributions and a bring-forward non-concessional contribution by each spouse can move several hundred thousand dollars into the concessional super environment within twelve months. The benefit isn't just the deduction – it's the long-term tax position. Returns inside super are taxed at 15 per cent, and earnings supporting retirement-phase pensions are generally tax-free, compared with marginal rates outside. Over a decade or more, that differential compounds meaningfully. For a recipient already in pension phase, the super route is much more limited. The Transfer Balance Cap limits how much can move into tax-free retirement phase, while contribution caps and total super balance rules separately limit new contributions – which is one of the reasons inheritance timing matters so much for the planning conversation.

The investment question

For most recipients, the investment question is not “where to put the inheritance” but “what to do with the share of it that hasn't gone to the mortgage or to super.” That share – for the late-50s couple, perhaps \$200,000 to \$300,000 after the structural moves – is the part that ends up in an investment account, and the question is how to fold it into the existing portfolio. The temptation to treat inherited money as separate from existing money is strong and usually unhelpful. A portfolio that's the right shape for a household's age, risk tolerance and time horizon is the right shape whether the money in it came from salary or inheritance.

The exception worth flagging is inherited shareholdings or managed fund units. Those are received as specific assets with specific cost bases, and the decision about whether to keep them, sell them or restructure them sits inside the broader portfolio question. Inherited shares in a single company can introduce a concentration that the household wouldn't have chosen from scratch, and selling them needs to be weighed against the capital gains tax cost. The right answer is rarely “sell immediately” and rarely “hold forever” – it's usually a phased reshape over a few years, structured to manage the tax impact and rebalance toward the household's preferred portfolio. The family subtext here is real too: holding shares the deceased held can be

emotionally meaningful in a way that affects the decision. That's allowed. But a slow shift toward the household's own preferred portfolio is generally better than a permanent commitment to the deceased's preferences.

The gifting question

Almost every inheritance prompts some version of the conversation about whether to redirect part of it to adult children, sometimes to a sibling, occasionally to a grandchild. The reasons range from genuine generosity to perceived obligation to active pressure, and the planning consequences depend on which it is.

For households not receiving the Age Pension and not likely to in the near term, gifting from an inheritance has relatively few hard rules – the Centrelink gifting limits don't bite, and the tax position of a gift is generally neutral at the gifting end. For households on or approaching the Age Pension, the gifting rules become live. Gifts above \$10,000 in a financial year, or above \$30,000 across any rolling five-year period, are treated as deprived assets and continue to be counted as the giver's asset under the means test for five years from the date of the gift. Large gifts from an inheritance can quietly extend the period before Age Pension entitlements adjust, which is sometimes worth doing and sometimes not – but it should be a decision, not an accident.

The family-conversation dimension matters more than the rules. The expectation that an inheritance “should” be passed on to adult children is sometimes the deceased's expressed wish, sometimes the recipient's own sense of how generations are supposed to work, and sometimes pressure that hasn't been examined. The article isn't here to tell readers what to do about any of this, but the timing pressure to make those decisions in the first months is almost always external, and almost always resistible. Adult children who genuinely need help in year one will still need help in year two.

Year two and beyond

The year-one decisions – debt, super, investment, gifting – change the household's structural position. They don't change what the household is for. The work of year two and beyond is to fold the inheritance into the existing plan rather than to keep treating it as a separate event.

For the couple in their late 50s, the inheritance probably brings retirement forward, or makes the existing timeline more comfortable, or changes the trade-off between when each partner stops working. Those conversations have moved from theoretical to specific, and the annual review with the adviser is the natural place to revisit them with the inheritance now sitting inside the projected balance rather

than alongside it. For a recipient already retired, the year-two work is usually about rebalancing – whether the inheritance changes the drawdown rate, whether it shifts the mix of defensive versus growth assets, whether it changes what eventually passes to the next generation.

And for any recipient, year two is when the family conversations that felt too pressured in year one can be had on their own terms. The “I haven't decided yet” of year one becomes “here's what we've decided” of year two, and that's much easier to have when it isn't compressed against grief and administration.

Worth thinking about

- Of the inheritance amount we've received, how much have we committed in the first six months, and how much remains genuinely flexible?
- For the mortgage question, have we considered whether holding the money in an offset rather than paying down the loan would keep more options open over the next decade?
- What is our unused concessional contribution cap from the past five years, and is our total super balance still below the threshold that lets us use it?
- For any inherited shares or managed fund holdings, do we understand the cost base, and is there a phased re-shape that would move us toward our preferred portfolio over the next two to three years?
- Have any family-driven decisions about gifting been made under time pressure, and would we be comfortable revisiting them in year two if our thinking has shifted?
- A year from now, has the inheritance become part of our plan, or is it still sitting alongside the plan as an unresolved event?

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Trauma Cover and the Gap It Was Designed to Fill



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BY WEALTH ADVISER

The financial questions that arrive with a serious medical diagnosis are immediate and concrete. How long until the affected partner can work again, if at all. What the treatment will cost out of pocket. Whether the mortgage payment is still going out on schedule. Whether the household can take a month away from normal income without anything else changing. These tend to land in the first conversation after the diagnosis, well before anyone has the energy to think about them carefully.

For the purposes of this article, I'll call this the diagnosis-to-resolution gap – the period between when something serious is identified and when the situation has resolved one way or another, either through recovery, ongoing treatment with adjusted work capacity, transition to permanent incapacity, or death. For most serious conditions, the gap is measured in months, not weeks. And during the gap, the household's normal income arrangements often don't function the way they normally do.

Trauma insurance is one product specifically intended

to provide funds early after diagnosis. It pays a lump sum on diagnosis of a defined set of serious medical conditions, without requiring the insured person to be unable to work and without waiting for the long-term picture to become clear. For decades it has been a recognised piece of Australian household insurance, often held as a standalone policy or as a rider on a life insurance policy outside super. For most of this newsletter's readership, it probably isn't held anymore – and many readers may not realise it isn't.

This article is built around a different question than “do you need trauma insurance.” The better question is the one before it: how would your household actually fund the diagnosis-to-resolution gap if it landed tomorrow? Trauma cover is one answer. There are others. The substantive work is understanding what would pay, when, and whether the answer is comfortable.

What pays, and when

In a typical Australian household, three forms of personal insurance might be relevant during a serious diagnosis: income protection, total and permanent disablement cover,

and trauma cover. Each pays under different conditions and on a different timeline, and the gap argument depends on understanding the timing differences.

Income protection pays a monthly income – typically around 70 per cent of pre-disability income, depending on the policy – once the insured person is unable to work due to illness or injury and the waiting period has elapsed. The waiting period is set when the policy is taken out and is commonly 30, 60 or 90 days. After the waiting period, the income payments continue for the benefit period (often two years, five years, or to age 65), provided the insured remains unable to work to the policy's definition. Income protection is the workhorse cover for a serious diagnosis that affects work capacity, but it doesn't start paying immediately, and it pays an income stream rather than a lump sum.

Total and permanent disablement cover pays a lump sum on permanent inability to work, assessed against the policy's definition. The assessment process is rigorous and usually requires evidence that the inability to work is permanent – not that the insured is currently unable to work, but that they will not return to work in the foreseeable future. In practice, TPD claims often take many months to assess and resolve, and sometimes considerably longer. TPD is the right cover for permanent outcomes, but it doesn't pay during the period when the outcome is still being established.

Trauma cover pays a lump sum on diagnosis of a defined condition, regardless of work capacity. The defined conditions vary by insurer but typically include cancer of specified severity, heart attack meeting specified criteria, stroke with permanent neurological effects, multi-organ failure, paralysis, certain neurological conditions and others. A survival period – typically 14 days, though some policies use different periods – applies between diagnosis and payment. There's no requirement to be unable to work. Payment is often made within weeks once medical evidence and any survival-period requirements have been satisfied, though complex claims can take longer.

The timing difference is the gap argument. In the first weeks after a serious diagnosis, income protection has not yet started paying and TPD has not yet been triggered. If the diagnosis turns out to be one that resolves with treatment, TPD never pays. If the income protection waiting period is 90 days, the household goes three months without insurance income, often during the period when out-of-pocket costs are highest. Trauma cover is the product that fills this gap by design.

What most readers actually have

For most of the people reading this newsletter, the historical insurance arrangements probably included some form of trauma cover at some point – though typically as a standalone policy or as a rider linked to life cover, rather

than inside super. Trauma cover was always less common inside super than life, TPD or income protection, because a trauma payout doesn't generally meet a condition of release under super law and the money could end up trapped inside the fund even after a qualifying diagnosis. Retail master trusts sometimes offered linked structures that worked around this; industry funds generally did not.

The 2019 Protecting Your Super reforms changed the broader insurance landscape inside super, requiring insurance to be cancelled by default on accounts that had been inactive for 16 months or more. The broader question of insurance inside super was covered in Issue 135. From 1 April 2020, most APRA-regulated super funds no longer offer new trauma cover, because the benefit generally cannot satisfy a condition of release. Some legacy arrangements survived – particularly where existing policies were held through SMSFs or grandfathered structures – but for most members the trauma cover that was inside super before the reforms is no longer there.

The bigger story for this readership is what happened outside super. Trauma cover held as a standalone policy, or linked to life cover, requires ongoing premium payments at rates that rise sharply with age. Many policies taken out in the asset-building years quietly lapsed when premiums became uncomfortable, when the household decided the cover was no longer necessary, or when the cover came up for renewal and wasn't renewed. The result is that the typical Wealth Adviser reader's current insurance arrangement is likely to include some combination of life cover, TPD and income protection – but not trauma. Whether that's the right answer depends on what's filling the gap.

What fills the gap without trauma cover

For households that no longer hold trauma cover, the gap is filled by whatever the household has available during the first weeks and months after a diagnosis. The components vary, but the main ones are accumulated assets, super in specific circumstances, partner income, and the eventual arrival of other insurance.

Accumulated liquid assets – cash, offset balances, accessible investments – are usually the first line. For a household with \$200,000 in an offset account and a \$300,000 share portfolio, the first six months of a diagnosis are funded comfortably enough that the question of trauma cover becomes secondary. For a household with \$20,000 in a high-interest account and a substantial mortgage, the same six months are considerably more pressured.

Super can be accessed in specific circumstances. A terminal medical condition with a life expectancy of less than 24 months allows full tax-free withdrawal. Permanent incapacity may permit access at any age, depending on the benefit type and preservation rules. Severe financial hardship and

compassionate grounds (which includes specified medical expenses for the member, partner or dependant) allow limited withdrawal in defined circumstances, subject to application and approval. Superannuation law provides these release mechanisms precisely because medical situations can require access to super before normal preservation age – but they’re not designed to fill a short-term gap, and they typically take weeks to process even where granted.

Partner income is the most common backstop in practice. For a couple where one partner continues to work, the diagnosis-to-resolution gap is significantly less acute because half the household income is still arriving. For single-income households, single-person households, and households where both partners are affected, the gap is sharper. The other insurance proceeds eventually arrive – income protection after the waiting period, TPD eventually if the situation becomes permanent – and they do most of the long-term work. The gap argument is specifically about the months before they start.

When trauma cover still makes sense

For readers in their late 50s, 60s and 70s with accumulated assets, partner income still flowing, and an adequately funded income protection or TPD arrangement, the case for trauma cover is often weaker than it once was. The cover was more important during the asset-building years, when the household was income-dependent and a serious diagnosis would have been financially destabilising. At a later stage, the accumulated balance sheet is doing the work the cover was designed to do – the broader insurance-as-infrastructure question was covered in Issue 129.

The situations where trauma cover continues to make sense are more specific. A household in its early 50s with a substantial mortgage and limited accumulated assets faces a gap that is genuinely uncomfortable without insurance. A single-income household where the income-earner has dependent children faces a similar gap with fewer fallbacks. A self-employed income-earner who may not hold income protection at all has a gap that’s larger than in a salaried arrangement. A household where a specific high-cost treatment is anticipated – certain cancer drugs not subsidised on the PBS, specific overseas treatments – has a quantifiable potential cost that trauma cover can address. These are the cases where trauma cover does specific work that other arrangements don’t. For most other situations, the question is closer to a marginal one, and the answer often depends on the premium.

What it pays for, and what it doesn’t

Trauma cover doesn’t pay on every serious diagnosis. The defined list of covered conditions is the central feature of the policy, and the definitions matter. Cancer is

covered, but most policies exclude early-stage and certain non-invasive cancers and apply specific definitions to what qualifies. Heart attack is covered, but typically requires evidence of specified troponin levels and ECG changes. Stroke is covered if it produces permanent neurological deficit; transient ischaemic attacks generally aren’t. Multiple sclerosis, Parkinson’s disease and Alzheimer’s are covered by most policies, generally with diagnostic criteria attached. Policy definitions differ materially between insurers, which is probably the single most important practical point – two policies that both nominally cover “cancer” or “stroke” may have meaningfully different thresholds for what triggers a payment.

The survival period – typically 14 days from diagnosis, though some policies use different periods – must be met before payment. A diagnosis followed by rapid deterioration may not trigger a trauma payment, though it may trigger life cover instead. Pre-existing condition exclusions are real and depend on the policy’s underwriting at the time the cover was taken out. Policies taken out without medical disclosure may have broader exclusions or restricted definitions.

The payment is a lump sum, not an income, and many policies terminate or reduce the available sum insured after payment – though features differ between insurers, with some offering multiple-event benefits, partial-payment structures or reinstatement options. For households relying on the lump sum to fund a multi-year gap, the management of the payout becomes its own planning question, particularly where treatment continues for years after the qualifying diagnosis.

How the cover is structured

Trauma cover comes in two broad forms, and the distinction matters for households reviewing what they hold. A standalone trauma policy is its own contract – premiums and sum insured sit independently of any other cover. A linked trauma policy is attached to a life insurance contract, with the trauma cover sharing a sum insured with the life cover. A common historical structure was \$1 million of life cover with \$250,000 of linked trauma; a trauma claim that paid \$250,000 would also reduce the remaining life cover to \$750,000. Linked structures were typically cheaper than equivalent standalone cover, but the trade-off – a trauma claim eating into the life cover available to the family later – was sometimes not appreciated at the time.

Many trauma policies historically allowed a buy-back option, under which the life cover reduced by a trauma claim could be reinstated after a defined waiting period, usually at the original premium rates and often without further underwriting. Buy-back features are less commonly offered on new policies and the terms vary considerably between insurers. For readers who still hold older linked policies,

whether a buy-back option exists is worth checking before the cover is needed rather than after.

The premium question

For readers in their 60s, the structural challenge with trauma cover is that premiums rise sharply with age. A stepped premium that was modest at 45 is substantially higher at 65, and substantially higher again at 70. Insurers price this way because the likelihood of a qualifying diagnosis rises with age, but the practical consequence is that meaningful cover at older ages may cost a significant fraction of what it would pay out. Level premiums smooth the cost over time but are higher initially and typically have an end age beyond which cover ceases. Premiums also differ by occupation, which matters for readers who are still working – a self-employed tradesperson and an office-based professional face quite different price points for equivalent cover.

For a 65-year-old considering new trauma cover, the question becomes whether the premium represents good value relative to the financial risk being insured. There's no general answer to this, but it's the calculation that often points toward self-insurance – using accumulated assets to fund the gap rather than paying premiums to an insurer to do the same. The maths is less compelling than it was at 45, when the gap was larger and the premium smaller.

For readers who still hold trauma cover from years ago, the question is closer to whether to continue paying – which involves the same calculation in reverse. Cancelling cover that's been held for decades may close off a payment that would otherwise have arrived if a qualifying condition were diagnosed in the years ahead. Continuing it commits the household to ongoing premiums that may exceed the eventual payout if no claim is ever made. This is the conversation worth having with an adviser rather than working through alone.

Worth thinking about

The gap that trauma cover was designed to fill exists whether or not the household holds the cover. The substantive planning question isn't whether to hold trauma insurance – it's whether the household has a clear answer to the gap-funding question, and whether the answer is comfortable.

A useful exercise to take into the next adviser

conversation is to run a specific scenario. Imagine one partner is diagnosed today with a serious condition that takes six months to resolve one way or the other. What would actually pay during those six months? In what order? Some questions worth raising:

- During the first four weeks, before any insurance starts paying, what's available from accumulated cash, offset balances and other liquid assets, and how long would it last?
- After the income protection waiting period, what monthly amount would start arriving, for how long, and is it sufficient against the household's actual monthly outgoings?
- If the situation became permanent, what TPD or life cover is in place, and is the eventual lump sum sufficient to clear remaining debt and provide for the surviving partner?
- For households that historically held trauma cover inside super, what's the current position – is the cover still in place, was it cancelled at some point in the last five years, and if so what's filling the gap?
- For households that don't hold trauma cover, is there a specific case (debt position, single-income reliance, anticipated high treatment cost) where the cover would do work that the current arrangements wouldn't?
- When was the household's overall insurance arrangement last reviewed against its current circumstances, and what would prompt the next review?

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Beneficiary Nominations

Who Actually Gets Your Super



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BY WEALTH ADVISER

For most Australians who have spent any time on estate planning, the will is the centrepiece. It's been drafted, it's been witnessed, it nominates executors and guardians and residual beneficiaries, and it sits in a drawer or a solicitor's safe doing what wills do. The expectation is that on death, the assets the will mentions will be distributed in accordance with it.

Superannuation does not work that way. Super generally does not automatically form part of the deceased's estate. It is held in trust by the super fund trustee, and on the member's death it is paid out under the trustee's rules – not the will's. The form that sits on file with the super fund, sometimes filled in years earlier and sometimes never updated, is what most directly shapes where the member's super actually goes.

For most readers this is the single most consequential piece of information in this article. It explains why trustee disputes can arise involving former spouses, particularly where nominations have not been updated, why adult children sometimes receive amounts the parent intended to direct elsewhere, and why a meticulously-drafted will never controls the superannuation benefit in the first place. It also

explains why the half-hour spent reviewing the nomination form is often more consequential than the half-day spent revising the will.

There are a handful of decisions inside that form, and each has trade-offs worth understanding before the next adviser conversation.

The form on file

Every super fund holds, for every member, some record of what should happen to the member's balance on death. For most members, this is a beneficiary nomination form completed at some point – often at sign-up, often never revisited. The form may be binding (the trustee must follow it, if valid) or non-binding (the trustee considers it but retains discretion). It may name one beneficiary or several. It may be current, or it may have lapsed years ago without the member realising.

If no valid nomination is on file at the time of death, the trustee falls back on the fund's default rules and exercises its own discretion. Trustees must exercise their discretion in accordance with the fund's governing rules and superannuation law, but the process can take months, can involve competing claims between family members, and can produce outcomes the member would not have chosen.

Trustee discretion is also the route by which an out-of-date nomination occasionally directs benefits to people the member would no longer have chosen, simply because the records still nominated them and no one updated the form.

Before going further, one technical distinction is worth flagging because it shapes much of what follows. Super law (the SIS Act) defines who can be nominated to receive a death benefit. Tax law defines who can receive it tax-free. The two definitions are close but not identical, and the gap – most importantly, adult children who are not financially dependent – is where most of the consequential planning sits. Both definitions are taken up substantively in the adult-children section below.

Binding versus non-binding

The first and most important choice on most nomination forms is whether the nomination is binding. A valid binding death benefit nomination obliges the trustee to pay the death benefit as the member has directed, provided the nominated beneficiaries qualify under the SIS Act, the governing rules of the fund recognise binding nominations, and the nomination meets the statutory formalities – two witnesses over 18 who are not themselves nominated beneficiaries, percentages adding to 100, and so on. A non-binding nomination is a statement of the member's wishes, which the trustee takes into account but is not obliged to follow.

The case for binding is certainty. The member knows that, provided the form is valid and current, the death benefit will be paid as directed. There is no trustee discretion, no period of investigation, and no opportunity for competing claims to delay or redirect the payment. For straightforward situations – a long-married spouse as the sole beneficiary, an adult child with no complicating family circumstances – binding generally makes sense.

The case for non-binding is flexibility. Circumstances change between when the form is signed and when the member dies, and the trustee's discretion can sometimes produce a better result than a years-old binding instruction. A non-binding nomination also gives the trustee room to consider information the member did not anticipate – a relationship breakdown that the member did not have time to update the form for, a child who has become financially dependent or financially vulnerable, a beneficiary whose circumstances have shifted in ways the member could not have foreseen. The cost is that the trustee makes the decision, not the member, and the process takes longer.

In practice the choice often comes down to how settled the member's circumstances are. For someone with a stable spouse and clear intentions, binding is usually the right answer. For someone whose family circumstances are evolving, or whose nominated beneficiaries may face changing circumstances, non-binding can be the wiser

choice – provided the member also makes their wishes known through other means.

Lapsing versus non-lapsing

A binding nomination may be lapsing – typically expiring after three years and requiring renewal – or non-lapsing, which continues indefinitely unless revoked or replaced. Not every fund offers non-lapsing; APRA-regulated funds historically defaulted to three-year lapsing, while many SMSFs and some larger funds now offer non-lapsing options.

The lapsing rule exists for a reason. Three years is a sensible interval to revisit a beneficiary nomination, because family circumstances change. The problem in practice is that most people don't revisit. The form is signed, three years pass, the form lapses, and the member doesn't notice. By the time of death the nomination is no longer binding, and the trustee is back to discretion.

Non-lapsing nominations solve this – the nomination continues until the member changes it – but at the cost of removing the natural prompt to review. A non-lapsing nomination from a member's mid-40s may still be on file in their late 70s, by which point family circumstances may have changed substantially. The choice is essentially between a form that prompts review (and can fail through neglect) and a form that doesn't (and can fail through being out of date).

Neither is universally better. What matters is the discipline of review – every three years if the nomination is lapsing, regularly anyway if it isn't.

Nominating the estate

For some members, the right answer is not to nominate a specific individual but to direct the death benefit to the member's legal personal representative – in plain terms, the estate. The super then becomes part of the estate and is distributed under the will.

The advantages are significant. Distribution under the will can be more nuanced than direct nomination allows, particularly where testamentary trusts are involved (covered in Issue 130). The will can establish trusts for minor or vulnerable beneficiaries, can stagger distributions, can include conditions and protections, and can be revised through ordinary will revisions without separate super fund paperwork.

The disadvantages are also real. Super paid to the estate may become subject to claims that could not otherwise reach a directly paid super death benefit – family provision claims by people who feel they should have been provided for, claims arising from disputes over the will, and other estate-level claims. Super paid directly to a beneficiary bypasses these. And the tax treatment of super paid to the estate ultimately follows the underlying beneficiary's status – an adult child receiving the super through the

estate is taxed broadly the same way as one receiving it directly, so the route through the estate doesn't change the tax outcome.

Whether the estate is the right answer depends on the complexity of the situation. For straightforward arrangements, direct nomination is simpler and offers more protection from claims. Where there are minor children, vulnerable beneficiaries, blended-family considerations or significant non-super assets needing co-ordinated distribution, nominating the estate may be the better route – but the decision should be made consciously, in conjunction with the will, rather than by default.

When the beneficiary is an adult child

Most of the consequential planning around super nominations sits in the gap between two definitions: who can be nominated, and who can receive tax-free.

Under the SIS Act, a member may nominate a spouse, a child of any age, a financial dependant, someone in an interdependency relationship, or the legal personal representative. An adult child – regardless of whether they are financially independent – counts as a SIS dependant and may be validly nominated. Under tax law, the definition of dependant is narrower. A spouse, a child under 18, a financial dependant, and an interdependency relationship all qualify as tax dependants. An adult child who is not financially dependent on the parent does not. The result is that an adult child can be nominated to receive the death benefit, but cannot receive it tax-free.

The taxable component of the super death benefit, paid to a non-tax dependant, divides into a taxed element and (less commonly) an untaxed element. The taxed element is taxed at up to 17 per cent – 15 per cent plus the Medicare levy – and the untaxed element, present mainly in some older public-sector schemes, attracts higher rates. The tax-free component remains tax-free. For a \$400,000 super death benefit with a taxable component of \$300,000 paid to an adult child from a standard taxed fund, the tax cost is in the order of \$51,000.

This is not a problem the nomination form itself can solve. Nominating the estate rather than the adult child directly doesn't change the tax outcome – the underlying beneficiary's status is what matters. There are planning approaches that can shift the balance between taxable and tax-free components over time (recontribution is one commonly used strategy), and they involve trade-offs around contribution caps, total super balance thresholds, and the member's own income needs. Those approaches sit outside the nomination form and are properly discussed with an adviser. What the nomination form does is determine who receives whatever balance and components exist at the time of death – which is its own consequential decision.

Reversionary pensions

For members who have started an account-based pension, a distinct nomination mechanism is available: the reversionary nomination. A reversionary nomination doesn't pay out the pension on the member's death – it automatically continues the existing pension to a nominated reversionary beneficiary, generally the spouse. The recipient steps into the same pension stream the member was drawing, with the same investment options and the same underlying balance.

The mechanism only exists on pensions, not on accumulation accounts. A member with both an accumulation balance and a pension may have a binding nomination on the accumulation side and a reversionary nomination on the pension side, and the two operate independently. The reversionary nomination must usually be set when the pension is established or with the fund's specific procedures; it can be more difficult to add or change later, depending on the fund's rules.

The Transfer Balance Cap treatment of reversionary pensions is one of their structural advantages. When a reversionary pension continues to the spouse on the member's death, the credit against the spouse's transfer balance cap is deferred for twelve months, giving the spouse time to commute other pensions, restructure their own super or take other steps if the inherited pension would otherwise push them over the cap. A non-reversionary death benefit pension, by contrast, creates an immediate credit, with less room to manoeuvre. For couples both with substantial super balances, this twelve-month window can be the difference between an orderly transition and a hurried one.

The trade-off is loss of flexibility. A reversionary pension automatically continues to the nominated reversionary, regardless of circumstances at the time of death. If the relationship has changed, if the reversionary's financial situation has changed, or if the surviving spouse would prefer a lump sum to a pension, the reversionary mechanism takes those choices away. A binding death benefit nomination on the pension is more flexible – the trustee pays as directed, and the recipient decides whether to take it as a lump sum or commence a new pension – but loses the TBC deferral.

The reversionary mechanism also generally only works where the nominated reversionary qualifies as a SIS dependant capable of holding a pension. An adult child cannot ordinarily be a reversionary beneficiary except in narrow circumstances. The mechanism is, in practice, primarily a spouse-to-spouse arrangement, and most usefully where both members of the couple have substantial super and the certainty of an orderly TBC transition matters.

A note on self-managed funds

The framework above applies broadly to APRA-regulated funds – the large industry and retail funds where most members hold their super. Self-managed super funds

(SMSFs) operate within the same SIS Act framework but with material differences.

The first is flexibility on the form of nomination. SMSF trust deeds may permit nominations that aren't available in many APRA funds, including non-lapsing binding nominations and various types of trustee directions. The trade-off is that the nomination's validity depends on the specific terms of the trust deed – a binding nomination that meets statutory requirements may still fail if the deed doesn't recognise that form of nomination. Reviewing the deed alongside the nomination is the practical step that doesn't apply in the same way to a large fund member.

The second is the trustee succession question. In an SMSF, who controls the fund after the member's death can shape the outcome regardless of the nomination. Where the member was an individual trustee or sole director of the corporate trustee, a successor must step in – often the deceased's legal personal representative – and that successor will be the one making or implementing the payment decision. For couples who jointly run an SMSF this is generally straightforward; for single-member funds or where the surviving member is not a willing or capable trustee, the position can become complicated very quickly. SMSF members should treat trustee succession as a planning question in its own right, separate from but related to the nomination on file.

Worth thinking about

The nomination form on file with the super fund is where the member's super actually goes – the will is not. Most of the consequential planning around super death benefits is upstream of the nomination decision (which fund, which components, which structure), but the nomination form is where those upstream decisions take effect, and a form that's missing, lapsed or out of date can undo them.

For most readers, the action that matters most is the one

immediately available: log into the super account, find the beneficiary nomination, look at what's on file. Some questions worth raising with the adviser afterwards:

- What does the current nomination say, when was it last updated, and is it still binding (or has it lapsed)?
- If the nomination is binding, are the named beneficiaries still the people we'd want to receive the super, and are the percentages right?
- For nominated adult children, do we understand the tax cost of the taxable component, and is that consistent with what we'd intend?
- For members in pension phase, is there a reversionary nomination on the pension, and is the spouse comfortable with the trade-off between TBC deferral and flexibility?
- Is there a case for nominating the estate rather than a specific individual – and if so, is the will set up to handle the super coming through it?
- When is the next time we'll look at the nomination, and what would prompt us to revisit it earlier?

References

- *Superannuation Industry (Supervision) Act 1993 (Cth)*, section 10 (definitions including "dependant"), section 59, *Federal Register of Legislation*.
- *Superannuation Industry (Supervision) Regulations 1994 (Cth)*, regulation 6.17A (binding death benefit nominations), *Federal Register of Legislation*.
- *Income Tax Assessment Act 1997 (Cth)*, section 302-195 (tax dependant), section 302-145 (taxation of death benefits to non-dependants), *Federal Register of Legislation*.
- Australian Taxation Office, *Tax on super death benefits*, ato.gov.au.
- Australian Taxation Office, *Transfer balance cap – reversionary income streams*, ato.gov.au.
- Australian Taxation Office, *Death of a member – SMSF*, ato.gov.au.
- ASIC Moneysmart, *Super death benefits*, moneysmart.gov.au.

Q&A: Ask a Question

Question 1

I already have life, TPD and income protection cover. Do I also need trauma insurance?

The three covers work on different timelines. Trauma insurance is designed to provide a lump sum shortly after diagnosis, helping fund the period before other insurance benefits may begin. Income protection pays a monthly income, but only after the waiting period – commonly 30, 60 or 90 days – and only while you remain unable to work to the policy definition. TPD pays a lump sum, but the assessment process usually takes many months and requires evidence the inability to work is permanent. In the first weeks after a serious diagnosis, neither has paid anything.

Trauma cover pays a lump sum on diagnosis of a defined condition, regardless of work capacity, typically after a 14-day survival period. The covered conditions are specific – certain cancers, heart attack meeting clinical criteria, stroke with permanent neurological effect, and others – and definitions vary between insurers.

Whether you need it depends on what else would fund those early months. Households with substantial liquid assets, partner income still flowing, and adequate IP and TPD often find the gap manageable without it. Households with a substantial mortgage, limited liquid assets, single-income reliance, or anticipated high-cost treatments may find trauma cover addresses risks that other insurance arrangements don't. An adviser can model what would actually pay, and when, if a diagnosis landed tomorrow – usually the clearest way to decide.

Question 2

My mother recently passed away and I'm about to receive a sizeable inheritance. People are already asking what I'm going to do with it. How quickly should I act?

The most useful thing to know about an inheritance is that the right answer almost never requires speed. The first month is for not deciding. Park the money in a high-interest savings account or short-term deposit – nothing locked, nothing structurally significant – and work through the administrative side of the estate.

The first six months are for understanding what's actually arrived. An inheritance isn't a single transaction; it's a collection

of assets and accounts, each with its own treatment. Cash arrives cleanly. Inherited shares typically come with the deceased's cost base rather than a fresh one, which affects any future sale. The family home and any superannuation each have their own rules.

The structural decisions – paying down debt, contributing to super, reshaping investments, gifting to family – are usually best made in months six to twelve, once the picture is clear. Holding the inheritance in cash for a few weeks may cost some investment return, but that cost is often small compared with the consequences of making a rushed decision.

Family pressure often surfaces early. "We're still working through the estate" is a complete answer. An adviser can help map the decisions across the year ahead and flag which need attention sooner and which can sit.

Question 3

I plan to leave my super to my adult children. Will they receive it tax-free?

Probably not – and the reason catches many people by surprise. Super law and tax law use different definitions of "dependant." Under super law, you can validly nominate an adult child, alongside a spouse, a child under 18, a financial dependant, someone in an interdependency relationship, or your estate. Under tax law, the definition is narrower: an adult child who isn't financially dependent on you doesn't qualify as a tax dependant.

The result is that the nomination works – your super can be paid to your adult children – but the taxable component is taxed in their hands. The taxed element, which is the most common component in taxed super funds, is taxed at up to 17 per cent, made up of 15 per cent plus the Medicare levy. The tax-free component remains tax-free. For a \$400,000 death benefit with a \$300,000 taxable component from a standard taxed fund, the tax cost is in the order of \$51,000.

Routing the super through your estate doesn't change this – the underlying beneficiary's status is what matters. There are planning approaches that can shift the balance between taxable and tax-free components over time, with trade-offs around contribution caps and your own income needs. A financial adviser can help estimate the likely tax cost and explore whether any of these strategies fits your circumstances.

With all these topics, there is no single "right" choice. Your personal situation matters, and you should seek advice from a licensed financial adviser to understand what is most appropriate for you.