



LEAVING A LEGACY OF MORE THAN JUST MONEY

Magnus Heystek - Investment Strategist

Should your children know the true extent of your wealth? And if so, at what stage do you start involving them in investment decisions?

As the world gets older (and richer) the issue of the transfer of wealth and, hopefully wisdom, from one generation to another, becomes more paramount. It is also an issue that needs a great deal of wisdom and sensitivity and one that needs to be addressed at some stage; the sooner the better.

A recent study in the United States amongst High Net Worth Clients (HNWC) of Bank of America Corporation reveals that about half of people surveyed consider the passing of assets to their heirs as important to them. The study was done amongst 457 individuals of the bank with investable assets of at least \$3 million.

An interesting feature of the study is that about 67% of those surveyed haven't told their children the full extent of their net worth while a further 15% haven't told their children anything about the family's wealth. The average age of those surveyed was 61.

Why would certain wealthy individuals not tell their children about the true extent of their wealth? One school of thought is that keeping silent on the true extent of their family's wealth is done for the sake of the children.

Knowing that your family is very wealthy and that an inheritance is heading your way one day could deter children from following their own careers and ambitions.

About 78% of those surveyed said their children won't be mature enough to handle their inheritances until they are at least 30 years old, while 45% said their children won't be mature enough to inherit until they are 35 years or older.

Other parents take a more pragmatic approach and involve their family in their investment planning, especially as the children become young adults.

One wealthy client of Brenthurst Wealth, annually holds a "board-meeting" with his five young-mature children and openly discuss the progress of the family businesses, trusts and their respective investments.

He also allows his children discretion to make their own investments up to R1 million; anything more than that must be cleared by him.

"It has been a very worthwhile exercise," he says. "I was very impressed how my children started taking responsibility of the family money, even berating me sometimes for having unproductive assets in the portfolio", referring to a family home at the coast which has since been turned into guest lodge that must pay for its own upkeep.



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Global
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AND SA ECONOMY

Many other clients of Brenthurst also include their children when their portfolios are discussed. We see this increasing as clients get older and realizing that, one day, there will be a transfer of wealth. It is far better to prepare for this eventuality than hoarding your assets in secret, leaving wives and children unprepared for a sudden transfer of wealth and money.

A growing number of the extremely wealthy, including Warren Buffett and Bill Gates, amongst others, have indicated that they will be giving away most of their money, but that still leaves great fortunes to the children of these and other wealthy dynasties.

Even if Buffett gives away 99% of his personal wealth, estimated at \$50 billion, will it leave \$500 million to his children, in its own right a vast fortune.

This philanthropy on the part of Gates, Buffett and others probably has more to do with avoiding massive estate duties than giving it to a chosen charity.

The correct transfer of wealth from one generation to another is of great importance in the arena of personal wealth management.

It is also a sphere of responsibility at Brenthurst Wealth that is increasingly becoming more important as our clients age and become wealthier.

The transfer of wealth is normally done by making appropriate use of two instruments, namely wills and trusts. One of our foremost tasks in offering holistic financial planning to our clients is to review and recommend changes to existing wills. It remains astounding how many very wealthy individuals do not have a will; or if they have one, how outdated the will is.

THE ISSUE OF THE IMPORTANCE OF A CORRECTLY STRUCTURED ESTATE WILL BE DEALT WITH IN GREATER DETAIL IN A FUTURE NEWSLETTER. HOWEVER, IN SUMMARY, EVERYONE SHOULD HAVE THE FOLLOWING AS FAR AS ESTATE PLANNING IS CONCERNED:

- An original will signed by two witnesses. Copies of wills or unsigned wills are not acceptable.
- The original will should be stored in a safe place, preferably in a fire-proof safe with your executor or financial advisor. Bereaved families often have to scramble to find the original will after someone has died. Often the original will cannot be found, which means the person has died intestate.
- An updated will reflecting changes in the family dynamics. Ideally wills should be updated every two years in order to ensure that it still reflects the true state of wishes of the testator. This is especially true after any important event such as a marriage, divorce, birth of a child or grandchild, sale of a business or property.
- The appointment of an executor is crucial. At Brenthurst Wealth we strongly recommend the appointment of an executor who is familiar with the intimate and varied affairs of the testator and his/her family. We feel that as longstanding advisors and creators of wealth for the family we are perfectly suited for the appointment as executors of estates.
- The specification of executors' fees in the will. Most wills we see for the first time do not specify the fees that the executor will be able to charge to wind up the estate. This is particularly common in wills drawn up "for free" by banks and insurance companies. In the absence of a specified fee the default fee will kick in at 3,50% (plus VAT). It is absolutely essential that the fees are discussed and negotiated beforehand.

Many wills were drawn up many years ago when there was very little in the way of assets in the estate. Over time assets are acquired, investments made, businesses started and sold etc. which still attracts the same executors' fees.

The Master of the Supreme Court, who oversees the winding up of estates, considers the last will and testament of a testator as an instruction to the executors and very rarely can a will be disputed.

TRUSTS:

A great deal of family wealth is still locked up and controlled by means of trusts, despite recent changes to the way the income and capital growth of trusts are taxed in South Africa.

In fact, it would be fair to say the majority of great wealth in SA is still contained within trusts, which offers a seamless way of transferring wealth from one generation to another without capital gains tax. This, together with the protection of assets against creditors remains the great attraction of trusts.

One piece of advice in this regard: it is advisable that assets that have the potential to increase substantially in value over time, be put into trusts at inception in order to limit or totally eliminate capital gains taxes. Examples would include shares in private or public companies or even collectables such as paintings.

Trusts are also often used in special circumstances, like to care for young children or beneficiaries who might need the protection of a trust.

Speak to any of our financial planners at Brenthurst Wealth if you need to discuss setting up of a trust or a review of an existing trust.



JANA GOUSSARD
REGISTERED FINANCIAL
PLANNER™

NEW APPOINTMENT: CAPE TOWN OFFICE

It is with great pleasure that we announce the appointment of **JANA GOUSSARD** to the Brenthurst Wealth Team. Jana obtained a BComm (Psych) Industrial Psychology degree in 2006 as well as an Honours degree in BComm Business Management in 2007, both at the University of Stellenbosch. She completed her post-graduate diploma, Certified Financial Planning (CFP) at the Stellenbosch Business School in 2008 and joined Brenthurst in 2011 as a junior financial planner. She is registered with the FSB as a representative and joined the Financial Planning Institute as a RFP member. jana@brenthurstwealth.co.za

UPCOMING YOUNG MONEY SEMINAR:

For years now Brenthurst Wealth has been holding regular seminars for the young mature children of our clients. This was done partly in response to requests from our clients and also because we have identified this a part of our responsibility to our clients. The dates and times of this years' seminars are being finalized and will be communicated in our next newsletter. However, anyone interested in sending their children to this seminar (at no fee to the children of our clients) can forward their details to reception@brenthurstwealth.co.za or call (011) 799 8100. These seminars will be held in June/July in Cape Town, Pretoria & JHB.

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