Lara Austin's

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MindingMoney

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For the friends and clients of Lara Austin of RBC Dominion Securities

Spring must be in the air...

My favourite snowbirds are coming back from California, Arizona and Hawaii. Some have even visited family in Calgary and Ontario, then teased me about how it is warmer there. Hardly fair. I'm being the dutiful parent, sitting at soccer games for a combined 5 hours on Saturdays, holding my Timmy's and wearing my toque and gloves!

I'm glad everyone is returning. I've planned a fun evening for us on April 26th. Listening to portfolio managers is not everyone's cup of tea – but Aaron is great at using layman's terms to help us understand what goes into successful long-term portfolio management. At a time where it feels that we are at the mercy of random market actions, it helps to understand there are proven processes. I'm looking forward to the presentation by Mikey Stilwell. What a beautiful girl with an amazing story. She is a hometown hero, as she lives in Qualicum Beach – and we will have someone to help us carry the momentum of the Olympic spirit over to the London Games this summer.

I expect this summer to be fairly quiet. A great opportunity to participate in our 'Family Snapshot'. This is a straightforward financial tool designed to highlight wealth management opportunities specific to your family. Clients can either do the Questionnaire with me in a meeting and come back for the results, or drop off the filled in Questionnaire to James and book a meeting for two weeks later. Over the last months I've seen a number of clients have an "Ah-ha" moment. This tool would be appropriate for those wanting to retire with certain criteria AND for those who are already retired and concerned about outliving their money – or in some cases have requested how to maximize their resources in their lifetime (a.k.a. die with a dollar in my pocket!).

Above all - I love to connect with you in person, listen to changes happening in your life and see if and where I can be of assistance. Portfolio Management is important – but it's more than that with me! Cheers...

Lara D. Austin

Executor Obligations Include Debt – By Leanne Kaufman, Estate Planning

Originally printed online at financialpost.com

In *The Tempest,* Shakespeare's character Stephano says, "He that dies pays all debts." Unfortunately, in reality, when we die, our debts live on and must be paid before our beneficiaries can receive our assets. It is the responsibility of the executor to ensure that debts are paid. This task can become complex, and if not done properly, can create personal liability for the executor.

The executor is the person appointed in a will to administer an estate. One of their key duties is to identify all of the legitimate debts owed by the deceased at the time of his or her death, and pay them, if there are sufficient assets to do so. This includes not only major debts such as mortgages, car loans, and lines of credit, but also any unpaid bills, payments or expenses, and taxes. The estate may also incur debt and expenses through the course of the administration, including funeral expenses, professional fees and taxes owing for the period after death.

As in all issues regarding an estate, knowledge of where and how to access relevant information is crucial. If, however, you do not have this information, paperwork is an obvious place to start. In today's increasingly electronic world, access to the deceased's computer files, online activity and relevant passwords can save you hours of work. Executors who ask the right questions of the deceased's financial institutions and professional advisors (lawyers and accountants) may find other information about potential debts owing.

When administering an estate, the full extent of the debts owing from the estate may not be immediately apparent and it may also take some time for the creditors to release information to you. Depending on creditor's policies, they may not recognize you as the executor until you have formally probated the will, where required, and may be hesitant to release information to you until that time. (Probate is the court process which validates the will and confirms the executor's appointment, but is not usually applicable in Quebec).

One of the duties of the executor is to release funds to the persons named as beneficiaries in the will. However, it is critical for executors to ensure that all legitimate debts (including taxes) are paid, and certain formal steps are taken first. Otherwise, if funds are distributed to beneficiaries and debts are later discovered, the executor may be personally liable for those debts out of his or her own funds.

Here are some steps that an executor should consider in order to prevent personal liability:

Advertising. In most provinces in Canada, there is a process involving advertising for creditors of the deceased in local newspapers, or in Quebec, making an inventory of the estate and publishing notice that the inventory has been made. To protect against personal liability, an executor should follow these formal steps then pay the debts that are known and considered legitimate, and wait for the expiry of any relevant time periods in which a spouse or a dependent may make a claim.

Obtain a Clearance Certificate. A Clearance Certificate is Canada Revenue Agency's written confirmation that all taxes owing on an estate have been paid. It is not a legal requirement to obtain one before fully distributing the assets, but it is strongly recommended in order to avoid personal liability.

Consider obtaining indemnification If you decide to release funds to the beneficiaries without advertising or obtaining tax clearance, you may want to obtain indemnification from the beneficiaries. This means that they agree to repay the estate if any debts (again, including taxes) are found owing, so that you do not end up paying for the debts from your own funds. Indemnities may be difficult to enforce, however, and should only be used in circumstances where the executor is confident that the beneficiaries will live up to their obligations, and still have the funds to do so.

Consider legal advice if you are unsure which assets to use to pay the debt. This can be a complex area of the law, and may be subject to the terms of the will. In the absence of direction in the will, debts are paid first from the residue of the estate (meaning the assets that are left after specific gifts to specific individuals have been paid out). If the residue is not sufficient to pay all of the debts, then it becomes necessary to look to the specific gifts. The law sets out preference as to the order based on the type of gift, and if you are in this situation, you should seek competent legal counsel.

Once all debts are discovered, there may not be sufficient assets in the estate to pay all amounts owing, making the estate insolvent. It will then be necessary to consider options such as bankruptcy, or if possible, reaching agreement with the individual creditors. In this case, the beneficiaries of the will are likely to receive nothing.

If there is any sense that the estate may not have sufficient funds to pay all of the debts, it is critical to seek professional advice sooner rather than later. As with all things related to estates, competent legal and tax advice is essential prior to taking action on any of these issues.

Leanne Kaufman, LL.B, LL.M is the Vice President, Professional Practice Group, RBC Wealth Management and author of The Executor's Handbook, 4th Edition, published by CCH Canadian Ltd. ***rbctru@rbc.com***

Did You Know?

If you are a executor needing assistance, I would be pleased to introduce you to our Island resource, Susan Benesch. She can review the "a la carte" services RBC Estate and Trust Services can offer.

Five Ways to avoid Old Age Security (OAS) Clawback

There has been an increased interest in OAS with the recent budget announcement including a change to the recipient start age. Old Age Security has been paid since 1952. Benefits were about $40 a month and at that time life expectancy from birth was about age 70. In the early 20th century very few people lived long enough to collect a public pension. In fact, when Prime Minister Mackenzie King introduced the Old Age Pensions Act in 1927, they set the starting age at 70. The pensionable age remained 70 until 1953 where we changed to 65 to "emulate" the age set in the U.S. for Social Security.

Fast forward to today, when monthly benefits are $540.12 for those who qualify and age expectancy for a 65 year old today is another 18.7 years or over age 83. It is projected by the year 2045 (33 years from now) that the average female will have a 60% chance of living to age 90 and the average male a 37% chance of living to age 90. You can see that amendments to accommodate longevity were required.

For those born after March 31st 1958, you will now have to wait two more years to collect your OAS. Missing out on a potential $12,962 (today's dollars) that your parents and older siblings receive. The good news is that you have 13 years or more to adjust your retirement plan to accommodate for that!

For those receiving OAS, the regular question is "how do I avoid clawback?" To be clear, OAS is an income-tested pension whereby starting at $69,562 of net income, $15 for every $1,000 earned up to $112,772 will be clawed back. This seems really scary, but only a lucky 2% of eligible OAS recipients end up with ALL their income clawed back. Most will be affected to varying degrees.

Strategy #1 - Income split with your spouse. If you have a spouse handy, you have likely already discovered the tax benefits of income splitting. There are various rules in place – some pension sources can be split if you are younger than 65, but most are for those older. If you don't have a spouse, I recommend that it is unwise to acquire one just for the purposes of splitting income!

Strategy #2 - Take your CPP and maybe RRIF pays early. This is one of those recommendations that varies based on one's personal circumstances. Watch for the consequences of the new reduction amounts (new rules as of 2012). A financial plan can help you understand the consequences of early or late RRIF pays.

Strategy #3 - If you are planning to sell an Investment Property or Family Cottage (or transfer ownership to a family trust) do so before you turn 65. The capital gains that have acquired over many years are due in one shot! This also applies to other investments with a significant one time capital gain.

Strategy #4 - Hide your Dividend Income. Eligible Dividend Income is taxed "preferentially". However it goes through a slightly complicated processed of being "grossed up" before you get the great "tax credit". The grossed up amount is used in calculating net income, so tucking this away in TFSA's is a great idea.

Strategy #5 - Look for tax efficient options outside of TFSA's and RRIF's. This may include prescribed annuities or corporate class mutual funds. The government is providing all sorts of tools for keeping incomes low if we are proactive about looking for them!

OAS payments come out of current general revenues. As a "younger" taxpayer I say thank you to those getting needless clawbacks. As a wealth advisor, it pains me to see opportunities lost. Investing doesn't happen in a bubble, your professionals should be looking at your tax and estate circumstances with every decision.

You are cordially invited to: **"A Spring evening of Inspiration"**

When: April 26, 2012
Where: Stan Hagan Theatre, NIC, Courtenay
Time: 7:00 pm to 9:00 pm

Mawer Investment Counsel

Presented by: Aaron Potvin, CFA
Portfolio Manager, Institutional Management

Aaron will be providing an overview of Global Themes and Trends that are affecting us as Canadian citizens and investors. Founded in 1974, Mawer is a privately owned, independent investment counsellor. They manage in excess of $9.2 billion in assets for a broad range of individual and institutional investors across all major asset classes. The Firm is one of Canada's most experienced investment counsellors. Throughout, they have provided consistent, steady portfolio management for clients based on a solid, proven investment philosophy and disciplined processes.

"Her Story"

Presented by: Michelle (Mikey) Stilwell
Paralymic Champion

At the age of 17, Michelle was rendered quadriplegic after falling from a friend's back while piggyback riding. Prior to her injury Michelle was involved in many sports. She excelled at track, basketball and ringette. Her injury has not put a stop to her enjoyment of these sports… just a few alterations. A gold medalist at the 2000 Paralympic Games in Wheelchair Basketball, Michelle Stilwell is no stranger to athletic success. In 2006 she won a Gold medal and set a new games record at the World Championships in the 200m and captured silver in the 100m. She is an ambassador for ActNow BC and the Rick Hansen Foundation. Michelle looks forward to training in preparation for the 2012 Paralympic Games in London, England.

Bring your friends or your 'hottest date'
*To register for this event, please contact James Ram at **james.ram@rbc.com** or 250-334-5604.*