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With love, from grandma and grandpa

Apart from a Will or a Trust, grandparents can also use financial products to bequeath to grandchildren

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Most people wish to leave a legacy behind after they are gone. It could be for children, or even grandchildren. Many buy assets or make investments while

in a Will, succession laws will apply, which may or may not be in accordance with your wishes. Therefore, if you want to bequeath something to your grandchild, a proper succession plan is needed.

While most people think about this in terms of immovable assets, one can also use other investment options. This is easier to do now as rules regarding minors operating some products such as bank accounts and fixed deposits have changed, and more products have also been introduced. Here's a look at some ways—new and old—in which a grandparent can bequeath to a grandchild.

Through Will or Trust

The two most popular ways to bequeath immovable assets, such as a self-owned property, to grandchildren are via a Will or a Trust. A Will is a legal declaration of a person's intentions, which she wishes to be performed after her death. It regulates the process of passing on assets and provides for succession as declared by the testator (the person whose Will it is).

"Grandparents like to keep some portion of movable and immovable assets for their grandchildren. It is important to highlight the same in a Will created by them," said Dilshad Billimoria, certified financial planner, and director, Dilzer Consultants Pvt. Ltd.

In India, succession laws are determined by the faith that the testator follows. So, this factor plays a big role in the way assets are divided or a Will is prepared and executed.

"In the case of Hindus, Christians, Parsis, Jains, Sikhs and Jews, the Will would have to be executed and attested in the manner set out in the Indian Succession Act, 1925," said Marylou Billawala, partner, Wadia Ghandy & Co. Advocates, Solicitors and Notaries.

"For Mohammedans, the general rule (with certain exceptions) is that a Mohammedan cannot bequeath more than one-third of his or her assets by way of a Will. Therefore, even if the bequest is to a grandchild or grandchildren, in the case of

Mohammedans, it cannot be more than one-third of the assets of the testator/testatrix, and in some cases, for example, in the case of Sunnis, even this one-third bequest to a grandchild would require the consent of other heirs," she added.

A good way to start preparing a Will is by listing out all your assets and clearly putting down the names and percentage of assets to be allotted to each grandchild, so that any conflict at a later stage can be avoided.

"Things to be kept in mind while updating the Will is division of assets and property among children and grand children with proper names and percentage allocation. Treatment of residual assets and manner of division of the same is also an important point to note,"said Billimoria.

Ensure that your Will is executed in the manner prescribed as per law. "If certain heirs are being excluded and a preference is being given to a certain grandchild, then it is possible that the excluded heirs may challenge the validity of the Will. So the testator or testatrix needs to ensure that adequate precautions are taken so that the challenges can be properly dealt with at the relevant time and the bequest is upheld as legal and valid," said Billawala.

A Trust is different from a Will. It is a fiduciary arrangement that allows a third party (or trustee) to hold assets on behalf of beneficiaries. Trusts can be arranged in many ways and can specify exactly how and when the assets are passed to the beneficiaries.

A private Trust may be useful in scenarios where there is a lot of wealth involved and a long time gap between creating a succession plan and the beneficiary receiving the assets.

"It is important to make sure that the beneficiary receives the assets at the right age. A private Trust can help in addressing this issue as even if the grandparent or settler dies when the beneficiary grandchild is a minor, the money would continue to be managed in the Trust till the child reaches an age where she is wise enough to handle the money," said Amit Pathak, managing director, Warmond Trustees and Executors Pvt. Ltd.

Through investments

Apart from immovable or moveable assets, grandparents can also make investments for their grandchildren. One such instrument is mutual funds.

"This enables the money to grow in a safe and profitable way until the child grows up and needs it for higher education or other purposes. Grandparents are allowed to invest in any mutual fund in their grandchildren's names," said Srikanth Meenakshi, co-founder and chief operating officer, FundsIndia.com. Some fund houses offer children gift funds, which can be bought in the name of child, a relative's child or a grandchild. The fund allows third-party cheques to be deposited. In other funds, there is a limit of ₹50,000 per investment via third party cheques but children gift funds don't have such a cap. So, a grandparent can invest in the fund but the unitholder will be the grandchild.

The money is usually locked in till the beneficiary turns 18, after which the money goes into the minor-turned-major child's bank account. Investments can be made only in the name of the minor child, and money can be invested any time before the child turns 18. Moreover, these funds usually come with high exit loads to discourage premature withdrawals.

"The specific funds labelled as children's gift funds provide an asset allocated structure as well as options like lock-in periods, which could make it easier to use for this purpose," said Srikanth. Evaluation of such a fund is the same as for any fund. Look for consistency of performance relative to the asset allocation structure. Like any other mutual fund option, there are equity-oriented (aggressive) and debt-oriented funds. "Depending on how old the grandchild is and how many years there are left to go, say, before college, one can go for either option. The younger the child, the better it would be to go with an aggressive fund," said Srikanth.

Mint Money usually does not recommend children-specific schemes, as other funds can also help you reach the goal.

There are other ways as well to invest for a grandchild. "Bequeathing (to grandchildren) can be done through bank accounts in the name of the minor with a parent as guardian. They can also propose life insurance in the name of parents with grandchildren as nominee," said Prakash Praharaj, founder, Maxsecure Financial Planners.

One can invest for a minor grandchild with her parents' involvement as well. Investments through minor accounts in Public Provident Fund (PPF) and National Savings' Certificate can also be opened for the purpose, added Praharaj. You could contribute in a fixed deposit for a minor, where the parent is a guardian. "The amounts can be withdrawn by the child after she becomes a major. The amount cannot be withdrawn by the parents after the child becomes major," he said. In some cases, if the minor attains majority on or before the due date of the deposit, the amount will be paid only to the erstwhile minor and not to the guardian.

Things to keep in mind

Like all financial goals, start early when planning for succession for a grandchild also. Earmark major events in your grandchild's life, such as higher education or marriage, and make specific allocations in a Will or include related stipulations in a Trust. Some financial instruments can also be timed in such a way that their maturity matches the timing of the grandchild's needs.

Apart from this, it's important to communicate to your grandchildren and the parents about the succession plan. "I do not think the problem is in the planning; it is in the communication," said Lovaii Navlakhi, founder and chief executive officer, International Money Matters Pvt. Ltd. "When do you inform the grandchild of the availability? Should you inform the parents first? How does this knowledge affect the thinking of grandchildren—do they feel more motivated to work towards, say, an admission to Harvard; or does it make them lose their energy and initiative because they do not need to worry financially?" he added.

There may also be exceptional situations in which a child's needs have to be safeguarded. For example, when a child is entangled in a financial tussle between divorcing parents. "A Trust can be built for a long-term bequeathing process, where the grandchild will continue to earn income from it till a very late age, for example, 40-45 years. In this way, the beneficiary can only be the grandchild, and she can be insulated from the effects of a legal tussle between parents," said Pathak.

Also be mindful of when the grandchild will receive the benefit. Bequeathing at the right age is important. Someone getting a high-value asset at a young age might not have the financial wisdom to properly channelise it.

While most people use Wills and Trusts to bequeath assets, with new products and rules in place, you can also choose certain financial products to leave behind a legacy for your grandchildren.

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