



# Estate Planning for Canadians



# What is Estate Planning ?

The act of ensuring that your assets are distributed in the manner you desire.

# The Components of Estate Planning

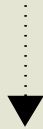
- **Financial**

- deals with assets you have and whether they will be sufficient

- **Administrative**

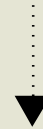
- implementation of the distribution of assets
- Wills, Powers of Attorney, Trusts, etc..

# Estate Planning



## Financial

- Asset Inventory
- Goals & Objectives
- Insurance
- Tax



## Administrative

- Goals & Objectives
- Wills
- Powers of Attorney
- Trusts
- Gifts
- Probate



**Professional Advisors**



**Wealth Planning services**

# Financial Component

# Asset Inventory

- List all of your assets and liabilities
  - Assets include life insurance coverage
  - Liabilities include any tax consequences, funeral and other expenses

# Determining Your Goals and Objectives

- Who are your beneficiaries?
- What are their income requirements?
- How much of your estate do you wish to leave?
- Compare wishes versus resources

# The Effects of Inflation

- Consider the impact of inflation on your goals.
- To maintain purchasing power of \$40,000 at various levels of inflation, consider the following:

<b>Inflation</b>	<b>10 years</b>	<b>20 years</b>
2.0%	48,760	59,438
3.0%	53,757	72,244
4.0%	59,209	87,645
5.0%	65,155	106,132

# Life Insurance and Estate Planning

- Accomplishes either estate creation or estate preservation objectives.
- Major advantage is tax treatment - benefits paid to beneficiaries are not taxable.



# Types of Life Insurance

## 1) **Temporary Insurance**

- Used for a specified period of time to provide for specific issues (pay-off of a mortgage)

## 2) **Permanent Insurance**

- Remains with the insured for their lifetime

# Temporary Insurance

- **Term Insurance**

- For a specified period of time, to cover a specific objective, such as a mortgage payment
- Most inexpensive coverage
- No investment component
- Coverage remains in effect for as long as premiums are paid and the term hasn't expired
- Cost goes up as terms are renewed

# Permanent Insurance

- **Level term (term to 100)**
  - Covers you for life as long as premiums are paid.
  - Premiums usually at a constant level and higher than straight term insurance.

# Permanent Insurance

- Whole life

- Lifetime protection with savings component.
- Premiums are split to cover insurance component with remainder being invested inside the policy.
- Over time, excess premium builds a cash value.

# Permanent Insurance

- Universal life
  - Most flexibility for premiums and coverage amounts.
  - Insurance component and investment component.
  - Interest earned in investment component compounds on a tax-deferred basis.
  - Tax efficient policy with maximized policy values.

# What Type of Insurance is Appropriate for You?

- Consider estate goals and objectives
- Permanent
  - Provides ongoing protection for beneficiaries and against possible non-insurability future.
- Temporary
  - Supplements permanent coverage for particular issues which may arise.

# Administrative Component

# Distributing Your Estate

- Timing of Distributions
  - Can be done prior to, at the point of death or after death
- Methods of Distributions
  - A Will
  - Joint ownership of assets
  - Gift of assets
  - Use of trusts

# Distributing Your Estate

## Wills

- Primary mechanism to distribute your estate.
- Designate an executor who will ensure your assets are distributed according to your wishes.
- Establish how and when you would like your assets distributed.



# Typical Will Clauses

- Outline the powers of executors;
- Invoke limitations on asset distribution and management of assets;
- Appoint guardians for your children;
- Outline your burial requests;
- Distribute personal effects;
- Distribute your estate in the event that primary and secondary beneficiaries have predeceased you.

# Determining your Beneficiaries

- Primary
  - immediate family (spouse and children).
- Secondary
  - anyone else to whom you wish to distribute assets.

# Types of Wills

- **Holograph**

- Most simple form, prepared entirely in your handwriting and signed by you. No other formal requirements needed.
- Not allowed in all provinces

- **Formal**

- Prepared by lawyer, signed by you and two witnesses.

- **Notarial**

- Available only in Quebec.
- Made before a notary in the presence of one witness.

# Reviewing your Will

- A change in your life or every two or three years requires a review of your will.

Distributing Your Estate

# Joint Ownership of Assets

- Joint Tenants with Right of Survivorship
- Tenancy in Common

# Distributing Your Estate

## Gift of Assets

- An easy efficient way of transferring assets.
- Potential attribution rule issues.
- Control of gifted assets passes to receiver.
- Ensure that your financial position allows you to gift assets without enduring undue hardship during your lifetime.

# Distributing Your Estate Trusts

- Allow transfer of ownership while retaining control
- **Inter-vivos (living) trust**
  - separate legal entity set up while you are alive.
- **Testamentary trust**
  - arises from Will, does not come into effect until your death.

# Powers of Attorney

- Ensures someone can act on your behalf prior to death
- Limited or general



# Taxes at Death

- Deemed Disposition

- At death, all capital property is deemed to have been disposed of and all capital gains are realized.
- RRSP's and RRIF's are also deemed disposed and all this income appears in your final tax return.
- Taxes can be deferred by transferring assets to your spouse.

# Taxes at Death

- U.S. Estate Tax
  - May be due if estate includes property situated in the U.S.
  - Tax is levied on fair market value rather than appreciation. Rates range between 18% and 55% less a credit available to Canadians.
- Credits and Exemptions

# Possible Solutions

- U.S. estate tax can be a concern for many individuals. Consider the following strategies:
  - Selling assets prior to death.
  - Purchasing life insurance to cover tax liability.
  - Using a Canadian holding company.
  - Gifting assets to reduce estate value to below U.S. \$1.2 million.
  - Using Canadian mutual funds that invest in U.S. securities for the U.S. component of your portfolio.
  - Establishing a Joint Tenancy account.

# Probate

- Upon death, executor is required to file to obtain Letters Probate from provincial court.
- Involves submission of Will and inventory of deceased's assets.
- Once accepted by the court, states validity of Will and confirms appointment of executor.

# Summary

- Start with the financial component to determine your resources and their sufficiency in achieving your goals and objectives.
- Make sure all professionals helping to co-ordinate your plan (lawyers, accountants, investment advisor) are all aware of their respective roles.

Questions?