ISSUE NO. 2 • 2008 A QUARTERLY PUBLICATION
BONDS & ISSUES

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ESTATE PLANNING

A NECESSARY COMPONENT OF FINANCIAL PLANNING

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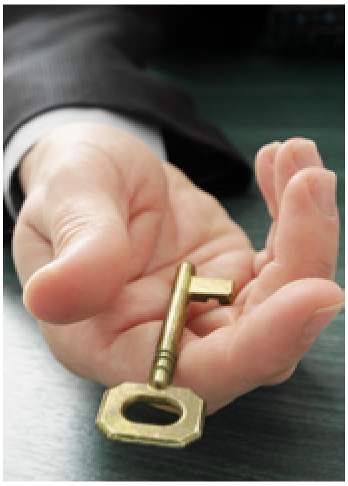

Estate Planning is an essential component of good financial planning. It is the proper management and distribution of our assets upon death, and goes a long way in putting our affairs in order in such an eventuality.

Here are two case scenarios highlighting the lack of proper estate planning, and the added burden of such unpreparedness thrust upon the families of the deceased. Two of our Advisers recount their experience helping their clients sort out their estates. The process was a long and protracted one, something that could have been avoided with a little foresight on the part of the deceased. In sharing these experiences, our hope is to spur you on to action, to prepare better for the sake of your families.

CASE STUDY 1

Not too long ago, I was involved in helping a friend and client clear up his estate. He was a top executive with a statutory board and had passed away after a very long illness.

Following the bereavement, the probate process commenced with a visit to the lawyer's office, followed by many other visits to various banks, the Singapore Stock Exchange, insurance companies, the Public Trustee, the CPF Board and the Medical Record Offices of the two hospitals where he had been treated for his last illness. These medical reports were necessary for the purpose of making claims from the life insurers.

HIS ESTATE COMPRISED THE FOLLOWING:

i.	Group Term Insurance – plans bought at a small cost but with comparatively large benefits.
ii.	Personal Life Insurance – whole life and endowment plans accumulated over the years.
iii.	Six bank accounts – a joint account with his mother, two personal accounts, an inactive account and trustee accounts with each of his two children.
iv.	CPF – His children were nominated as his primary beneficiaries but because they are still minors, this money had to be moved to the Public Trustee for safekeeping and management, and together with this, came annual fees that had to be paid. It was later established that much of the money was placed in single premium endowment plans.
v.	Investments – these included Unit Trusts from the banks bought with CPF and cash, structured deposits and an investment-linked policy in which the sum insured was not paid, because the deceased had failed to disclose his illness. There were also share holdings of six penny stocks, three of which had already been suspended.
vi.	A Malaysian property in the deceased's name, with an outstanding mortgage loan. From the correspondence kept by the deceased, it was found that the property was not a good asset to retain. It was discovered that there were many problems with the estate management firm contracted to lease and maintain the unit.

IT'S NEVER TOO LATE TO LOOK INTO ESTATE PLANNING.

Your family, above all, will benefit from good financial housekeeping.

To make matters worse, the insurer for the Mortgage Reducing Term covering the apartment rejected the death claim based on non-declaration of his illness. Not long after, the mortgagee bank hounded his widow for mortgage payments, together with the compounding late settlement interests. In order to inherit the apartment, together with the unpaid debts, his widow would have to re-seal the deceased's Will in Malaysian courts and incur high legal and other administrative costs. The whole process was tedious and long-drawn.

More surprises surfaced during the probate process.

The deceased's sister was the co-executrix, guardian and trustee appointed in the Will. She did not get along with the deceased's widow. There was a long history of tension between them. The co-executrix was also a teacher in Malaysia; therefore traveling to Singapore was difficult, as she could not take leave at will.

Costly bank printouts also ensued. The estate duty office requested bank statements over the past one year. The executrix, the deceased's widow, found out that it costs $20 per printout. All this added to out-of-pocket expenses.

The deceased's Home Protection Scheme (HPS) was to have covered the flat for some 25 years. However, the deceased had unwittingly cancelled this policy sometime after taking it up. He subsequently hastened to settle the mortgage loan in full, after learning that he was suffering from a critical illness.

Additionally, the deceased's insurance proceeds were held back until the probate was granted. After admitting the claims, the life insurer made out full payment under the group policies, and a maximum of $150,000 was paid on the policies. The other policies, including a policy written under Section 73 of the Conveyancing & Law of Property Act, were settled only after the Grant of Probate was produced.

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The deceased's final net liquid assets was greatly reduced after distributing a part of his estate to his dependant parents, having hundreds of thousands of dollars moved to the Public Trustee, and having another huge amount of money going towards clearing debts, legal fees and estate duties.

Hopefully this case will show that a Do-It-Yourself style of financial planning may not be very prudent given the complexities involved. It pays to consult and engage people who are in the business of providing proper advice. Do remember that Estate Planning is an essential part of financial planning!

CASE STUDY 2

It was during a normal day when at mid-noon, the phone rang. "Mr Tan has died!" The party on the other side of the phone was wailing and crying. Not possible! That was my first reaction. No, no. no, it cannot be! Hope against hope, I finally had to come to terms with the cold, hard fact. Yes, it was sudden death. Mr. Tan had suffered a severe heart attack. It was diagnosed as "acute coronary insufficiency".

Mr. Tan did not show any symptoms of illness. He was young, energetic and an up-and-coming, successful businessman in the construction industry. He had millions of dollars worth of contracts in hand. It was still hard to believe, to die so young!

The funeral bill came up to more than $25,000. It wasn't so much for the sake of a posh send-off but rather, decisions stemming from an emotional standpoint. Only the best would do – from choosing the type of coffin, to the funeral parlor, to engaging which funeral services, to performing the proper funeral rites, even down to the type of urn and the final resting place for the urn. It had to be placed in a central location, Mr. Tan's mother and his wife had decided, so as to best assist the deceased in the passage of his soul.

Next to follow was Mr. Tan's business. This was the beginning of the problems for his Administrators.

None in the family was familiar in the business. Mr. Tan had died without a making a Will. How to go about listing his assets and liabilities? His wife did not know what his assets were and where they were kept, except for his POSB savings book and his personal chequebooks, which were kept in the drawers.

Since the bank accounts were under Mr. Tan's name, the participating financial institutions immediately froze ALL his assets. This happened almost immediately when his obituary was published in the local newspapers.

THE FOLLOWING WERE THE IMMEDIATE ESTATE EXPENSES TO BE TAKEN CARE OF:

Unpaid Income Tax	**$14,600**
Personal Motor Car Loan	**$2,300**
Legal Fees	**$40,000+**
Funeral Expenses	**$25,000**
Credit Card Bill	**$4,000+**
Household Expenses – Utility/Conservancy Charges, Children's School Expenses, etc.	**$1,000+**
Business Machinery/Equipment, Vehicle Expenses	**$30,000+**
Office Expenses – Workers' Wages, CPF, Office Rental, Utility Bills	**$10,000**
Trade Creditors	**$1,500,000**
Other Creditors	**$200,000**

Very soon, legal letters with harsh and demanding terms and conditions to pay up began filling the mailbox. These comprised lawsuits and Court injunctions, caveats lodged by some of Mr. Tan's Creditor banks. There were also malicious and nuisance calls to handle. During such circumstances, the true character of some business partners and associates surfaced – some were angels, while others were real crooks.

With so many bills to settle, Mr. Tan's family had to make some very painful decisions, which included liquidating many of his personal and business assets. These included:

- Forced sale of Motor vehicle.
- Forced sale of Machinery/Equipment at great discount, e.g. Machinery worth $135,000 sold for $90,000 at Buyer's price.
- Winding up of the Company – to settle staff payroll/CPF, office rental. Office furnishing and equipment were either sold or given away.
- Handing over the unfinished projects to some of Mr. Tan's business associates.

Facing the creditors was tough. Asking for payment from debtors was equally heart wrenching and torturous. They sought to excuse themselves by saying: "Owner already dead. Why should we pay?" This was just one of the milder reactions.

The Grant of Letters of Administration of the Estate was finally awarded after seven long years. More than $40,000 was paid to Estate Duty. Legal fees cost another $40,000 plus.

11 years have passed since Mr. Tan left us. Though financial matters have been settled and the account books closed, the emotional scars and the pain of Mr. Tan's sudden passing still linger in the memory of his family. Added to his untimely death was the unexpected burden of having to sort out Mr. Tan's estate. This could have been made a lot easier with proper planning. It's never too late to look into estate planning. Your family, above all, will benefit from good financial housekeeping.

IT PAYS TO CONSULT AND ENGAGE PEOPLE WHO ARE IN THE BUSINESS OF PROVIDING PROPER ADVICE.

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