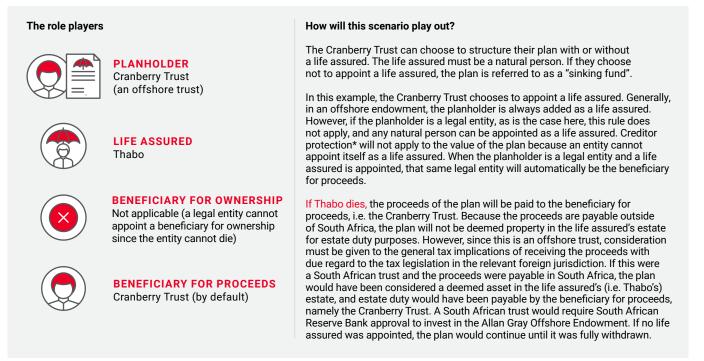
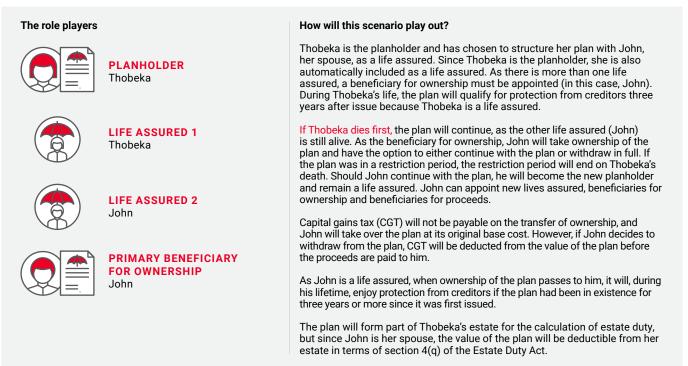
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The following example scenarios illustrate various ways in which the plan may be structured. These examples are not exhaustive – different scenarios are possible, depending on how the planholder chooses to structure their plan.

### Scenario 1



### Scenario 2



# Allan Gray

## **Role player scenarios** Allan Gray Offshore Endowment ("the plan")

### Scenario 2 – continued

The role players

## How will this scenario play out?

If John dies first, the plan will continue, as the other life assured (Thobeka) is still alive. Thobeka should appoint a new life assured and beneficiary for ownership if she doesn't want the proceeds of the plan to be paid to her estate on her death.

If Thobeka and John die simultaneously, the proceeds of the plan will be paid to Thobeka's estate after CGT has been deducted. We will act on a South African letter of executorship, i.e. no offshore will is required. The benefit will be protected from creditors if Thobeka is survived by a child or parent and the benefit passes to them.

\*Section 63 of the Long-term Insurance Act protects the benefits provided in terms of a life policy against creditors, provided that the following requirements are met:

- The endowment is issued on the life of the planholder or their spouse, and
- The endowment has been in force for at least three years, and

SECONDARY BENEFICIARY

PRIMARY AND SECONDARY BENEFICIARIES FOR

FOR OWNERSHIP

None

PROCEEDS None

The surviving spouse, child, stepchild or parent benefits from the plan on the death of the planholder.

## Scenario 3

The role players		How will this scenario play out?
	PLANHOLDER Mike	Mike is the planholder and has chosen to structure his plan with Myan, his son, as a life assured. Since Mike is the planholder, he is also automatically included as a life assured.
	LIFE ASSURED 1 Mike	Since there is more than one life assured, Mike needs to appoint a beneficiary for ownership. Mike has chosen to appoint both Myan and Layla, his adult children, as beneficiaries for ownership. If Myan dies before Mike, or declines the benefit, Myan's daughter Shameela has been appointed as the secondary beneficiary for ownership to replace Myan. If Layla dies before Mike, or declines the benefit, Layla's sons Joe and Kyle have been appointed as the secondary beneficiaries for ownership to replace Layla. During Mike's life, the plan will qualify for protection from creditors three years after issue because Mike is a life assured.
	LIFE ASSURED 2 Myan	If Mike dies first, the plan will continue, and 50% ownership will be passed to Myan and 50% to Layla. If the plan was in a restriction period, the restriction
	PRIMARY BENEFICIARY FOR OWNERSHIP Myan (50%) and Layla (50%)	period will end on Mike's death. Should Myan and Layla choose to become the new planholders (instead of withdrawing in full), two new plans will be created and Myan will remain the life assured on both, with Layla added as a life assured on her plan. Layla can remove Myan as a life assured on her plan at the point when she becomes the new owner of the plan. Both Myan and Layla can appoint new lives assured, beneficiaries for ownership and beneficiaries for proceeds on their respective plans.
	SECONDARY BENEFICIARY FOR OWNERSHIP FOR MYAN Shameela	Capital gains tax (CGT) will not be payable on the transfer of ownership, and Myan and Layla will take over their portion of the plan at the original base cost. However, if either Myan or Layla decides to withdraw from the plan, CGT will be deducted from the value of their portion of the plan before the proceeds are paid to them.
	SECONDARY BENEFICIARY FOR OWNERSHIP FOR LAYLA	When ownership of the plan passes to Myan and Layla, and provided the plan has been in existence for three or more years since it was first issued, it will, during their lifetime, continue to enjoy protection from creditors because Myan and Layla will each be life assureds on their own plans.
	Joe (50%) and Kyle (50%)	The plan will form part of Mike's estate for the calculation of estate duty.
	PRIMARY AND SECONDARY BENEFICIARIES FOR PROCEEDS None	If Myan dies before Mike, the plan will continue, as the other life assured (Mike) is still alive. However, if Mike does not replace Myan as a life assured in this instance, the proceeds of the plan will be paid to Mike's estate when he dies as there are no appointed primary or secondary beneficiaries for proceeds. In this scenario, we will act on a South African letter of executorship, i.e. no offshore will is required.
		If Layla dies before Mike, and if Mike does not replace Layla as a primary beneficiary for ownership, then Layla's benefit will be split between Joe and Kyle (split 50%/50%). Joe and Kyle will then have the option to either take over ownership of the plan or withdraw in full.

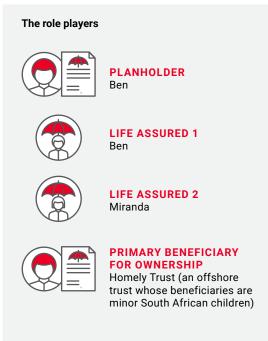
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## **Role player scenarios** Allan Gray Offshore Endowment ("the plan")

## Scenario 4

#### The role players How will this scenario play out? Adam is the planholder and has chosen to structure his plan without a life assured, i.e. it is a sinking fund. Creditor protection will not apply because no life PLANHOLDER assured is appointed. Adam If Adam dies first, the plan will continue and Eve, his spouse, will have the option to either take ownership of the plan or withdraw in full. LIFE ASSURED If the plan was in a restriction period, the restriction period will end on Adam's death. Should Eve take ownership of the plan, she will become the new planholder. Eve can appoint new beneficiaries for ownership and beneficiaries for None proceeds, but not a life assured, as one was not appointed on the original plan. Capital gains tax (CGT) will not be payable on the transfer of ownership, and PRIMARY BENEFICIARY Eve will take over the plan at its original base cost. However, if Eve decides FOR OWNERSHIP to withdraw from the plan, CGT will be deducted from the value of the plan Eve before the proceeds are paid to her. The plan will form part of Adam's estate for the calculation of estate duty, but since Eve is his spouse, the value of the plan will be deductible from his estate SECONDARY BENEFICIARIES in terms of section 4(q) of the Estate Duty Act. FOR OWNERSHIP FOR EVE Rebecca (40%), Tina (30%) If Eve dies first, and Adam does not appoint a replacement primary and Olivia(30%) beneficiary for ownership before he dies, the plan will be passed on to their children, namely Rebecca, Tina and Olivia (split 40%/30%/30%). Rebecca, Tina and Olivia will then have the option to either take over ownership of PRIMARY BENEFICIARIES their portion of the plan or withdraw it in full. FOR PROCEEDS Seth (50%) and Sean (50%) If Eve and Rebecca die and are not replaced before Adam dies, then Rebecca's benefit will be split proportionately between Tina and Olivia. If Eve, Rebecca, Tina and Olivia all die and are not replaced before Adam dies, SECONDARY BENEFICIARIES the proceeds of the plan will be paid out to Seth and Sean, Adam's siblings, FOR PROCEEDS when Adam dies (split 50%/50%). The proceeds will be paid after CGT has None been deducted.

## Scenario 5



#### How will this scenario play out?

Ben is the planholder and has chosen to structure his plan with Miranda, his spouse, as a life assured. Since Ben is the planholder, he is also automatically included as a life assured. As there is more than one life assured, a beneficiary for ownership must be appointed (in this case, the Homely Trust). During Ben's lifetime, the plan will qualify for protection from creditors three years after issue because Ben is a life assured.

If Ben dies first, the plan will continue, and the Homely Trust will take ownership of the plan and have the option to either continue with the plan or withdraw in full. Capital gains tax (CGT) will be triggered if the Homely Trust decides to make a full withdrawal from the plan. However, if they decide to take over ownership of the plan, CGT will not be triggered because the beneficiaries of the trust are all natural persons, and the plan will remain classified within the individual policyholder fund. However, if one of the beneficiaries were a company, CGT would be triggered on the change of ownership because the trust would move classification from the individual policyholder fund to the company policyholder fund.

The plan will be protected from creditors on the basis that it passes to a new owner (the Homely Trust), which is a contractual arrangement. Nothing is paid to the estate, so section 63 does not come into play on death. The same principle applies when the plan is protected on the basis that there is a beneficiary for proceeds, regardless of who those beneficiaries are. It is a contract for the benefit of a third party.



#### Scenario 5 - continued

#### The role players



PRIMARY AND SECONDARY BENEFICIARIES FOR PROCEEDS None

#### How will this scenario play out?

If the Homely Trust takes over ownership of the plan and does not appoint another life assured before Miranda dies, the proceeds of the plan will be paid to the default beneficiary for proceeds, i.e. the Homely Trust, on her death. Being an offshore trust, consideration must be given to the general tax implications of receiving the proceeds with due regard to the tax legislation in the relevant foreign jurisdiction.

If no life assureds had originally been appointed by Ben, i.e. a sinking fund plan, then on Ben's death, if the Homely Trust had taken ownership of the plan, it would have continued until it was fully withdrawn.

The Homely Trust will not enjoy creditor protection because an entity cannot appoint itself as a life assured.

If Miranda dies first, the plan will continue. If no beneficiary for proceeds is appointed before Ben dies, the proceeds of the plan will be paid to Ben's estate on his death (after CGT has been deducted). The benefit will be protected from creditors if Ben is survived by a child or parent and the benefit passes to them.

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