

Estate planning: More than just a will

From preserving the value of assets now to minimizing the effects of tax later.



When it comes to personal financial management, perhaps no topic is more essential – or more neglected – than estate planning. This special report has been created to introduce you to the elements of an effective estate plan, and how you can put them to work for you.

What is an estate plan?

Simply put, an estate plan outlines how your assets (such as property and money) and other personal considerations will be handled when you die. An effective estate plan gives you peace of mind knowing that the wealth you've accumulated during your lifetime will be distributed to your beneficiaries according to your wishes. An estate plan includes many elements, including the creation of a Will. This includes the appointment of an executor (liquidator in Quebec, estate trustee in Ontario) and possibly a guardian for minor children. If you are updating your Will, consider whether minor children referred to in your existing Will are now adults, as well as other changes in assets and personal circumstances.

In addition to a Will, a power of attorney is often a valuable document in the event of future incapacity, and a living Will can provide a statement of an individual's wishes to family members and medical practitioners. The estate plan may also include insurance coverage and the appointment of beneficiaries for registered investments.

Why do I need an estate plan?

An estate plan helps you to:

- Preserve and protect your assets while you are alive;
- Protect the value of your estate after your death;
- Direct how you want your assets to be distributed after your death;
- Minimize the effect of taxes on your estate;
- Reduce estate administration costs;
- Minimize the burden on your beneficiaries; and
- Protect your family members.

What are the elements of an estate plan?

The following are the key elements of an estate plan. However, because estate planning is governed by provincial legislation and can differ, not all strategies are available in every province:

The Will

A valid, up-to-date Will is a legal document that identifies your beneficiaries, outlines how you want your assets to be distributed and names an executor to carry out its terms. It can also help you benefit from tax-minimization strategies. For example, donations made to a charity through your Will can be an effective tax strategy because the amount that qualifies for the charitable tax credit is higher in the year of death and the year immediately preceding.

Appointment of Executor

Estate executors may be responsible for a large number of complex tasks. For example, executors need to locate and assemble an inventory of estate assets, arrange for the sale of real estate, probate the Will*, file up to five

tax returns, distribute the estate and provide ongoing reporting to all beneficiaries. Depending on your circumstances, it may make sense to consider involving a professional executor in addition to or instead of a trusted family member or friend.

When you establish your estate plan, ensure that your Will contains all of the powers and authority necessary to enable your executor to act as you have directed in relation to both your personal and business assets.

A NOTE ABOUT PROBATE

Probate is a process whereby the courts verify the validity of the last Will of a person who has died and the appointment of the executor(s). Obtaining probate is like receiving a generally recognized stamp of authenticity for a Will. Financial institutions generally require probate to prove that the executor is authorized to receive the funds belonging to the deceased; it is also required to transfer or sell real estate or shares belonging to the deceased.

Power of Attorney

If you become incapacitated, an enduring power of attorney (or homologated mandate in Quebec) gives someone you trust the power to make property decisions for you.

Similarly, a power of attorney for healthcare — or advance healthcare directive — assigns the power to make decisions about your personal care or healthcare. It also lets you outline which medical measures you would agree to undergo. Even where a living Will is not enforceable, it's an effective way to make your wishes known.

Joint Assets

For spouses, assets held in joint ownership with right of survivorship go directly to the surviving spouse/partner and aren't subject to probate. (Note: Quebec Civil Law does not recognize this ownership structure.) This can save both time and money. In some instances, it may be appropriate to hold assets jointly with someone other than your spouse — an adult child for example. This strategy is more complicated than it appears and can involve numerous, potentially serious financial implications. It should not be undertaken without professional, legal and/or tax advice.

Beneficiary Designations

Determining the distribution of your estate can present a significant challenge if there are numerous potential beneficiaries. Beneficiaries can be classified as primary or secondary, depending upon your intended order of distribution. A primary distribution of your estate will include a small number of heirs such as your spouse and children. Often, a secondary distribution includes a larger number of heirs.

Life Insurance

Life insurance provides a tax-free benefit payable directly and immediately to the beneficiary or beneficiaries you name, bypassing probate and its associated fees.

Other potential benefits of life insurance include:

- Added financial security for your loved ones when you pass away;
- A way for your beneficiaries to pay any capital gains tax triggered by your passing and preserve the assets in your estate;

* Generally not required in Quebec.

- Estate equalization. For example, suppose you have two children, but only one of them is interested in taking over the family business. Leaving it to both children equally would saddle one of them with an unwilling business partner. Yet leaving the business entirely to only one would leave the other child with nothing. One solution could be to leave the business to one child and buy an insurance policy to create a legacy for the other.

Trusts

There are two main kinds of trusts: testamentary trusts, which are established in your Will, and inter vivos (or living) trusts, which come into effect during your lifetime. Trusts are often used as part of tax-minimization strategies in estate planning. They are also valuable in helping ensure the ongoing financial security of a loved one.

Pre-Planned Funeral Arrangements

When funeral arrangements are pre-planned, there is considerably less potential for stress, confusion and mistakes. More and more Canadians are considering pre-planned funeral arrangements as part of their estate plan. This allows for family input. Prepaid arrangements can minimize the chance of additional costs and ensure your wishes are followed without burdening family members.

How do I get started?

Estate planning can be complex; it's important that the various elements of the plan work together effectively. That's why it is a good idea to work with the right team, including an RBC® advisor and the appropriate legal, tax and insurance professionals.

Start by:

- Making a list of all your assets and liabilities and your potential beneficiaries;
- Deciding who you want to have act as the executor of your Will and who should have power of attorney;
- Noting all your life insurance coverage; be sure to include individual policies, group policies that may cover you through your employment, the coverage amounts and issuers;
- Talking to your spouse, children (if they're old enough) and other family members to share your estate planning goals with them; and
- Reviewing the terms of any separation agreement, divorce, shareholder agreement or other legal documents that should be considered in preparing your estate plan.

If you have questions on any of the issues in this report, please speak with your advisor.



RBC Financial Planning

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