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# Chapter I

# Introduction

## Introduction to Estate Planning

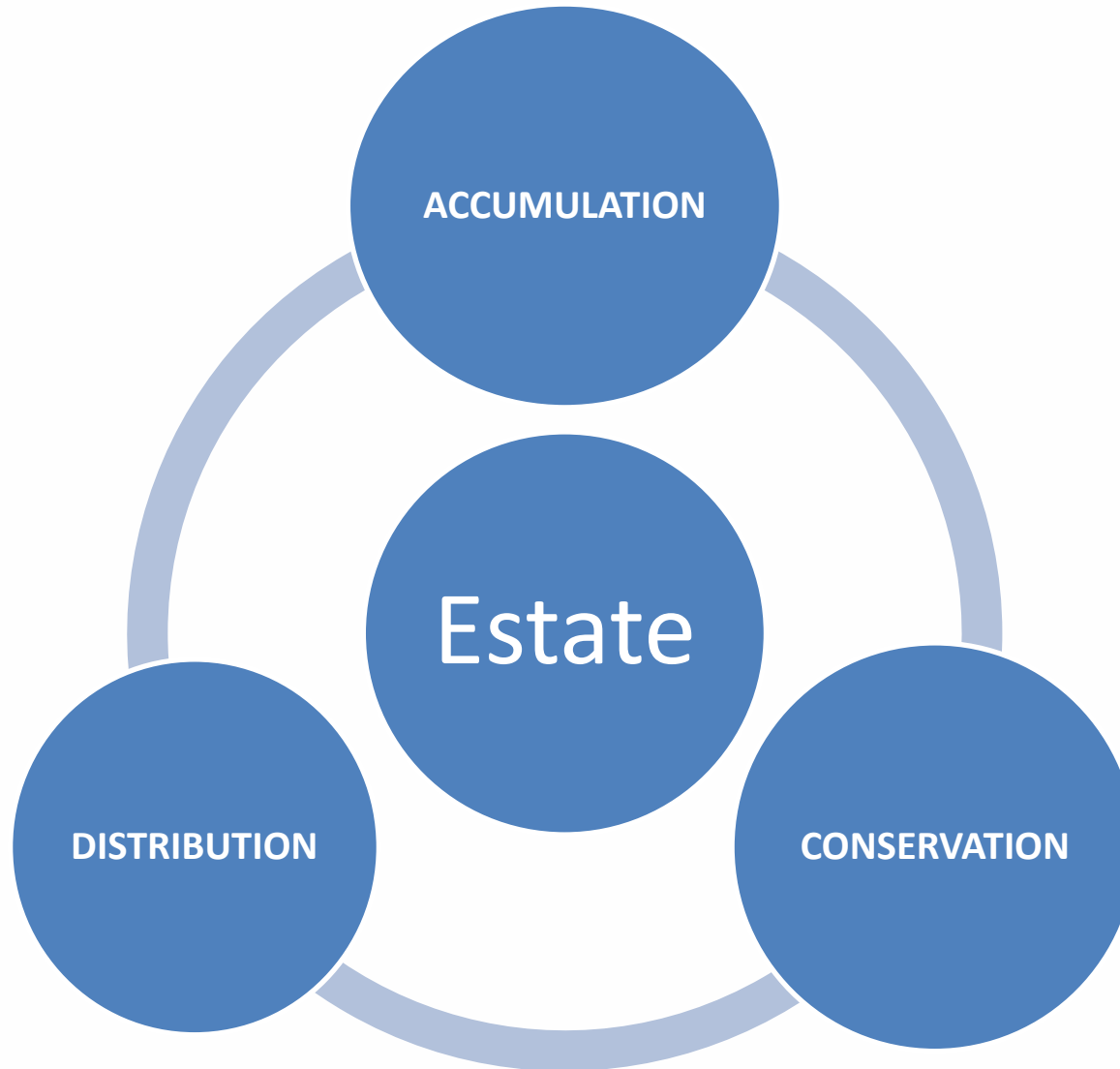
# Estate Planning

- Estate Planning can be defined as a process which includes,
  - Accumulation
  - Conservation
  - Distribution
- Estate Planning is a systematic planning to distribute one's estate according to ones wishes in future.

# Estate Planning

- The ultimate goal of Estate Planning is to fulfill the estate owner's wishes as closely as possible
- Estate Planning is the process of giving what estate owners have, to whom they want and determining when and how the transfer should occur

# Estate Planning Process



# Estate Planning Process

## 1. Accumulation

At initial stages most planning is focused on accumulation of wealth by plugging the unnecessary outflows and use of tax exempt instruments and methods.

## 2. Conservation

Net-worth of client is substantial and now needs to be protected from inflation and other natural erosions.

## 3. Distribution

Finally client must prepare for ensuring safe and inexpensive transfer of the wealth to the next generation.

# Objectives of Estate Planning

1. Achieve efficiency in estate administration
2. Provide liquidity
3. Provide for dependents and protect minor beneficiaries
4. Minimize tax impact on estate
5. Provide for growth of assets
6. Provide for business interests

7. Prepare for various possible scenarios
8. Account for offshore assets
9. Decision on Living Will
10. Minimize costs
11. Ensuring legality, practicability and efficiency of plan
12. Provide for flexibility



# Who needs Estate Planning?

*Estate planning is pervasive, i.e. necessary for everyone*

## Cases for Estate Planning

### 1. People with minor children

“Guardianship of children in the absence of parents”

### 2. People with assets in multiple countries / states

“Avoiding ancillary probate”

### 3. Small Business owners

“Whether to pass or sell business interest at death”

# Who needs Estate Planning?

## Cases for Estate Planning: *continued...*

### 4. People liable for estate taxes

“Ensuring presence of sufficient liquid assets for tax payments at death”

### 5. People concerned about distribution among heirs

“Client must specify else the authorities decide as per laws”

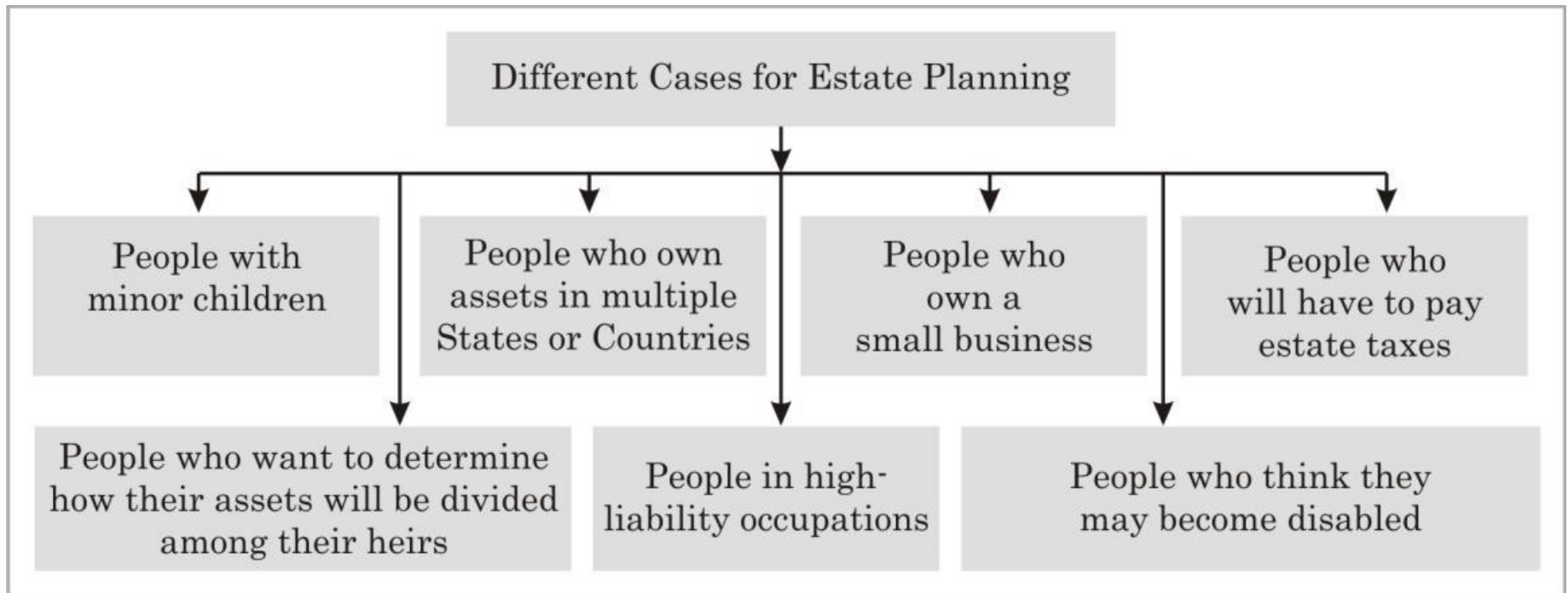
### 6. People in High-liability occupations

“Protection of assets in the event of a major lawsuit”

### 7. People with disability concerns

“Appointing a surrogate decision maker for financial and medical matters”

# Who Needs An Estate Plan?



# Financial & Non-Financial Goals of Estate Planning

## Financial Goals:

1. Tax related goals
2. Preserving business value
3. Maximizing flexibility of the estate
4. Maximizing benefits for surviving spouse
5. Minimizing non-tax transfer costs
6. Maintaining adequate liquidity

## Non-Financial Goals:

1. Meeting needs of dependents
2. Properly distributing assets
3. Control of assets after death of the client

# Estate Planning vs. Succession Planning

## Estate Planning

- Includes all business & financial assets
- Will writing
- Trust creation
- Wealth maximization
- Wealth conservation
- Administration of Estate

## Succession Planning

- Includes only business assets
- Management transition plan
- Ownership transition plan
- Contingency plan covering self disability

# Steps in Estate Planning

## 1. Calculating Net-Worth

- Assets
- Liabilities &
- Income

## 2. Set Goals & Objectives

- What to do with assets?
- What to do with liabilities?
- What part of income to replace?

### 3. Selecting Tools

- Method of ensuring conservation of assets
- Method of ensuring future income
- Method of distribution/disposal of asset

### 4. Setting Time Frames

- When to execute parts of the plan?

### 5. Execution

- Who should execute?
- Selecting team of professionals



# Impediments to Effective Estate Planning

- Intestate succession statutes
- Will writing
- Inadequate survivor income and asset transfer
- Ignorance of children from multiple marriages
- An outdated plan
- Overlooking of provisions

- Improper tax planning
- Improper ownership of assets
- Failure to plan for disability and last illness
- Failure to consider inflation
- Lack of liquidity

# Phases of Estate Planning

## 1. Estate Creation

- Evaluation of asset accumulation methods
- Devising strategies for accumulation of assets
- Contingency planning
- Human life value
- Estimating the effect of inflation

## 2. Estate Conservation

- Ensuring minimum transfer costs to the heirs
- Provide for adequate liquidity to avoid distress sale
- To pass on income generating assets to heirs
- Strive to replace the income of main bread winner

### 3. Estate Distribution: Involves costs associated in death and distribution process

#### A. Final Expenses

- Funeral cost
- Personal debts
- Final illness expense

#### B. Administrative Expenses

- Attorney's fee
- Executor's fee

- Appraisal fees
- Court costs
- Probate costs

### B. Taxes

- Funeral cost
- Personal debts
- Final illness expense

# Tools Used for Estate Planning

Estate Planning Data Gathering Form & Checklist

Estimation of Estate's Liquidity

Estimate of Net-Worth: Assets and Liabilities

# Question 1

What are the components of a succession plan?



# Answer

- 1. For Lifestyle:** A Financial Plan to ensure that the client enjoys the retirement lifestyle he/she wants
- 2. For Business:**
  - I. A Management Transition Plan &
  - II. An ownership transition plan
- 3. For Safety:** A contingency plan in case you're unexpectedly unable to run your business before the planned management and ownership transition occurs

# Question 2

What are the steps as a wealth manager you will undertake to prepare an Estate Plan for your client?

# Answer

- 1. Current Status:** Find all the assets and liabilities and calculate Net-worth.
- 2. What to achieve?:** Set clearly defined SMART goals and objectives to be achieved by the plan.
- 3. How to?:** Select the appropriate tools for estate plan and define the how part.
- 4. When?:** Set up time limits and time frames to achieve and/or execute estate plan
- 5. Who?:** Select the professionals who should be assisting in the execution of various parts of the plan.

# Question 3

What fallouts a family with school-going kids may face in the event of failure to prepare an Estate Plan?

# Answer

1. The wealth may be squandered at death as intestate succession statutes will apply in the absence of will.
2. Kid's education may take a hit due to financial stress and simultaneously their future.
3. Spouse may find income from estate insufficient for sustenance

# Case 1

Survodaya, a 45 years old owner of Survodaya Pvt. Ltd., a Rs. 50 cr. Company. He has two kids, elder son is attending a B-school in London and is most likely to succeed as Survodaya's heir. Younger daughter is still in graduation, spouse is completely dependent upon Survodaya and holds about 30% of Survodaya Ind. shares, though is not qualified to run the business.

Survodaya has been reluctant to devote time for estate planning and has been procrastinating the exercise. What risks he is opening the doors to by not planning for Estate and succession?

# Answer

1. Business will undoubtedly suffer in the absence of Survodaya.
2. As kids are still studying and have not entered the business, creditors will find it very difficult to continue their loans if Survodaya is unable to tend to it.
3. In the event of unclear succession plan, business disputes may rise, diminishing its value and thereby family's wealth.
4. Family lifestyle will suffer as the business is main income source.

# Question Case Study

What steps should be taken by Survodaya to ensure a proper Estate plan is in place? What steps will you take to prepare Estate plan for Survodaya?



# Answer

1. Establish Survodaya's Liquidity Position
2. Establish tax impact on estate and take steps to minimize it
3. Ascertain the net-worth and select appropriate and acceptable way to preserve and grow it
4. Prepare a proper will and probate
5. Engage right professionals to ensure comprehensive preparation
6. Opt for disability assistance plan & insurance cover
7. Assist in developing a succession plan for business to ensure that elder son takes over the command in time bound manner.

# Answer

8. Factor in inflation and final expenses / tax.
9. Provision for spouse to have sufficient funds to sustain a comfortable lifestyle.
10. Provision for daughter to complete her graduation and further education as aspired.
11. Provide for creditors' to recover full or part of their dues if it has to be paid back.
12. Provision for a trusted person to look after the business while son is ready.
13. Alternatively provisions can be made for methods to be adopted to run the business in the absence of Survodaya. (this may require structural changes in business)