

EXECTRUST (Pty) Ltd

Formerly Trustee Board (Pty) Ltd

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NEWS LETTER 02/2005

Deceased Estate Specialists

Trust Administration

Curatorship Administration

Wills consultation and preparation

Tax Compliance

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CREDIT LIFE ASSURANCE

Do you currently have an outstanding hire purchase account? Or perhaps you still run that furniture account with the local chain store. What about your bond and cell phone contract?

All too often people assume that in the event of death, these debts will be paid by their estate. But what if the estate does not have sufficient funds to cover these debts on top of administration expenses? Remember that death does not cease an agreement and it does not also cease interest. Interest mounts until the debt is settled in full.

Some may be relying on stock market investments to fill this gap, but this isn't always the best option. If the market plunges, the value of your shares will drop, reducing their "sellability". Ordinarily, you would want to hold on to these shares until the market recovers, but if your executor is in the process of settling your estate, he or she will be forced to sell assets to bring some cash into the estate to meet these obligations. Your executor may not speculate with estate assets, i.e. wait for the market to recover before he sells the shares, if the money is needed, then he is forced to sell the asset at that time.

This is where credit life insurance, or even mortgage protection, can play a vital role. Credit insurance is used not only upon death, but also in cases of retrenchment. In the case of death, a claim is instituted against the assurer and your estate is released of its obligations to the creditor. It

should be pointed out, however, that if your account is in arrears at the date of death, the assurer will only pay what is due and in some cases may even refuse payment. Mortgage protection policies vary from assurer to assurer, and should be evaluated carefully. You may be obliged to pay the premium, but you certainly do not want the value of the policy to decrease as the outstanding amount on your bond decreases.

Also don't forget that cell phone contract. As mentioned herein, death does not automatically result in the cancellation of a contract – if you have signed for 24 months and death happens during that period, the remaining period is calculated and claimed from your estate by the service provider. Your cellular phone will become your estate asset and the balance of the contract will obviously be the liability in your estate.

When you enter into a contract of hire purchase or lease, enquire from your financier whether they can provide you with credit insurance. The costs are minimal and are usually debited to the hire purchase or lease agreement. It's a small price to pay for peace of mind. However, bear in mind that if you have signed as surety for a child or a spouse or other family member or friend, and you unfortunately die before the debt is settled, that debt is a claim against your estate until sufficient alternative security (approved by the financier) is put into place or the debt is settled.

You are well advised to speak to your broker about Credit Assurance and Mortgage Protection.

CASH SHORTFALLS IN ESTATES

When preparing your Will, it is imperative that you ensure a sufficient cash flow in your estate. An outright bequest (i.e. a specific amount bequeathed) actually constitutes a liability in your estate and this bequest will enjoy attention after your creditors and administration expenses but prior to residual inheritance.

If your estate does not have sufficient cash to settle your debts and your administration expenses, your executor will be forced to sell as many assets as is necessary to liquidate the cash shortfall. With making too many cash bequests, you may be prejudicing other heirs.

For example : your estate is worth R1000 000. You have debts and administration expenses amounting to R500 000. This leaves a net estate to be distributed of R500 000, but you have bequeathed R50 000 each to your three children. This means that before your executor may pay any inheritance, he must ensure a cash payment to the three legatees. Your executor will now be forced to sell whatever remaining asset(s) amounting to the total of the bequests in order to meet this obligation.

It is very important to plan your Will. If you are in doubt about your planning, give us a call!