Ninety One

Masterclass with Albert Coetzee and Marc Lindley

March 2021

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Masterclass

Webinars

Date	Topic
11 March	Funding retirement – Recording available
18 March	**Inter-generational financial planning**
15 April	Emigration
22 April	Case studies

Ninety One

Masterclass 2: Tackling the challenges of inter-generational transfer of wealth

Designed for advisors

March 2021

1

The challenges for families and advisors

Preserving your legacy

Requires multi-generational financial goals

It requires investment beyond the assets themselves

Investment in education is equally important

> When family assets are managed as if they were a company, families view their money differently – it is about stewardship of something bigger than the assets themselves

Giving with a warm hand

Has many advantages

- Most adults expect to pass on most of their wealth to loved ones but only plan to do so after they die
- Children unlikely to inherit until later in life but typically need help in their twenties and thirties
- Enables you to gradually reduce the value your estate over time and the associated cost of winding up your estate
- Estate duty is a powerful motivator but there is pleasure of giving while alive as you get to see the tangible benefits

Receiving an inheritance is a blessing... but so is giving one

But it is not without challenges

Challenges facing advisors

- Advisers are likely to lose assets under advice when clients die or distribute wealth to their families
- In the US 90-95% of offspring leave their parents' financial advisor*
- Where first interaction with next generation is in relation to death of parent, chances of retaining the portfolio are low

Why?

- Beneficiaries don't know their parent's advisor and have no reason to deal with them
- They may view the advisor as being out of touch with their values and beliefs
- Assets may be divided across multiple beneficiaries and advisor needs to establish relationship with all

* Source Fidelity

What inheritors value from an advisor

There is a disconnect between advisor and inheritor perception

Highest

Lowest

- Rapport with advisor
- Personal/Professional recommendation
- Advisor reputation
- Investment expertise
- Reasonable charges
- Range of products/services offered
- Technical capabilities and digital offering
- Similar life stage to me
- Investment performance

Lowest

Highest

Source: Brooks Macdonald

2

Products that create a link to the next generation

Products with beneficiary options

Help establish a link between the advisor and different generations

- Local policy wrapper
- Offshore policy wrapper
- Living annuity

Giving advisors an advantage

Life products and well-considered product development

Help create a potential link between the advisor, the investment and the next generation

Original owner
(current client)

Primary beneficiary
(spouse?)

Alternative beneficiary
(children?)

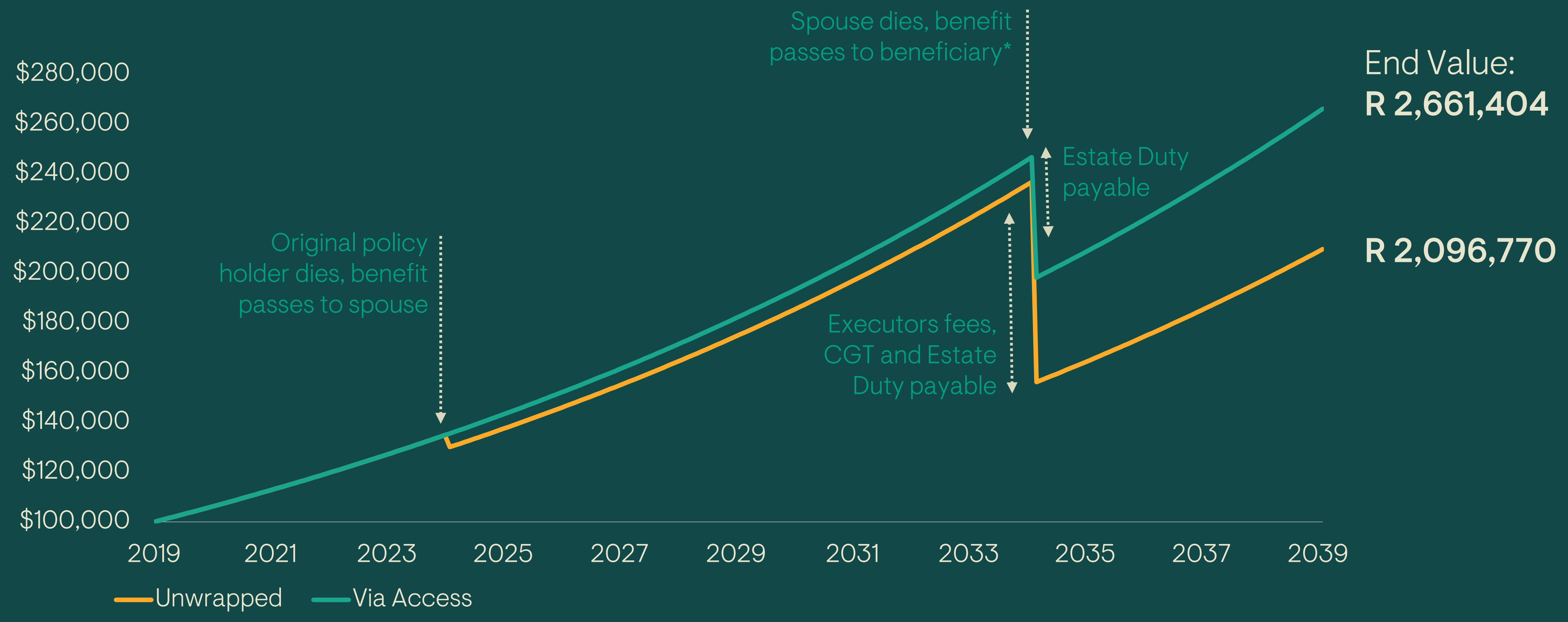
Who can be nominated as a primary or alternative beneficiary?

- Individuals
- Inter-vivos trust with natural beneficiaries
- Testamentary trust with natural beneficiaries
- Estate

Flexibility around beneficiary options – a non-negotiable to manage transfer of wealth

Getting clients to take a longer term view

Is imperative for preserving wealth across generations



Source: Ninety One. Higher rate tax payer. Assumed growth of 6% p.a. Executors fees of 4.03% *Assumes R3.5m abatement used elsewhere

When it comes to policyholder funds

The structure and functionality is of critical importance – Ninety One sinking fund

Benefits for owner
Income tax at 30%
CGT at 12%
Primary beneficiary nomination
Alternative beneficiary nomination

Benefits for beneficiary on death
Fully liquid
No executor's fees
No CGT
Unlimited loans

Sinking funds maximize outcomes and protect against unintended consequences

Benefits of the loan

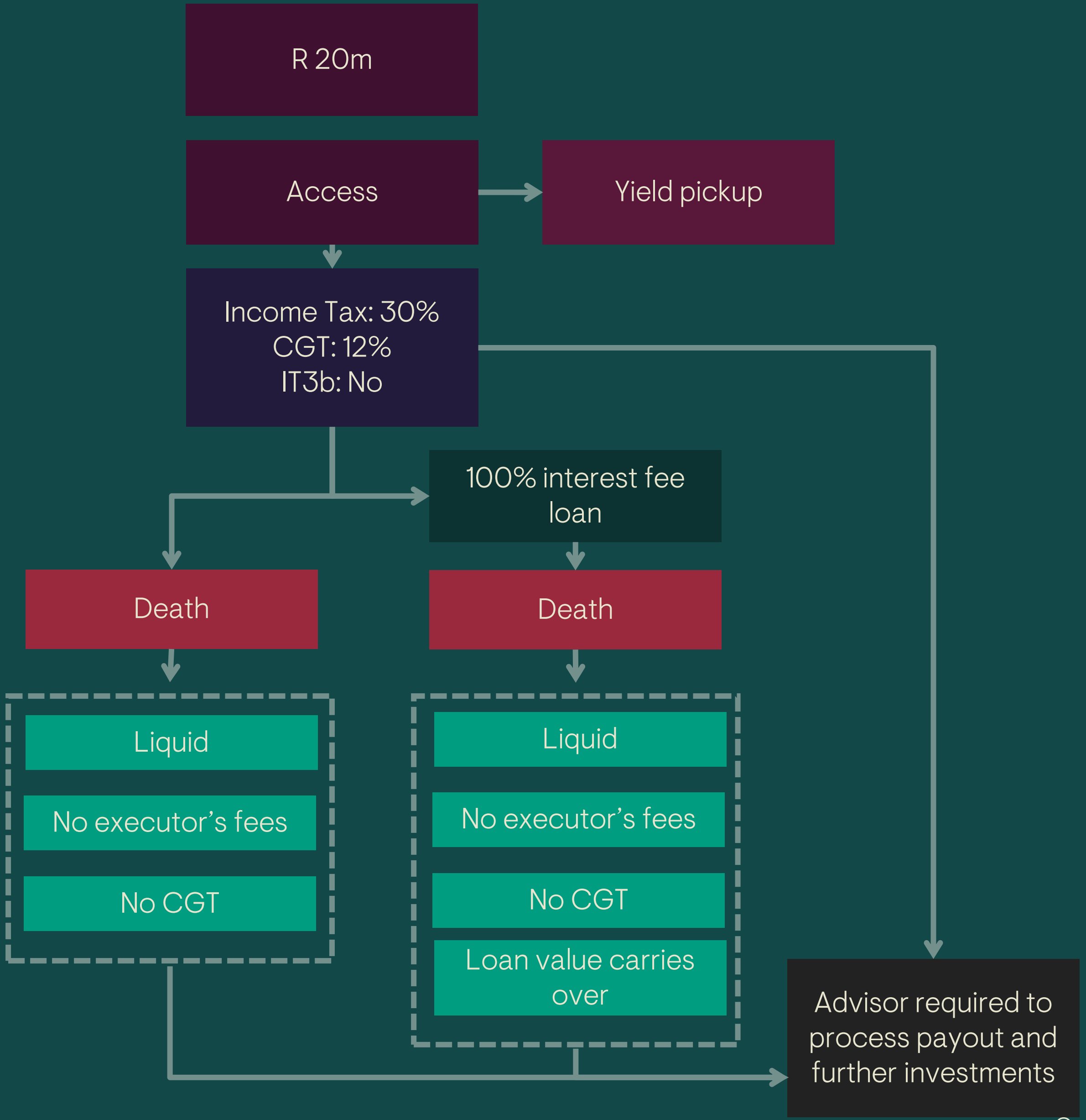
Are multi-faceted for owners and beneficiaries alike – Ninety One sinking fund

1
Providing a facility for a future financial planning need

3
Loan value transferable on death

2
Supplementing income in retirement

4
Can be used into perpetuity



But… when it comes to policyholder funds

The structure and functionality is of critical importance – **endowments**

Original owner

Life Assured

Beneficiary

- Benefit must pay out
- CGT deducted
- Complications for trusts
- Deemed asset

Be aware of outcomes that can be forced on you by product structure

Beneficiary options are equally important for living annuities

To prevent outcomes that can't be reversed – Ninety One living annuity

Scenario - R 12m Living Annuity

- Had to be paid out to estate
- Retirement tax tables applied
- **Up to 36% can be deducted**

Solutions

- Alternative beneficiary: In name

Or…

- Alternative beneficiary: Estate

Death without a nominated beneficiary creates significant problems…

3

Use of trusts

Trusts – tackling the challenges

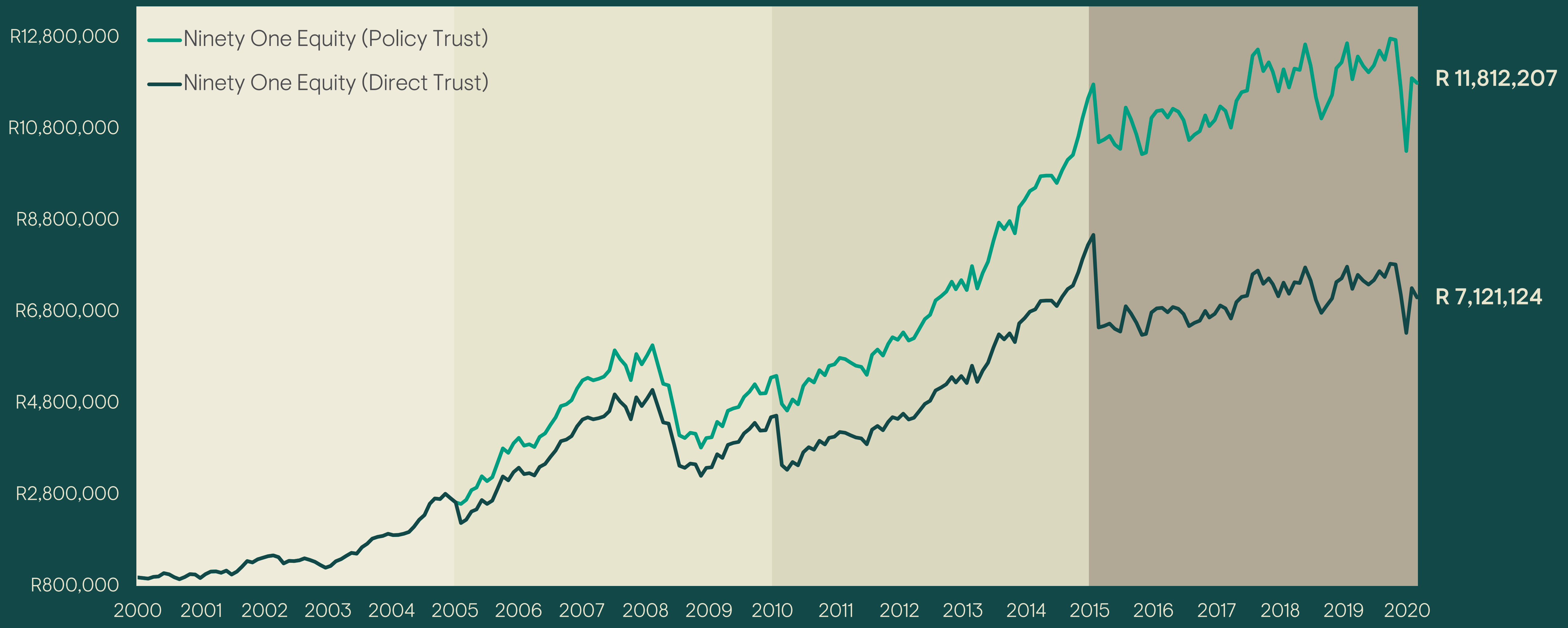
And the benefit of policy wrappers

45% income tax	30% income tax
36% effective CGT	12% effective CGT
CPI	Relative tax means less inclined to distribute growth
7C	

Sinking fund!!!

Benefit of wrapper for trusts

CGT Benefit is significant



Source:: Morningstar, performance net of fees. Full disposal assumed after every 5 year period. Effective rate of 36% applied to direct illustration and 12% applied to policy wrapper illustration

Trusts as a beneficiary on a policy wrapper

No impact on loan account

Estate duty on death of owner

No CGT

No 7C

No executor's fees

No future estate duty

Fully liquid + unlimited loans

And importantly a way of managing the complexity of family dynamics

Role of Trusts as beneficiary on living annuities

Retaining control

- Trustees can ensure that the Trust is required to annuitise on death of original policyholder*
- Trustees can control level of income drawn to ensure it remains sustainable*
- Where income distributed can apply for directive so income taxed in hands of beneficiary rather than Trust**
- No impact on loan account where beneficiary receives benefit due to death of policyholder***

* Provided the Trust deed allows for it and when benefit is passed from a Living Annuity. RA's subject to 37C . ** Tax will not be deducted by administrator rather trust is responsible for deducting tax and paying across to SARS, must also issue tax certificate. Trust must register for PAYE. *** If nominated beneficiary

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Offshore

Global Investment Portfolio

Maximising financial planning opportunities

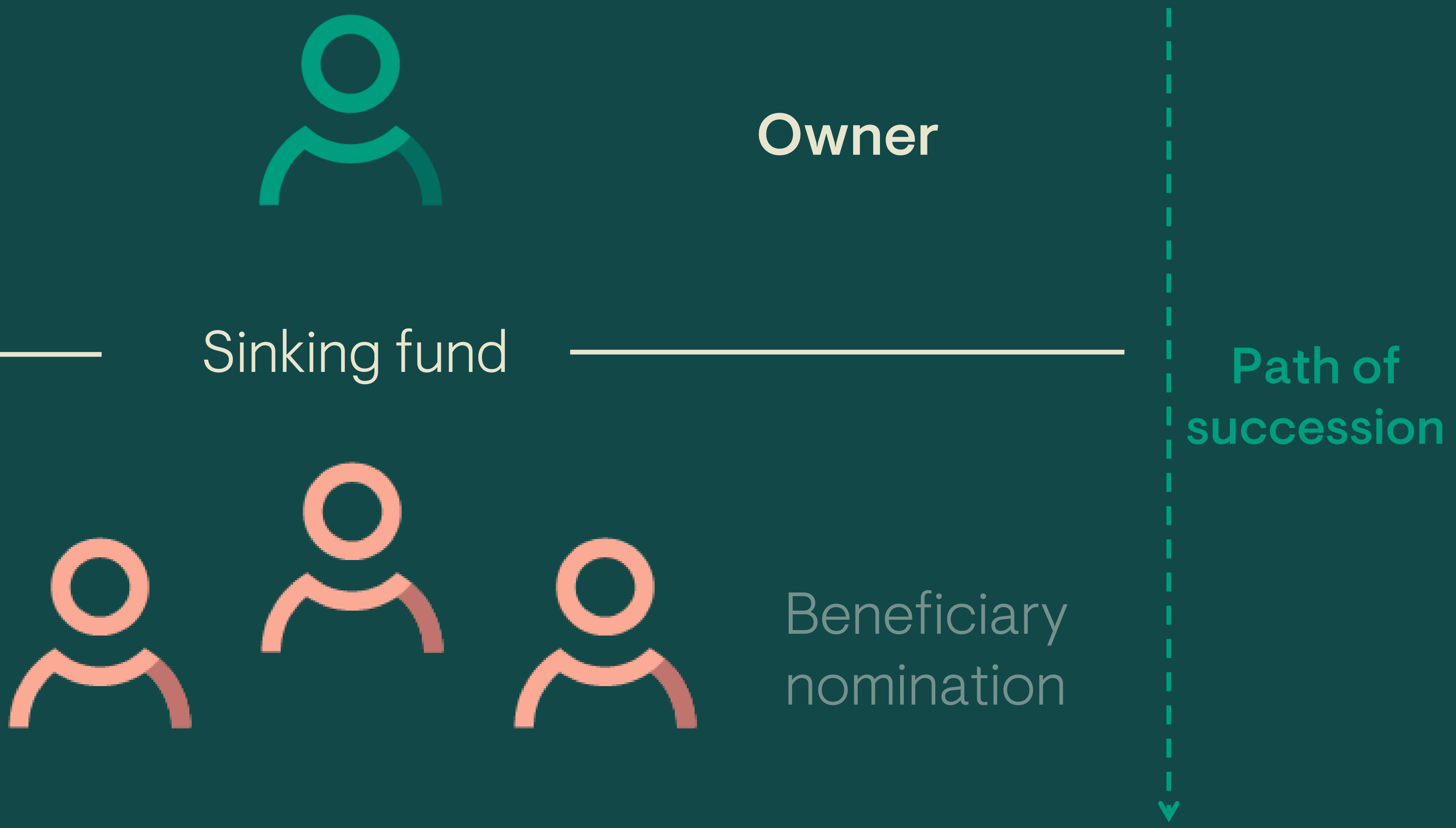
Owner

Global Investment Portfolio

- Local will
- Asset in estate
- Executor involvement
- Executors' fees
- Can transfer over ownership as indicated in the will or pay out anywhere in the world
- No probate

Our policy holder fund strategy is well considered

Maximising financial planning opportunities



Nominated beneficiaries can be:

- Individuals
- Trusts with natural beneficiaries – **local trust can only take ownership with SARB approval**
- Minor children – **can only take ownership with SARB approval**
- Estate – Probate applies

Policy wrappers

Provide valuable succession planning benefits

R 40m

R 20m

R 20m

At death

Owner:
Husband

Primary
beneficiary:
Wife

Alternative
beneficiaries:
Children

Policy 1

Policy 2

Policy 3

Policy 4

Policy 5

- Liquid/immediate ownership
- No estate duty
- No CGT
- No Executor's fees
- No Probate
- No SITUS

Policy 1

Policy 2

Policy 3

Policy 4

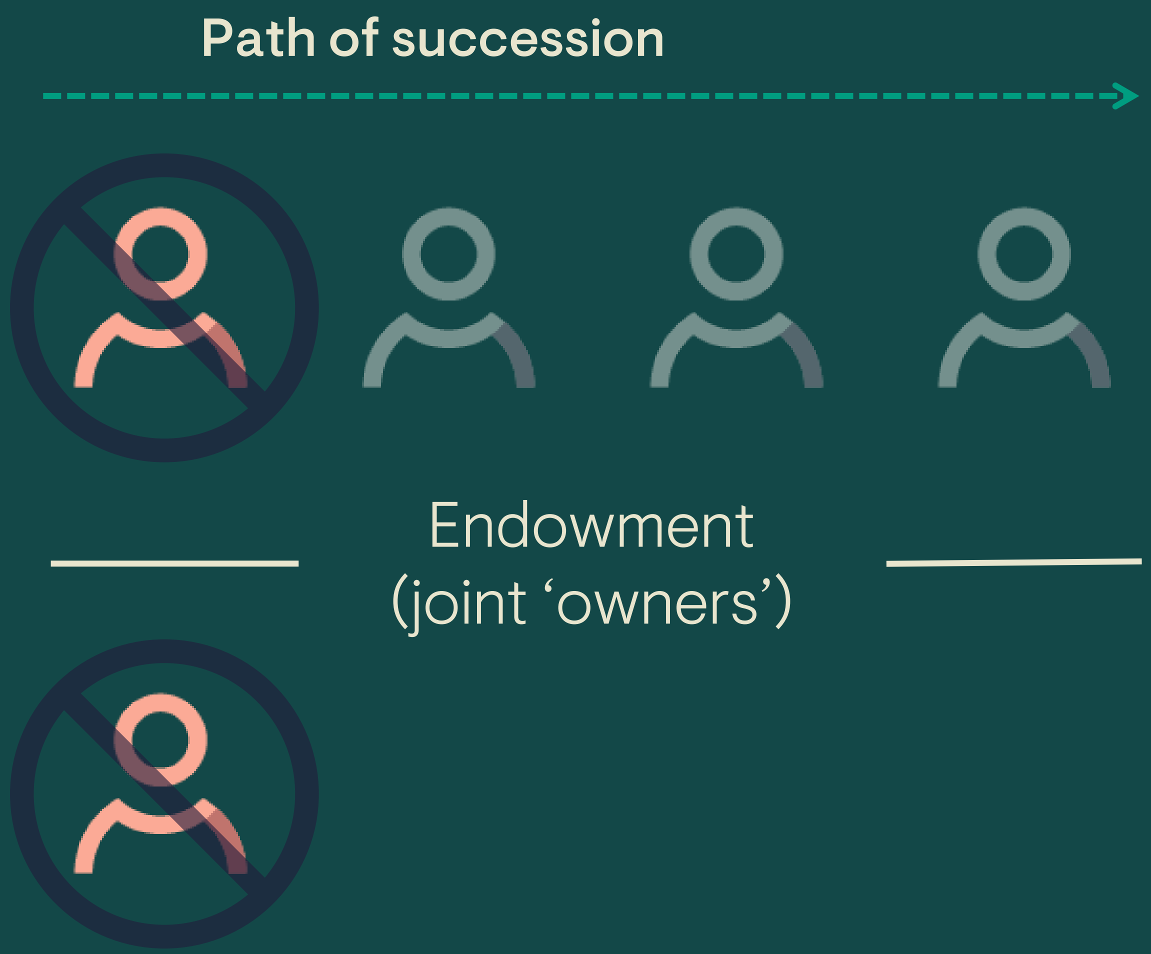
Policy 5

Owner:
Wife

Primary
beneficiary:
Husband

Alternative
beneficiaries:
Children

Beneficiary nomination vs ‘joint accounts’



- Contract owner 1 passes away
- Contract owner’s interest divided evenly between 3 surviving owners
- Owner cannot decide how their benefit is apportioned
- What portion is in my estate?
- What happens on divorce?
- Approval of ALL joint holders needed for any action on account
- Joint account with multiple beneficiaries must be joint account in name of beneficiaries
- Joint account works well for spouses…not so well for siblings who inherit policy…
- Potential family conflicts?
- Disagreements about what to do with proceeds?

| No control over who receives what on death

4

Other potential strategies

A sneak peak at scenarios for session 4

- Giving with a warm hand – the underrated value of TFSAs
- Disallowed contributions and their estate planning benefits
- When life throws you a curveball – implementing financial plans that help deal with terminal illness
- Dealing with complicated family dynamics and multiple inheritors
- Expect the unexpected – the use of freezer trusts as beneficiaries
- Addressing the additional estate planning challenges associated with offshore investments

Summary

Key take outs

- Inter-generational transfer of wealth is fraught with challenges for clients and advisors
- Structuring a multi-generational financial plan with the key stakeholder is critical in maximizing retention of assets on death
- Establishing a relationship with the next generation at the earliest possible time is important
- Products that provide a link to the next generation provide benefits for owners but provide a link between the investment and the inheritor
- Trusts have significant benefits that can be enhanced significantly when paired with a sinking fund
- Careful product design can help avoid any unintended consequences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Thank you