6 Basic Points of Estate Planning You Need to Know

1. Life Insurance

Most of our financial planning is based on the assumption that we will continue to live for a long time and thus, can earn an income for as long as we choose. There is a possibility though, that we won't live to a ripe old age and good planning must take this risk into account. Life insurance should be used to prevent such financial disruption.

An insurance policy may also be attractive if you wish to minimize or avoid the sale of assets to fund taxes triggered on your death.

There are three kinds of life insurance: term, permanent and variable life insurance policies.

▶ Term insurance policies, which renew periodically, are less expensive initially, but increase in cost in the later years.

▶ Permanent life insurance policies are expensive in the early years and tend to carry higher sales fees and premiums.

▶ Variable (Universal) life insurance can offer low cost insurance with tax-free investment features.

2. Wills

The will is the most basic of all estate planning tools. In fact, preparing a will is the only estate planning that many individuals will ever do. In addition to providing for the orderly transfer of assets following a person's death, the will can be used to minimize taxation following a person's death. A sound financial plan extends beyond your lifetime, to include an orderly transfer of assets to your beneficiaries. If you neglect this aspect of your total financial plan, there will likely be added costs and delays in the transfer of your assets, and the beneficiaries of your estate will be determined by the operation of the law, without regard to your wishes.

3. Probate Fees and Taxes

Probating a Will certifies the document is valid in probate court. Probate fees are the amounts charged by the court to certify a will as valid and cost can vary from province to province. The cost of probating a will in Ontario start a $5 per $1,000 for the first $50,000 increasing to $15 per $1,000 for any additional assets. With proper planning, you can reduce probate fees and defer taxes.

4. Testamentary Trusts

A trust is an effective tool for accomplishing a variety of tax and estate planning objectives. It is a very flexible device because it can be established for a variety of purposes and the person establishing the trust can impose almost any terms and conditions that he or she wishes. Common uses for a testamentary trust are to provide for a disabled child or to reduce a spouse’s tax on income from investable capital willed to him or her.

5. Executors and Trustees

An executor directs and manages a will through probate court, ensuring that the specifications of distribution of assets are fulfilled. Trustees, on the other hand perform a slightly different function managing assets left in the trust but the two terms are often used interchangeably. Executors and trustees are entitled to compensation for their services. Fees vary depending on the nature of the estate assets and the time spent and complexity of the work done. Family members or friends will usually not claim for executors' compensation. However, when a professional or trust company acts as executor, it will often charge the full amount permitted.

6. Powers of Attorney

Power of Attorney is a simple but important document. It is used to give your attorney (agent) authority to manage your assets and affairs on your behalf. Many people give a Power of Attorney to be used should they subsequently become legally incapacitated due to illness or accident. If a Power of Attorney has not been given, court applications will be required so that someone will have the authority to administer the mentally incapacitated person's affairs.

Steps to Implementing Your Estate Plan

Decide how you would like the after-tax value of your estate divided

- ☑ Will your spouse have sufficient income to live comfortably? If not, how much of your estate will be needed to make up for the income gap. Consider additional insurance for any short fall.
- ☑ Determine who will be the beneficiaries taking into consideration the tax implications of your choice.

The importance of proper beneficiaries

- ☑ Your insurance policies should have direct beneficiaries, as it can be a creditor proof asset.
- ☑ Your RRSP's and Pensions can be deferred to your spouse as beneficiary.

Consider reviewing your Will

- ☑ Consider the special needs of your family if necessary
- ☑ Most opportunities to defer taxes can be lost if your will is not properly drafted.

Speak to an Advisor if you:

- ☑ Have a large amount of money in RRSPs or RRIFs and are worried about the impact of income tax on your estate.
- ☑ Have large unrealized capital gains on investments or property, and want to minimize the tax liability.
- ☑ Own your own business or a holding company.
- ☑ Want to maximize your donation to a favorite charity.
- ☑ Put a high priority on minimizing taxes and probate fees.

Getting Advice

Reviewing your Estate Plan? We encourage you to talk to us. Speak to your Financial Advisor or contact investor services at 1 800 608 7707.