

## Wealth Planning: Keeping wealth in the family

**Paul Bradshaw:** So welcome to the third in our series of videos where we've been discussing the topic of protecting family wealth. My name's Paul Bradshaw. I'm a director in the UK Wealth Planning and Advisory team and I'm joined today by Karina Challons who's a managing director, also in Wealth Planning and Advisory. In our first video we discussed topics around protecting the family wealth and why defining a purpose for this can be so important. In our second video we discussed the importance of consulting with advisors when there are changes in circumstances. Today we're going to discuss another key element of UK estate planning. So Karina, where do we begin?

**Karina Challons:** Before we start with estate planning strategies of gifting, ensuring asset freezing and asset conversion we often start with death, as this focuses your thoughts on what you want to achieve, how you want to protect your wealth if you were no longer around and say died unexpectedly. This means that it is absolutely critical to have a well drafted and thought out will in place to ensure that your assets pass as you would want them to. There are two fundamental questions you need to ask yourself. One is do you want to control your wealth for future generations or are you happy to leave it to the next generation for them to decide?

**Paul Bradshaw:** So, Karina, if your intention is to pass your wealth down through generations does it matter if this is done directly to beneficiaries, or should it be done through some form of structure?

**Karina Challons:** Yes, it does matter because if you pass your assets directly to your chosen beneficiaries, you're leaving them to decide on the future of your legacy, you lose control. It's outside your hand. Each of your beneficiaries may treat your wealth differently. Some may save and pass it on to future generations, some may spend it. Some may grow the assets, and some may even choose to leave your legacy to beneficiaries outside the family, which may not be your chosen course. Over the years your legacy may grow, or it may dissipate over time. However, if you choose to leave your wealth in trust, you determine who your beneficiaries will be and how it will pass over the years. You will also be guiding the trustees on the type of controls you want to put in place, the purpose of your wealth. Essentially, you'll be protecting the wealth for the future. Your legacy has a much better chance of being preserved for future beneficiaries or future generations if you leave it in trust.

**Paul Bradshaw:** So, Karina, continuing on that theme, are there different ways that you could say pass assets down to your spouse?

- Karina Challons:** Yes, in England and Wales you can either pass it directly to your spouse or civil partner for them to deal with as they wish, or you could leave it in trust for them so that the children or a trust can inherit on their death.
- Paul Bradshaw:** And does it make a difference as to how you own the assets?
- Karina Challons:** Yes, it does because if you own it jointly, it automatically passes to the survivor on death, whereas if you own it in your sole name, you can direct how it will pass in your will.
- Paul Bradshaw:** So, taking that a bit further, what would give better protection to the family wealth?
- Karina Challons:** As you probably guessed, a trust, because you're leaving the trustees to determine how the assets will be distributed within the trust, to the beneficiaries, so that can continue for the future. Whereas if you leave it directly, you lose complete control, but you then have to think about how that trust will perform over the years and whether it's going to make lots of distributions or whether the asset will be maintained within the trust.
- Paul Bradshaw:** So would it be possible to guide those managing the family wealth after you've passed?
- Karina Challons:** Yes, it would, because if you leave it in trust, the trustees will be guided by a letter of wishes that the Testator would have drawn up prior to their death. The letter of wishes would suggest the type of distributions they'd like to make, the sort of controls they'd want in place, such as legal agreements, pre and post nuptial agreements and that beneficiaries would have to enter into prior to receiving any distributions. The letter of wishes can also guide the trustees not to make significant distributions other than say for medical or educational purposes. In this way, the trustees would acquire assets for the benefits of beneficiaries and that would preserve the wealth for future generations.
- Paul Bradshaw:** So, when might you ordinarily review your will or letter of wishes?
- Karina Challons:** There are a number of circumstances when you may want to review your will other than at the periodic review, so it could be a change in law, a change in economic circumstances or the birth or death of a family member. There could also be a move to a different jurisdiction of family members that could necessitate a review of the structures within the will. Or it could be a change in the financial circumstances or the personal circumstances or even the wishes of the Testator. All these are examples of triggers that could necessitate a review of your will.
- Paul Bradshaw:** So how can you protect your family and their wealth from unwelcome attention?
- Karina Challons:** This is an increasingly important topic of conversation with our clients and one we have with them often. There are a number of options, some of them obvious, some of them require more thought. One is obviously the structures, you know, if you're going to put say trusts in place in the will, that creates the infrastructure to control those. But others are privacy, being careful not to

communicate too much about your wealth. And, also, social media, being careful what information is available about not only you the adults but also the children. Engaging and educating the next generation is absolutely key to ensure that they are aware of the responsibilities of the family wealth that they may be involved in and also to be careful about unscrupulous individuals that may target them. The other important one is communicating with your professional advisors, which is absolutely vital to ensure that the planning is done amongst family members and co-ordinated over the generations. So, it's not just infrastructures, it's also ensuring that individuals in the family work together. This collaboration is very vital in planning your wills, in the overall planning as well.

**Paul Bradshaw:** Another point that comes up frequently is how you might provide for children from previous marriage. What are your options here?

**Karina Challons:** The most common approach would be to ensure that your assets pass into trust, to ensure that the children from a previous marriage also benefit, rather than say just leaving it to the second spouse, in the expectation that they will honour their wishes, which they may or may not do. And it's true to say that a number of wills can be changed following your death, so you could find that your children from the previous marriage are disinherited. So, it is therefore, absolutely vital, if you want certainty that your chosen beneficiaries will inherit, that you plan for it in your will.

**Paul Bradshaw:** So, Karina, what are the key takeaways?

**Karina Challons:** You need to think about how you want your assets to pass to your beneficiaries. And how many generations you want to support. You also need to think about whether you want your beneficiaries to inherit significant sums outright. Inheritance tax is another important element you need to address, if this is important to you, because it can have an impact on your legacy. You also need to consider future generations and the impact of inheritance tax. So, if you want to do some planning, you need to address it. If you have decided to leave your assets in trust you then need to think about drawing up your letter of wishes with your advisors. What controls do you want to put in place? What conditions? What tone do you want to set? What guidance do you want to include? There are also other things that you need to consider. What type of trustees you want? Do you want professional ones? Do you want personal ones? Do you want a combination of the two? And protectors. Protectors can be an important addition because they can change the trustees if appropriate. You then need to think about the successor of the protectors. How are they going to be appointed in the future? You also need to remember to review your letter of wishes to ensure that it continues to be valid over the years because things change. Your views change and then you need to review your will every three to five years. The last point I would make is that if you're uncertain whether a change can impact your will, check with your professional advisors because it is important to ensure that they are valid and up to date.

**Paul Bradshaw:** Thank you, Karina. If you'd like to discuss the topic of protecting your family wealth further, please contact your relationship manager at HSBC Private Bank. In future videos we'll be discussing key estate planning strategies you can adopt. Thank you for watching.

