

CAN YOUR WEALTH LAST THREE GENERATIONS?

The Rockefellers, Samsung Group's Lee family, Reliance Industries' Ambani family and Lee Kum Kee's family owners have seen their wealth passed on for generations.

Families such as the Rockefellers have held on to their wealth for more than 200 years in the US. In South Korea, the Samsung empire is currently in the hands of the third generation, while Mukesh Ambani, whose father founded Reliance Industries, is busy expanding the company into new areas.

But passing down wealth from generation to generation is not easy. There are many news stories about disputes between heirs and other family members that can break apart a family business.

In fact, according to a 20-year study conducted by wealth consultancy The Williams Group, seven in 10 families tend to lose their fortunes by the second generation, while nine in 10 lose them by the third generation. The company had studied more than 3,200 families over 20 years.

In a way, this reflects the traditional Chinese saying that "wealth does not last three generations". Without good preparation and planning, this unfortunate trend could befall family businesses.

Why does it happen?

When wealth is passed down to the next generation, there could be concerns about whether the heirs will be able to manage the wealth as per the donor's wishes. When property is already passed on to the beneficiaries, the donor no longer has control over what they do with it.

Can the next generation manage and grow the wealth over their lifetime? Could they become victims of fraud or scams, which are becoming increasingly common? In the past, there have also been scandals involving tycoons' heirs, whose spendthrift behaviour shocked the public.

One way of circumventing the misuse of wealth is by using trusts as a tool for estate planning. Trusts can ensure that wealth is managed professionally across generations and distributed according to the settlor's intentions.

These can be used to protect assets and provide a lifetime of income to the beneficiaries, among other things. For instance, some Hong Kong tycoons use trusts to make monthly payments to beneficiaries instead of a lump sum payout, which could encourage spendthrift habits.

Another benefit of using trusts is that the assets are protected from creditors, or are creditor-proof. They cannot be seized for debt repayment. This can be done by setting up asset protection trusts, which are irrevocable. That means the terms and conditions cannot be amended, modified or terminated. Additionally, the settlor must not be named as a beneficiary and the trust must meet other conditions, subject to Section 52 of the Insolvency Act 1967.

Meanwhile, many families already use wills for estate planning. However, the number of contested will cases has been rising in recent years, due to complex family structures that were not anticipated by the wills or outdated wills.

According to a report by *The Times* of London in July last year, the number of inheritance dispute cases rose by 47% in 2019 from the previous year. Rising property prices have given people greater incentives to challenge wills, the report states. An increase in the number of unmarried couples who do not have automatic legal inheritance rights also contributed to the rise.

The time taken to distribute property through wills can be long. Areca Capital estimates that the time taken for wills to go through probate, which is a review process, takes between three and six months. If the will is contested, the time taken can be even longer, with some cases dragging on for a decade.

As the pandemic has restricted the capacity of the courts and law firms, which must comply with Covid-19 standard operating procedures, the delays could be even longer.

On the other hand, trusts can distribute wealth without restrictions. They do not need to go through probate after the settlor dies and cannot be contested. A will goes into effect only after the testator dies while a trust becomes effective as soon as it is created. This means wealth can be distributed even before the settlor's death.

What should families do?

Using estate planning tools such as trusts to distribute wealth not only protects



SHAHRIN YAHYA/ THE EDGE

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— Danny Wong

must realise that for the money to grow for a couple of generations, the wealth cannot be invested and managed with a short-term lens.

Preferably, the investing strategy should move like a well-oiled machine and be managed with a big-picture view, says Areca Capital. That is why a good trust should be complemented with the services of a professional fund manager. This combination ensures that the wealth can be well preserved and distributed, with the assets sustaining for a long period of time.

For instance, conventionally, as people age, they tend to take fewer risks with their investments. But this may not be the right approach to take if the settlor wants to leave the money for the next generation. In this case, there should be more allocation to long-term or growth assets to reflect the objective of the trust, says Areca Capital.

There are other things to consider too, such as identifying the portion of wealth to invest for growth and income, while ensuring there is enough cash flow for the beneficiaries. It is the fund manager's job to ensure that optimal risk-adjusted returns can be achieved through strategic asset allocation or any tactical allocations in between.

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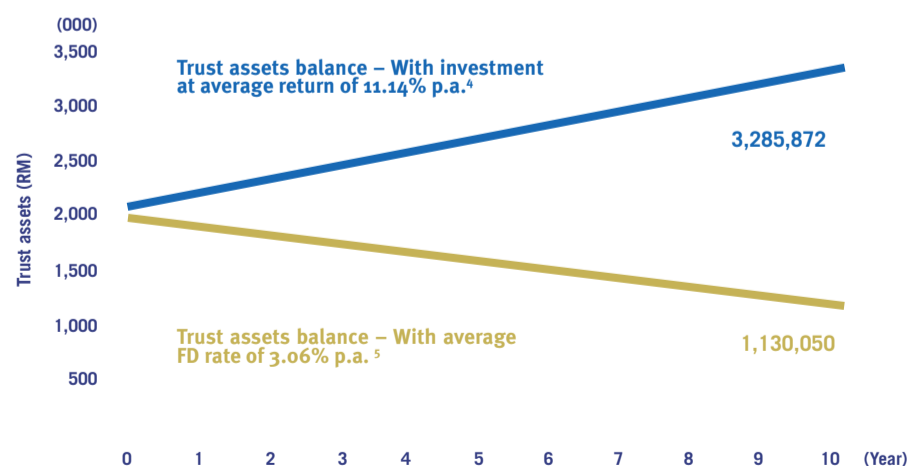
A misconception that many have is that estate planning is only for the ultra-wealthy. However, that is not true. According to Areca Capital, for more straightforward cases, even those with RM1 million to RM2 million in trust assets can consider using this service to protect and pass on their wealth.

Areca Capital's wealth managers can also provide an additional layer of protection for clients by acting as a professional adviser. They can safeguard the client's estate and ensure that the management of the estate goes according to the client's wishes.

the family wealth and legacy but also maintains the relationships within the family. No family member wants to see their relationships and wealth ruined by disagreements.

Other than preserving the wealth and relationships of families, estate planning ensures that the wealth can grow through the generations. The family

The importance of sustainability of trust assets



Notes:

¹ Assume 1% of trust assets will be paid out as fees

² Fees and distributions will be paid out at the end of each investment period (annually)

³ Assuming distribution of RM120,000 per year

⁴ Source: Lipper. Based on the average rolling three-year return period from 2008 to 2021 for top 10 funds under the Equity Malaysia category (as at February 2021)

⁵ Source: Bank Negara Malaysia. Average of 12-month FD rates from 2010 to 2020.

⁶ Past performance is not indicative of future performance