WEALTH ADVISERS GUIDE TO

MONEY AND THE MODERN FAMILY

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BDO WEALTH ADVISERS GUIDE TO MONEY AND THE MODERN FAMILY

Foreword

By Ricardo Teixeira, CFP®

Financial planning is about bringing clarity, order and direction to your financial life. It's not about calculating the 'number' you need to retire comfortably. There is no blueprint when it comes to managing family finances. Our lives are shaped by decisions we make and experiences we live through. No two families share the same life story. Hence there is simply no single solution for the perfect retirement plan or how to fund your children's tertiary education.

Financial planning is about real life. Your life.

The modern family is not about the perfect 'white picket fence' storyline of husband and wife with two children and a dog, where everything is perfectly planned out and they live happily ever after. Family is complicated and unique because we're all about relationships and the life transitions that we live through in these relationships. Money and wealth management is often the last topic on a family's agenda for conversation. Let alone when there are modern day family complications. This is life.

The BDO Wealth Advisers Guide to **Money and the Modern Family** is about all our families, in one way or another. It's a real-life reflection of the challenges, obstacles and hurdles families face in managing money and making good money decisions.

Financial planning is providing ongoing guidance to the family on how they can live out their best life with the money they have. It's really about answering the question of will I have enough to do what I need to and want to achieve in my life. Financial planning is personal to your life story and journey. There is no tick box or 'pick a product' answer to your financial plan. No two families are the same, neither can the financial advice be the same.

We've taken inspiration from Sam, a modern family client of BDO Wealth Advisers who has walked her life journey with a BDO Financial Planner. Sam's life story has elements that we see in so many of the families that we advise today. This is a compilation of the advice, practical experience and guidance from the BDO professional financial planning team, that begins to delve into managing modern family finances. Our aim is to raise awareness of the value of having a financial planner in your life, so that you can live the life you want for your family.

CHAPTER 01 THE FAMILY UNIT

Sam is married to Tumelo and they have two children, Vuyo and William.

They are married in community of property and both Sam and Tumelo work full-time and contribute to the household finances. Tumelo has a tendency to be a big spender and often makes large purchases without discussing them with Sam. This has led to many disagreements and has also put the family in debt – something that Sam feels could be avoided if Tumelo consulted her more often.

By Hedley Lamarque, CFP®

Just as every marriage and its circumstances are unique, so is the way money is dealt with in a marriage. It can never be a one-size-fits-all solution. Every couple needs to decide what works best for them based on their circumstances, responsibilities and personalities. Another important factor is a person's upbringing and the lessons they were taught about money when they were young. In this case, Sam's parents may have been frugal and diligent savers, which resulted in her having a similar mindset, while Tumelo's parents may have been big spenders, leading him to use his money in the same way.

In this situation, Sam and Tumelo need to have a frank discussion about how they will handle the family's finances. The warning signs in Tumelo's behaviour should not be ignored. Ideally, money matters should have been discussed openly from the start of the marriage; it would have been a good idea to chat about it even before they got married, including the decision of whether or not to have an antenuptial contract instead of marriage in community of property. The couple needs to understand that often one person in the relationship has to take charge and be the leader when it comes to the family's finances – and the person with better money management skills should lead the way.

They need to agree in advance how they will share the joint household living expenses. Trust is the cornerstone of any marriage, so **financial infidelity** can, and has had, devastating consequences for many marriages.

They need to set financial goals/priorities together, and monitor them.

One of the most important and urgent discussions to have when getting married is whether to maintain separate bank accounts, have a joint account, or a combination of both. Depending on Sam and Tumelo's viewpoints, they may feel that having joint accounts would increase their overall feeling of togetherness. There are other advantages to a joint account, such as:

- Allowing each other access to funds when needed.
- More visibility of expenses; which makes it easier to track them.
- A smaller chance of financial surprises as all expenses come out of one account.
- In the event of the death of one spouse, the account will still be accessible.

For some people, however, maintaining a separate bank account is an important psychological way of preserving personal control and independence.

> **BOTH SPOUSES STILL NEED TO BE FINANCIALLY RESPONSIBLE AND AS A COUPLE THEY WOULD NEED TO DECIDE HOW EXPENSES ARE PAID, AND HAVE FREQUENT DISCUSSIONS TO RECONCILE THE FAMILY FINANCES.**

Either way, both spouses still need to be financially responsible and as a couple they would need to decide how expenses are paid, and have frequent discussions to reconcile the family finances. A couple could also decide to have a joint account to save towards a specific mutual goal, such as an overseas holiday.

In extreme cases, having separate bank accounts could be the lifeline that makes it possible for a person to leave an untenable relationship.

Sam and Tumelo would need to discuss which is the best solution for their family.

Developing a spending plan for living

Only by doing some form of budgeting of expenses, and tracking these on a regular basis, is it possible to face the reality of how personal spending choices are affecting Sam and Tumelo's finances.

Sam and Tumelo need to set up a realistic budget that includes their debt obligations, living expenses, funding business ventures, making investment contributions and money for leisure activities. This way they can track and adapt their financial behaviour to reduce the frustration and stress of managing money together. And be in a position to pick up any financial deviations that could well put their family finances in jeopardy.

Establishing a budget and following it is the best way to eliminate debt and plan for their future as a family. It will be almost impossible for them to set realistic and achievable financial goals without a budget. If "budget" is an unhelpful term that would make someone like Tumelo feel restricted and resentful, reframing it as a **"spending plan"** could encourage him to begin changing his behaviour.

Sam and Tumelo will need to decide who will contribute to which expenses. They should also work out who will handle the various day-to-day actions of financial management and bill payments. These decisions will depend on whether a joint account has been set up, or if they are going to maintain individual accounts. Marriage is a partnership, and this should be reflected in their money management.

The key expenses the budget can be split into are:

Fixed expenses: Such as home loan or rental payments, car instalments, rates and utilities and regular childcare costs. These should include any amount that stays the same from month-to-month, including credit card payments if these are standard.

Variable expenses: These would include costs that change each month, such as groceries, fuel, entertainment and eating out. It is worth having a contingency amount set aside for unforeseen expenses like unexpected car repairs.

Ultimately, Sam and Tumelo want to get to the point where their debt has been paid off and their income exceeds their budget so they can start saving and investing towards their children's education and building up their retirement nest egg.

Once they have established a good budget and are following it, Tumelo can spend money on larger purchases. A helpful guideline could be to only purchase an item once he has saved the required amount for it to be bought with cash, rather than with debt.

Some good pointers for Sam and Tumelo would include:

- Not succumbing to peer pressure. Each family is unique and should focus on creating its own family culture and financial goals, rather than trying to keep up with friends and neighbours' lifestyles.
- Setting a limit for impulse purchases (even if this is zero initially).
- Avoiding the mistake of confiding in siblings, parents and others about marital finances before first talking to one another.
- They, especially Tumelo, must learn to distinguish between nice-to-haves (wants) and needs.
- They should involve their children in the key elements of budgeting, to give them a feel of how it works, e.g. saving towards a goal, like a new bicycle, and achieving it. This will help pass on good money management skills.

"SAM AND TUMELO NEED TO SET UP A REALISTIC BUDGET THAT INCLUDES THEIR DEBT OBLIGATIONS, LIVING EXPENSES, FUNDING BUSINESS VENTURES, MAKING INVESTMENT CONTRIBUTIONS AND MONEY FOR LEISURE ACTIVITIES.

> **A HELPFUL RULE GOING FORWARD COULD BE THAT THE ONLY TIME THEY INCUR NEW DEBT IS WHERE THEY USE IT TO GROW THEIR WEALTH, SUCH AS WITH AN INVESTMENT PROPERTY OR BUSINESS.**

Debt management

Like it or not, debt is often a necessary evil to managing family finances and wealth creation. Successful debt management begins with planning and understanding the nature of the debt relative to the purchase being made.

Sam and Tumelo urgently need to get their debt situation under control. They have to determine exactly what debt they have, what have they used the debt for and then develop a plan to settle the debt that is costing them the most first, and then work at the rest over time. Sam and Tumelo need to update their Spending Plan with debt repayments and make any necessary adjustments to their budget. It does seem that those spur-of-the-moment purchases are creating stress in their marriage. In this case, Tumelo needs to understand the consequences of his reckless spending.

If the couple are not able to resolve their debt position with their Financial Planner, they may need to be referred for debt counselling. Being married In Community of Property, Sam now carries an equal share for the debt incurred by Tumelo in their marriage. This makes Sam a partner to the debt burden for the family. Tumelo should not bury his head in the sand and ignore the issue, and default on debt that is due, as it has major consequences for his and Sam's credit rating as well as consequences for their long-term wealth creation.

A helpful rule going forward could be that the only time they incur new debt is where they use it to grow their wealth, such as with an investment property or business.

Some good suggestions include:

- Settling their bills on time each month.
- Deciding together in which order to pay their debts off, with a focus on settling the most expensive debt first.
- Paying at least the minimum payment due on all their accounts; more if possible.
- Recognising the signs when they need professional help – they should not be too proud and leave it too late!
- Limiting their number of credit cards and paying off their cards every month.
- Never sign surety for anyone else besides themselves.

Pay your investments first

Once Sam and Tumelo have their spending under control, have established a realistic spending plan, and are following it, they should focus on saving and investing their surplus funds.

This would include setting attainable financial goals and putting aside an amount or percentage from their monthly salaries for:

- **An emergency fund:** These are funds they can use to cover an unexpected emergency, temporary loss of income or impending large expense.
- **Short-term savings:** These will be savings towards a goal within the next one to three years, such as a holiday or a deposit on a new car.
- **Long-term savings:** These are savings for long-term goals such their children's education, capital for their business ventures and building up retirement funds.

Sam and Tumelo's savings will go hand in hand with their budget, so it's key that they stick to their budget, as any overspending will reduce their savings.

The best way to achieve savings goals is to have fixed monthly contributions towards educational policies or investments and a retirement fund, as this will help them remain focused and avoid the temptation to spend any cash left in their account at the end of the month, rather than saving it.

The discipline of paying your investments first before you spend on living is a powerful wealth creation habit.

Another great way to boost savings is to cultivate a habit of investing a portion of any bonus they receive (once their expensive debt is settled).

Financial and risk planning

A key step in Sam and Tumelo's financial journey is to appoint a financial planner for their family. Someone who will give them financial advice and ensure that the family's finances and money habits are on track. A financial health check with a professional is especially beneficial in cases like theirs where the couple has different views about what to do with their collective funds. Having an independent, neutral person advising on their affairs can help make the discussion easier and is a great way to have family money conversations.

It would also be good for them to have a comprehensive financial plan drawn up to help them make the right choices to achieve the lifestyle they aspire to. It is much easier to change bad financial habits early than when a situation has deteriorated so badly it would take a miracle to turn it around.

The key elements a financial planner can assist Sam and Tumelo with are:

General wealth planning guidance: Which would cover budgeting, tax planning and cash flow projections to ensure that they have enough money to live the life they want.

Risk cover: Ensuring that they have sufficient life cover, income protection, disability insurance and dread disease cover, especially as they have two young children.

Investment and retirement planning: Understanding their financial goals during their working life and at retirement, and ensuring they invest sufficient funds to achieve them.

Tax planning: Taking stock of the tax implications of business and investment decisions is critical to financial planning. This aspect is often left unattended by most families which can have dire consequences on the family finances.

A financial planner would identify gaps in the family finances and give advice on all these aspects above so that they are able to use their money to live the life they want. A financial planner will also guide them in good personal

“A FINANCIAL HEALTH CHECK WITH A PROFESSIONAL IS ESPECIALLY BENEFICIAL IN CASES LIKE THEIRS WHERE THE COUPLE HAS DIFFERENT VIEWS ABOUT WHAT TO DO WITH THEIR COLLECTIVE FUNDS.

> **THE SUCCESS OF ANY FINANCIAL PLAN IS DEPENDENT ON THE BUY-IN OF EVERYONE INVOLVED. MONEY SHOULD BE A REGULAR TOPIC OF DISCUSSION FOR THE FAMILY – SHARING HOW MONEY IS EARNED, HOW THE FAMILY BUDGET IS ALLOCATED, AND WHAT THEIR GOALS AND ASPIRATIONS ARE FOR THEIR FAMILY.**

financial management habits, like drawing up a will that caters to their needs and making sure their financial affairs are properly managed.

The financial planner can act as a sounding board for any concerns or issues Sam and Tumelo may have about anything relating to their money. The planner would also assist in keeping them honest about how their financial habits are evolving as they would have regular reviews of their financial situation together.

Basic financial planning concepts around the family unit

Financial planning should include the dreams, goals and responsibilities of the entire family. The success of any financial plan is dependent on the buy-in of everyone involved. Without the participation of the entire household, Sam will face a continual uphill battle when it comes to the family's finances.

Sam and Tumelo need to talk about all aspects of money: budgeting, debt, saving and spending. Money should be a regular topic of discussion for the family – sharing how money is earned, how the family budget is allocated, and what their goals and aspirations are for their family.

Including their children (once it's age appropriate) in meetings with their financial planner will help them learn about the value of money and remove the fear of making money decisions.

Every family member should be held accountable for his or her money decisions, especially Tumelo, in this case. The children should be taught from a young age about budgeting, by using pocket money/allowances, and showing them how they can purchase "larger" items by saving towards a goal.

Save together, spend together. If Sam, Tumelo and the children decide to save for something together as a family – such as a special trip somewhere – it will show the children what saving money actually looks like.

There should be a running budget available so that Sam and Tumelo know where their money is being spent.

When it comes to money, trust and communication are key.

CHAPTER 02 BREAKDOWN OF THE FAMILY UNIT

Sam and Tumelo have not been able to consolidate their differences about spending and the large amount of debt that Tumelo has incurred over the last few years.

After various mediation sessions and attempts to make things work, Sam and Tumelo have decided that it would be best to separate, and Sam has now filed for divorce. Tumelo wants to move to Dubai once the divorce is finalised, since his brother has a business there. He has agreed to Sam receiving half of his pension fund from his current employer in the divorce.

By Talya Snowball, CFP® and Radhika Daya-Mistry, CFP®

> **BEING MARRIED IN COMMUNITY OF PROPERTY HAS ADVANTAGES AND DISADVANTAGES THAT NEED TO BE CAREFULLY CONSIDERED BEFORE OPTING FOR THIS MARRIAGE REGIME. IN THE EVENT OF THEIR DIVORCE SAM WILL NEED TO HELP CLEAR THE DEBTS OF THEIR JOINT ESTATE EVEN THOUGH SHE DIDN'T INCUR THEM.**

The pros and cons of marriage in community of property

Being married in community of property, as Sam and Tumelo were, means that all assets and liabilities are shared equally between the two partners. This includes both spouses' assets and liabilities from before and during the marriage. This choice of marriage contract essentially binds them equally in sharing in all aspects of money in their marriage.

While it may seem like this option is a good reflection of a couple's love and commitment at the start of a marriage, being married in community of property has advantages and disadvantages that need to be carefully considered before opting for this marriage regime.

Advantages:

- Both spouses would share in the profits of the estate on termination of the marriage. This is particularly helpful if one spouse needs to forgo their career to raise children.
- It promotes equal generation of ideas in financial and legal matters, which unifies communication.
- It's a simple marriage contract that doesn't need any separate legal documents to be drawn up by lawyers, which can be costly.

Disadvantages:

- Debts are shared equally between the spouses, meaning that the financially responsible spouse will also be held accountable for the debts of the irresponsible spouse, and insolvency of one person will adversely affect the other.
- Assets are shared equally, irrespective of who brought the assets into the marriage. There is no separation of assets brought into the marriage by each person so on termination of the marriage the joint estate is shared. This can be unfair for a spouse who brought material assets into the marriage.
- Important financial decisions cannot be made without the consent of the other spouse. This can result in cumbersome decision making, lead to frustration and possibly not reaching consensus and not taking action.
- Winding up the deceased estate when one spouse passes away can be complicated.

As Sam and Tumelo are married in community of property, Sam will be stuck with half the debt Tumelo brought into and generated during their marriage, even though she was financially responsible. In the event of their divorce Sam will need to help clear the debts of their joint estate even though she didn't incur them.

Alternate options

Before getting married, there were alternative marital regimes that Sam and Tumelo could have considered.

In South Africa, couples have the choice of the following marriage regimes:

1. in community of property;
2. out of community of property, with accrual; or
3. out of community of property, without accrual.

Options 2 and 3 above require an antenuptial contract to be signed before they get married. Failing which, the coupled will be deemed to have been married in community of property (option 1), as was the case with Sam and Tumelo.

By marrying out of community of property, what is commonly referred to as the 'ANC', not the political party but the antenuptial contract marriage, the spouses choose to keep their estates separate and whatever assets and liabilities they individually had before the date of marriage will remain excluded from their joint estate. They can, however, agree to include whatever is accrued between them during their marriage so that the spouse with the smaller contribution will have a claim against the estate of the spouse with a larger accrual when the marriage terminates (through death or divorce).

Couples can have one of two types of antenuptial contracts:

Antenuptial contract *with* accrual:

Before the start of the marriage, each partner declares the commencement value of their own estate (i.e. their net worth). Thereafter, all assets accumulated during the marriage belong to both spouses (except for assets that were specifically excluded from the accrual, such as inheritances, donations received or assets owned before marriage.). In other words, what was yours before the marriage remains yours, but what we created together we share. In this way the spouse with the largest increase in net worth during the marriage will have to transfer to the spouse with the lesser net worth, the difference between the two accruals.

Accrual is a way to ensure that both spouses gain a fair share of the estate created *jointly* during their marriage.

Some advantages of this marriage contract include:

- The financially weaker spouse benefits through the sharing of the joint estate created during marriage, protecting a spouse who, for instance, stays at home to raise their children.
- Spouses don't share their assets they had before their marriage, provided this is specifically excluded in the contract. For example, if you owned property before the marriage, it remains in your name and does not form part of the accrual.
- Spouses can conduct their financial affairs independently without needing consent from the other spouse for any financial decision.
- Spouses are not liable for each other's debts, so if one spouse becomes insolvent, the other's assets are protected against creditors. This would have been particularly helpful in Sam's case. However, debt of one spouse will have the effect of reducing the net value of the joint estate on termination of the marriage.

A real disadvantage of this marital regime is that the financially stronger spouse shares their accumulated net worth equally on termination of the marriage.

In a marriage subject to ANC with accrual, the liquidity of the joint net worth is an important consideration in separating the estates on termination. Meaning, that if there is an accrual payment to be made between spouses, this needs to be settled in cash or with a transfer of assets to that value. This becomes an issue when the assets in the marriage cannot be divided unless sold, like a house.

> **"BY MARRYING OUT OF COMMUNITY OF PROPERTY, THE SPOUSES CHOOSE TO KEEP THEIR ESTATES SEPARATE AND WHATEVER ASSETS AND LIABILITIES THEY INDIVIDUALLY HAD BEFORE THE DATE OF MARRIAGE WILL REMAIN EXCLUDED FROM THEIR JOINT ESTATE.**

> IN SAM'S CASE, AN ANTENUPTIAL CONTRACT WITHOUT ACCRUAL WOULD HAVE BEEN THE BEST SOLUTION. HOWEVER, IF SHE GETS MARRIED AGAIN, IT WOULD BE A REASONABLE ROUTE TO FOLLOW.

Despite having many advantages, this marriage regime does present complications on termination of the marriage.

Antenuptial contract *without* accrual

This option follows a "what's mine is mine and what's yours is yours" approach. Assets acquired before and during the marriage remain the separate property of each spouse and are never shared on death or divorce.

The advantages of this regime are:

- Each spouse keeps their own assets and is free to deal with their estate as they like.
- If one spouse goes insolvent, creditors can't attach assets of the other spouse.
- Each spouse is legally obliged to offer financial support to the other if they're unable to support themselves until the marriage ends through divorce or death.

The disadvantages include that in the case of death or divorce, each spouse is only entitled to the assets they accumulated in their name. This can be especially difficult for a spouse who contributed to the estate indirectly by stopping formal work to run the household and raise children.

In Sam's case, an antenuptial contract without accrual would have been the best solution. Unfortunately, this was only clear to her in hindsight once Tumelo's financial irresponsibility took hold in their marriage. However, if she gets married again, it would be a reasonable route to follow.

Pension funds and divorce

The relevant laws when it comes to pension funds and divorce are the Pension Funds Act and the Divorce Act.

According to S7(7) of the Divorce Act, pension and provident fund savings form part of a spouse's assets in the event of a divorce and must be considered when dividing the marital assets. Upon divorce, the non-member spouse may be entitled to a share of their ex-spouse's *pension interest*, which is why Tumelo has agreed to give Sam half of his pension fund from his current employer.

"Pension interest" is the amount equal to the spouse's cash withdrawal benefit which would have become payable, according to the rules of the retirement fund, if the spouse resigned from their fund on the date of the divorce. It's important to note that pension interest is only applicable to a *pension or provident fund*.

The separation of Retirement Annuity and Preservation Funds are dealt with differently to Pension and Provident Funds. According to the Pension Fund's Act, "pension interest" is defined differently for each type of retirement saving product and legal vehicle. The following definitions apply:

Pension and provident funds: "pension interest" is the amount equal to the member's cash withdrawal benefit which would have become payable, according to the rules of the Fund, had the member resigned on the date of the divorce.

Retirement annuity: the sum of the member's contributions to the fund up to the date of divorce plus simple annual interest at the prescribed rate. However, the total amount of annual simple interest payable in terms of the definition may not exceed the fund return on the pension interest assigned to a non-member spouse. Therefore, the non-member spouse is entitled to claim the lower of either annual simple interest or fund return on the pension interest allocated to them in terms of the divorce order.

Preservation funds: The benefit a fund member would receive if his/her membership were to terminate on the date of divorce.

The Pension Funds Amendment Act introduced the *"clean break"* principal in 2007. This principle provides for total separation of the retirement savings on divorce where the pension interest assigned to the non-member spouse is deemed to accrue to the member on the date of the divorce decree.

The following timeline needs to be followed in the case of divorce:

- Once the non-member spouse (Sam, in this case) has informed the pension fund of the divorce decree, the pension fund must ask Sam to choose her preferred method of payment (cash withdrawal or transfer to another fund) within 45 days.
- Sam then has 120 days to make her choice and provide the necessary details for payment (i.e. bank account or new pension fund details).
- The fund must then transfer or pay the amount per Sam's instructions within 60 days. Payments after this date will accumulate penalty interest.
- If Sam doesn't communicate a choice within 120 days, then the fund must pay her the cash amount within a further 30 days.
- If the fund cannot make the cash payment, the benefit (including any fund returns) will remain with the pension fund until the required details to make the payment are provided.

For Sam, this means that if everything goes according to plan and all their documents are in order, it could take almost eight months for her to get the divorce pay-out from Tumelo's pension fund. A rather lengthy process but one that achieves a clean break and separation of assets on divorce.

If Sam decides to take the pension interest as a cash lump sum, she will be liable for tax on the cash payment. If she chooses to transfer the pension interest to another retirement fund, then no tax will be due when the transfer is made. If she retires or withdraws from this fund at a later stage, the normal tax rules will apply.

The decisions needed to be made during and after divorce can be overwhelming and will certainly present unknown complexities and consequences. Having a Financial Planner guide and advise you through this life transition is valuable.

> **IF EVERYTHING GOES ACCORDING TO PLAN AND ALL THEIR DOCUMENTS ARE IN ORDER, IT COULD TAKE ALMOST EIGHT MONTHS FOR HER TO GET THE DIVORCE PAY-OUT FROM TUMELO'S PENSION FUND. A RATHER LENGTHY PROCESS BUT ONE THAT ACHIEVES A CLEAN BREAK AND SEPARATION OF ASSETS ON DIVORCE.**

CHAPTER 03 THE BLENDED FAMILY

After a few years, Sam meets someone new, Peter. They have grown very fond of each other and would like to take things to the next level in their relationship.

Peter is a single parent with an adult child, Paul. Peter comes from a very different background and culture to Sam. Peter is also very careful with his financial affairs and often takes the more cautious approach with spending. He believes that being able to provide for your family is much more important than trying to keep up appearances or pretend to be something you're not. Sam finds this refreshing after her previous relationship and the debt that she inherited from Tumelo due to the fact that they were married in community of property.

By Miré Delport, CFP®, Candice Wernick
and Sue Cogswell, CFP®

Peter and Sam are excited to take the next step in their relationship and start their "forever after". To begin their relationship with all their cards on the table, there are a number of important things they need to discuss. Typically, second marriages come with a more complex financial life. In their case, they need to consider how to structure their family finances to factor in Sam's minor children, Peter's adult child and the possibility of caring for aging parents. This makes combining their finances more complicated.

To give their new marriage the best chance of success, we have identified some crucial financial planning discussion points every blended family should consider.

Transparency about their financial situations

Open and honest communication is key in a healthy relationship. It's important that Sam and Peter schedule time to sit together and fully disclose where they stand financially, particularly as Sam is carrying debt from her previous marriage. To avoid any surprises and get off on the right foot, they need to talk about:

- **A family budget:** This should include discussing day-to-day spending, such as household expenses, medical expenses, family funding obligations and overall spending habits and priorities.
- **Debt:** A discussion about credit card debt and overall debt they each bring to the relationship. It is also important to mention if either partner has ever filed for bankruptcy.
- **Overall assets:** Sharing information about both partners' current investments and retirement accounts.
- **Estate planning:** Their personal wishes for how they envisage their respective estates being distributed on their death.

Open conversations about money are fundamental to a healthy marriage. Appointing an independent Financial Planner to guide you is a meaningful step forward in having regular money conversations. Transparency of family finances is not a once off exercise.

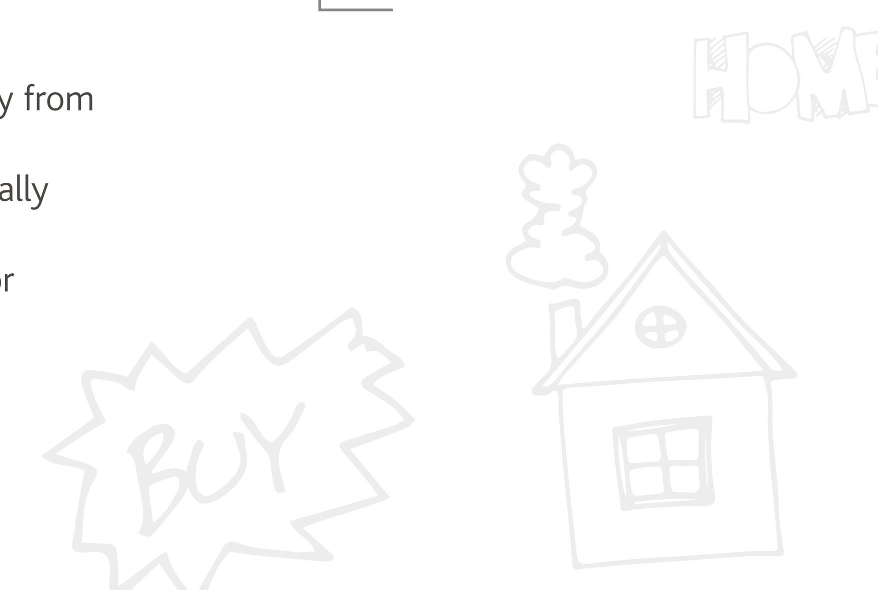
Disclosing financial obligations

Sam and Peter are at very different stages in their lives: Sam still has two minor children and Peter has an adult child. It's very important that they discuss their current financial obligations, as well as any future costs that may occur.

They should think about costs and timelines for each of the following expenses, as well as how they will account for them:

- Sam's minor children and her alimony from Tumelo.
- Whether Peter's adult child is financially dependent on him.
- The possibility of financial support for aging parents.

> **"TYPICALLY, SECOND MARRIAGES COME WITH A MORE COMPLEX FINANCIAL LIFE. APPOINTING AN INDEPENDENT FINANCIAL PLANNER TO GUIDE YOU IS A MEANINGFUL STEP FORWARD IN HAVING REGULAR MONEY CONVERSATIONS.**



What's mine, yours, ours?

Sam and Peter understand one another's financial situation and now face the decision of how to integrate their finances in their new blended family. Peter and Sam need to discuss if they want to:

- Set up an account for joint expenses and keep their other assets separate,
- Combine all their cash, debts and expenses, or
- Keep everything separate and simply divide up the allocation of bill payments.

Whatever they choose, they need to agree on specific ground rules for spending and saving.

Sam and Peter shouldn't be afraid to talk about an antenuptial agreement that documents how they will participate in their individual and joint wealth created during their relationship. They can discuss what assets, if any, will be held jointly and what assets will be protected if they separate. It's not something that many couples want to think about at the start of their relationship, but it is an important step in protecting the assets each partner brings into the relationship, as well as the rights of their children.

Estate planning

Once Sam and Peter have discussed how they are going to blend their financial lives together, the next step is making sure they have made sufficient provisions to take care of their loved ones in the event of their death or a disability.

Sam needs to update her will after getting divorced to make sure that her assets don't go to her former spouse. Reaching out to a Legal Advisor (or asking their Financial Planner for a referral) would be recommended to ensure that all her wishes are clearly outlined in her new will.

Once her will is updated, their Financial Planner will be able help ensure that all her wishes in the will can be fulfilled, and that she will have sufficient liquidity in her estate to cover all her liabilities and expenses.

To make sure her children's inheritance is protected and that they would be looked after in the event of her death, she should consider creating a testamentary trust to hold their funds until they reach a particular age. She can nominate trustees she thinks will have her children's best interests at heart and they will be able to distribute funds from the trust to support her children for education and any other financial needs. Sam should also include who she would like to be the guardian of her minor children in her will.

Risk planning

Insurance is often overlooked in family money conversations. Risk planning and getting life, disability and income cover is an important step in taking care of loved ones in the event of death or disability. It's an effective solution to covering the needs of your dependents in the event that you are not able to provide for what they need. Their Financial Planner can help Sam and Peter work out how much risk cover they should take out for the unplanned events when life happens.

To start the process, their family's assets and liabilities need to be quantified: this will include bonds, loans, vehicle repayments and outstanding debts. This is especially important as Sam has debts from her marriage to Tumelo and there may be other liabilities in her divorce agreement.

Then they can look at how much the surviving spouse would need in the event of their death to cover their portion of monthly expenses, and for how long.

Peter's cover should take into account whether his adult child is financially dependent, and, if so, how much financial support Paul will need on his dad's passing, and for how long.

To determine how much life cover she should take out, Sam needs to assess how much money is required each month to look after her dependants,

"TO START THE PROCESS, THEIR FAMILY'S ASSETS AND LIABILITIES NEED TO BE QUANTIFIED: THIS WILL INCLUDE BONDS, LOANS, VEHICLE REPAYMENTS AND OUTSTANDING DEBTS. THIS IS ESPECIALLY IMPORTANT AS SAM HAS DEBTS FROM HER MARRIAGE TO TUMELO AND THERE MAY BE OTHER LIABILITIES IN HER DIVORCE AGREEMENT.

> **INCOME PROTECTION IS DESIGNED TO REPLACE OR SUPPLEMENT SOMEONE'S INCOME WHEN THEY ARE UNABLE TO PERFORM THEIR WORK DUTIES AND ARE PAID FOR TEMPORARY OR PERMANENT ILLNESS OR DISABILITY AFTER A WAITING PERIOD OF BETWEEN SEVEN DAYS TO SIX MONTHS, DEPENDING ON THE TERMS OF THE COVER.**

and for how long. For Sam's children, who are currently minors, she will need to cover school fees, transport, food and accommodation until they are about 25 years old.

Let's say Sam earns R40,000 per month, there is a bond of R1,500,000 and she owes R250,000 in debt from her divorce. Her children, Vuyo and William, are 11 and 12yrs old, respectively. Their costs are R7,000pm each and she hopes they will go to university. She also wants to be able to provide R10,000 a month to Peter for 15 years in the event of her death. The costs necessary to wind up her estate must also be taken into account.

Sam will need to take out the following cover to provide for these things:

- R4,692,000 life cover.
- R1,750,000 lump sum disability.
- R30,000pm income protection, with a one-month waiting period.

Her financial planner would request quotes from various insurers to compare which insurer would provide the most cost-effective premium for her.

To determine how much disability cover to take out, Sam and Peter's Financial Planner will help them work out the capital amount needed to pay off their bond and other liabilities. To provide for them and their family's needs, they would need to replace the amount equivalent to their net income. If they need to use this cover, they will receive a tax-free lump sum to pay off the bond and other liabilities. The lump sum, or part thereof, will only pay out if there is permanent disability and it may take several months or years before the extent of the permanence of a disability is known.

Income protection is designed to replace or supplement someone's income when they are unable to perform their work duties and are paid for temporary or permanent illness or disability after a waiting period of between seven days to six months, depending on the terms of the cover. The likelihood of this benefit being paid in the short term is higher than that of a lump sum disability to supplement a loss of income. This benefit will not pay out for lack of work, as has been experienced during COVID-19, although that type of circumstance may be covered under short-term business insurance.

For Sam and Peter, the importance of planning for these unfortunate events is an important aspect of planning their financial future together. Neglecting risk planning could put them and their family under significant financial pressure if any of these tragic events were to occur.

What happens to retirement funds when you pass away?

It's important that Sam and Peter's beneficiary nominations for their retirement funds are kept up to date. Beneficiary nominations are a record of your wish for the distribution of your retirement funds.

Pre-retirement funds (such as Retirement Annuities, Pension and Provident Funds and Preservation Funds) have special rules that are applied when someone dies. If someone passes away before retirement, the proceeds of all their pre-retirement funds will be distributed to their dependents. The determination of who your dependants are is decided by the Trustees of the retirement fund and they will look at who you support financially. This means that, for example, if you nominate your minor children as beneficiaries but you financially support a parent, the Trustees will consider distributing a portion of your pre-retirement funds to your parent as well. By nominating all your dependents as beneficiaries on these investments, it makes it easier for the trustees to locate them and pay out the proceeds.

Post retirement funds (specifically Living Annuities) are not subject the above rules for pre-retirement funds. The proceeds of post retirement funds are paid out directly to the nominated beneficiaries on the investment. This means that beneficiaries can receive the proceeds quicker. If there is no beneficiary nominated, the funds will be paid into the deceased estate, increasing the executor's fees and estate duty.

It is important to highlight the distinction between 'beneficiaries' and 'dependents' though, as we often see in practice the impact of poor financial planning in this regard. A beneficiary nomination is your wish of how you would like for your retirement savings to be distributed. The actual decision of who benefits from your pre-retirement funds is at the discretion of the trustees to the fund. The trustees make an independent assessment of who was financially dependent on you prior to your death, and allocate your retirement benefits on death accordingly.

With Sam and Peter in particular, they need to consider their retirement fund beneficiary nominations and will in relation to their dependents. Their Financial Planner will be best placed to advise on an appropriate solution to ensuring that their wishes are fulfilled.

Dreaming for their new life together

Sam and Peter have an opportunity to dream about what they see for their future together. With the help of their Financial Planner, now is the time for them to set strong financial foundations to achieve their blended family goals and dreams.

Talking about finances is not the most romantic topic, but a higher percentage of second and third marriages end in divorce than first marriages, and so it is very important that Sam and Peter have these conversations right at the beginning of their relationship.

By being open and transparent and carefully considering each aspect of their financial plan, Sam and Peter can protect themselves, their children and their assets, no matter how their relationship fares in the future.

"PRE-RETIREMENT FUNDS HAVE SPECIAL RULES THAT ARE APPLIED WHEN SOMEONE DIES. THE DETERMINATION OF WHO YOUR DEPENDANTS ARE IS DECIDED BY THE TRUSTEES OF THE RETIREMENT FUND AND THEY WILL LOOK AT WHO YOU SUPPORT FINANCIALLY.

CHAPTER 04 EXTENDED FAMILY – THE DEPENDENT PARENT

Sam and Peter have made some good choices together to ensure that they can provide for their family.

Sam receives news from her mother, Londi, who has been forced to retire at the age of 61 due to the COVID-19 pandemic. Londi only has her employer retirement fund that she invested in while working, and was planning on only retiring in four years' time at the age of 65. Londi is concerned that she will not be able to sufficiently provide for herself due to her forced early retirement. Sam is worried that she might have to care for her mother if they cannot find a suitable solution, which will add to her own financial pressures in her new blended family.

By Desiree Raghubir, CFP®
Marichen Momberg and Arlene Lakay

> **THE GOAL OF RETIREMENT IS TO NEVER WORK AGAIN WHILE STILL HAVING A SUSTAINABLE INCOME, BUT UNFORTUNATELY THAT'S NOT POSSIBLE FOR MANY PEOPLE AS THEY HAVEN'T SUFFICIENTLY SAVED AND PLANNED FOR RETIREMENT.**

Common retirement savings myths

Londi is facing several difficult decisions as a result of her enforced early retirement. She is also learning tough lessons about some of the myths of retirement savings that she hadn't fully understood until now.

"I don't need a financial plan, I have a retirement fund with my employer"

One of the most common traps that people fall into with their retirement savings is only relying on the amount of money that is put away monthly from their salary into their employer's compulsory retirement fund. In reality, funds from an employer's compulsory retirement plan are not enough to provide a sustainable income in retirement.

During her early working years, Londi focused on using her income to settle debt and pay for her living costs, including her children's school and university fees. She only saved the minimum amount towards retirement, intending to increase it later on, but never managing to do so. Retirement planning is never convenient, but without it she has been left with too little to live on.

The goal of retirement is to never work again while still having a sustainable income, but unfortunately that's not possible for many people as they haven't sufficiently saved and planned for retirement. This might force them to still look for other means of income when already retired, as is the case for Londi.

In planning for her retirement, it would have been opportune for Londi to sit down with a Financial Planner to discuss her goals for retirement, and to then develop a plan for what she needed to save, and what types of savings to invest in, while working in order to achieve that. *Everyone needs a financial plan. It's not only for the wealthy.*

Next steps

To help Londi get to a workable solution for the financial dilemma she finds herself in, she needs to start with some serious homework. Taking stock of her financial position. The best thing Londi can do in her current circumstances is to get an accurate view of her financial situation so she can plan her next steps. Some specific things she needs to consider and action:

- Put together a summary of her assets and liabilities to get a clear picture of her current level of debt and what she has available to draw an income from.
- Create a timeline for her assets and liabilities – putting dates to when the debts are due or when she can assess her savings.
- Request the latest value of her retirement fund from her employer.
- Find out if she will be getting severance pay, how much it will be and when she can expect to receive the payment.
- Create a monthly budget with her day-to-day requirements, debit orders, etc.
- Develop an annual budget (spending plan) that includes vehicle and home maintenance, birthday and Christmas gifts and holidays so she can establish her required living expenses for after retirement and know where to cut back.
- Consider how she will build up an emergency fund if she doesn't have one already.
- Work out a retirement activity schedule of what she will do to fill her days (this could include volunteer work, pursuing her hobbies, part-time work, etc.). Everyone needs enough purpose to get up in the morning, even if you're retired!

Finding the right help

Getting help from a Financial Planner will be important for both Londi and Sam as they address Londi's situation together. A Financial Planner will bring an objective and fresh perspective to the deliberations facing Londi and her daughter and will be able to help Londi with a plan on how she can best use her retirement capital to provide her income during her lifetime. Londi's financial plan will also identify any shortfall in income that Sam may be called on to cover during Londi's living years.

As Londi only has compulsory retirement funds and she has no liquid savings readily accessible, she may have to consider drawing the maximum lump sum amount allowed on her early retirement, even though there are tax implications for doing so. Her Financial Planner would be able to advise her on how the cash lump sum should then be reinvested and used to settle any debts. When deciding how to restructure her finances, the key tax implications Londi needs to be aware of are that the annuity income (monthly pension she will draw from her savings) gets fully taxed; any interest or dividends that get paid out are also taxable; and in both cases capital gains tax will apply. Any retirement capital that remains invested is untaxed and grows tax free. So it's always advisable to minimise the amount of income one draws from retirement savings to minimise tax. But that needs to be balanced with living needs.

Because of retiring earlier than planned and having no investments other than her compulsory retirement funds, Londi needs to do what she can with what she's got to try and make her money last. This could mean carefully reconsidering any big capital expenditure (like refurbishing her kitchen or taking a holiday) she might have initially planned for retirement.

Options for her retirement funds

Taking the maximum cash lump sum from her retirement funds (even if it means paying upfront tax) and investing the cash lump sum amount into a suitable investment, will give Londi the flexibility of having access to these funds when she needs them, which she wouldn't be able to do from a living annuity or guaranteed annuity.

Re-investing that money into a discretionary investment (like a unit trust) will help her balance the tax on her total income through interest and dividend exemptions and capital annual exclusions.

> **IT'S ALWAYS ADVISABLE TO MINIMISE THE AMOUNT OF INCOME ONE DRAWS FROM RETIREMENT SAVINGS TO MINIMISE TAX. BUT THAT NEEDS TO BE BALANCED WITH LIVING NEEDS.**

> **THE MAIN ADVANTAGES OF A LIVING ANNUITY ARE THAT IT WOULD GIVE LONDI FLEXIBILITY BECAUSE SHE CAN CHANGE HOW MUCH SHE WANTS TO DRAW FROM IT EACH YEAR.**

For any remaining lump sum amount from her retirement funds that Londi cannot take in cash, she has the option of re-investing either in a *living annuity* or *a life annuity*. Although the terms sound similar, there are distinctive pros and cons to these two types of investments.

Essentially, in a **living annuity** Londi would invest a lump sum amount and then be able to choose how much and how often to withdraw money from that lump sum and its accumulated interest over time. With a **life annuity**, the lump sum is invested and Londi would get a set, guaranteed monthly income for the rest of her life.

The main risks of retirement are living longer than your money lasts, and your income not being able to keep pace with your living expenses. Londi needs to balance her options and choose the correct annuity options for her personal situation and requirements to reduce these risks. That's where a Financial Planner can really help.

Pros and cons of a living annuity

The main advantages of a living annuity are that it would give Londi flexibility because she can change how much she wants to draw from it each year. For her children, if there are still funds left in a living annuity when she passes away, they will inherit the remaining investment. The capital in the living annuity fund would also not be subject to estate duty when she dies. However, the risk of managing the capital and income would rest with Londi, and if she draws down on the income and capital value in the fund during her lifetime, her income from the annuity will end because income is based on the amount invested and would not be guaranteed for her entire lifetime.

If Londi chooses a living annuity, she does have the option to switch it to a life annuity at a later stage. With a living annuity, how much income she draws out of it each month would depend on the amount of capital left in the annuity at that point in time. Simply put, with a living annuity your monthly income is limited to the value of the investment remaining. It will only last for as long as there is capital to draw on.

Pros and cons of a life annuity

The most obvious advantage of a life annuity is that Londi would have a guaranteed monthly income until she passes away. The problem with this is that although the annuity may increase at a set percentage every year, she has no flexibility in how much money she can get out of the investment and the annual increase may not be enough to cover her living costs over time.

> BEING RESPONSIBLE FOR A PARENT BRINGS A STRESSFUL FINANCIAL DYNAMIC INTO A FAMILY'S FINANCES. TAKING FINANCIAL GUIDANCE FROM A FINANCIAL PLANNER CAN HELP ALLEVIATE THE STRESS AND BURDEN OF DECISIONS THAT NEED TO BE MADE.

Two disadvantages of a life annuity are that once someone passes away, the investment ends and nothing is passed on to their family and, unlike a living annuity, a life annuity cannot be converted into a living annuity at a later stage, its structure is locked in.

In choosing which of the two to invest the remainder of her retirement funds in, Londi should consider what her daily living expenses will be, her age and state of health, how stable other aspects of her life are, and how much money she will have once her enforced retirement is implemented.

Financial implications for Sam

Sam is understandably concerned about her mom and wants to be able to help as much as she can, taking into account her and Peter's other financial responsibilities. She can start by re-looking at her own budget to see if there is any room for adjustment to free up money to help support Londi. This could include postponing some luxuries or big planned expenses like a new car or holiday. Helping to take care of her mother financially could result in higher levels of debt for Sam or she may need to use her savings and emergency fund to cover her mother's living expenses.

Sam could also consider taking out additional life cover on Londi's life to offset any debt that she accumulates from supporting her mother. It would add to Sam's monthly expenses, but would also mean that the lump sum cash amount received from the life policy when Londi passes away could cover any additional debt Sam might have incurred while supporting Londi. Likewise, Sam may consider taking a life insurance policy on her life to cover the living expenses for her mother in the event of Sam dying before her mother.

Being responsible for a parent brings a stressful financial dynamic into a family's finances. Taking financial guidance from a Financial Planner can help alleviate the stress and burden of decisions that need to be made.

CHAPTER
05

EXTENDED FAMILY – ELDERLY CARE

Sam has been able to address the issues around her mother's financial affairs.

However, Peter has just shared with her that his father, John, is struggling with early dementia and that he is worried about his cognitive and physical health in the future due to hereditary family health issues. Peter has been trying to think of a solution so that he is able to assist his father in making the best decisions about his future care. Peter was impressed by how Sam dealt with her mother's new situation and he tells her that he would like to take action to ensure that his father is also provided for.

By Lisa Griffiths, Rashika Hiralal,
David Crossley, CFP® and Peter Harten, CFP®

Peter and his family are facing many difficult decisions in light of his father's diagnosis. Dementia will increasingly affect John's decision-making skills, meaning that over time he will need help managing his health and financial affairs. It's important for Peter to understand that if he undertakes to look after his father's health and finances, it will have an impact on his and Sam's finances and independence.

John may be able to manage some areas of his finances, such as paying bills and managing small amounts of cash and shopping for a time. However, he might not be able to oversee larger financial matters like home repairs, reconciling bank accounts, deciding when to invest or disinvest, and who to trust as a reliable adviser.

As dementia can progress to the point where John is legally incompetent and unable to manage his financial affairs, Peter needs to discern when the best time will be to take steps to help his father. This can be a sensitive and difficult decision as John may find it hard to let go of his independence. Sam and Peter should include the whole family, any siblings and relatives close to John, in their discussions and decisions.

Ageing and illness are stressful life transitions for everyone involved and affected. Having open conversations as a family about the financial implications and actions that need to be taken is a good starting point.

A trusted Financial Planner to the family may be a helpful person to get guidance from as they navigate the various steps and processes of managing John's finances.

Appointing someone to manage your affairs

John could grant a power of attorney to Peter which would mandate Peter to act on behalf of his father in all financial transactions. However, a power of attorney is only valid while John is of sound mind. When John reaches the more advanced stages of dementia and is incapable of managing his affairs, the power of attorney will cease to be a valid form of authority for Peter to act on behalf of his father. Peter may be held personally liable for any financial loss to his use of the power of attorney, meaning that it carries risk for him.

Another common solution that Peter could consider to manage John's financial affairs is to have signing powers on his bank and investment

> “ IT'S IMPORTANT FOR PETER TO UNDERSTAND THAT IF HE UNDERTAKES TO LOOK AFTER HIS FATHER'S HEALTH AND FINANCES, IT WILL HAVE AN IMPACT ON HIS AND SAM'S FINANCES AND INDEPENDENCE. SAM AND PETER SHOULD INCLUDE THE WHOLE FAMILY, ANY SIBLINGS AND RELATIVES CLOSE TO JOHN, IN THEIR DISCUSSIONS AND DECISIONS.

accounts. This will allow Peter to control John's finances, but is not always advisable because again, if Peter is found to have misused his father's money, he can be held legally liable.

In most cases, a family member although the most obvious choice, may not be the right person to manage John's affairs. The family may also consider approaching the court to appoint a Curator Bonis as legal administrator of John's financial affairs. This is a costly exercise but may be a solution for Peter to consider.

As Peter, Sam and their family decide on who to appoint and how best to provide the support that John needs, some of the issues they will need to talk about include:

- Would John and Peter be happy to have a trusted family friend or family member manage John's affairs?
- What intensity of administration will this require?
- Will there be an ongoing cost for such a service?
- Can the person appointed be trusted to act in the best interests of John?
- What is the state of John's financial position?
- How will John's physical care be managed and who will pay for this care?

Setting up a trust as an alternative to an administrator

Another option is for John to establish a special trust to manage his financial affairs. The advantage of a special trust is that John can decide who the trustees will be. Trustees would usually include family members and at least one independent trustee.

John will then donate or transfer his assets on loan account into the special trust. There are tax implications and tax planning to take into consideration in transferring assets to a trust. If John sets up a 'Type A' special trust, which is created for the benefit of someone with a mental disability, the trust's income and capital will be taxed at the same rate as an individual taxpayer would be.

The trustees will then have full responsibility and control of the trust assets and be able to make decisions and control the trust assets for John's benefit and care, as needed. It's important to note that the special trust would need to be established while John is still mentally capable of making his own decisions. .

Annuities and regular income payouts

John may be receiving a pension from his employer's pension fund or from his own retirement savings. If John's pension is derived from a Living Annuity, Peter will need to ensure that the investment portfolio is appropriate to John's projected lifespan and income needs. With a living annuity, the investment risk lies with the retiree.

In order to minimise investment risk and the uncertainty of John running out of money before he dies, Peter may consider converting his father's living annuity into a guaranteed pension, called a Life Annuity, to minimise the risk of investment market fluctuations.

If John's pension is guaranteed by an insurer through a Life Annuity, the monthly income payments will be fixed or may include an annual inflationary increase, and Peter won't need to make any further decisions to manage the pension as John will continue to receive a monthly income for the duration of his lifetime.

Healthcare solutions

John will need help with deciding where to live and whether he requires personal carers, frail care or high care. He could move to a retirement village where he can live independently and then relocate to the assisted-living within the village when it becomes necessary, or, he could stay in his current house and have a personal carer.

“ IN ORDER TO MINIMISE INVESTMENT RISK AND THE UNCERTAINTY OF JOHN RUNNING OUT OF MONEY BEFORE HE DIES, PETER MAY CONSIDER CONVERTING HIS FATHER'S LIVING ANNUITY INTO A GUARANTEED PENSION, CALLED A LIFE ANNUITY, TO MINIMISE THE RISK OF INVESTMENT MARKET FLUCTUATIONS.

> THE TYPE OF INVESTMENT PORTFOLIO THAT PETER CHOOSES FOR HIS FATHER WILL MOST LIKELY REQUIRE LITTLE DAILY MANAGEMENT. AN ACTIVELY MANAGED OR PASSIVE INVESTMENT PORTFOLIO WOULD BE MOST SUITABLE.

Both options have cost implications that John, Peter and their family will need to consider and factor into their family financial plan.

It is possible that Peter may want his father to live with them, which will require lots of open, honest communication between him and Sam, and may lead them to move to a new home or to renovate their existing house to accommodate John's needs.

Medical expenses can mount up, so Peter should ensure that his father is properly covered by a comprehensive medical aid plan. John's medical expenses may also include chronic medication and the services of a carer.

Longevity - running out of life before you run out of money

The type of investment portfolio that Peter chooses for his father will most likely require little daily management. An actively managed or passive investment portfolio would be most suitable. Apart from his health issues, Peter's main risk is that John runs out of money before he dies. In this case, Peter will be responsible for all expenses to maintain his father and this could put a strain on his relationship with Sam. Having a Financial Planner advise on the longevity of capital that John has available to meet his living expenses for his lifetime is a very important starting point. This cash flow calculation is not an accurate science, but a guide using best available information at a point in time as to how long John's money will last.

Having a picture of what one's financial position looks like may be frightening. Yet, very empowering to enable you to plan ahead and make informed financial decisions.

While the questions around how best to care for John may seem daunting, Peter should reach out to professional advisors that can help him and Sam. He can engage the services of a Financial Planner, lawyer and doctor to establish the best course of action on the range of issues they face. It may also be advisable for Peter, Sam and their family to approach a psychologist to help everyone process the challenges of John's diagnosis.

Aging and illness are stressful life transitions. However, pre-empting the problems and if handled sensitively and with understanding, John will be more likely to accept the situation.

CHAPTER 06 THE DEPENDENT ADULT CHILD

The COVID-19 pandemic is taking its toll on both Peter and Sam's extended families.

Peter's son, Paul came to see them and informed them that he has been retrenched and will not be able to keep paying the rent on his flat. He has asked if he can move in with Peter and Sam until he is able to get back on his feet. Peter and Sam are both able to earn their full salaries by working from home and can assist Paul in the short-term. They have a family meeting and tell Paul that the arrangement will be temporary and that they need to come up with a plan together for how he will contribute to the household while he looks for alternate employment. Paul has always looked up to his father's good money habits and tells them that he has been putting money aside since he started working and has savings equivalent to about six months' salary that he can tap into.

By Sue McLennan, Zanele Kunene, CFP®, Dimpho Sizani and Tumisang Modiba

CHAPTER

06

THE DEPENDENT ADULT CHILD

Family dynamics can be challenging, especially regarding finances, as is the case in a blended family like Sam and Peter's. If Peter's son, Paul, moves in with them as a result of being retrenched by his company, honest, open communication and a united front from Sam and Peter need to set the tone for a harmonious home and happy family.

Before Paul moves back into the family home the following needs to be done:

- Sam and Peter need to analyse their budget for the past 6 months at least.
- Using their current household budget Sam and Peter should project the increase in household expenses by determining their monthly cost per family member. Assuming the monthly household expenses amount to R35 000, adding Paul could increase the expenses by around R8 750 per month (using the current average household R35 000/4 family members) per month.
- Paul would therefore need to contribute at least R 8 750 per month to cover the additional household expenses arising from him moving in with his family.
- Paul would need to use his saved capital (emergency fund) for this until his UIF claim has been processed. He could buy groceries or pay other household expenses to this value.
- Paul will apply and claim for UIF as he qualifies for this benefit on retrenchment.
- Any shortfall in the contribution made by Paul to the household expenses could be recorded as an 'interest free family loan' to Paul. More about this later.
- Sam and Paul will review the monthly expenditure each month to check that Paul's contributions are fair and equitable for Sam and Peter as well as for himself.
- All non-essential financial transactions i.e. holiday's and other large purchases, planned for the year will be reviewed and reconsidered. This conservative approach reduces the risk of over-spending and allows more liquidity, in the families' emergency savings.
- The family will consider opportunities for additional savings that can be realised due to Paul moving in e.g. caretaking of Sam's mother and babysitting of his step-siblings whilst looking for alternative work could be good opportunities for Paul to contribute non-financially to the family living expenses. This will free up time for Sam and Peter in their day for other important tasks.
- Sam and Peter need to lay down clear behavioural and financial boundaries and communicate general house rules e.g. entertaining of friends, conservation of utilities such as electricity and water to keep overheads down.

> "ALL NON-ESSENTIAL FINANCIAL TRANSACTIONS FOR THE YEAR WILL BE REVIEWED AND RECONSIDERED. THIS CONSERVATIVE APPROACH REDUCES THE RISK OF OVER-SPENDING AND ALLOWS MORE LIQUIDITY, IN THE FAMILIES' EMERGENCY SAVINGS.

As much as these topics may appear obvious at face value, without clear communication and a conversation on these and a wider range of matters, family stresses can develop around finances. Paul can ease the household responsibilities instead of adding to them, the change could be beneficial to the entire family.

Implications of retrenchment for Paul

A loss of employment and income is a stressful life transition. Each person will face their own particular scenario and factors which will need to be addressed and worked through in order to arrive at a position of financial peace of mind. For Paul, we would suggest he takes advice on the following areas:

- Paul has a rental lease agreement for his apartment. He will need to assess options to exit the lease agreement, either not renewing it and letting it run it's course or negotiating with his landlord to sub-let it. Best option would be to negotiate a favourable termination of the lease.
- Prior to his retrenchment, Paul had group risk cover through his employer group scheme for life cover, disability income protection and dread disease. Sam and Peter encourage him to consider continuing with the cover in his personal capacity as there is limited medical underwriting required and this would alleviate any liability for the family unit. This is an additional cost to the family budget, but has a number of valuable benefits to Paul's personal financial position.

When Paul finds alternative employment, he can cancel the personal cover and accept cover from his new employer. Or he could retain this cover to enhance his potential new group risk cover.

On retrenchment or resignation, one generally has 3 months to implement the continuation cover option. The process is also relatively easy as it only requires a few health questions to be answered and in certain instances, blood tests to be performed. As Paul is young and healthy he should be accepted with cover immediately. Although there is a monthly premium to be paid, having these insurance benefits in place may give Sam and Peter peace of mind for Paul's financial wellbeing.

- Paul has contributed towards his company's retirement fund during his employment. He therefore has two options on what to do with his retirement savings:
  - Withdrawing the full capital saved – subject to income tax; or
  - Transferring his retirement savings into a preservation retirement fund for his retirement years after age 55 – no tax liability and he also has the option of one partial or total withdrawal prior to age 55 in the event of an emergency.

Cashing in early on retirement funds is taxed as per the tax tables (first R25 000 tax free and then balance on sliding scale).

Tax Table for Retirement Fund lump sum withdrawal benefits:

Taxable Income (R)	Rate of Tax
1 – 25 000	0%
25 001 – 660 000	18% of the amount above 25 000
660 001 – 990 000	114 300 + 27% of the amount above 660 000
990 001 and above	203 400 + 36% of the amount above 990 000

" A LOSS OF EMPLOYMENT AND INCOME IS A STRESSFUL LIFE TRANSITION. ON RETRENCHMENT OR RESIGNATION, ONE GENERALLY HAS 3 MONTHS TO IMPLEMENT THE CONTINUATION COVER OPTION.

SAM AND PETER BOTH CONTRIBUTE TOWARDS THEIR RESPECTIVE COMPANY RETIREMENT FUNDS. THEY ALSO BOTH HAVE A RETIREMENT ANNUITY. IT IS IMPORTANT THAT THEY CONTINUE TO CONTRIBUTE TOWARDS THESE INVESTMENTS.

Tax Table for Retirement Fund lump sum benefits or Severance Benefits:

Taxable Income (R)	Rate of Tax
1 – 500 000	0%
500 001 – 700 000	18% of the amount above 500 000
700 001 – 1 050 000	36 000 + 27% of the amount above 700 000
1 050 001 and above	130 500 + 36% of the amount above 1 050 000

Sam and Peter recommend that Paul transfers his capital into a Preservation Fund and use his emergency capital in the interim to cover his expenses.

- Paul will be paid a severance package of one week per year he has been employed by his company. According to the Income Tax Act, the first R500 000 in relation to severance benefits are not subject to tax, taking into account previously received benefits. Paul can utilise this tax relief on the lump sum payout to add to his emergency savings. Paul will invest his severance benefit into a money market or call account for easy access and use as an emergency fund with little or no risk exposure ensuring that the capital is sustained.
- Paul is on a medical aid via his company. He will transfer it into his own name so that there is no break in membership. He could investigate if he can downgrade the plan to make it more affordable at the same time. His existing savings account is in credit, but he wants to retain this for medical purposes even though he could access it if he can justify financial hardship. If Paul cancels his medical aid for a period of time, there will be penalties levied against his premium if he restarts it after he turns 35 years old. In addition to this, there could be waiting periods whereby he cannot claim of between 3 months to one year.

Since Sam has been working with her Financial Planner, this life event of having Paul move back home is an appropriate point in time for both Sam and Peter to review their financial plan and financial dreams and goals. Some of the areas that they will explore with their Financial Planner:

– *Are they on track with their retirement savings and investments?*

Sam and Peter both contribute towards their respective company retirement funds. They also both have a retirement annuity. It is important that they continue to contribute towards these investments. However, if after six months Paul cannot continue to contribute towards the household, Peter may temporarily stop contributing towards his retirement annuity redirecting those funds into the household as Paul is his biological son and not Sam's.

– *How they can structure the support they are giving their son on his retrenchment?*

A loan agreement should be drafted to cover any advance or financial benefit given to Paul while he is living with his family, that he is not able to pay or make a contribution towards. The loan agreement between Paul, Sam and Peter would be beneficial to apply fair treatment between their children. This will also ensure that Sam and Peter's retirement goals are not compromised by helping their son with a temporary solution after his retrenchment.

Once Paul's financial situation has been resolved, Peter will have to increase his retirement annuity contributions to make up for lost contributions. Alternatively, Peter may use the loan proceeds as a lump sum contribution for his retirement annuity.

– *What impact will the arrangement with Paul have on their long term cash flow projections?*

It would be useful for their Financial Planner to update their cash flow analysis based on various scenarios to ascertain what impact their support of their son is likely to have on their retirement plans.

Should there be a cash shortfall as a result, the couple could consider working longer and delay their retirement; or they could opt to take on a high risk profile for their investment portfolio to make up the shortfall. It is important to know in advance what their future financial position is likely to look like, rather than be surprised in the future.

Regardless of the scenario or the challenges that lie ahead for the family, there is always a solution that can be implemented for their financial peace of mind.

Regaining financial independence

Although Paul has an emergency fund (cash in the bank savings to fund 6 months' living expenses), Peter and Sam may consider entering into a loan agreement with him if his cash flow runs dry and he is still unemployed.

The written agreement should stipulate the terms of the loan, including repayment conditions. For Sam and Peter, the loan agreement will be taken into account in their estates on death as an amount due by their son to them. This will result in the loan being offset against inheritance due to Paul on their passing. Thereby allowing for an equitable distribution of their estate to all beneficiaries as per their will.

A monthly finance check-in will help Paul, Sam and Peter manage their expectations and provide the family with an opportunity to review and adjust their budgets as necessary. It's an open conversation that will lead to a maturity about the financial position for the family and for Paul as he regains his financial independence.

Paul may need to update his budget to reflect changes or developments in his personal circumstances and ensure he meets all his financial commitments. The regular check-in is a meaningful exercise to keep an eye on any potential pitfalls or obstacles in his journey to financial independence.

Having conversations about money as a family is beneficial to everyone. It brings a level of openness and connection to the family members. Regardless of how challenging or difficult a life event may seem at the outset, establishing new habits and finding the right solutions for the family can turn a negative situation into a positive family experience.

BDO Wealth's guide:
TALKING ABOUT MONEY AS A FAMILY
Read more>

"A MONTHLY FINANCE CHECK-IN WILL HELP PAUL, SAM AND PETER MANAGE THEIR EXPECTATIONS AND PROVIDE THE FAMILY WITH AN OPPORTUNITY TO REVIEW AND ADJUST THEIR BUDGETS AS NECESSARY. IT'S AN OPEN CONVERSATION THAT WILL LEAD TO A MATURITY ABOUT THE FINANCIAL POSITION FOR THE FAMILY AND FOR PAUL AS HE REGAINS HIS FINANCIAL INDEPENDENCE.

CHAPTER 07 THE GLOBAL FAMILY

Sam's ex-husband, Tumelo, successfully relocated to Dubai a year after their divorce. He has so far kept his commitment to his children by paying a monthly alimony to Sam.

However, Tumelo never formally emigrated to Dubai where he has been living and working for the past 5 years earning a tax-free income. He has just informed Sam that he has sold his business in South Africa. Tumelo's accountant in South Africa has notified him that he has been audited by the South African Revenue Service (SARS) and will have to pay a large amount in tax before the financial year end. Tumelo is worried that he will not be able to continue with his alimony payments due to this payment to SARS.

By Anna Brand, Nisha Govender and Lizanne van Eeden

It is more common than not for South African families to be spread across multiple continents and cities. Simply through relocation and the ease of global migration. The personal and relationship factors aside, the financial and tax related consequences of relocating are most often overlooked or ignored. As with Tumelo, he simply exited South Africa without any serious consideration about the impact on his personal financial position.

When relocating globally, there are two areas of financial consideration that all South African citizens should take guidance on, namely:

- What are my exchange control obligations with the South African Reserve Bank (SARB) Exchange Control Regulations?
- What impact will my relocation have on my tax status with South African Revenue Service (SARS)?

As with Tumelo, he mistakenly assumed that once he left South Africa, he had emigrated. Living abroad alone does not change your status with SARS or SARB. As he did not take any specific action at the time to clarify his position with SARS and SARB, and that he continued to own and operate a business in South Africa, he remains a SA citizen and taxpayer.

Exchange control

All South Africa citizens are subject to Exchange Control Regulations. The regulations are governed by SARB and largely restrict the exchange of Rands in and out of the country. In order to be 'free' of South African exchange control regulations, Tumelo would have to submit an emigration application to SARB using form MP336(b). This begins the process of formal financial emigration from South Africa.

Even though Tumelo did not make this application at the time of leaving South Africa, he can make an application at any time to change his status with SARB. However, until such time that he makes formal application, he has an obligation to comply with South African exchange control regulations relating to Rands that he earns or inherits.

Changing his status with the SARB will allow him to freely repatriate Rand earnings from his South African business into any foreign currency of his choice. He would also have no restrictions placed on him in terms of:

- receiving an inheritance directly into his foreign bank account;
- claiming proceeds under a retirement annuity before the legislated age of 55; and
- receive proceeds from a life insurance policy.

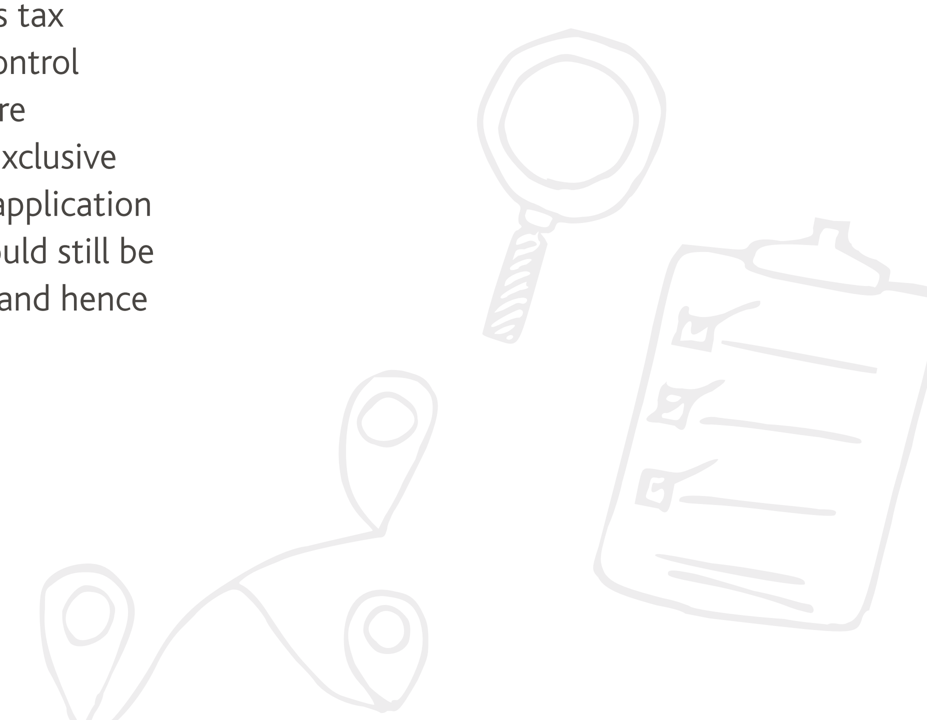
The capital from the sale of his business will need to remain in Rands unless he uses his annual SARB investment or travel allowance limits.

Tax status

Tumelo has discovered that relocating to Dubai did not change his tax status with SARS. Although he never returned to South Africa after he left and he continued working and living in Dubai, he may still be considered a South African tax resident by the SARS for tax purposes. In this instance he will be obligated to account for income tax on his worldwide earnings. This is extremely punitive for Tumelo as Dubai is a tax-free jurisdiction with no 'Double Tax Agreements' with South Africa, and he has not submitted his tax return since leaving SA 5 years ago. Hence the audit by SARS.

It's important to point out that Tumelo's tax status is independent of his exchange control status with SARB. The two regulations are independently regulated and mutually exclusive from one another. So even if he makes application with SARB to financially emigrate, he could still be considered a South African tax resident and hence liable for income tax in South Africa.

> **LIVING ABROAD ALONE DOES NOT CHANGE YOUR STATUS WITH SARS OR SARB. IN ORDER TO BE 'FREE' OF SOUTH AFRICAN EXCHANGE CONTROL REGULATIONS, TUMELO WOULD HAVE TO SUBMIT AN EMIGRATION APPLICATION TO SARB USING FORM MP336(B). THIS BEGINS THE PROCESS OF FORMAL FINANCIAL EMIGRATION FROM SOUTH AFRICA.**



If Tumelo however takes action to be a non-resident for tax purposes, he would still be liable for capital gains tax on the sale of his South African business. Tax residents and non-tax residents are both accountable for CGT arising from the sale of a SA asset. For Tumelo, he's in for a minimum tax liability equivalent to 18% of the capital gain realised from the sale of the business.

In addition, the value of his income earned in Dubai which is greater than R1 million will be subject to South African income tax less any taxes paid in Dubai.

In order to minimise the SARS tax obligations, it would be advisable for Tumelo to engage a tax consultant to asses the options available to him and his particular circumstances.

Alimony payments

Tumelo has told Sam that he is under financial pressure and may not be able to continue paying his monthly alimony and maintenance towards the care of their two children. This has been exacerbated by the tax liability assessed by the SARS on the sale of his business.

If Tumelo is really in financial difficulty as he says he is, he should apply to the relevant Magistrate's Court in South Africa to have his maintenance amount reduced. He will have to provide the court with sufficient proof of his financial affairs to support his claim for reduction in alimony. If the court is satisfied, it will issue a maintenance order with an updated amount and the date on which the payment is due to Sam every month.

What Tumelo definitely shouldn't do is to just stop paying maintenance, because that would be a criminal offence and can lead to a fine, imprisonment of up to one year, or both. If Tumelo doesn't pay Sam the reduced amount from the new maintenance order for a period longer than 10 days, he would have to prove to the court that he was unable to pay the alimony due to a lack of income. The court may issue an order against Tumelo's South African assets for the alimony amount if his reasons for non-payment aren't accepted.

The fact that Tumelo lives in Dubai doesn't absolve him from his responsibility to provide financially for his children in South Africa. However, it can become complicated for Sam if Tumelo repeatedly fails to comply with the maintenance order in the future. South Africa doesn't have a reciprocal enforcement agreement with Dubai, and Sam would have to approach legal counsel based in Dubai to help her in a claim for maintenance, which could be a very lengthy and expensive process.

Sam is hopeful that Tumelo will be able to continue with the monthly payments as he has remarkably improved his spending habits since the divorce and has always made his children's care a priority. However, Sam would be best placed to take pro-active steps in assessing the financial impact of a change in alimony payments on her cash flow and financial position. Sam's Financial Planner will be able to update the cash flow modelling in order to determine the cash flow impact on her financial planning.

The complexities of relocating across boarder to another country requires technical tax and exchange control advice related to your particular circumstances. The benefits of taking professional advice in dealing with multiple jurisdictions far outweighs the risks of going it alone and DIY through the maze of tax residency and exchange control. Having a Financial Planner on your side is a good starting point to addressing the implications of a global relocation.

> **THE COMPLEXITIES OF RELOCATING ACROSS BOARDER TO ANOTHER COUNTRY REQUIRES TECHNICAL TAX AND EXCHANGE CONTROL ADVICE RELATED TO YOUR PARTICULAR CIRCUMSTANCES.**

BDO WEALTH ADVISERS GUIDE TO MONEY AND THE MODERN FAMILY.

Close

By Ricardo Teixeira, CFP®

Life is a journey of change and transitions. We are constantly shifting and finding the new balance with all that life has to offer and that we find in our path.

BDO Wealth Advisers Guide to Money and the Modern Family is simply a snapshot and sneak peek into a few of life's transitions - marriage, divorce, ageing, illness, relocation and so the list goes on. It's a proven fact that as humans we can live through as many as 50 transitions in one's lifetime.

Money is the currency for funding our lives.
It should not drive what we do but should rather be the means with which we live the best life that we can. Without a financial planner at your side who can prompt you to identify and plan for your next life transition, balancing life and finances can become a fiasco.

Regardless of who you are or where you are in your life, everyone can benefit by having a trusted financial advisor who can walk the journey with you as your money coach and guide. Your Financial Planner may not be able to change the course of your life or the transformations you are going to live through, but with a Financial Planner at your side you will most certainly have peace of mind that you're making the best money decisions for you and your family every step of the way.

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