Publication: Streek Nuus

Date: Friday, July 15, 2022

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The benefits of *estate planning*

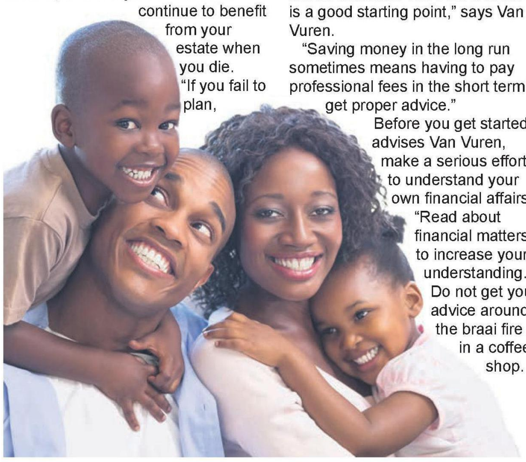
Louis van Vuren.

Estate planning is not only for the wealthy. In fact, the less you have, the more important it is to have a plan to ensure the efficient use of your resources.

This is the opinion of Louis van Vuren, CEO of the Fiduciary Institute of Southern Africa (Fisa). He says that estate planning is something everyone should do, regardless of their financial circumstance.

He explains that an estate plan ensures your assets and liabilities (everything you own and everything you owe) are structured in such a way that you get the most out of what you earn and own during your lifetime, and that your loved ones continue to benefit from your estate when you die.

"If you fail to plan, you plan to fail," he says.



Estate planning is generally not a priority for young people, who are caught up in paying off student debts, buying a home, building a career and raising a family. There is a misconception that thinking about death, funerals and wills can wait until you are older. However, Covid-19 has taught us that life is unpredictable; therefore, every adult needs to give thought to their financial future and what would happen in the event of their death.

Get the ball rolling

"Estate planning is a specialised field and you have to find someone who knows that field. The Fisa website is a good starting point," says Van Vuren.

"Saving money in the long run sometimes means having to pay professional fees in the short term to get proper advice."

Before you get started, advises Van Vuren, make a serious effort to understand your own financial affairs. "Read about financial matters to increase your understanding. Do not get your advice around the braai fire or in a coffee shop.

> *If you fail to plan, you plan to fail*

Instead, find someone you can trust who has knowledge. The best way to do this is to research the person's track record. Do not always look for free advice. It is usually worth every cent you pay for it," he says.

Appointing an executor

An executor – or person who will deal with your estate after your death – will be named in your will. Some people choose to nominate a family member to avoid a professional person from having to be paid out of the estate. Is that wise?

Van Vuren says if the person has the knowledge and experience, it may save costs. "However, ask yourself, if you were the survivor, how you would handle a situation should a family member mess up the job? Would you demand the removal of a family member as you would a stranger? If not, steer clear," he warns.

"An independent executor can be appointed or an agent can be appointed to help the executor if he/she is a family member or friend."

Updating your plan

Remember to update your estate plan and will should your circumstances change, such as if you get married or divorced or have a child or grandchild. Otherwise, Van Vuren recommends it be updated every two years.

*Fisa is the only professional body in SA focusing solely on fiduciary practitioners in Southern Africa. www.fisa.net.za

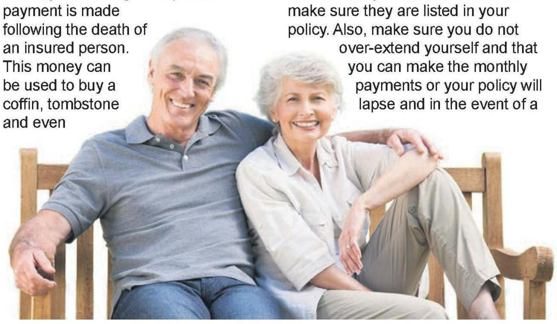
Funeral cover: Lessening the burden of death

The desire to give a loved one a dignified funeral can result in financial stress and even debt for those left behind if the deceased did not have funeral cover.

Anna Rosenberg, senior policy advisor at the Association for Savings and Investment South Africa (Asisa), says the last thing a grieving family should have to deal with is the worry of securing funds for a decent funeral.

Remember, says Rosenberg, the estate of a deceased person is frozen, and no one may withdraw funds from their bank accounts until an executor is appointed to handle the financial affairs of the deceased. This process can take weeks or even months, depending on the size of the estate, and dependants may be left with a cash flow problem.

A funeral insurance policy ensures that funds are available almost immediately. Premiums are paid monthly and a single lump sum payment is made following the death of an insured person. This money can be used to buy a coffin, tombstone and even to cover catering costs. Some policies include money for groceries, school fees and airtime in the short term.



People often think that having life insurance means funeral cover is not needed. "However," says Rosenberg, "while life insurance is important, it does not pay out as quickly as funeral insurance, which pays out within 48 hours of receiving the necessary documents – or sooner."

Life insurance often requires medical tests before approval for a policy is given and if the person is in ill health, their premiums may be more expensive or, in exceptional cases, they may not even qualify for life insurance. This is not the case with funeral cover, says Rosenberg.

However, she warns, there is a waiting period of six months on most policies and 12 months if the death is due to suicide.

Decide who you want to cover and make sure they are listed in your policy. Also, make sure you do not over-extend yourself and that you can make the monthly payments or your policy will lapse and in the event of a death, payment will not be made. Premiums may also increase every year.

The importance of funeral cover was highlighted during Covid-19, with some families suffering multiple losses. Rosenberg says over 18 months, from April 2020 to Sept 2021, Asisa members handled over 1.2m claims valued at R16.11 billion.

The best protection for you and those around you is to get vaccinated as the risk of severe illness or death is significantly lower in those who are fully vaccinated, Rosenberg advises.

Funeral cover pitfalls

Funeral cover is available from certain retailers, cellphone providers, funeral parlours, banks, financial intermediaries and directly from insurers. Sadly, says Rosenberg, there are also fly-by-night operators who scam people out of their cash.

If you deal with a financial services provider, it is essential to check that they are licensed by the Financial Sector Conduct Authority (FSCA), she says, and that the policy is underwritten by a licensed insurer.

You can check this on the FCSA website (www.fsca.co.za).

Non-licensed companies or individuals may not have the means to pay claims, but when policies are underwritten by a registered insurer, you are protected because insurers are subject to financial soundness and various other laws enforced by the FSCA and the Prudential Authority.

Remember to tell your loved ones where to find your policy document, in the event of your death.

Burial societies: Entrenched in SA communities

There are thousands of burial societies across South Africa.

These community-saving schemes not only help cover the funeral costs of their members and their insured loved ones, but provide support in times of bereavement

These societies are governed by a constitution and have rules about how many family members can be covered and what sums can be paid out.

Burial societies pay out quickly and are easy to join, requiring little formal documentation. They are especially popular in rural and township communities.

Although they have stood the test of time, they are largely unregulated and incidences of mismanagement do occur.

Wills lessen the trauma of death

A will is an important part of estate planning and can prevent additional heartache and trauma for your loved ones in the event of your death.

"If a person dies without a will in South Africa, the residue of the deceased's estate (after payment of debts, costs and taxes) must be distributed to his/her heirs under the rules of intestate succession," says Louis van Vuren, the CEO of the Fiduciary Institute of Southern Africa.

"In contrast, having a will in place means that the practical issues around the division of assets and the nomination of an executor can be dealt with," he says.

The rules of intestate succession

In essence, the spouse of the deceased (including a life partner) and the children of the deceased will each inherit a so-called child's portion, provided that such a child's portion is more than R250 000.

The spouse must receive at least R250 000 or the child's portion, whichever is greater.

> *...having a will in place means that the practical issues around the division of assets and the nomination of an executor can be dealt with*

To determine the size of the child's portion, the spouse and all the children are counted as children and the residue of the estate is divided by that number. If the child's portion of the residue is more than R250 000, that is what the spouse and each child will receive. If it is less, the spouse will receive R250 000 and the children will share what is left in equal shares.

"This division, though fair, can be quite impractical," says Van Vuren. "For example, if the residue of the deceased estate consists of a house of R1m and cash and investments of R260 000, the estate is not that easily divisible. If the surviving spouse is not the natural parent of the children, the situation can be quite sticky.

"Furthermore, if there is no will, there is no nominated executor to wind up the estate. The Master of the High Court will then appoint an executor after consultation with interested parties. This can be a time-consuming process."

DIY wills

While it is easy to comply with the formal requirements of a will (go to www.justice.gov.za/master/wills.html to see these requirements), it is not as easy to draft a practically executable will, says Van Vuren.

The terminology used must be accurate and relevant legislation must be complied with – especially when it comes to 'so-called' re-constituted families.

You can get a free will from certain institutions under certain circumstances, says Van Vuren. "Sometimes, this is on condition that the institution is nominated as executor in the will and they will get their dues when the deceased estate is administered and they take an executor's fee."

A will should not be drafted until at least basic estate analysis or planning has been done, he says. "In fact, a will should be the end product of an estate planning process, so that it can cater for the full picture."