

ESTATE PLANNING GUIDE



THE
Great-West Life
ASSURANCE  COMPANY

Your estate plan will serve as a road map to guide others in handling your affairs and finances after you die. Preparing an estate plan now will help to protect your family's financial well being.

This guide provides an overview of estate planning. We've included information on things you'll need to consider, and a checklist to help you identify your needs. Once you've had an opportunity to review the guide, you'll want to consult with experts in estate planning – your accountant, lawyer and financial security advisor.

Taking the first step

Many people think estate plans are only for the wealthy. This isn't the case. Every parent, grandparent, spouse, business owner and professional person should have an estate plan.

An estate plan tells others how to handle your affairs and finances after you die. It tells them how to distribute your assets at death, including money, property and other possessions. It will help to ensure your estate is divided according to your wishes, rather than the government's wishes. And, it can help to minimize taxes, so more of your estate is left for your heirs.

Estate plan

An estate plan also offers benefits during your lifetime. It can help you accumulate savings for retirement and take advantage of tax savings opportunities. It can also help you maintain your lifestyle if you become ill or disabled for a lengthy period. An estate plan should be part of your ongoing financial planning.

Setting your priorities

The first step is to decide on goals for your lifetime as well as what you want to do with your estate when you die.

You may want to:

- leave as large an estate as possible for your spouse, children or grandchildren
- provide for a child or adult who has a physical or mental special need
- transfer your business to a family member
- contribute to your favourite charity

What you decide will help you and your financial security advisor develop your estate plan.

Taking an inventory of your estate

The next step is to identify everything that forms part of your estate – savings, insurance policies, your home, cottage or other real estate, pension plans, RRSPs and non-registered investments.

Many people underestimate what they have. Your Great-West Life financial security advisor can help you identify your assets, record where they are located and obtain their current value using *Your personal records organizer*.

This record will give you and those handling your estate a better picture of your net worth. Once you've gathered this information, you'll find it easy to review and update every two or three years, and after significant life events, such as marriage or the birth of a child.

Making arrangements

Keeping your important papers together

You may already have all your important papers stored together in a safe, easily accessible place. If not, *Your personal records organizer* will help you get started. Be sure to include your:

- insurance policies
- RRSPs
- pension funds
- will
- bonds and stocks
- investment records
- property deeds
- birth and marriage certificates
- a copy of your social insurance card
- records of cash on hand and particulars of bank accounts
- the location of the keys to your safe deposit box
- a list of your assets.

It's up to you to help prepare family members for your death. That includes making sure they know where to find your personal records. This will prevent delays in carrying out your wishes.

Consult with experts

The best advice we can give you on estate planning is to consult with experts, including your accountant and lawyer. As well, your Great-West Life financial security advisor can help to coordinate your planning efforts and recommend financial products to help you meet your goals.

Discuss any special concerns you have with your professional advisors. For example, you may want to know what would happen to your children's inheritance in the event of their divorce. Or, you may have concerns about the potential reintroduction of succession taxes, or the best way to pass on a family business.

No surprises

It's not easy to talk about your final wishes – funeral and burial arrangements, and the distribution of your estate to your heirs. But to avoid surprises and ensure your wishes are carried out, let your spouse or family know how you want your estate distributed, let them know where your will is located and introduce them to your professional advisors.

It's a good idea to keep some assets that are easily cashable. This ensures cash is available to pay bills and burial expenses so your heirs won't be forced to sell assets to pay off debts.

Review the brochure, *For your family* and discuss it with your immediate family. It provides information they'll find timely and helpful after your death.

Keeping pace as your needs change

As your needs change, so too must your estate plan. A properly designed estate plan will keep pace with changes in your family circumstances – such as the birth of a child, premature death of an heir, or a divorce – as well as changes in laws.

Your estate plan can ensure your family will be provided for, and your wishes will be carried out.

Preparing a will

Your will is perhaps the single most important document you will ever sign. It is a legally enforceable declaration of how you want your possessions distributed after your death. It allows you to determine who will receive your assets and in what portion. In this way, it safeguards your interests, especially if family members disagree on the division of your assets.

The best time to prepare a will is now. Too often people leave it until the last minute – before a trip or major surgery – and are forced to make decisions quickly.

There are do-it-yourself will forms available, but knowing your estate will be handled properly is well worth the fee you'll pay to have a valid will drawn up. A do-it-yourself version may not stand up if contested in court. Getting professional advice could save your estate the amount you spend on obtaining the advice.

Special considerations for spouses and parents

If you are married, you and your spouse should have your own wills and should be familiar with the provisions of each other's will.

Special consideration and extra time may be needed if yours is a family with children from a previous marriage, or if other family members do not accept your partner.

If you have children under age 18, it's especially important to have a will. If both parents die at the same time, a will can not only provide for distribution of assets but, more importantly, appoint a guardian for minor children.

Providing for children or adults with special needs

Planning to meet the needs of children or adults who have special needs is often complex. First, you'll want to safeguard their interests by providing for their guardianship at your death. The guardian will serve as an advocate and make decisions that affect their well-being. You can name a guardian in your will.

Second, you'll want to provide for them financially. Special financial planning techniques may be needed so that you don't jeopardize any government benefits they may be receiving. People with special needs may be entitled to government assistance, depending on the amount of income they receive. If they own marketable assets, they may not be eligible for these benefits until their assets are depleted.

If you want to leave more of your estate to a child with special needs, identify the child in your will as needing special assistance to avoid other children challenging the will.

What happens when you die without a will?

If you die without a will:

- Your estate may be divided in a way you may not have wanted.
- Someone will be appointed to administer your estate, rather than you choosing the person you want.
- The courts will appoint a guardian for minor children, and it may not be the person you would have chosen.
- Your assets may be frozen, which means no one has access to money or property until the estate is settled.
- A minor's inheritance may be frozen until he or she reaches the age of majority.
- Your estate or your heirs may have to pay more taxes.

You've worked hard to build your estate, so don't leave it up to the courts to decide how it should be distributed. Each province has its own laws on how your assets will be distributed when you die, as the following chart shows.

If you are survived by:

| Province | Spouse only | Children only | Spouse + 1 child | Spouse + children |
|----------------------|---------------|-----------------|---------------------------------------------------|--------------------------------------------------------------------|
| Alberta | All to spouse | All to children | First \$40,000 to spouse; balance split equally | First \$40,000 to spouse; 1/3 balance to spouse; 2/3 to children |
| British Columbia | All to spouse | All to children | First \$65,000 to spouse; balance split equally | First \$65,000 to spouse; 1/3 balance to spouse; 2/3 to children |
| Manitoba | All to spouse | All to children | All to spouse | All to spouse |
| New Brunswick | All to spouse | All to children | Marital property to spouse; balance split equally | Marital property to spouse; 1/3 balance to spouse; 2/3 to children |
| Newfoundland | All to spouse | All to children | Split equally | 1/3 to spouse; 2/3 to children |
| Nova Scotia | All to spouse | All to children | First \$50,000 to spouse; balance split equally | First \$50,000 to spouse; 1/3 balance to spouse; 2/3 to children |
| Ontario | All to spouse | All to children | First \$200,000 to spouse; balance split equally | First \$200,000 to spouse; 1/3 balance to spouse; 2/3 to children |
| Prince Edward Island | All to spouse | All to children | Split equally | 1/3 to spouse; 2/3 to children |
| Quebec | All to spouse | All to children | 1/3 to spouse 2/3 to child | 1/3 to spouse 2/3 to children |
| Saskatchewan | All to spouse | All to children | First \$100,000 to spouse; balance split equally | First \$100,000 to spouse; 1/3 balance to spouse; 2/3 to children |

Source: CCH's Estate Planning for Financial Advisors (2000)

Where to keep your will

Keep a copy of your will in your safe deposit box and another copy at home with your personal records. Store the original in a safe place; perhaps with your lawyer (lawyer or notary in Quebec), or trust company. Don't keep the only copy in your safe deposit box. If your will is locked inside, your family may not be able to gain immediate access to burial or other vital information.

Keeping your will up to date

Review your will at least once every three years, or whenever your circumstances change. For example, the birth of a child, death of an heir, change in marital status, or relocation to another province (which may have different laws) all signal the need to update your will.

Choosing your executor

In your will, you can name the person you want to manage your estate and carry out your final wishes. This avoids additional charges later. If you die without a will, someone will need to apply to the court to be appointed which costs money, and whoever administers your estate will likely charge your estate for their services.

It's usually best to choose someone who is close to you – your spouse, a family member or friend who is trustworthy and understands your wishes. You may consider the role an honorary one, but it's a time-consuming job with many duties. A time of grieving is not a good time for decision-making. It may be better to choose someone who can perform the executor's duties at arm's length. Choose carefully and think about the duties that your executor will have to perform.

Choose someone younger than you, rather than someone older whom you may outlive. You may also want to appoint an alternate, if for some reason your executor can't do the job.

If you own a business, avoid appointing your business's accountant or lawyer as your executor in case of a possible conflict of interest in dealing with surviving shareholders. If your estate is complex, consider appointing someone with an accounting background or sound business judgement, who will have the expertise needed to administer your estate properly.

Individual or trust company – or both?

You may want to consider appointing a trust company as your executor. One advantage is permanence – the trust company will be there to see that the estate is fully distributed. It will also have the expertise needed to manage large and complex estates. But, having a trust company handle your affairs may seem impersonal, and the fees can substantially reduce your estate.

An alternative is to appoint a close friend or family member as executor, with a trust company or estate lawyer serving as a professional co-executor. This way, someone who knows you well will make sensitive decisions involving your family, but a professional firm will handle the financial aspects and day-to-day administration.

The executor's responsibilities

Your executor is responsible for:

- notifying family heirs of your death
- arranging for burial or cremation and a funeral service
- applying for life insurance benefits (if the estate was named beneficiary under the policy)
- preparing an inventory of your estate's assets and debts
- arranging for payment of all debts
- filing an income tax return for the year of death
- distributing estate assets

A thorough summary of the executor's duties is provided in the brochure, *For your executor*. Read the brochure, review it with your executor and leave it with him or her. It's important to know whether the person you want as your executor is willing to take on the duties involved.

Making decisions

Prearranging a funeral

Making funeral arrangements in advance, or at least discussing your wishes with family members, will relieve them of having to make these decisions after your death.

Write down your preferences in *Your personal records organizer*. Include whether you wish to be cremated or buried, and whether you want a memorial service or a traditional funeral.

Organ donation

If you want to donate your organs at death, discuss your wishes with your family first. It's important to let your immediate family know your wishes, as they are always consulted when you die. They should be aware of your wishes so they can advise medical personnel if your signed donor card is not readily available.

Be sure to sign an organ donor card and/or the appropriate section on your driver's license, and keep it in your wallet where it is easy to find.

A living will

Some provinces recognize a living will as a legal document. A living will is a signed document that can say you do not want any medical procedures used to artificially prolong your life if you become terminally ill and are near death.

To find out more about living wills and the laws in your province, contact your legal advisor.

Power of attorney

As part of your estate plan, consider appointing someone to manage your affairs for you if you are unable to do so, due to an accident or a prolonged or terminal illness. You may be surprised to know that your spouse does not automatically have this authority, which is called power of attorney.

A power of attorney is a legal document which gives someone authority to deal with your property on your behalf. A power of attorney is in effect only during your lifetime. After your death, your executor assumes full responsibility for looking after your affairs.

Provincial law governs powers of attorney, so in most cases you'll need to consult your lawyer about giving someone this power.

Charitable giving

As part of your estate plan, you may want to make a special gift to your favourite charity. You can make this provision in your will or through a life insurance policy.

For a minimum investment, you can use life insurance to create a substantial legacy and possibly receive tax benefits immediately.

Minimizing taxes

An estate plan can help you reduce taxes, so as much of your estate as possible goes to your heirs, rather than to the government. In most

Fees and taxes

death: probate fees, income taxes and taxes on investments. Estate planning can help minimize the tax bill, regardless of which of these taxes apply.

Probate fees

In most provinces, probate courts charge probate fees to declare your will valid, confirm your executor and provide evidence of your death. The fees vary from one province to another, but they can amount to as much as four per cent of your estate.

Income taxes

Taxes must be paid by your estate on any taxable income you earn in the year of your death. This includes employment income, investment income, realized capital gains, Old Age Security or Canada/Quebec Pension Plan Benefits, income from Registered Retirement Income Funds, etc.

Taxes on investments

Quite possibly, the largest burden on your estate at your death may be the taxes owing on your assets – your business or farm, vacation property, savings, RRSPs or other investments.

The Income Tax Act allows you to transfer certain assets to your surviving spouse and defer the tax until his or her death. If this provision does not apply to you, all your property and investments will be treated for tax purposes as if you sold them at their fair market value immediately before your death. This increases the potential tax cost and decreases the value of your estate. Without a means to pay these taxes, there will be significantly less of your estate left for your heirs.

Taking care of your business

Business owners have special needs that must be addressed in estate planning. They may include the following:

Money you owe at the time of your death must be paid. This may include outstanding debts, mortgage payments and bank loans, as well as hidden liabilities such as personal guarantees and accrued income tax on assets that have risen in value.

Business succession

Without a means of paying these obligations, the business

may not continue as a going concern. Your family and your employees rely on the income they receive from your business.

Keeping the business in the family

Like many business owners, you may hope to keep the business in your family. Proper estate planning will help to ensure that your business can be transferred to the next generation or sold as a going concern.

Maintaining family harmony

Many family businesses are jeopardized by disputes over money and control. Although harmony can't be guaranteed, you can take steps to lessen potential conflicts.

Maintaining the value of the business

An effective estate plan will smooth the transfer of the business ownership at your retirement or death. A properly drafted buy-sell agreement can provide for the sale of your shares in the business at your retirement, death, if you become disabled or have a disagreement with other shareholders.

Many small business owners add a provision in their will to advise their executor that they have a buy-sell agreement in place, directing them to act promptly to carry out the terms of the agreement.

Effective estate planning also means preparing for a smooth transition of your leadership. If you die suddenly without having made any plans, this transition will likely be more difficult because of the confusion and conflict that may arise during an emotional time.

You can avert potential difficulties by writing down exactly what steps must be taken to maintain the value of your business in the event of your death. An effective estate plan should fully address the unique needs of your business and your family, to avoid problems that could eventually unravel your plan.

Reducing taxes at death

This is often one of the main objectives in estate planning for business owners. Income taxes that arise at death may be significant, especially if the business has substantially increased in value.

Looking after the family farm

The Income Tax Act allows certain farm assets and ownership interests in farm operations to be transferred from one generation to the next free of tax, provided certain criteria are met. These rules apply both during the farmer's lifetime and at his or her death.

Capital property, including farming property, can be transferred to a spouse or child without incurring taxes. For the purposes of the Act, a child includes natural and adopted children, grandchildren, great grandchildren, sons-in-law and daughters-in-law.

Completing your estate plan

An estate plan should include four elements – life insurance, disability insurance, critical illness insurance and retirement planning.

Life insurance

Life insurance is an effective way to:

- provide for your spouse and children
- pay capital gains and other taxes owing at death
- facilitate the transfer of ownership of a business at your death
- provide for a dependant with disabilities
- leave a final gift to a favourite charity

During your lifetime, the cash accumulated within a cash value life insurance policy may also provide a substantial supplement to your retirement income or allow you to take advantage of business opportunities.

Disability insurance

A serious illness or injury could drastically affect your plans during your lifetime. It could also hamper the effectiveness of your estate plan. Disability insurance can protect your standard of living if you become sick or injured and are unable to work. If you are under age 65, you are seven times more likely to be disabled than you are to die.

Critical illness insurance

Do you know someone who has been affected by a critical illness such as heart attack or stroke? Do you have the financial resources to survive a critical illness? Surviving a critical illness or condition can turn your life upside down. It can affect you physically, emotionally and financially. Critical illness insurance complements disability and life insurance protection, providing a one-time, lump-sum benefit to help cover additional expenses associated with a critical condition.

Retirement planning

Planning for your retirement takes time and effort. It means thinking about your priorities, considering your future income needs and making lifestyle choices. Now more than ever, you need a plan.

A common starting point is to assume that you need 70 per cent of your employment income to maintain your standard of living in retirement.

There are several potential sources of income at retirement, including government benefits, Canada or Quebec Pension Plan, employer-sponsored pension plans, RRSPs and non-registered personal savings. Because of possible government shortfalls, RRSPs and non-registered personal savings may form the bulk of your retirement income.

At retirement, there are a number of options for managing your income, including registered retirement income funds (RRIFs), annuities and life income funds (LIFs). There is no single right solution. The most effective approach will depend on your needs and preferences.

For more information on planning for your retirement, talk with your Great-West Life financial security advisor.

Providing for survivors

We can't avoid the inevitable. But proper planning can help you provide for your family, make it easier for others to wrap up your affairs, pass on your business or farm to the next generation, or leave a lasting gift to a favourite charity.

In short, you can take comfort in knowing you've put your financial affairs in order, so everything you've worked a lifetime to build will be managed according to your wishes.

Your estate planning checklist

Now that you've reviewed the guide, it's time to see how your estate plan is coming along. Take a few minutes to run through the checklist. It will help you identify things you may have overlooked and indicate which parts of your estate plan need further consideration.

Setting your priorities

- Have you specified how your assets are to be distributed?
- Will there be a source of income for your family when you die?
- Will there be a source of income if you are disabled?
- Do you know what your income will be at retirement?
- Do you know what the tax exposure is on your estate?
- Do you know how any taxes will be paid?

Taking an inventory of your estate

- Are all your important papers together?
- Does your executor know where they are?
- Do you have a will?
- Do you need/have a trust agreement?
- Do you have a buy-sell agreement for your business?
- Do you have a current net worth statement?

Your executor

- Have you chosen your executor?
- Does this person know of your choice?
- Have you explained your expectations?

Your family

- Have you made funeral plans?
- Have you discussed them with your family?
- Have you had a family meeting to talk about your estate plan?
- Has your family met your professional advisors?
- Does your family know who you've appointed as your executor?
- Is your life insurance beneficiary information up to date?

Adapted with permission from the Canadian Association of Family Enterprise (CAFE) Estate Planning Checklist.

At Great-West Life, we've been helping Canadians plan their financial affairs for more than a century. Call your Great-West Life financial security advisor today.



Great-West and the key design and Discovery are trademarks of The Great-West Life Assurance Company.