



Naming a Beneficiary of a Registered Plan

The pros and cons of naming beneficiaries

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This article discusses some of the advantages and disadvantages of naming one or more beneficiaries of your registered savings plan (RSP).

RSPs, spousal RSPs, RIFs, LIRAs, locked-in RSPs, LIFs and LRIFs are all examples of registered plans. They all provide you (the owner or annuitant of the plan) with the ability to specify a beneficiary upon your death. Specifying a beneficiary aids in passing your registered plan assets on to the person(s) you intend to leave them for. In Quebec, beneficiary designations are not accepted for RSPs/RIFs. Therefore, for RSP/RIF accounts opened in Quebec, you must make your beneficiary designation in your Will.

If you choose to name your estate as the beneficiary or do not designate a specific beneficiary or beneficiaries, your registered plan assets will pass to your estate. If your registered plan assets pass to your estate, how they will be dealt with will depend upon whether you have a valid Will or not.

Registered plans

A registered plan is a tax-deferred vehicle that holds qualifying investments for the purpose of saving for retirement.

EXAMPLES OF REGISTERED PLANS

- Retirement savings plan (RSP)
- Spousal retirement savings plan (spousal RSP)
- Retirement income fund (RIF)
- Spousal retirement income fund (spousal RIF)
- Locked-in retirement account (LIRA)
- Locked-in retirement savings plan (locked-in RSP)
- Life income fund (LIF)
- Locked-in retirement income fund (LRIF)

Advantages of naming a beneficiary for a registered plan

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- **Avoidance of probate taxes:** Naming a beneficiary for a registered plan may prevent the assets from passing through your estate, thereby enabling your estate to avoid probate taxes on the registered plan assets.
 - **Tax-deferral:** Your registered plan assets may be able to pass directly to your spouse or common-law partner on a tax-deferred basis if you designated them as the beneficiary of your registered plan assets. If your Will contains instructions to pass the registered plan assets to your spouse or common-law partner and a special tax election is made, even without having a designated beneficiary, your registered plan assets may be able to pass to your partner or spouse on a tax-deferred basis.
 - **Control over the distribution of your assets:** If you die intestate, that is without a valid Will, and you have surviving relatives; no matter how distant, they may be eligible to receive a share of your registered plan assets and your estate according to the presiding provincial legislation, whether it is your intention or not. In addition, the people or organizations that you wish to benefit from these assets may not receive your assets in accordance with your wishes; and, even if they do, the allocation of the assets may not reflect the proportions that you intended to distribute. Finally, not having a valid Will in place may cause an inconvenient and unnecessary delay in the distribution of your assets to your heirs. In the absence of having a valid Will in place, a beneficiary designation may help you to maintain control over the distribution of your registered assets on death.
 - **Common-law relationships:** If you are not married but in a common-law relationship, you should note that some provincial succession laws do not recognize common-law partners from a property-division perspective on the death of a partner. Moreover, depending on where you live in Canada, the definition of a common-law partner does not always include same sex partners. Consequently, a common-law partner may not be included in the distribution of estate assets. Although there may be a legal course of action for the common-law partner, this could involve much more stress, time and expense than simply designating that person as the registered plan beneficiary.
 - **Donation tax credit:** If you name a charity as beneficiary of your registered plan, your estate will be entitled to a donation tax credit on your final tax return for the value donated. This donation tax credit will effectively offset the tax owing on the plan at the time of your death.

Disadvantages of naming a beneficiary for a registered plan

- **Outdated beneficiary designation:** If a valid Will does not give specific instructions on how to distribute registered plan assets and you have designated a beneficiary in the past and have forgotten to update it, you may leave registered plan assets to someone that should not receive these any longer. If your beneficiary has predeceased you and you die intestate, your registered assets may be considered disposed of. In this case, the full amount would be taxable and would become part of your estate, which would thereby be subject to probate tax. As a result, you should review your beneficiary designations regularly, at least every three years and any time your personal circumstances change (e.g. marriage, separation, divorce, death of a spouse).
- **Minor beneficiaries:** The income tax rules offer opportunities for income splitting and tax deferral when the beneficiary of a registered plan is a minor. However, most parents and grandparents are concerned about giving large sums of money to young children. The registered plan assets do not form part of the estate, and therefore the Will cannot be used to direct the assets or place restrictions on a beneficiary as to when they can access the assets. For example, an 18-year-old beneficiary may receive the funds from a registered plan, but you may prefer they remain in a trust until the beneficiary turns 25. If you don't want the assets to go to your beneficiary at age 18, you may consider naming your estate as beneficiary of your registered plan and naming the minor as beneficiary via a testamentary trust in your Will.

Conclusion

Generally, designating a beneficiary for a registered plan has more benefits than not designating a beneficiary. Each situation must be analyzed and acted upon based on its own unique circumstances. You should regularly review all of your beneficiary designations to ensure that they are up to date, and they reflect changes to your personal family situation.

Please call your RBC Dominion Securities investment advisor if you have any questions or if you need more information on estate planning.

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