Estate Planning is only for the rich. Myth or Fact?

CPF Board 00:07
Hey and welcome to Let's Talk CPF a podcast where we bring conversations on CPF to your years, brought to you by the CPF board. This podcast will answer common questions, offer tips, and feature interviews with industry experts on CPF and financial planning. Thanks for listening and let's get straight into today's episode.

Ning Xin 00:29
Hello, I'm Ning Xin from CPF board, and today we have Albert from MoneyOwl back on the show with us. Hello, Albert.

Albert 00:33
Hello, Ning Xin.

Ning Xin 00:36
We last had you on your show when you shared how first jobbers should plan their finances. And we are here today to talk about estate planning. But first for new listeners, can you tell us more about yourself?

Albert 00:53
Sure. My name is Albert and I'm from MoneyOwl. My work involves conducting financial literacy workshops for working adults in both the private and public sectors. I also support my colleagues from the advisory and marketing departments with subject matter expertise on topics ranging from insurance to investment CPF and estate planning. Do take time to listen to the previous episode if you have not.

Ning Xin 01:18
Okay, Albert let's get into it. What is estate planning?

Albert 01:23
Estate planning is about how you want your money, savings and assets you worked hard for distributed after your death. Having an estate plan in place benefits your loved ones that you will leave behind. Losing a loved one is an emotionally and financially stressful event for most of us. So we can do our part to leave a legacy and to provide our loved ones with our hard earned assets.

Ning Xin 01:48
How do we even start estate planning?

Albert 01:51

There are three principles to guide us in our planning. Number one - preservation, number two - creation and number three - distribution. Now many people are unaware that death in Singapore can be quite a costly affair, and proper planning helps us reduce the financial burden on our loved ones. These costs include funeral and final medical expenses, which can vary widely depending on your health care and end of life expectations. It can cost anywhere from a few 1000 to even as high as a few $100,000. The lesser known costs include potential outstanding Income Tax, loans under your names, and legal and probate costs incurred in the process of distributing your estate. Hence, it is important for us to identify all the potential leakages in our estate to ensure there is enough capital set aside for each of them. This in turn, helps us preserve the value of our estate and ensure that our loved ones will be getting the most from our estates.

Ning Xin 03:02
Okay, you mentioned earlier that there are three principles, preservation, creation and distribution. Now that we've covered preserve, what about creation?

Albert 03:12
Creating an estate is essentially using the right types of insurance plans to take care of the corresponding expenses. Our MediShield Life and integrated shield plans will take care of our final medical expenses in the hospital. Life insurance plans will pay out a lump sum, and that can be used for other expenses, such as funeral expenses, outstanding income tax, or any other legal and final expenses. One of our biggest liabilities will probably be our HDB loan. And for that, we had the mandatory home protection scheme, or HPS to take care of that. For those who own private properties, it is advisable to protect the sum of your outstanding mortgage with life insurance.

Ning Xin 03:57
But why do I still need insurance if I already have set aside money in my savings for my loved ones to use?

Albert 04:03
Well, this is because your savings and investments are usually frozen upon your death. And your executor or a family member will require a grant of probate or letters of administration to release these funds. Think of it as a license to access your estate. Insurance is a good tool as there is a provision for up to $150,000 pay out from each insurance policy to the rightful claimants. These people can be your next of kin and they just need to file a claim with your death certificate. The rest of the insurance payouts can come after your family gets hold of the grant of probate or letters of administration. Now that we've covered preservation and creation, let's talk about how we can distribute our assets. It is not so much about how you distribute but more of how you can ensure the process is quick and simple for our loved ones. Therefore, we need to use the right tools to document our wishes and to inform our loved ones of our intentions. Different types of assets need to be distributed with different tools. The first tool that comes to mind for many is a will.

Ning Xin 05:19
Can you tell us in very simple terms what a will is?

Albert 05:22
A will is a legal document that specifies how and who you wish to bequest your estate to. A will can save your loved ones a great deal of effort and lower the cost of estate distribution. However, a will cannot cover all your assets.

Ning Xin 05:40
And which assets are these?

Albert 05:42
Jointly owned assets, monies in your CPF accounts, unused CPF life payouts from dependents protection scheme and certain insurance policies. Now you can make a simple CPF or insurance nomination to simplify the distribution of these assets. Jointly own assets will bypass the probate process and follow the rule of survivorship. Jointly owned assets, which for most Singaporeans include HDB flats own under joint tenancy and also joint bank and investment accounts. Most people own the HDB flats by a joint tenancy. In this manner of ownership, the rule of survivorship takes over upon the death of either co-owners. The surviving owner then assumes full ownership of the property. Other manners of owning a property include tenancy in common and sole ownership. You can will properties held in these two manners. I just want to highlight that joint ownership of assets can actually be viewed as a substitute for a will. This can be an easy way to discuss estate planning matters with your grandparents or anyone who may be averse to this topic. For example, instead of writing a will to distribute their monies, they can simply open joint accounts with whomever they intend to bequest their monies to. This way you save time and effort and simplify the whole process for everyone.

Ning Xin 07:18
I think you mentioned earlier that there are certain insurance policies that cannot be willed. What are these insurance policies?

Albert 07:27
There are two types of nominations for insurance policies. A revocable nomination an irrevocable nomination, also known as a trust nomination. A trust is the strongest tool in wealth transfer, because you relinquish your rights to the assets you put in trusts. As a result, creditors cannot claim monies held in the trust as well. When it comes to insurance, the best practice will be to attach a nomination for each policy that you own. Should you have made an irrevocable nomination before, then that policy cannot be included in your will as you no longer own it. You can also include all your insurance policies under schedule of assets and attach it to your will. Insurance companies will pay out according to the latest properly executed document made known to them.

Ning Xin 08:21
I'm still trying to accumulate enough of my retirement nest egg and I definitely have not started estate planning.

Albert 08:28
Well, estate planning is relevant for anyone who owns assets, and I'm sure you do Ning Xin. Often, people have a misconception that the process is time consuming and it can be expensive, and

therefore they end up procrastinating and even not doing it all together. Just want to highlight nominations are all free of charge, and you just need a few minutes to fill them out. CPF nominations can be done online with your Singpass, and many insurance companies are also slowly transitioning to paperless nominations. In my course of work, I have done estate planning ranging from straightforward cases to more complex ones. At its simplest, I can assist clients in writing a simple will which can be completed in less than 15 minutes. However, a simple will assumes that all your assets are first sold upon your death and the proceeds are distributed in cash following the percentages you specify. For those with more specific requests, a comprehensive will can be written at a professional will writer or law firm for a few hundred dollats at most. Of course, the cost may differ depending on the complexity of your will and the place you have it written.

Ning Xin 09:48
I just like to cut in here to remind everybody to do your CPF nomination today.

Albert 09:54
Yes, CPF nomination is definitely important.

Ning Xin 09:57
But one very common sentiment is that I don't ever have money for myself, much less others, why should I start planning my estate to give to others?

Albert 10:05
Estate planning is not just for the rich. You see, I also regularly conduct estate planning workshops for working adults. What I've noticed is that the wealthy already have many plans in place, as they know the challenges of building wealth and potential issues of generational wealth transfer. If you feel you're not rich, all the more you should start your estate planning. If we do not own huge assets, those leakages that we discussed earlier, could simply drain off most if not all of your assets, leaving your loved ones with nothing. I would also like to debunk another myth that your spouse will inherit everything upon your death. This is far from the truth.

Ning Xin 10:52
So what happens if you do not set up a plan?

Albert 10:55
The intestate succession act will take over, for Muslims, the Administration of Muslim Law Act specifically the Faraid under Sharia law, we will take over. I will go through the intestate succession act as the latter is more complex and requires compliance to the Sharia law.

Ning Xin 11:15
Can you share an example?

Albert 11:16
Sure, let me share an example of a young couple who just got married in their 20s. Let's name them Jack and Jill. They have planned for a nice self-drive honeymoon holiday in the US. Unfortunately,

severe bad weather occurred during their road trip. Tragedy struck. Jack and Jill leave behind about $50,000 assets each both sets of parents and no children. They have not written their wills thinking that they are still young and it can wait.

Ning Xin 11:49
What are the issues at hand then?

Albert 11:51
There are two potential issues from not having done their estate plan. Number one, a common disaster, where both died together, which leads on to number two, unequal distribution according to the intestate succession act. Now Ning Xin, you want to make a guess what happens when a couple dies together?

Ning Xin 12:12
All the money goes to somewhere at the same time, probably to the closest relative?

Albert 12:19
You see, the Act only provides for the transfer of assets from one person to another. While most would assume in the case of Jack and Jill, their assets will simply flow to someone. That's far from reality. In the case above, someone must die first for us to apply the Act on their assets. There is a little known clause for cases known as simultaneous deaths. The younger one is deemed to have survived the older one. Assuming Jack is older than Jill, then in the eyes of the law, Jill is deemed to have survived Jack even though both of them died together.

Ning Xin 12:59
Oh wow. I definitely did not know this.

Albert 13:01
Yes, so Jack being the older, his assets of $50,000 will be split between his parents and his spouse Jill. We are done with Jack for now. So let's move on to Jill. Jill now has $75,000 total assets, which remember, $25,000 came from Jack's estate. Jill's $75,000 will now flow to her parents. So even though Jack and Jill passed away at the same time, Jack's parents will get less assets than Jill's parents simply because Jack is older than Jill. Jack's parents end up with $25,000 share of their son's assets. And Jill's parents have a $75,000 share of their daughter's assets.

Ning Xin 13:52
What if my spouse and I are the same age?

Albert 13:55
I have yet seen any couples who is born exactly at the same time. Even twins have a different birth time. I must say this is really a match made in heaven.

Ning Xin 14:06
So everyone, please review your wills after getting married!

Albert 14:10
Yes, and include the common disaster clause and plan for contingencies. This is even more important if you are a parent and have minor children who will require guardians in the event of your death. Just like your financial plan or health screening, you do not just do it once. It is important to review your wills and nominations upon important milestones in life or when there's a change in your life stage. For example, getting married, having a child or filing for a divorce. CPF nominations are currently treated in the same way as wills. They are revoked upon marriage to give the member an opportunity to make a new nomination. We can easily understand this as there is a setting up of a new family unit, and provisions are expected to be made for this marriage. However, wills and CPF nominations are not revoked in the event of a divorce, as that CPF member may still intend to provide for his ex-spouse and children from the previous marriage. Remember to review your wills and nomination if something bad happens to your marriage to avoid any surprises down the line.

Ning Xin 15:28
I'm a mother of two young children. Do you have any final advice for listeners like me?

Albert 15:33
For parents with minor children or children under the age of 21, it is even more important as they are unable to take care of themselves and still require the care of a guardian. Should your children be approaching 21, it is also a good time to review your wills and nominations. You may inform them of your intentions before anything bad happens. I believe young adult children should always be included in money conversations early on in life.

Ning Xin 16:06
Thanks, Albert. I will now definitely look into planning my estate and for everyone, the first step is to make your CPF nominations. And with that you've been listening to Let's Talk CPF.

CPF Board 16:18
Before you go, we would love to hear from you. Email us with your questions or comments at podcast@cpf.gov.sg so we can create better content for you. You can also leave us a review on a platform you're listening from to help others learn about our podcasts. For the latest news, visit cpf.gov.sg/podcasts or follow our social media pages. Thank you once again until the next time, let's talk CPF!