

# Estate Planning 101

Estate planning can save you money and your loved ones from financial headaches.

Kate and Andrew are a married couple living in Moncton with two children and five young grandchildren. Kate just turned 59 years old and Andrew is 60.

As they enter their retirement years, they begin to ask themselves many questions:

What is going to happen to our estate when we die? How can we protect our savings from CCRA (Revenue Canada)? How can we make sure our children and grandchildren benefit from our good fortune? How much of our estate will go to them? How can we reduce the amount of taxes we will have to pay?

Kate and Andrew have put years of work into accumulating their estate, including their home, cash, investments, personal property, income and life insurance proceeds.

The secret truth is: without a proper will and planning it is not yours to give away when you die. CCRA and the provincial government are waiting to divide it up.

Benjamin Franklin put it best when he said - "In this world nothing can be said to be certain, except death and taxes."

It is up to you to protect your estate from taxation. The amount of tax you will pay will vary depending on your tax bracket, the amount of income you earn and the amount of taxable capital gains you possess. You can be taxed up to 50% depending on your circumstances.

Let's use Kate and Andrew as an example. They both invested early in RSPs and combined have \$400,000 saved for retirement. They both have good pension incomes which will afford them a comfortable retirement.

In non-registered investments, they have \$50,000 in GICs and \$200,000 in equity based investments.

By age 69 if they put \$5,000 a year into their RSPs and invest both their RSPs and their non-registered investments at a conservative 5%, they will have approximately \$718,000 in RSPs and \$400,000 in non-registered investments.

Kate and Andrew's biggest concern was passing their estate to their heirs while paying the least amount of tax.

Most people know that when the first spouse dies the assets are transferable, free of tax to the other partner.

When the second spouse passes away, CCRA will deem all assets are sold on the date of death and tax will be paid on the growth of these taxable assets except the family home.

This means some of your personal items could be taxed upon death such as antiques, jewelry or anything that has gone up in value from the time you acquired it. Any RRIF or RSP balance will also be taxable to the estate.

Knowing they can live on their pension income, Kate and Andrew only plan to take the minimum RRIF payments from their RSP, as they don't want to pay the tax on these withdrawals. If Kate and Andrew live to age 85, taking the minimum RRIF payment, the balance of the RRIF at age 85 would be \$391,000 at a return of 5%.

Without a proper estate plan, Kate and Andrew would be forced to use \$180,000 of this money to pay the tax required by CCRA.

How can Kate and Andrew avoid having this money go towards paying taxes? A simple solution is an estate plan.

**Estate planning is more than a will.** It helps people evaluate their personal and financial situation so they can make informed decisions and develop strategies to protect and support their heirs, minimize estate administration costs and taxes, fairly distribute assets and make critical personal decisions.

As part of the estate plan to save them from paying so much tax at death, Kate and Andrew chose to invest in a joint last-to-die universal life policy.

They will invest \$10,000 a year from their non-registered funds for 10 years into the policy. At age 85, the death benefit will have grown to \$475,000 with a fund value of about \$175,000. This death benefit money is non-taxable and can be passed to their heirs to pay the taxes on the RRIF balance and other taxable assets.

If they had invested this money in a 5% GIC, paid tax on the returns each year, the compounded balance at age 85 would have been \$170,000 compared to the \$475,000 their heirs would have received tax free. They also saved the tax payable on the investment returns of the \$10,000 that was invested in the GIC.

As you can see from this example estate planning can save you tax money along the way and at death; however, it can also mean the difference between being able to dictate how your estate will be administered.

The ability to name personal beneficiaries will not only allow this money to be passed on tax free to your loved ones, it will also avoid probate and legal fees associated with the execution of a will. The deposits made into this policy will be protected from creditors in the event of an unfortunate financial or legal circumstance.

An estate plan can also protect your heirs from going through a lengthy estate settlement, ensure responsible guardians for children and dependents and maximize the value of your assets.

### **Who needs an estate plan?**

Although almost everyone will need one, it is of primary concern to those ages 55 and older or people with children, a business or a large estate.

### **How do I create one?**

Creating an estate plan isn't easy and usually requires the expertise of more than one person. You should meet with a financial or estate planner, a chartered

accountant and a lawyer. They should work together to create a plan that saves you money and your loved ones from future financial headaches.

### **What are the basic steps in estate planning?**

Since everyone's financial situation is different, there isn't one plan that is suitable for any person. For example, an older couple in retirement without dependent children will have a different set of objectives than those of a couple with children or of a single person. Here are some of the basic steps in estate planning:

1. An assessment of your current financial situation including your assets and their value as well as information about you and your family and whether anyone in your family needs special protection.

The process is complex especially if you have a large estate or a business. Everything from investments and securities to insurance and your personal property including jewellery and collectibles has to be assessed.

2. Establish estate planning information including who owns your assets and how they will be transferred to your heirs, who will receive them and what provisions should be made for each.
3. Choose an executor. An executor administers the estate and carries out the wishes in the Will. He or she will do everything from arranging the funeral to distributing the assets to heirs. If you prefer to have a family member or friend as your executor rather than a professional estate administrator choose someone who is many years younger than you as they will be carrying out your wishes after you die.
4. Business succession planning. The majority of businesses only make it to the 3<sup>rd</sup> generation because they didn't have a business succession plan, which includes how the company will be transferred upon death.
5. Set up any necessary Trusts. A Trust is a legal title to property for the benefit of one or more persons. The people who will benefit from the Trust are known as beneficiaries
6. Select and develop an estate plan to meet your needs.
7. If circumstances change, the plan must be reviewed.

Although estate planning is complex, time consuming and can be expensive, in the end you will be glad you did it. You will have the peace of mind knowing everything you worked hard to earn will go into the hands of the people you love.