10 steps to successful estate planning

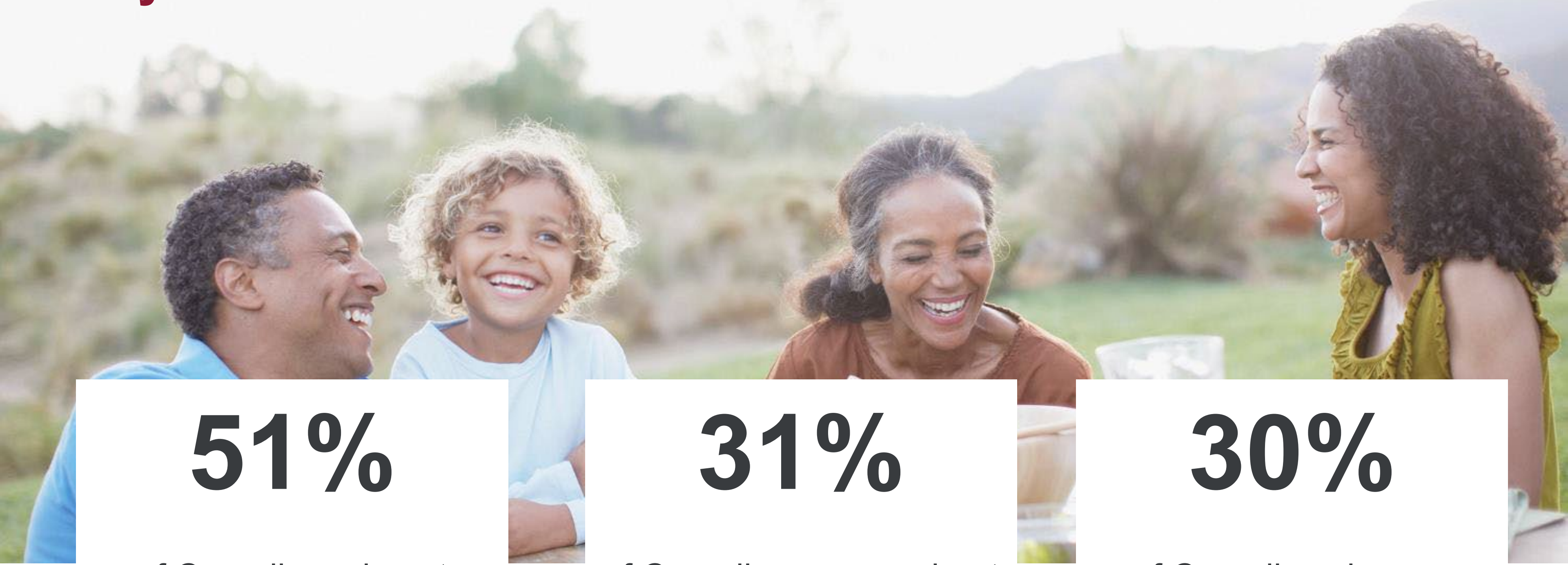
What is estate planning?

A plan for what will happen to all of your possessions after you pass away.

Three common goals for creating an estate plan:

1. Protection of assets
2. Preservation of a legacy for your heirs or others
3. Efficient distribution of your estate in accordance with your wishes

Did you know…



51%

of Canadians do not have a will[1]

31%

of Canadians worry about becoming a burden to their loved ones[2]

30%

of Canadians have a formal estate plan[3]

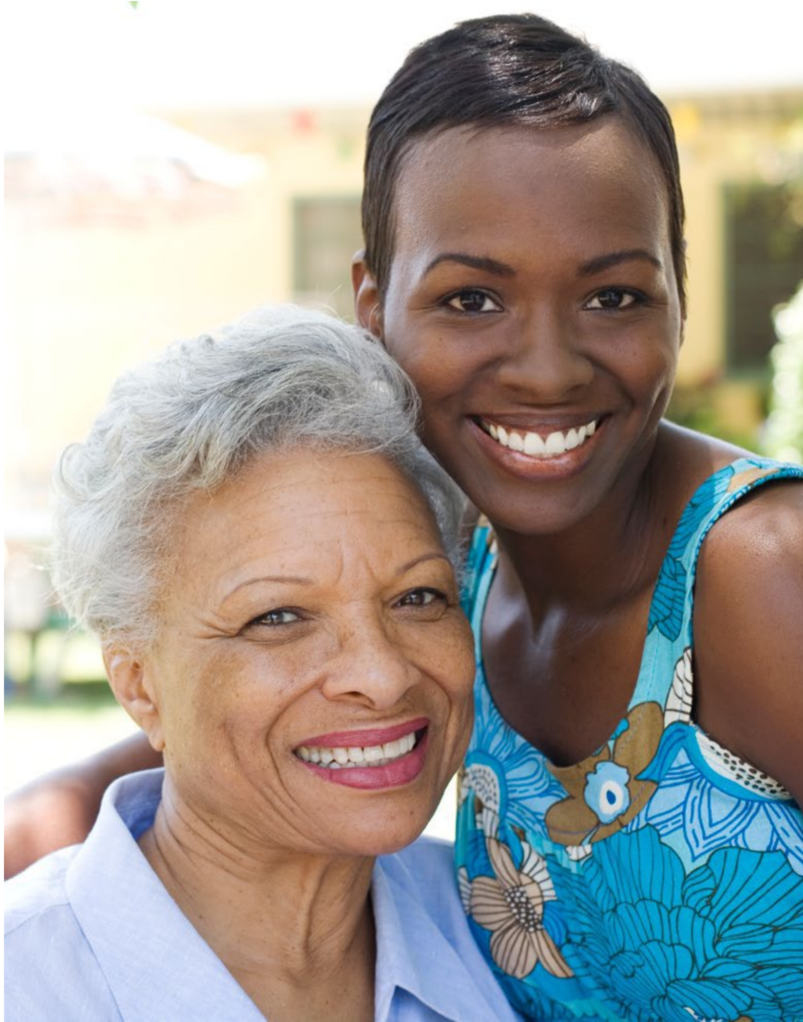
[1] Angus Reid Institute Poll, 2018

[2] CIBC article: The Family Playbook: Planning for the Care of Your Aging Parents.

[3] CIBC article: Estate Plan Essentials

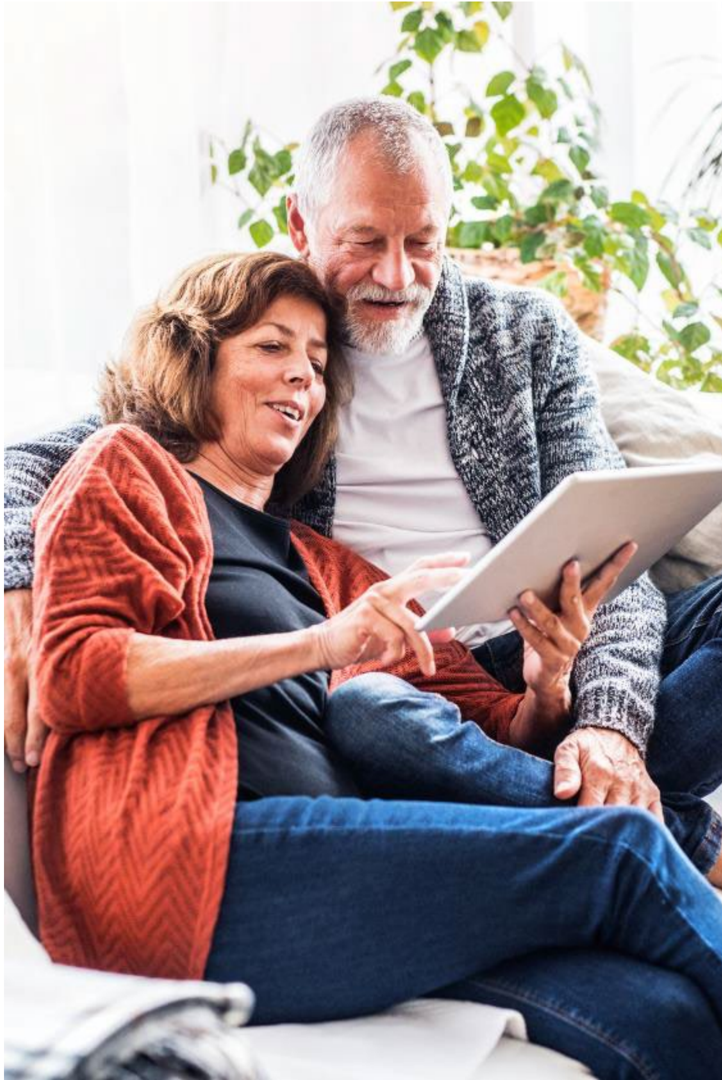
Importance of estate planning

- ✓ Organize your affairs
- ✓ Provide effective transfer of wealth
- ✓ Simplify your estate administration
- ✓ Support tax minimization
- ✓ Asset protection
- ✓ Provide a structure to carry out your wishes
- ✓ Provide instructions for loved ones
- ✓ Give you peace of mind



Getting started: 10 steps to successful estate planning

1. Designate a team of professionals
2. Take a financial inventory
3. Understand your life insurance needs
4. Draw up your will
5. Consider making a power of attorney for property
6. Consider making a power of attorney for personal care
7. Tax considerations in estate planning
8. Keep track of accounts and important information
9. Review and update regularly
10. Share your plans



Step 1: Designate a team of professionals

Team of professionals, may include:

- Financial advisor
- Lawyer
- Accountant
- Trust and estate consultants

Topics of discussion:

- Vision for your family wealth
- Philanthropy
- Legacy
- Identify potential hurdles to overcome

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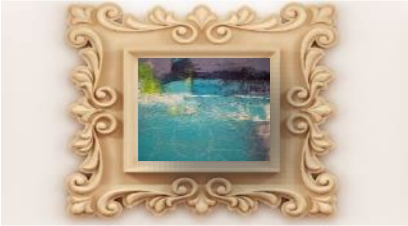
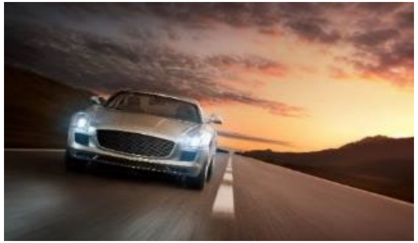
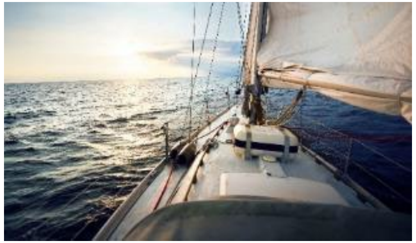
Step 2: Take a financial inventory



Important things to consider:

1. Worldwide assets - not just Canadian assets

2. Form of ownership
   - Property owned jointly with another person
   - Property held inside a trust
   - Property held inside a corporation

Step 3: Understand your life insurance needs

Life insurance proceeds can be used to:

- Pay estate expenses
- Leave an inheritance
- Manage risk
- Replace income

Different types of insurance:

1. Whole Life Insurance
2. Term Insurance
3. Universal Life Insurance
4. Disability Insurance
5. Critical Illness
6. Long-Term Care Insurance
7. Annuities

Step 4: Draw up your will

A will is a written legal document outlining your intentions for the management and transfer of estate assets.

Planning a will involves:

- Naming beneficiaries
- Naming estate representatives and trustees or both
- Naming guardians for minor children
- Pre-planning direct transfer of assets
- Setting up testamentary trusts

Pitfalls of dying without a will:

- The provincial laws of intestacy will determine how your estate is distributed
- Potentially additional taxation
- Potential legal challenges
- Potential family friction and stress
- Additional cost and delays

Step 4: Draw up your will (continued…)

What to consider when selecting…

Beneficiaries

- ✓ Choose whomever you want
- ✓ May consider an alternate beneficiary

Estate Representative

- ✓ Time and willingness
- ✓ Objectivity
- ✓ Residency
- ✓ Age
- ✓ Experience and reliability

Steps 5 & 6: Establish Powers of Attorney

A **Power of Attorney (POA)** gives the designated individual the authority to handle your affairs and if it has the right wording in it, can continue if you no longer can do so due to mental or physical incapacity.

Type*	Purpose
Financial Power of Attorney / Power of Attorney for Property	For financial matters
Power of Attorney for Personal Care	For health matters such as medical decisions for you when you are no longer able to

* Other documents may serve the purpose of these POAs outside of Ontario.

Make sure the Attorney you select is aware of the level of responsibly involved.

Step 7: Tax considerations in estate planning

Two tax considerations in estate planning are:

1. Probate fees/taxes

2. Income tax consequences on death

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1. Probate Fees

What is probate?

- Court process which confirms that the will of the deceased is legally valid
- Probate process is administered by each province

What are probate fees?

- Provinces charge a probate fee for the court process
- In some provinces, fees are based on the assets owned by the deceased at time of death

Some assets may pass outside the estate and may not be subject to probate fees

- Registered plans and insurance with designated beneficiaries
- Assets owned joint with right of survivorship

Speak with your legal advisor for information on probate fees and probate planning

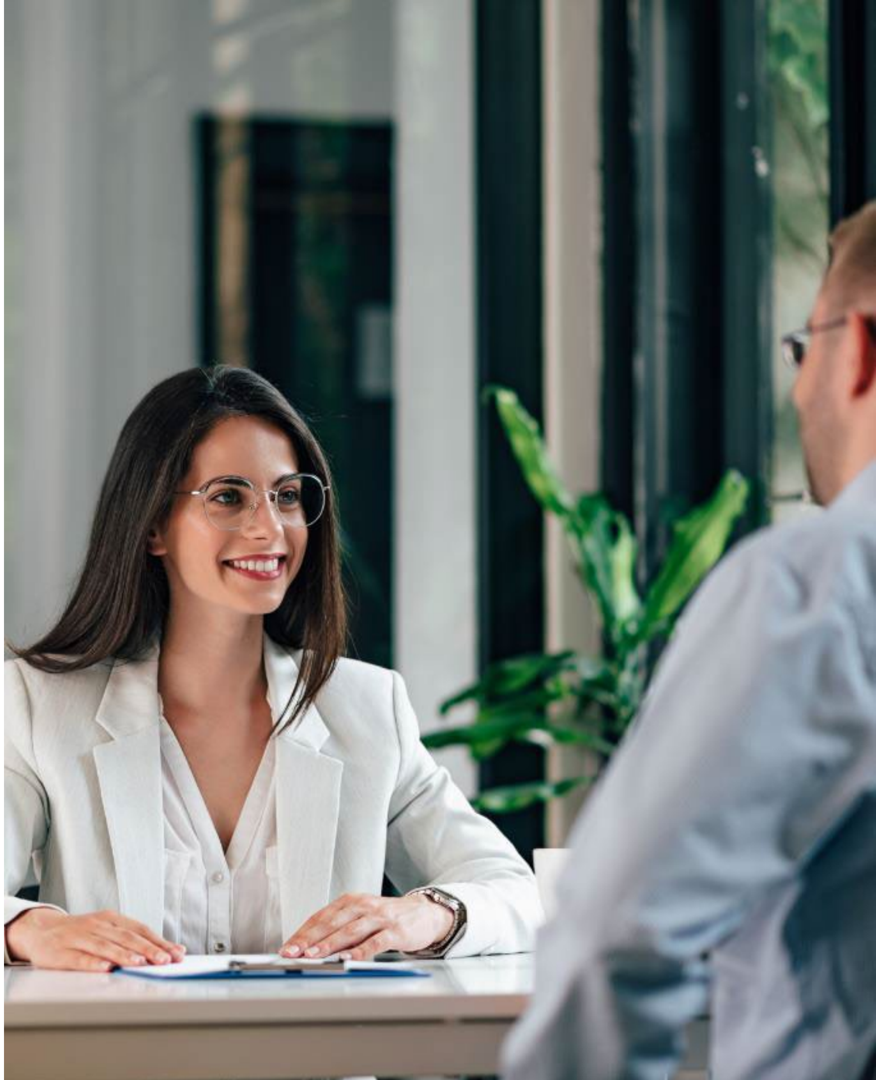
2. Income taxes on death

Tax payable on taxable capital gains

- On death, government deems you to have “sold” all of your capital property for fair market value

Tax payable on RRSPs and RRIFs

- RRSPs and RRIFs are fully taxable to the deceased plan holder
- May be able to “roll over” on a tax-deferred basis to spouse/common-law partner or financially dependent (grand)child



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Strategies to reduce income taxes on death: RRSP and RRIFs

1. **Rollover to spouse or partner**
   - No immediate tax consequences when deceased’s date of death value of RRSP/RRIF rolled over to spouse/partner’s RRSP/RRIF
2. **RRSP/RRIF rollover to dependent child/grandchild**
   - Guardian/trustee for child can purchase annuity to age 18 –defers tax and allows child to take advantage of marginal rates each year
3. **RRIF/RRSP transfer to mentally/physically infirm child/grandchild**

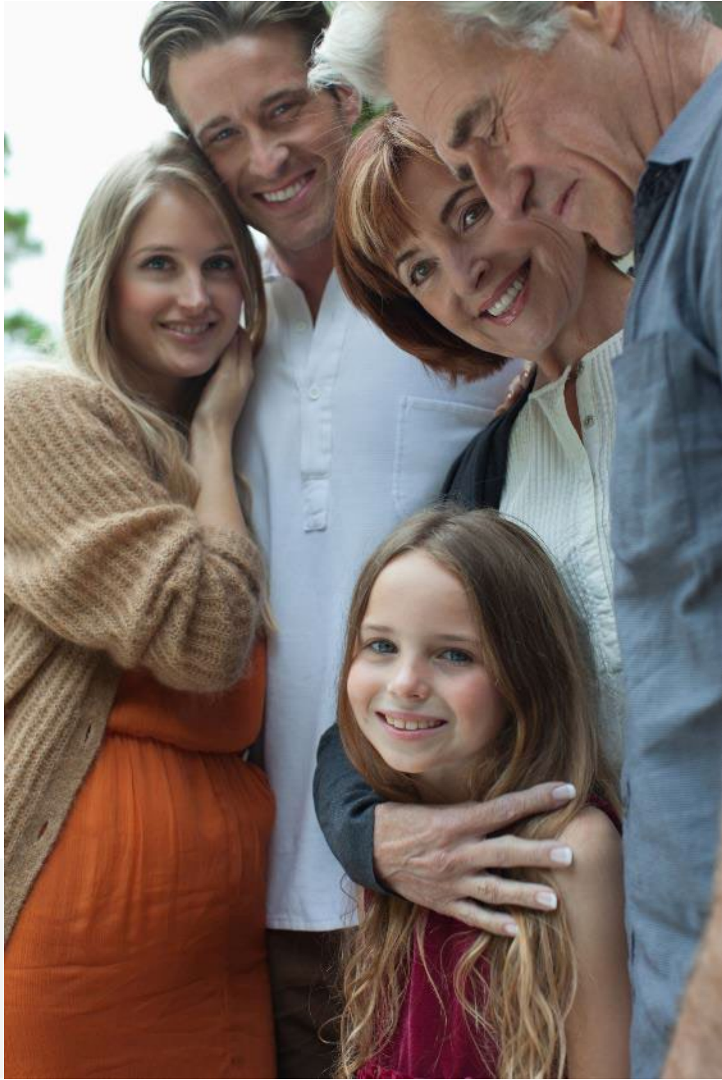
Taxes on death: TFSAs

- There's no tax on death for the holder of the TFSA
- Any income or gains accruing after date of death will generally be taxable to the recipient

1. **Designate your spouse/partner as a 'successor holder'**
    - Does not affect their own TFSA contribution room
    - Account will roll over to them
2. **Designate a non-spouse/partner as a beneficiary**
    - Proceeds will bypass the estate and go right to the beneficiary (<u>generally</u> avoiding probate)

Step 8: Keep track of accounts, important info

- Keep an inventory of what you have
- Keep a list of trusted advisors and professionals
- Store documents safely
- Keep track of your digital assets, including social media accounts



Does your family know where your key documents (i.e., your will, financial documents, bank accounts, list of key advisors) are stored?

Step 9: Review and update regularly

As your life changes so should your estate plan.

Review regularly

- Review your entire estate plan every 3 years and your financial plan at least once a year

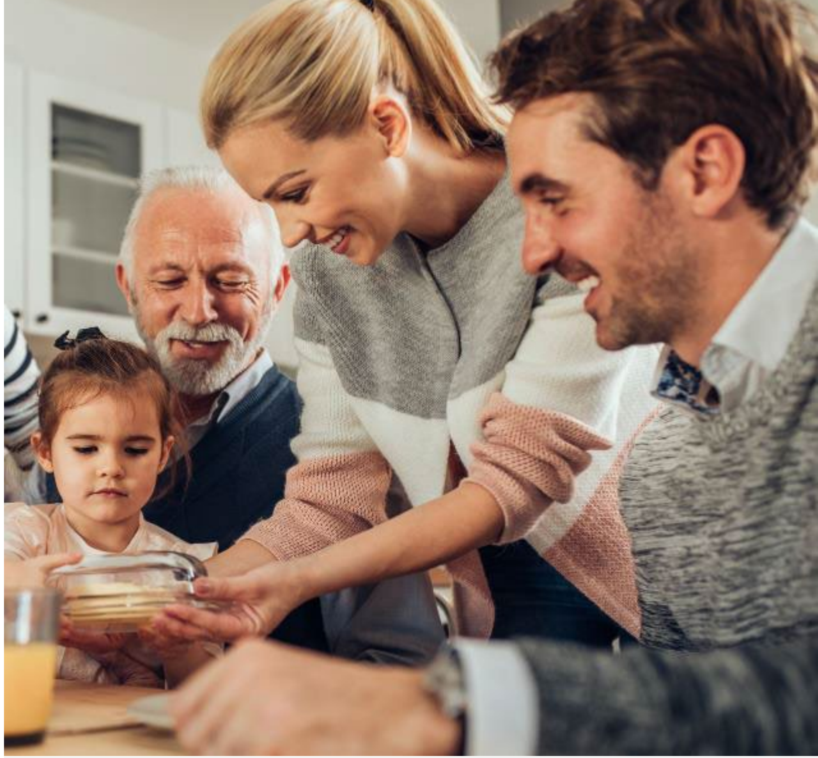
Review with life changes

- Marriage, separation, or divorce
- Birth or adoption of a child
- Death of a spouse, child, or other beneficiary
- Move to a different province
- Change in financial circumstance

Step 10: Share your plans

Communicating your intentions gives your loved ones confidence your wishes are fulfilled.

1. Document who will be responsible for carrying out your wishes
2. If you feel comfortable doing so, tell those involved their responsibilities
3. Communicate the what, why and how of your plan
4. Introduce your advisor(s) to your estate representative, the person you appointed in your power of attorney and beneficiaries. Your advisor(s) can be a key person to help pull things together



For conversation starters check out our estate planning family conversation guides for parents and children on our website.

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Estate planning best practices

- ✓ Have the "talk" with aging parents about their estate plan and share your own
- ✓ Ask parents for advice on your own will or retirement plan
- ✓ Create a financial plan that considers caregiving arrangements and costs
- ✓ Seek financial and legal counsel about building your estate plan and have a list of trusted advisers
- ✓ Keep an inventory of what you have including bank accounts, investments statements, real estate and outstanding debt.
- ✓ Store documents safely and keep a record of where you've stored them

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Other important considerations in estate planning

5 things to consider

1. Gifting
2. Joint ownership
3. Trusts
4. Business succession planning
5. Common gaps

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Strategies to protect your wealth when gifting

- Gift when you're ready
- Protect your gift in event of relationship breakdown – make a demand loan, potentially interest free, or a traditional mortgage rather than an outright gift
- Tax consequences of gifting – cash vs real estate vs securities

Looking to help your children? You're not alone!

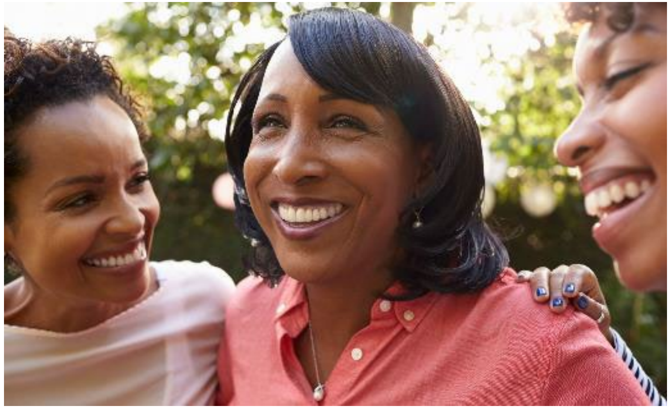
76% of Canadian parents would help their kids move out, get married, or move in with a partner. Yet, 68% either misunderstand or say they don't know the tax and other financial implications of gifting.

Source: CIBC Poll, 2017

Joint ownership with adult children

Pros

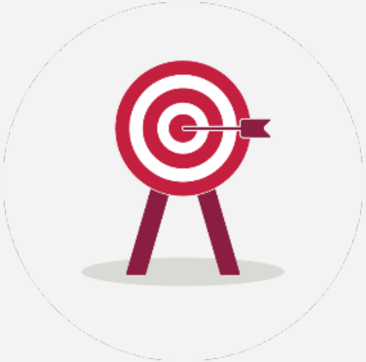
- May avoid probate
- May simplify estate settlement
- Flexibility for joint owner to do transactions on behalf of the other owner



Cons

- May trigger capital gains at time of registration of joint ownership
- Loss of control - joint owner can do transactions regardless of the other owner's wishes/intentions
- May be subject to creditor or family property claims of joint owner
- May not clearly indicate intention (e.g., gift or solely probate fee savings)
- May lose other tax benefits (e.g., principal residence exemption)

Trusts



The purpose of a trust may be:

- Provide ongoing support and protection for dependents
- Provide support for disabled dependents without compromising government benefits
- Help protect inherited assets in the event of a relationship breakdown or from claims by third parties
- Allows you to set out the terms of when and how money is passed on

Common types of trusts:

1 **Testamentary trust**

Only comes into effect upon death

2 **Inter-vivos trust**

Set up and takes effect during your lifetime

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Testamentary trust

What are testamentary trusts?

- A trust that arises because of your death
- Set out in a will or beneficiary designation

Possible benefits

- Provide ongoing support for spouse/partner and dependents or both
- Trust assets are managed by Trustees, as opposed to potential mismanagement by beneficiaries if left directly to them
- Generally will not form part of beneficiaries' estates on their deaths

Pitfalls

- Selection of appropriate Trustees
- Generally, income retained in the Trust is taxed at top individual tax rate
- Deemed disposition of Trust assets every 21yrs

Inter-vivo trusts

What are inter-vivos trusts?

- These are trusts set up while the settlor is alive

Potential Benefits

- Provide support for dependents
- Trust assets may be managed by an independent Trustee
- May prevent inclusion of assets under family law legislation

Pitfalls

- Selection of appropriate Trustees
- Income retained in the Trust is taxed at top individual tax rate
- Deemed disposition of Trust assets every 21 years

Business succession planning

Ask yourself: What will happen to my business once I retire?

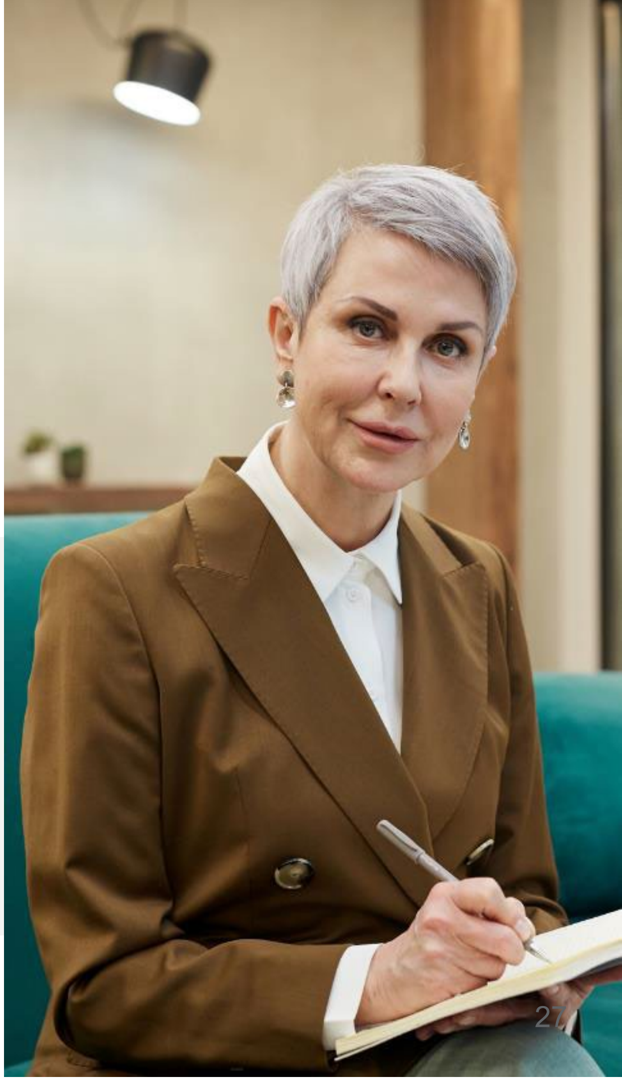
- Should I transfer the business to family?
- Do my children even want to work in the business?
- Do I have a strong management team that can take over?

Keep

1. Groom a successor
2. Owner-investor option
3. Hybrid approach

Sell

1. Sell to management
2. Sell 100% to a strategic buyer
3. Sell a stake to a private equity firm



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Common gaps

What are the common gaps that can occur when settling an estate?

- Having a vague will or no will at all
- ‘DIY’ planning and probate tax avoidance missteps
- Not reviewing your plan regularly and not updating it with life events
- Managing family dynamics
- Incorrect documentation of beneficiary details
- Not communicating your wishes and details of your estate plan to your beneficiaries

Thank you

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