Five essentials of wealth succession

A law firm partner shares what matters most

Host:

Hello again, everyone. Today we are joined by Ms Wang Xiaoxue, a partner at King & Wood Mallesons, to discuss how high-net-worth individuals can approach succession planning more systematically and effectively.

Title: Five steps to a clearer understanding of wealth succession

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1. Traditionally, succession planning or making a will has seemed distant, or even a taboo subject. How has that perception changed in recent years?

On-screen text: How have perceptions of succession planning changed in recent years?

My strongest impression comes down to one word: early. (On-screen text: 1 key message — start early)

In the past, many high-net-worth individuals saw succession planning as a distant concern, something to consider only as retirement approached or health issues arose. Experience has shown that this view urgently needs to change.

For entrepreneurs in particular, business risks also bring uncertainty and complexity to wealth succession. (On-screen text: Entrepreneurs face multiple uncertainties.) If a business encounters difficulties, debt can substantially erode family wealth. Succession planning therefore requires a systematic approach: early preparation, thoughtful structuring and long-term maintenance.

2. Among the high-net-worth clients you work with, what are their main concerns about succession?

On-screen text: What matters most to high-net-worth individuals in succession planning?

When discussing succession, high-net-worth clients generally seek two forms of certainty. (On-screen text: 2 forms of certainty)

First, certainty over the assets. (On-screen text: Certainty over assets)

High-net-worth clients have often accumulated substantial wealth, including financial assets, property and business equity. They want to avoid the loss or depreciation of that wealth during succession.

Second, certainty over the recipients. (On-screen text: Certainty over recipients)

They want to ensure that wealth passes to specific recipients in accordance with their wishes, avoiding disputes arising from intestate succession or the execution of a will.

They also consider matters such as targeted wealth transfers, tax optimisation and preparing the next generation.

3. There are various succession tools available, including insurance, wills and trusts. From a legal perspective, what are the most important criteria for a good succession plan?

On-screen text: What makes a good succession plan?

A good succession plan balances clarity, flexibility, risk segregation and privacy protection. A family trust, for example, offers three key advantages that meet these criteria. (On-screen text: 3 key advantages)

First, a two-way segregation mechanism. (On-screen text: 1. Two-way segregation) The trust relationship separates the settlor's property from the trustee's property so that they do not affect each other.

Second, considerable flexibility. (On-screen text: 2. Flexible customisation) Assets can be allocated to different recipients in accordance with the settlor's wishes, with conditions specified for beneficiaries to receive trust property.

Third, a family trust can support effective family governance. (On-screen text: 3. Enduring governance) Establishing a family trust with perpetual duration can help address potential future issues in advance.

4. When establishing a family trust, what should settlors consider to achieve their succession objectives?

On-screen text: What should be considered when establishing a family trust?

Establishing a family trust is a systematic strategic undertaking, with four key considerations. (On-screen text: 4 key considerations)

First, review and analyse the family's assets in detail and clarify its wealth succession objectives. (On-screen text: 1. Clarify objectives)

Second, select an appropriate trustee, giving preference to licensed trust companies or institutions with extensive asset management experience. (On-screen text: 2. Select an institution)

Also, develop flexible asset allocation and investment strategies. (On-screen text: 3. Develop strategies)

Finally, establish contingency and crisis management plans, together with regular reviews and mechanisms for ongoing adjustments, to ensure the trust operates steadily. (On-screen text: 4. Establish contingency plans)

5. Succession planning is a long-term undertaking. In practice, what seemingly small details do high-net-worth individuals most often overlook?

On-screen text: Which details are most easily overlooked in succession planning?

In my experience, clients most often encounter five pitfalls. I have therefore summarised five practical tips for avoiding them. (On-screen text: 5 tips for avoiding pitfalls)

First, outdated beneficiary designations. When arranging insurance, retirement accounts, bank accounts and similar arrangements, high-net-worth clients should keep beneficiary information up to date. (On-screen text: Avoid outdated beneficiary designations)

Second, a mismatch between the will and the assets. Many clients know they should make a will, but they should also check that its provisions align with the actual registration and ownership of their assets. (On-screen text: Avoid mismatches between wills and assets)

Third, overlooked debts. Do not overlook the principle that an estate must first settle its debts. Plan debt segregation in advance or reserve sufficient funds for repayment, to avoid a substantial reduction in the assets heirs actually receive. (On-screen text: Avoid debt blind spots)

Fourth, privacy management. Consider using tools such as insurance and trusts to facilitate private succession, avoiding family tensions caused by public disclosure of asset distributions. (On-screen text: Avoid privacy breaches)

Fifth, relying on a single tool. Consider how different succession tools work together, rather than relying solely on one, to avoid gaps or unsatisfactory outcomes. (On-screen text: Avoid reliance on a single tool)

Even after avoiding all these pitfalls, remember to update the succession plan promptly as family circumstances, assets or laws and regulations change. Communicate the plan fully with family members to avoid disputes during implementation.

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