Canada Life™

Estate planning guide

ESTATE PLANNING SOLUTIONS

Designing your plan for family and estate protection

An effective estate plan ensures an individual's personal property is managed effectively while they're alive and also that their wishes, such as distribution of assets and minimization of taxes are carried out following their death.

PLEASE NOTE: In Quebec, executors are known as liquidators. Therefore references to executors in this brochure include liquidators in Quebec. Also in Quebec, some estate planning duties may be performed by either lawyers or notaries, more being typically performed by notaries.

The goals of estate planning includes:

- Preserving wealth
- Reducing taxes and estate fees
- Supplementing income for retirement or for supporting dependants
- Ensuring equity in estate distribution
- Family harmony

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 protect your family's financial well being.

This guide provides an overview of estate planning, detailing important items to consider with a checklist to help you assess your current situation. Once you've had an opportunity to review the guide, you'll want to consult with professional advisors in estate planning – your accountant, lawyer or notary and advisor to help you prepare your plan.

Estate planning is not just for high-income earners. Estate planning is for everyone looking to leave their estate to their loved ones and who don't want to see the estate they've spent a lifetime building eroded by taxes and other fees.

The importance of estate planning

Estate planning is one of the most important things you can do to help protect your family and your legacy. The purpose of estate planning is to ensure an individual's personal property is managed effectively while you're alive and your wishes are carried out after your death, namely, distributing your assets in an orderly fashion and reducing taxes.

What is estate planning?

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

An estate plan also offers benefits during your lifetime. The products you may use to support your plan may also help you accumulate savings for retirement and take advantage of tax savings opportunities. They may also help you maintain your lifestyle if you become ill or disabled for a lengthy period. An estate plan is part of your overall financial plan.

Is an estate plan the same as a succession plan?

An estate plan includes all of your personal and business assets. However a succession plan only considers your business assets and can determine how your business will be transferred to others by outlining the steps necessary to prepare for the transition.

Canada Life's Business succession planning kit, available from your advisor, includes more information on succession planning for your business. The kit covers topics such as key-person insurance and life insurance funded buy-sell agreements.

Your estate planning checklist

Settling an estate can be an enormous job for an executor. A proper estate plan that's reviewed often can avoid some legal pitfalls and issues, reducing the strain on the executor you've chosen. Assess your current situation and priorities with this checklist:

Your executor

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

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 death?
- Do you know how any income taxes and probate fees, if applicable, (also called estate administration tax in Ontario) that arise on your death will be paid?

Taking an inventory of your estate

- Are all your important papers together?
- Does your executor know where the papers 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 succession plan for your business?
- Do you have a current net worth statement?

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?

This list can help start discussions with your family about your wishes. Look to your advisor for help in setting up an estate plan that's specific to your needs or update your estate plan if changes have occurred.

The importance of a will

Your will is perhaps the single most important document you will ever sign. It's 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. Your will should also appoint an executor (or liquidator in Quebec) who acts on your behalf to manage your estate and carry out your final wishes.

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. If you have a will it should be reviewed regularly especially if a significant life event occurs.

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 will drawn up by a professional. Getting professional advice could save your estate more than the amount you spend on obtaining the advice.

Being an executor (or liquidator in Quebec) is a complex job and also includes some risks. Executor duties can last for months or years, particularly in cases of trusts or more complicated estate or family situations. Choose carefully and think about the duties that your executor will have to perform.

Canada Life's *For your executor* is a brochure for both you and your executor and is available from your advisor. It will give you a better understanding of the many responsibilities your executor will have to carry out on your behalf.

It may also be used for a reference for your executor to after you die, together with professional advice. You should review it together, then discuss and clarify your expectations. Taking time to do this now will help ensure your final wishes are carried out in the way you intend.

If you die without a will, here's what happens to your assets

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.
- 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 and/or territory has its own laws on how your assets will be distributed if you die without a will, as the examples in the following chart shows.

If you are survived by:				
Province	**Spouse only**	**Children only**	**Spouse plus one child**	**Spouse plus 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	Either all to spouse or greater of $50,000, or half of the estate to spouse plus half of balance to spouse and half to children.	Either all to spouse or greater of $50,000, or half of the estate to spouse plus half of balance to spouse and half to children.
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 and Labrador	All to spouse	All to children	Split equally	1/3 to spouse; 2/3 to children
Northwest Territories/Nunavut	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
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 balance to spouse; 2/3 to children
Quebec	All to married or civil union spouse [1]	All to children	1/3 to married or civil union spouse; 2/3 to child	1/3 to married or civil union 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
Yukon	All to spouse	All to children	First $75,000 to spouse; balance split equally	First $75,000 to spouse; 1/3 balance to spouse; 2/3 to children

Source: CCH Canadian Estate Planning Guide (September 2010)

[1] Without proper testamentary dispositions, no common law spouse inherits automatically in Quebec. If there is a married or civil union spouse, but no children or descendants, the rules vary in Quebec. If father and/or mother are alive, then 1/3 to them and 2/3 to surviving spouse. If deceased' brothers and sisters and their children are alive, then 1/3 to them and 2/3 to the spouse.

The six basic steps to developing your estate plan

1. Determine your estate plan goal
2. Take an inventory of your estate
3. Consult the professional experts
4. Implement your plan
5. Share your plan
6. Monitor your plan

Step 1

Determine your estate plan goal

The first step in making an estate plan is deciding on goals for your lifetime, as well as what you want to do with your estate when you die. You may want to consider the following questions:

- Do you want to leave as large of an estate as possible for your spouse, children or grandchildren, or your favorite charity?
- Do you want your beneficiaries to receive assets during your lifetime, upon your death or at some other time?
- Are there specific assets you want family members to receive?
- Do you need to provide for a child or adult who has a special need?
- Do you want to transfer your business to a family member?

What you decide will help you develop your estate plan.

Estate planning will also allow you to address some common problems you may want to avoid and ensure:

- Your family is not left with financial burden
- The value of your assets are maximized
- Your assets are divided as per your wishes
- Your estate is settled without unnecessary delays
- Your estate plan has addressed taxation laws
- Harmony within the family is maintained
- Costs associated with settling your estate can be covered

There are costs that come with settling your estate, however developing your estate plan can help ensure your loved ones are not left to pay out of pocket for these costs.

Income taxes must be paid by your estate on any taxable income you earn in the year of your death. Also, it is quite possible the largest burden on your estate at your death may be the income taxes owing because tax laws deem you to dispose of your assets at fair market value when you die. This includes your business or farm, vacation property, savings, registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs) or other investments. If you have a spouse, most of your registered assets can roll over to your spouse, effectively deferring tax until the deemed disposition upon their death.

However, upon your spouse's death significant tax owing on these assets can result. Permanent life insurance is a commonly used estate planning tool used to pay income taxes arising on death so that family assets are preserved for the next generation.

Other costs to consider are probate fees (also called estate administration tax). Probate is the process of authenticating a will. In most provinces, probate courts charge probate fees to declare your will valid, confirm your executor and provide evidence of your death. These fees vary from one province to another, but they can amount to as much as 1.5 per cent of your estate.[1]

[1]Probate fees are payable only when a will is probated, i.e., declared by a court to be the valid "last will and testament" of the deceased. Under current law, death benefits payable under a life insurance policy to a beneficiary, i.e., other than to the deceased's estate, do not form part of the deceased's estate and are not considered part of it for probate fee purposes, where this is relevant. For most jurisdictions in Canada, there is no upper limit on the amount of probate fees charged – the larger the estate, the greater the fees. For other jurisdictions, however, there are probate fees "caps", or only minimal probate fees are charged.

Step 2

Take 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, RRIFs, TFSAs and non-registered investments such as shares, your ownership of a business, mutual funds, segregated fund policies, annuities, etc.

Your inventory list should also include liabilities such as a mortgage, credit cards, or personal obligations such as family support. Personal property such as cars, jewelry, art and antiques should be considered as well.

Your advisor can help you identify your personal and financial assets and 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, divorce or the birth of a child.

Step 3

Consult the experts

Developing and implementing your estate planning goals are best done with the help of a trusted expert. Your advisor can work with you and your carefully chosen team of professional experts, such your accountant or lawyer. These experts can provide guidance by providing legal and tax matter advice, in addition to helping you select products that can help you achieve your goals while living and complement your planning efforts by ensuring your heirs receive your assets, as pre-determined by you.

Step 4

Implement your plan

The team of professional experts you have chosen will carefully review your plan objectives and help you put your plan into place. This could be done by helping you with the creation of a new will or a review of your existing will. Implementing your plan can also include purchasing critical illness, disability or life insurance or perhaps setting up a trust. A planned gift to your favorite charity can also be arranged, possibly creating some tax advantages for your estate while leaving a thoughtful legacy.

Step 5

Share your plan

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 for your family, and ensure your wishes are carried out, let your spouse or family know how you want your estate distributed. Be sure to let them know where your will is located, where to find your personal records and introduce them to your trusted professional advisors.

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

Step 6

Monitor your plan

As your needs change and life evolves, your estate plan should be updated to reflect these changes. Reviewing your plan on a regular basis allows you to track your progress by evaluating your current situation to the benchmarks or goals you have laid out in Step 1.

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.

Tax reduction strategies

When reviewing your estate planning objectives, a key component in reaching your goals may be reducing taxes. Here are some common tools used for reducing the impact of taxes on your estate.

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 death
- Provide for a dependant with disabilities
- Leave a final gift to a favorite charity
- Enhance the value of your estate while also helping to cover your income tax burden on death

Types of life insurance

There are two basic types of life insurance: term and permanent. Each satisfies different life insurance needs.

- Term life insurance – well suited to meet high, short-term protection needs for a low initial cost. May be convertible to permanent life insurance.
- Permanent life insurance is a type of life insurance product intended to provide protection for the lifetime of the insured and may be participating or non-participating. Most permanent products have a cash surrender value at some point. During your lifetime, the tax-advantaged accumulated growth of a policy value within a cash value life insurance policy may also provide an added income or allow you to take advantage of business opportunities.[1]

[1] If the accumulation stays within prescribed limits, the cash value is only subject to income tax when it's withdrawn.

Beneficiary designations

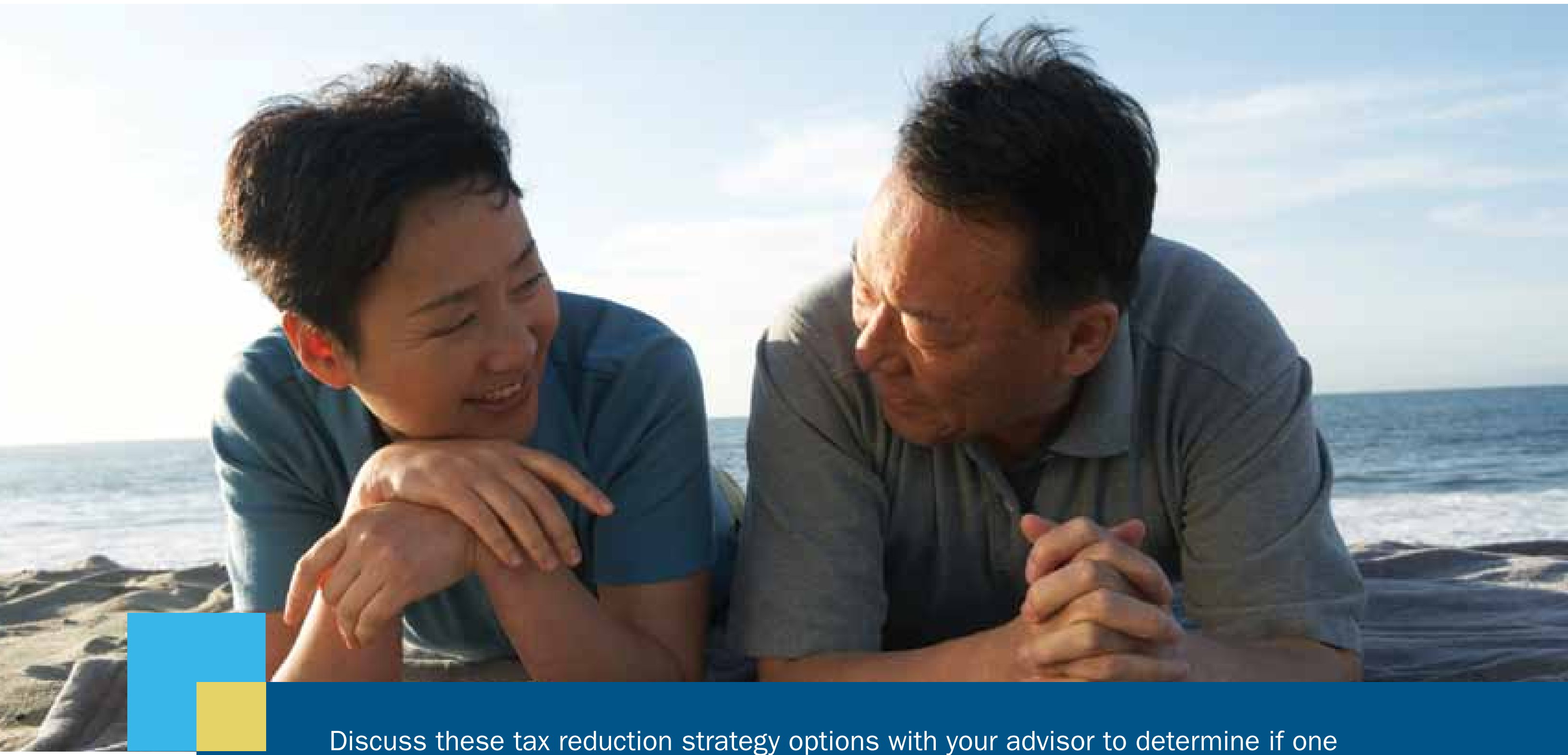
- Naming beneficiaries for your registered plans and pension plans allows the beneficiary to receive proceeds outside of your will, so probate fees (or estate administration tax fees in Ontario) aren't payable on the insurance benefit. This associated tax burden needs to be planned for since it may fall on your estate and not the beneficiary.
- In Quebec, such a beneficiary designation is available only on life insurance products, including annuities issued by insurers that meet the definition of life or fixed termed annuities and pension plans.
- Life insurance beneficiaries generally receive the proceeds tax free.

Gift during lifetime

- Allows you to transfer assets without paying probate fees, if any. However, gifts of capital property (to anyone other than your spouse), are generally treated as a sale and will trigger capital gains or losses to you.
- Gifts to spouses or minor children will trigger income attribution rules and income earned on gifts will be attributed to you (other than capital gains received by a minor child).

Joint title on assets

- Allows two or more people to own an asset together.
- If assets are held in joint tenancy with right of survivorship, when one owner dies, ownership normally passes to remaining owner(s) outside of the will (this concept does not exist in Quebec but the designation of a subrogated policyowner will produce the same legal effect). This may help to avoid probate taxes (or estate administration fees in Ontario), but not capital gains taxes.



Discuss these tax reduction strategy options with your advisor to determine if one or more of these options works well with your goals and priorities.

Canada Life™

Founded in 1847, Canada Life was Canada's first domestic life insurance company. In Canada, Canada Life offers a broad range of insurance and wealth management products and services for individuals, families and business owners from coast to coast. Canada Life is a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies. Visit our website at www.canadalife.com.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies; and to an advisor in group.

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