Demystifying Legacy Planning & 4 Things to Consider

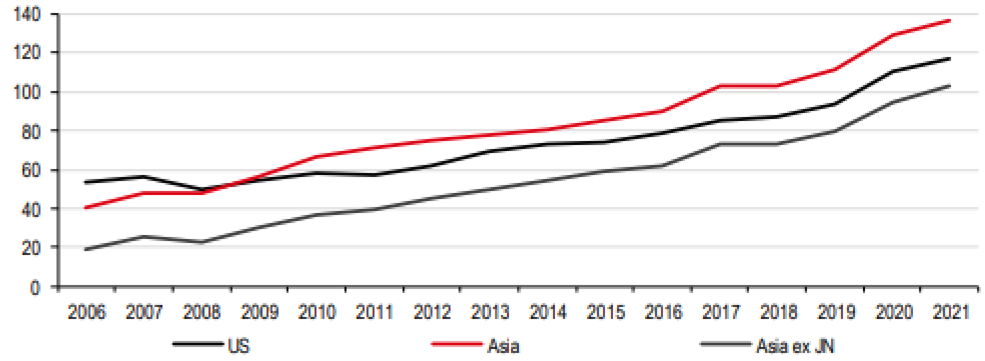
Most people who hear 'Legacy planning' will associate it as something you do after your retirement or during the declining years. But with the recent rise of unforeseen events (e.g. the Covid-19 pandemic), many people are thinking about legacy planning earlier. Before you get started, here are four things to consider.

It's not just for the wealthy

Legacy planning was once seen as the preserve of a privileged and affluent minority. But a rising tide of wealth creation, especially in Asia, means that it's becoming a priority for millions more people.

By 2025, we forecast that wealth in Asia excluding Japan could outstrip the US, while China's share in the region has already climbed to nearly 46% and Japan's has fallen to a quarter.

Chart 2: Asia's financial wealth has exceeded since the late 2000s (USD trillion)



Source: CEIC, ADB, HSBC

Another reason is that legacies are getting more complex, with assets spread over a wider number of classes and jurisdictions. Many families are increasingly global in outlook too, with relatives that live in other countries where tax laws can complicate transfers of wealth. While the government in Hong Kong abolished inheritance tax over 15 years ago[1], many countries still require it. It's essential to understand the local rules if family members hold foreign passports or are categorised as permanent residents in other places.

It's about more than money

In thinking about legacy, what do you want to achieve most? For many people it's just as much about passing on the values that they hold dear as a family, like hard work and financial discipline. For others it might be about giving their children more financial flexibility or providing a helping hand to the next generation as they start out in adult life.

The best legacy planning also takes time to understand family dynamics and to include the relevant family members in discussions, as a way of avoiding future tensions or disagreements. This can be complex, especially when family businesses are being passed on to children who may not want to continue with them.

During the HSBC-sponsored Bloomberg Asia Wealth Summit back in September, Belinda Tanoto, a managing director at Singapore-based resources group Royal Golden Eagle, shared her personal experience as someone who's grown up in a family business. She says much of the focus at her company is on communicating as a family and maintaining a sense of purpose. The goal is "to think about how you can work together, the next generation as well as the previous generation, to co-create the family business system together," she explained.

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1 https://www.mondaq.com/hongkong/inheritance-tax/36708/hong-kong-tax-law-abolition-of-estate-duty

The same lessons should apply to legacy planning in looking beyond the immediate details of the financial legacy to a broader understanding of what family members might want or need.

It’s often about more than making a will

Legacy planning may not be top of mind when you’re thinking about building your wealth, but it doesn’t have to be something you think about only after you retire.

In fact, planning a legacy offers a wider range of choices about passing on assets in ways that work best for you and your loved ones. Research shows that 70% of retired people plan to leave a legacy to their children or other relatives[2].

Life insurance policies can cover unexpected costs and loss of income from the main income-earner, for instance. But at the same time, other people choose to buy life insurance to pass down more money to their heirs when the inevitable happens. Some policies are even designed to allow the beneficiary to receive payouts in stages as a way of encouraging financial discipline.

Trusts might be more of a focus when children are too young to receive the full estate or manage their inheritance independently. And there is also the option of gifting assets in a tax-effective way in some jurisdictions.

It’s best to start planning early

The advice for most types of financial planning is that the earlier you start, the better your chances of turning your goals into reality. It’s the same with legacy planning, even though people sometimes think that it can be delayed until much later in their lives.

Moments of crisis, like our recent Covid-19 pandemic experience, are reminders of how unpredictable the world can be. We also need to think about how we manage our wealth for our retirements and how these commitments are going to align with the outlines of any legacy that we put in place.

Situations like these mean that you should start thinking about the future sooner rather than later, giving yourself the time and opportunity to put the best plan together.
This is a point made by Rachel Lim – co-founder of female fashion brand Love, Bonito – at the HSBC-sponsored Bloomberg Asia Wealth Summit. “For me, I think it wasn’t until I had my son about 19 months ago that I decided that I need to really rethink how I think about money and wealth carefully,” she admitted. “I think for me, it’s really exposing myself a lot more to the different options and choices out there…. I still have a pretty long runway in my career journey so I think for me it’s important I should have started yesterday.”

[2] Source: 2013 HSBC “Future of Retirement – Life after works?” Survey

Watch the replay of Bloomberg Asia Wealth Summit, sponsored by HSBC, to unearth more wealth opportunities: https://events.bloomberglive.com/bloomberg-asia-wealth-summit-2022/agenda

Find out more about legacy planning here: https://www.hsbc.com.hk/wealth-management/legacy/