

# FUNDING YOUR LEGACY



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**FOR VARIOUS REASONS**, many of us collect testimonials or other records of our major accomplishments. As impressive as they may be, sadly, testimonials and titles count for little when we pass on. We may have accumulated hundreds of testimonials or titles but most would be forgotten unless it continues to benefit someone significantly.

Leaving behind a legacy ensures that all the good work which was done benefits future generations or organisations such as a charity group. Future generations would then continue to remember your greatness while benefiting from your prudence.

An inheritance needs to be well planned and managed for the following reasons:

- Cash is needed to clear estate taxes
- Depreciation of total net worth due to fall in investment returns
- Limited assets for distribution among family members
- Assets value depreciate due to economic factors
- Lack of knowledge or time to manage your assets

For example, a male, aged 40, non-smoker, with \$10 million in his bank account, would only leave behind \$9.5 million to his beneficiaries upon his death. The estate duty payable amounts to almost half a million dollars.

This is because estate duty is payable for every dollar exceeding \$600,000 excluding dwelling house. Should the money be invested in a vehicle other than a property, the estate duty payable will also increase as the investment value increases.

There are several solutions to this problem. For example one can choose to give away one's assets during one's lifetime more than 5 years before one's death.

You may also set up a trust of your assets in which you act as a trustee with no beneficial interest in it. However, these common solutions only lessen the estate duty payable. Is there any other way to maximise the value of an estate?

Surely one can invest the \$10 million in a private banking arm and leverage on the instruments available. If you choose to set aside around 2% of this portfolio each year, you can immediately up the value of your estate to approximately \$19 million. This is taking into consideration the estate duty payable.

You can achieve this with the purchase of life insurance products. After paying off the premiums (2% of \$10 million), the balance of \$9.8

million can be further utilised for other investments such as unit trusts or equities. The trade-off is that your investments must grow higher than 2% every year in order to cover the premiums.

There is nothing more certain in this world than the certainty of death. However, we are unable to predict the timing of our own demise. This is why only life insurance products should be considered. As you grow older, the premiums are likely to remain the same but in addition, there is accumulated cash value which will compensate for the effects of inflation.

Using the same example, by continuously contributing 2% of your initial portfolio, the same sum assured would have grown to \$19 million by age 65. This is not inclusive of the investment returns one could have achieved by being prudent with managing the balance from the portfolio.



Your estate at age 65 without accounting for any investment returns would have exceeded \$29 million. Assuming an annualised rate of return at 5% per annum from your assets or investments, your estate could be worth an astronomical \$50 million from an initial outlay of \$10 million.

To prevent an estate duty issue, you can nominate your spouse and/or child as beneficiaries under your life insurance policy. It will be deemed as a trust made in favour of your spouse and/or child under section 73 of the CLPA. Upon death, the Estate Duty Commissioner determines that you had never had any interest in the policy. As such, it will form a separate estate for estate duty purposes. In addition, the policy will be protected from your creditors.

With growing affluence, it is very common for one's estate to balloon more than \$1.5 million. Based on a survey conducted by Merrill Lynch, there are now more than 66,000 Singaporeans who have investible assets worth more than \$1 million.

Funding a legacy takes commitment, determination and wisdom. But more importantly, it is the LOVE of a person for his family or community that counts. After all, the purpose is to leave behind an inheritance for the benefit of others. The creator may not be able to enjoy the wealth but the love and thoughtfulness will continue into perpetuity for as long as the money is well managed. [TFL](#)