Legacy planning

Client education guide

HSBC
Jade

A guide: Start legacy conversations and plan now

Legacy planning is vital. Research has shown that many families, especially those in Asia, delay succession planning and conversations until it is too late. Family members are then unprepared for the decisions they must make when their loved ones either need critical care or pass away.

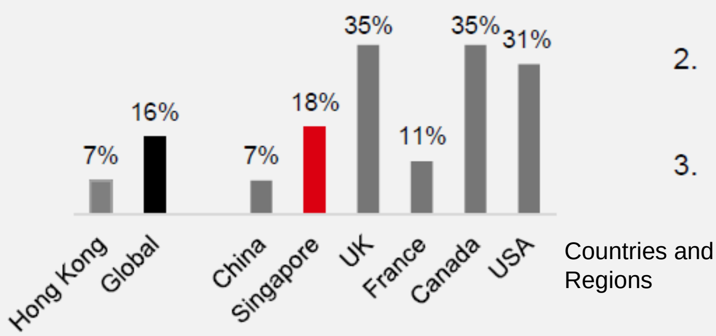
Legacy planning helps you articulate, create and implement a plan to efficiently transition your wealth to loved ones.

Legacy conversations can be sensitive and emotional as these deal with extreme scenarios such as passing on, or serious illness, and may disrupt family harmony.

Getting the conversation started is often the most difficult part. Consider expert advice to offer you peace of mind, and to facilitate your legacy conversation and plans.

Did you know…

Only 18% of SG respondents said they have made a will, according to our Future of Retirement report



Source: The Future of Retirement - Bridging the gap, 2018

Top 3 reasons why SG respondents have not made a will:

1. I have not got around to it (32%)
2. It is only needed if you have significant assets/ savings (16%)
3. I don't think it is important (13%)

Benefits of a legacy plan

Benefits of a legacy plan	With a legacy plan	Without a legacy plan
Wealth transfer decision	Take control according to your own will	According to the rules of intestacy (note 1)
Probate process	**Usually more efficient and timely;** and assets could possibly be less exposed to market risk	A long, undesirable probate process (note 2) is possible and assets could be more exposed to market risk
Family harmony	**Minimise conflicts** by planning ahead "who gets what, when, and how"	Potential conflict among family members
Tax efficiency	Achievable with proper planning and a good understanding of the impact of inheritance tax on assets or business locally or overseas	Potential to be significantly impacted by inheritance or estate tax
When physically / mentally incapable	Representatives can manage your assets with Lasting Power of Attorney (LPOA)	Difficult to manage your assets if you become physically / mentally incapable

Note

1. A person is said to die intestate when they did not leave a valid will. Partial intestacy occurs when the deceased dies leaving a valid will, but the will only deals with part of their estate.
2. Probate refers to the legal process of dealing with the estate of a deceased person. It involves the executor or administrator of the estate applying to court for the legal authority to deal with the deceased's estate.

Three considerations in legacy planning

Who gets what?

When will they receive it?

How will they receive it?

Consideration #1: Who?

Understand your finances:
Knowing what you own, how and where you own them

Assets	Liabilities
Saving and investments (e.g. stocks, bonds, CDs, structured products, unit trust, etc.)	**Mortgage repayment**
Insurance, retirement plans and other personal assets (e.g. cars, jewelry, artworks/ collections etc.)	**Other personal loans** (e.g. car loans, card loans etc.)
Property (domestic/overseas, ownership)	**Tax** (e.g. Income, property, etc.)
Business ownership/Family business	**Other debt repayment** (e.g. from business)

Factors to consider

1. Your intentions
- Who: Intend to transfer to family and/or to charitable organizations
- How much: e.g. more money to one than another

2. Family structure/ dynamics
- Heirs with overseas nationality
- Complex family structure

3. Asset/ liabilities structure
- Assets with tax liabilities or asset (Investment/properties) overseas or multiple jurisdictions
- Joint account/ownership
- Distribution types:
  - By Will or some form of testamentary document/instructions (subject to local laws or customs)
  - By titling (account holder) or beneficiary designation

4. Succession consideration
- For family business

Consideration #2: When?

1.Transfer assets during life:
- For those who want to transfer their wealth during their lifetime

2. Transfer assets at the time of passing:
- Traditional transfers of assets happen upon death
- Some markets have estate taxes. Understand the legal and tax implication of your decisions. Discuss with a specialist or legal/tax advisor to seek advice

Consideration #3: How?

5 common estate planning tools for legacy planning
- Will, Trust Deed, Life insurance nomination, Lasting Power of Attorney, Gift

Other Considerations

1. Equalizing an estate

People may face challenges on how to divide the value of the estate fairly or equally with sufficient liquidity. A simple solution is to use **life insurance (note 1)** to "equalize" the inheritance.

2. Minimizing Tax Implications

In some markets and jurisdictions, estate and/or inheritance taxes can be financially crippling for a family that has not made proper plans. **Engage a tax specialist (tax advisor, solicitor, accountant, etc.) to understand the tax implications**

Note 1: In most cases, life insurance claims do not need to go through any legal applications, enabling beneficiaries to have liquidity in covering daily expenses. This is because insurance payments are usually settled rather quickly. Please note that this may vary from case to case and is subject to terms and conditions set out in the policy provision.

5 estate planning tools

Legacy planning

Will

A will is a legal document which sets out how an estate is to be distributed.

Trust Deed

A trust deed is a document signed between the settlor (as owner of the inheritance) of the deed and a representative, whereby the inheritance assets will be transferred to the representative who will manage and make investments with such assets following conditions set out in the deed. Assets are to be held for the benefit of the beneficiaries according to the deed.

Life insurance nomination

The policyholder can, at their own choice, take out a life insurance policy with the chosen coverage amount for the life insured, and the nominated beneficiaries according to his/her wishes. Beneficiaries will receive the specified benefit amount after the life insured passes away.

Lasting Power of Attorney

A Lasting power of attorney ('LPOA') allows its donor to appoint attorney(s), while he/she is still mentally capable, to take care of the donor's financial matters in the event that he/she subsequently becomes mentally incapacitated.

Gift

Gifts refer to actions by estate owners to give his/her property rights and interests to specific family member(s) unconditionally.

Source: "Inheritance of Wealth and Wisdom – Continuation of Blissful Generation", HSBC Life (International) Limited (Incorporated in Bermuda with limited liability), 2018 ,

Example: How insurance helps keep accord in family inheritance planning

Scenario

- Mr and Mrs Tan are currently running a restaurant. They have a son and a daughter.
- Their total assets are currently worth USD 30 million, which includes a business worth USD 8 million, liquid assets worth USD 10 million and their retirement funds worth USD 12 million.
- They plan to retire at the age of 60, hope to transfer the business and liquid assets equally between the son and daughter. This distribution is written under a will. The below charts illustrate how assets may transfer:

Without the life insurance policy in place

Mr. and Mrs. Tan's
Total assets: USD 30 million

Business Assets
USD 8 million

Liquid assets
USD 10 million

Retirement Saving
USD 12 million

Equal share of business and liquid assets for son and daughter

Daughter
Inherits USD 9 million

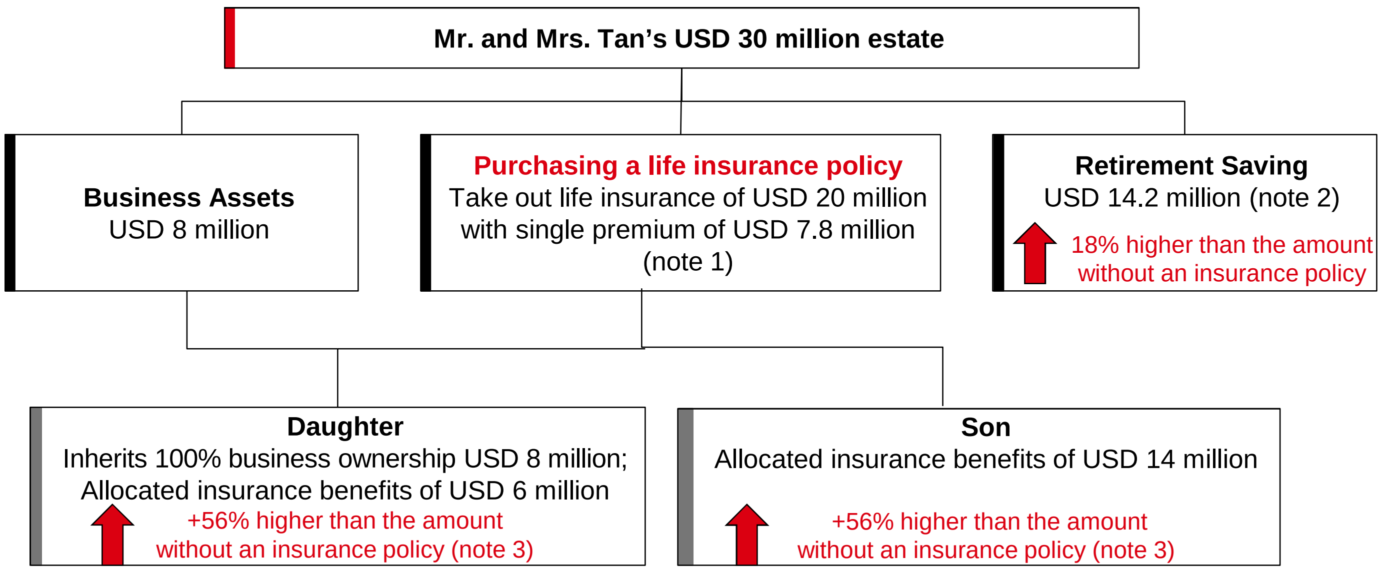
Son
Inherits USD 9 million

Source: HSBC Insurance (Singapore) Pte. Limited, 2019

Scenario

- Mr Tan considers taking out a lump-sum premium (note 1) life insurance policy with an insured amount of USD 30 million.
- The family business will be transferred to the daughter whose ambition is to further develop the restaurant brand. The son will be able to receive payment and devote all energy to his dream.

If Mr and Mrs Tan use life insurance in their inheritance planning



Note
1. Taking out a life insurance policy of USD 20 million at a single premium of USD 7.8 million. Single premium is based on standard underwriting class, male non-Smoker, age last birthday 60, country of residency Singapore, sum assured of USD 20m and current general crediting rate of 4.15% (as of 13 Mar 19). At similar premiums, the sum insured will vary with different products. Premiums are set according to the gender, age, smoking habit, sum insured and underwriting considerations of the life insured. Please refer to product information sheets for details.
2. Retirement savings (USD 14.2 million) = Total assets (USD 30 million) - Business assets (USD 8 million) - Purchasing a life insurance policy (USD 7.8 million). 18% higher than the amount without an insurance policy: USD (14.2 million – 12 million) / 12 million =+18%.
3. Asset inherited by children: A total of USD 28 millions business assets (USD 8 million) and life insurance (USD 20 million) are distributed equally to their son and daughter (i.e. USD 14 million is allocated to their son and daughter respectively). 56% higher than the amount without an insurance policy: USD (14 million – 9 million) / 9 million =+56%.

- Not all assets can be easily divided and distributed. From the above illustration, the use of life insurance offers the flexibility and liquidity to equalize inheritance, to provides extra funds (i.e. death benefit), increase the amount of total asset and also to minimize family conflicts.
- In case of unfortunate events, your retirement funds would also have been allocated appropriately in accordance to your will.

Source: HSBC Insurance (Singapore) Pte. Limited, 2019

Disclaimer