Dave Pohl & Associates

FINANCIAL INFORMER

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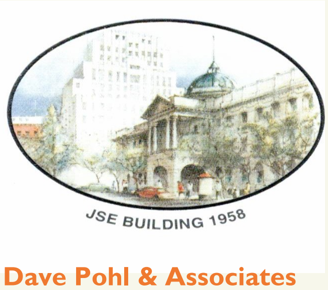

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Baby Steps

Being new to parenting is not for the fainthearted. Apart from learning how to perform several smelly tasks, there are a multitude of long term plans that you now need to put in place. Here are 5 of the most important to consider.

A beaming young couple share their wonderful news: "We're pregnant. What should we do now?"

Perhaps the most joyful life event and game-changer for a couple's financial plan is the birth of their first child. In that spirit, here are the top five baby steps for new parents.

Money matters

As you start to prepare for those inevitable baby expenses, you'll want to first evaluate what your monthly budget looks like today. By performing a cash flow analysis that breaks down your take-home income, monthly savings, and your fixed and variable expenses, you can identify areas where you can cut costs and bolster your savings. A good idea would be to start a baby savings fund where you set aside money for one-time expenses such as a crib and stroller, as well as ongoing expenses such as daycare and nappies.

Learning curve

People are increasingly recognising the importance of a good education and are also aware of its escalating costs. Education inflation historically runs at about 3% per year above the inflation (CPI) figure, so the cost of education is generally increasing at a more rapid pace than our salaries.

It is important to know that a money market fund provides returns close to inflation, but more important to consider investments exposed to growth assets e g equities and property that should provide returns well above inflation and education inflation (with the associated risk).

These typically are available in balanced funds or growth funds, which can be accessed via education policies and unit trusts. A savings plan requires taking the appropriate risk to deliver long-term inflation-beating returns.

Unit trusts and investment policies provide ideal vehicles to use as part of an education savings plan, depending on your savings behaviour and requirements.

Most children are ready for school at age seven. If your child is born today, you will be required to save R3 800 per month to send your child to private school and university to do a three-year business degree. This is if you increase your premium with education inflation every year. Remember that your salary may go up every year with inflation too. However, if you keep your premiums level, you will be required to save R8 100 pm.

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If you plan to send your child to public school and university to do a three-year business degree and you increase your premium with education inflation, you will only be required to save R1 500 pm. If however you keep your premium level without increasing it yearly as your salary goes up, you will be required to save R3 200 pm.

Look at a unit trust or endowment, depending on your needs. I will be happy to use a financial planning application to see how much you should be saving each month if you want to invest in unit trusts or in an education policy.

Life matters

The first time you are separated from your new bundle of joy, whether it's for a few minutes, hours, or days, you may begin to wonder what would happen if you were no longer around to protect him or her. There are many life insurance options available. While each individual situation is different, young parents on a budget may consider an affordable life insurance policy that offers a set death benefit amount sufficient to cover their family's financial needs. Remember, one of the most important aspects of life insurance is to make sure that if an unexpected event befalls you, your spouse and children can maintain their economic quality of life.

Long term

Make sure that you nominate guardians to care for your child in the event that both you and your spouse pass away simultaneously. Also establish provisions in your will that make sense for your children's specific needs. You may also potentially not like the idea of your child / children receiving all of their inheritance in a lump sum at age 18 if you pass away prematurely. A trust will allow control of the timing of distributions. You could, for instance, elect for one-third of your assets to be transferred at age 25, one-third at age 30, and one-third at age 35. Spreading it out this way would reduce the chances that a young adult child might spend an inheritance all at once.

Your Own Retirement

With all of the new baby expenses adding up, it can be challenging to stay the course with your current financial and investment plan. It's a common misstep for parents to focus their finances around their children at the expense of their own retirement savings. It is advisable that the best way to take care of your child is to take care of yourself (they will thank you later). Your children are counting on you to be there for the long run. Show your kids how you prepare and save for the future.

Be a great financial role model for your kids. The sooner you start, the sooner you and your family may achieve financial independence.

Baby's 0 to 6 month milestones

Motor Milestones

While lying on tummy, pushes up on arms

While lying on tummy, lifts and holds head up

Able to move fists from closed to open

Able to bring hands to mouth

Moves legs and arms off surfaces when excited

Sensory Milestones

While lying on back, attempts to reach for a toy held above their chest

While lying on back, visually tracks a moving toy from side to side

While lying on back, keeps head centered to watch faces or toys

Able to calm with rocking, touching, and gentle sounds

Enjoys a variety of movements

Communication Milestones

Quiets or smiles in response to sound or voice

Turns head towards sound or voice

Shows interest in faces

Makes eye contact

Cries differently for different needs (e.g. hungry vs. tired) Coos and smiles

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Powerhouse African Joint Wills

Dr. Precious Moloi-Motsepe & Patrice Motsepe

The Motsepes are South Africa's richest black family with a net worth estimated at over $2.5 billion by Forbes. Quite notably, they recently announced that they will follow the footsteps of Bill Gates and Warren Buffett and donate half of their wealth to philanthropy efforts.

Maria Ramos & Trevor Manuel

She led the turnaround of South Africa's rail transport industry during her tenure as Group Chief Executive of Transnet Limited; he spearheaded the country's Finance Ministry for over a decade. Separately, they are both highly respected in their individual politics and business sectors, together, Maria Ramos and Trevor Manuel can quite easily be called South Africa's Royal Finance Couple.

Beyond the grave

Most people are aware of the importance of having a will. A will ensures your wishes are known and followed and that the assets you spent a lifetime accumulating are distributed as you intended. But a Will can also be used to ensure you take advantage of certain tax saving opportunities which are available to a taxpayer on his or her death. This article looks at two strategies which one can incorporate into a Will which will result in tax savings on and after death.

Cancellation on debts / loan accounts owing to deceased

One often finds the situation where during the course of their lifetime, a person has loaned money to family members, often children, or to a trust established to acquire assets separately from the lender's estate. The transfer of funds from the planner to his or her children or trust, to purchase for example a property or a business, is often structured by way of a "friendly" loan rather than a donation because donations attract donations tax at 20% (except for the first R100 000 per tax year which is exempt). The loan is often made interest-free and is repayable on demand by the planner at an unspecified future date.

Once the loan account is raised, it could later be waived or written off by the planner. But the tax implications of doing so could be severe – the write-off will be treated as a donation, attracting the donations tax mentioned above, but it is also deemed a capital gains tax event in the hands of the debtor, triggering a capital gains tax ("CGT") obligation. Thus the opportunity to waive or write-off debts is fairly limited while the planner is alive. However, on death the situation is different. If the planner dies and in his or her Will, the debt is waived, this is not considered a donation and furthermore the write-off of a debt in a Will is specifically excluded from being a CGT event in the hands of the surviving debtor. In the case where the debtor is one's trust, the ability to do away with the loan account on death is particularly relevant since the recent tax amendments which levy donations tax on loans made to the trust on an interest free or low interest basis.

In drafting the stipulation in his or her Will waiving the debt, the creditor should be careful to ensure that an unintended estate duty obligation does not result – every estate is given a R3.5 million exemption from estate duty, and if the write-off exceeds that amount, estate duty will result on the balance.

Formation of a testamentary "special trust"

One often encounters a situation where an estate planner wishes to provide for the ongoing protection of vulnerable family members, such as young or financially inexperienced children and further descend-

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ants, after the death of the planner. In these situations, provision is often made in the Will of the planner for a trust to be established into which the planner's assets will pass on death, and in terms of which trusted persons ("trustees") are appointed to administer the trust and make ongoing distributions to the stipulated family members. This type of trust is known as a "testamentary trust". The Will usually provides for the trust to be discretionary in nature i.e. there are no guaranteed stipulated amounts that must be paid to each family member, but the decision as to who to pay and how much is rather left to the discretion of the trustees.

One of the tax benefits of such a testamentary trust, which doesn't apply to a trust set up while the planner is alive (called an "inter vivos trust") is that if a minor child or children, for example the planner's young grandchildren, are stipulated as beneficiaries to whom benefits may be payable, then the testamentary trust falls under the definition of a "special trust" for the purposes of income tax and capital gains tax, for so long as the trust has a beneficiary under the age of 18 years. Tax rates applicable to special trusts are far less onerous than those applying to other trusts, as can be seen by the table below (latest 2017/8 tax rates):

The testamentary trust can thus provide all the traditional elements of protection for beneficiaries and experienced administrative oversight, but in addition can provide a more tax efficient accumulation of wealth when compared to the inter vivos trust alternative.

	Normal trust	Special trust
Income tax rate	45% Flat rate	18-45% sliding scale (same as individuals)
Effective capital gains tax rate	36%	18% maximum depending amount of income/gain

Strange Wills

Stranger than fiction: Seventy strangers from a phone directory It's the stuff of daydreams and film scripts. When Portuguese aristocrat Luis Carlos de Noronha Cabral da Camara wrote up his will, he left his considerable fortune to 70 strangers randomly chosen out of a Lisbon phone directory. "I thought it was some kind of cruel joke," a 70-year-old heiress told Portugal's Sol newspaper. "I'd never heard of the man."

Doggone: In 2004, billionaire hotelier Leona Helmsley left instructions for her $4bn (£2.5bn) fortune to be spent caring for dogs, having apparently re-thought an earlier draft that left it to the poor. Her nine-year-old Maltese, Trouble, received $12m (£8m) in the will,. Trouble's inheritance was later cut to just $2m (£1.2m) by a judge, although the dog still needed to go into hiding amid death and kidnap threats.

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