

# Five key questions in estate planning and wealth transfer

Striking the right balance  
to promote ongoing  
family harmony



Wealth  
Management

# Five key questions in estate planning and wealth transfer

When thinking about life in general, one of the most amazing aspects is that no two lives are ever the same. Each individual's life is a unique combination of experiences, endeavours, successes, failures, hopes, and family and friends. As individuals progress through various life stages, there may be any number of changes or experiences that add layers and complexity to their personal situation and that may significantly impact future goals and intentions.

For many Canadians, events such as marriage, home ownership, the birth of children or grandchildren, changes in profession, separation or divorce, health issues or pending retirement stand out as some of the top instances where perspectives, objectives or wishes may shift. And while many of these events and experiences often act as reminders about the importance of planning for the future from a personal and family standpoint, the reality is that many still avoid or overlook estate related decisions. There are a range of statistics that paint a clear picture of the generally low levels of success families have when

it comes to intergenerational wealth transfer. According to research by The Williams Group that took place over a 20-year period, it was found that among the families who were part of the study, only approximately 30 percent of estate and wealth transfers were successful.<sup>1</sup> Pair this with the fact that more than half of Canadians don't have a signed Will in place, and almost three-quarters don't have an up-to-date Will.<sup>2</sup> It's fairly evident the majority of individuals are not giving this area of planning the attention and forethought it requires.

Within this report, we discuss some of the main concerns and situations many Canadians face with estate planning. These include discussions around timing for passing down wealth, methods and approaches, promoting equality in planning, and discovery, who should be informed and to what extent. We also examine the paramount role of communication and how it is strongly connected to the ultimate success of intergenerational wealth transfer.



## Specifically, the five questions explored are:

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What are the major considerations when deciding to give wealth during your lifetime versus through your Will at death? **page 4**

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With a variety of ways to transfer your wealth, varying from the complex and restrictive to the simple and quick, what are some of the options individuals may want to consider? **page 10**

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## What are the major considerations when deciding to give wealth during your lifetime versus through your Will at death?



When looking at wealth planning as a whole, many consider estate planning to be one of the most emotionally challenging aspects. For some, it comes down to a discomfort around thinking about death or worries about upsetting family members or creating conflict; for others, it's generated from the uncertainty as to what their own future holds or complexities around how to handle certain family situations in a way that meets individual wishes and intentions. Unfortunately, while all of these underlying reasons function as deterrents from decision-making for many individuals, when viewed from a different perspective, they actually represent the exact reasons that estate planning is so important. Avoiding these important decisions, or making the wrong ones because of a lack of knowledge or professional advice, often increases the likelihood of disruptions to family harmony, increases the time and complexity to administer an estate, may result in higher taxes during lifetime and at death, and means your assets may not end up where you want them to.

Regardless as to whether you favour transferring your wealth during your lifetime or upon death, it's crucial to follow a logical process that hinges both on appropriate and thorough planning and on effective communication. Approaching it via a structured process and with the right mindset will help ensure your intentions are realized and will encourage smooth and successful transitions.

### Putting your potential needs first

Before embarking on any decisions about the timing for passing wealth down either during your lifetime or at death in your Will, or a combination of both, it's crucial to first assess your financial situation, anticipate future potential needs, and identify the type of lifestyle you want to live in retirement. Simply put, you should be taking stock of all sources of income and assets and then comparing that with your objectives and requirements, taking longevity into consideration. A comprehensive

financial plan may be very useful in this regard and should take place upfront to determine whether you will outlive your wealth resources and funds and to what extent. While the scope of a financial plan extends well beyond just estate and wealth transfer considerations, it does address some of the key questions specific to this area of planning, including:

- Can I retire when I want to and maintain my desired lifestyle?
- How can I ensure I don't outlive my money?
- What might my future healthcare needs and costs be, and how do those factor into my overall plans?
- If I were to pass away unexpectedly, would my family be taken care of?
- How can I protect the value of my estate?

Helping to answer these questions and strategically plan for these scenarios is a central piece that enables you to then make informed decisions about when, how much and through what means to pass down your wealth. However, despite the important role and high level of effectiveness of comprehensive financial plans, many Canadians don't use them. In fact, it was found in the 25th Annual RBC RRSP Poll that 54 percent of men and 60 percent of women don't have a financial plan, and these numbers suggest that many are leaving themselves vulnerable to potentially giving away their wealth too early or not having adequate or any plans in place that meet their intentions and objectives.

Beyond a financial plan, it may be worthwhile to speak with your professional advisor about other advice-

based tools that may define, report on and provide potential options to meet your needs and objectives. For example, RBC Wealth Management now offers myGPS™, a proprietary tool that provides individuals with personalized direction in their wealth planning. More information about this new tool can be found in the Fall 2016 edition of RBC Wealth Management Services *Perspectives* magazine in the article, “*An integrated approach to wealth planning with myGPS™.*”

### Passing down wealth during one's lifetime

Through a comprehensive financial plan, if it's been determined an individual has assets beyond the scope of what their certain and potential needs are during their lifetime, giving them away while living may offer some advantages. Those who favour passing down wealth during their lifetime may also do so for personal reasons that are often fuelled by family situations and circumstances. Many individuals feel strongly about assisting the younger generations in their family and seeing the benefits of their gifts. More specifically for some, the hope to see their successors start achieving ambitions sooner or be able to enjoy and use the assets more immediately often outweighs some of the more tangible advantages such as tax purposes or to spread out the costs of retirement. But even while the root reasoning may be more personal in nature, it's important to look and understand the potential benefits of this approach from both estate and tax perspectives as well.

### Reducing the size of the estate

Giving away assets during an individual's lifetime may effectively decrease the value of the overall estate and thus reduce the amount of probate fees that would be due upon death. For some individuals, reducing probate fees is a priority as part of estate planning, but it's important to understand the differences in probate fee rates across the various provinces and territories and whether the benefits outweigh other potential approaches (or can be effectively used hand in hand with other strategies). For example, residents of Ontario are subject to a high rate of probate fees, which could be as high as 1.5 percent of an estate depending on size, whereas other provinces such as Alberta and Quebec have much lower flat fees. In other words, in jurisdictions where the fees are much lower, reducing or avoiding probate fees likely won't be a strong factor to consider as part of overall planning.

In jurisdictions where probate fees are much higher, strategies that help lower these fees may rank higher as a priority. As such, it's important to walk through a cost/benefit analysis with a qualified professional advisor as part of the decision process.

## Probating a Will

### Probate fees for provinces and territories\*

Often financial institutions will not release the assets of an estate to an executor unless they have received an official probate document. This general requirement by third parties is the main reason that executors obtain probate. Probate offers third parties a form of guarantee that they are transferring the deceased's assets to the correct party.

Province or territory	Estate value	Rates
<b>Alberta</b>	First \$10,000 \$10,001 – \$25,000 \$25,001 – \$125,000 \$125,001 – \$250,000 Over \$250,000	\$35 \$135 \$275 \$400 \$525
<b>British Columbia</b>	First \$25,000 \$25,001 – \$50,000  Over \$50,000	Nil \$200 plus \$6 per each additional \$1,000, or part thereof, up to estate value of \$50,000  \$350 plus \$14 per each additional \$1,000, or part thereof
<b>Manitoba</b>	First \$10,000 Over \$10,000	\$70 \$70 plus \$7 per each additional \$1,000, or part thereof
<b>New Brunswick</b>	First \$5,000 \$5,001 – \$10,000 \$10,001 – \$15,000 \$15,001 – \$20,000 Over \$20,000	\$25 \$50 \$75 \$100 \$5 per \$1,000, or part thereof, of value of estate
<b>Newfoundland &amp; Labrador</b>	First \$1,000 Over \$1,000	\$60 \$60 plus \$0.60 per each additional \$100
<b>Nova Scotia</b>	First \$10,000 \$10,001 – \$25,000 \$25,001 – \$50,000 \$50,001 – \$100,000 Over \$100,000	\$85.60 \$215.20 \$358.15 \$1,002.65 \$1,002.65 plus \$16.95 per each additional \$1,000, or part thereof

Province or territory	Estate value	Rates
<b>Northwest Territories</b>	First \$10,000 \$10,001 – \$25,000 \$25,001 – \$125,000 \$125,001 – \$250,000 Over \$250,000	\$25 \$100 \$200 \$300 \$400
<b>Nunavut</b>	First \$10,000 \$10,001 – \$25,000 \$25,001 – \$125,000 \$125,001 – \$250,000 Over \$250,000	\$25 \$100 \$200 \$300 \$400
<b>Ontario</b>	First \$50,000  Over \$50,000	\$5 per \$1,000, or part thereof \$250 plus \$15 per each additional \$1,000, or part thereof
<b>Prince Edward Island</b>	First \$10,000 \$10,001 – \$25,000 \$25,001 – \$50,000 \$50,001 – \$100,000 Over \$100,000	\$50 \$100 \$200 \$400 \$400 plus \$4 per each additional \$1,000, or part thereof
<b>Quebec</b>	Any	Nil (if notarial Will, otherwise nominal)
<b>Saskatchewan</b>	Any	\$7 per \$1,000, or part thereof, of value of estate
<b>Yukon</b>	First \$25,000 Over \$25,000	No fee \$140

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\* Probate fees for provinces and territories as at August 2016.

## Tax considerations

There are a number of tax considerations and potential implications that should be factored into the decision-making process for passing down wealth during an individual's lifetime. In general, if individuals are holding onto excess assets, they may end up paying more taxes than necessary while living, and this in turn means they could be decreasing the size of the estate that will be available to family members down the road.

Specifically in regards to gifts, individuals are able to give funds to their children, grandchildren or other individuals during their lifetime and the cash gift will be tax-free because there is no gift tax in Canada. A common result of this approach is also a reduction in income taxes for the giver because the reduced amount of investible assets effectively creates less taxable income.

From a tax perspective, there may also be advantages to changing the ownership of some investible assets to your child, for example, if they are in a lower tax bracket and have no debt. The investment income will be taxed at their lower rates. It's important to note here that the tax savings will vary based on an individual's province of residence. Additionally, the rules and regulations become increasingly complex once you factor in whether you are giving appreciated or non-appreciated assets and whether the receivers will be minors or adults, so it's imperative to discuss these options with a qualified tax professional. It is especially important to understand the planning required to avoid the attribution rules and ensure income can be taxed in the minor child's hands.

When it comes to property, another key consideration is capital gains tax. To illustrate this point, let's consider the example of a vacation property. Say an individual owns a lake home where property values are consistently rising. Given the circumstances, gifting the property now to children or to a family trust may be a worthwhile option. Although this transfer would create a disposition at fair market value, meaning the capital gains tax would be triggered immediately (unless the gains can be sheltered using the principal residence exemption), the future growth would not be subject to capital gains taxes and probate fees on your passing but rather deferred to the next generation.

## Example – Dominic's Cottage



Dominic purchased a cottage in 1998 for \$140,000. In 2003, he spent \$50,000 on an addition. The cottage is currently valued at \$420,000. The area where the cottage is located is becoming very popular and property values are anticipated to increase significantly in the coming years. If Dominic decides to gift the property now to his daughter, Angela, that would create a capital gain of \$230,000, 50 percent of which would be taxable at his marginal tax rate (unless it is designated as his principal residence). If Dominic decides to instead bequeath the property in his Will and the cottage ultimately ends up being valued at \$600,000 when he passes away, the capital gains would then be \$410,000, 50 percent of which would be taxable to his estate. Although gifting it now may result in a pre-payment of some tax, it may offer significant savings in capital gains tax, if the upward trend in property value continues in the same pattern.



*Note: To ensure that your own circumstances have been properly evaluated, it is important to consult with a professional tax and legal advisor to complete a cost/benefit analysis and determine the best options for your individual needs.*

## Financial learning benefits

If personal situation allows, passing down wealth during your lifetime provides a great educational opportunity to help the younger generations in your family develop a better understanding of financial responsibility and management. Even from an early age, children and adolescents can benefit from learning the basic concepts of saving, spending, investing, and sharing. What it comes down to is exposing younger family members to financial decision-making in a safe and age-appropriate way and providing guidance along the way. What this does is help them build a strong sense of financial literacy in relation to everything from the wealth transfer process and methods used for that transfer to how to effectively manage and use the assets and funds. One particular age demographic where financial responsibility takes on a heightened level of importance is among late teens and young adults. For more information on building financial management skills within this age group, please view the article, “*Financial management among young adults – realities and strategies*,” in the Fall 2016 RBC Wealth Management Services *Perspectives* magazine.

## Transferring wealth upon death

Among some individuals, common reasons for waiting until death to pass down wealth are to ensure there are sufficient funds to maintain the lifestyle they want in retirement or if children or grandchildren aren't in a position where they need any immediate wealth. Additionally, concerns around having enough for their own retirement are high for many, as the 25th Annual RBC Poll found that 61 percent of respondents identify running out of money if they live to 100 (which is not totally out of the question given the longevity boom) as a top concern. Again here, before choosing the path to transfer assets during your lifetime or through a Will, it's important to conduct a thorough review of your overall financial picture and goals, and this is again where a comprehensive financial plan may function as a valuable starting point.

## Understanding wealth transfer via Wills

While many individuals possess the basic understanding of the purpose behind Wills, some tend to overlook or be unaware of the negative outcomes and challenges that occur if an individual passes away without one. Specifically, dying without a Will means an individual

dies “intestate” and this essentially means that provincial laws will determine how the estate will be settled. In other words, you lose the choice of who the beneficiaries will be, who will be the guardian of your children (if applicable), and who will administer the estate. You also lose the power to plan the estate to minimize taxes. And while it is a very important initial step to have a signed Will in place, there are some additional key details and aspects to be aware of in regards to the specifics and maintenance of Wills.

1. **Keeping a Will updated.** The reality is that life often brings unexpected changes, and as time passes, your situation may change as well. One of the most important times to update your Will or prepare a new one is after a separation, divorce or upon remarriage, and this is for two key reasons. In many provinces and territories (see chart below), marriage cancels any previous Wills, so if someone remarries and then passes away without preparing a new Will, their estate would be treated as if they had died intestate. For those who have separated or divorced, updating a Will is also important, because separation or divorce do not cancel an existing Will in many jurisdictions. Beyond that, it's likewise important to consider whether an update to your Will is necessary anytime a significant change takes place such as the birth of a child, death of a family member, and a major health condition.
2. **Reviewing your Will regularly.** Routinely reviewing your Will is a good way to ensure it continues to meet your wishes and intentions. Outside significant changes in your life, a good rule of thumb is to review your Will every few years.
3. **Ensuring your executor is aware of changes.** Keeping your executor updated as to any changes in your Will or if you have created a new one helps streamline the process and avoid any confusion or surprises when it comes time for them to fulfill their role as executor.
4. **Making sure your wishes are properly documented.** It's imperative to consult with a qualified legal professional to ensure your intentions and wishes are accurately worded and documented in your Will. Your legal professional may also be able to recommend a type of Will to best suit your individual situation, such as a Mutual Will or Mirror Will.

## Provinces and territories where a Will is revoked by a new marriage

(unless the Will is made in contemplation of the marriage)

	BC	AB	SK	MB	ON	QC	NS	NB	PEI	NL	NW Terr	YK Terr	NU
Will revoked upon marriage	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes



### Factoring the rising costs of healthcare

Given the major shift in Canadian demographics taking place over the coming decades, where one-quarter of the population will be over age 65 by 2036,<sup>3</sup> there is growing concern among many about the rising cost of healthcare and senior care services. In general, both private and public healthcare costs in Canada have been steadily on the rise, giving individuals reason to think about what those costs are now and anticipating what they may be in the future.

For some, the question marks around their health status as they grow older and what those exact costs may be in the decades to come are enough of a reason to hang onto their assets for the remainder of their lifetime to ensure they can lead their desired retirement lifestyle and still have a safety net should they need significant healthcare or senior care services or products. In fact, a recent national study of Canadians showed that worry over healthcare needs has emerged as the second-most important driver, behind retirement itself.<sup>4</sup> For more information on planning for the rising costs of healthcare, the Fall 2016 RBC Wealth Management Services *Perspectives magazine* provides a detailed discussion in the article, “*The changing landscape of healthcare in Canada.*”

### Making communication a priority

For some individuals, there may be an assumption that choosing to pass down wealth upon death means that the Will functions as the communication piece for their ultimate wishes and intentions. While, indeed, the Will contains all of those decisions and wishes, it won't necessarily offer your family members the reasoning (unless you include it in a separate note or letter, which some individuals choose to do). And though personal preference may dictate how much of the specifics you disclose beforehand, communication in general around decisions made in the Will are so valuable to help family members with the transition process and to help avoid conflict and preserve family harmony. Frequent and ongoing conversations or regular family meetings are another beneficial approach to identify and discuss family values and may give individuals a better sense of what their children's or grandchildren's needs are or what they have a vested interest in, such as a vacation property, for example. Through that process, individuals may be able to better navigate decisions and structure their plans in ways that best meets their own and their family's needs and may equalize their children, grandchildren or other heirs.

## 2

# With a variety of ways to transfer wealth, varying from the complex and restrictive to the simple and quick, what are some of the options individuals may want to consider?



When it comes to family, one thing is for certain: every family is different. Whether in structure, circumstances, dynamics or goals, each family has unique defining features that drive both how they function and the decisions they make. In estate planning and wealth transfer, these unique and individual aspects often play a large role in how, when and why assets are transferred in a specific way and certain plans are put into place.

Looking specifically at family statistics within Canada clearly illustrates the diversity that exists, even at the structural level. According to recent Census data, 67 percent of couple families are married, 16.7 percent are common-law, and 16.3 percent are lone-parent.<sup>5</sup> Digging deeper into these statistics, of all couple families with children, 84.7 percent are intact and 12.6 percent are step- or blended families.<sup>6</sup> Again taking this one step further, these blended families may include children from previous relationships, the current relationship or a mixture of both. And, with divorce rates hovering in and around 40 percent mark in Canada,<sup>7</sup> stepfamilies and blended families are on the rise, further emphasizing the growing diversity within family structures across our

nation. If you layer on top of that the other circumstantial and dynamic challenges that families often face, it's clear why the topic of wealth transfer may quickly become complicated for many.

With these elements in mind, the question becomes how to effectively plan in a way that best aligns unique family dynamics and goals when also dealing with a wide range of, and possibly conflicting, needs. What it comes down to is recognizing that much like family aspects and defining features range from very complex to fairly simple or traditional, so too do the options and approaches available.

### Understanding the range of approaches

Specifically in regards to transferring wealth, there are a wide variety of options to consider. Some of the more complex ones include inter vivos and testamentary trusts; on the simpler side are outright gifts and inheritances, joint tenancy with right of survivorship and beneficiary designations. The choice in preference among some is tied to a strong sense of hope or intent to positively impact and assist the next generation, but unfortunately, the right plans often aren't in place to ensure that happens smoothly and in a way that supports family harmony. When this type of disconnect exists between hopes and execution, it leaves the door wide open for conflicts to arise that may negatively impact family dynamics and relationships. As such, it's crucial to connect the dots, so to speak, in identifying specific goals and circumstances and then working with qualified estate planning professionals to find the best methods to achieve individual and family objectives.

### Trusts

In general, trusts are considered an effective method for distributing assets in a way that helps solidify a particular outcome, while at the same time creating the ability to tailor to individual preferences. The creation of a trust occurs through an individual transferring assets

(which may include investments, principal residences, vacation properties, shares of private companies, and even family valuables) to a trustee, who then becomes responsible for administering those assets on behalf of the beneficiaries. What the trust does is sets out a relationship between the trustee and the beneficiaries where the trustee has legal title to the particular asset and the beneficiaries gain the use of it according to trust agreement guidelines. In general, there are two main types of trusts: inter vivos and testamentary.



### Inter vivos trusts

An inter vivos trust (also known as a living trust) is one that is established during an individual’s lifetime. This type of living trust can be structured such that it provides the person gifting the assets with significant control and flexibility over the timing and amount of assets distributed to the trust’s named beneficiaries (the heirs). It’s important to note that the assets aren’t controlled directly, but rather named trustees must administer the trust assets in accordance with the trust agreement. Although normally income retained in a properly structured living trust is taxed at the top marginal rate, if the trust agreement allows it, it may be possible to make the income paid or payable to the named beneficiaries and tax the income in their hands at graduated tax rates.

### Inter vivos trusts

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> <li>• The terms of the trust may allow for distributions to your children or spouse beneficiaries</li> <li>• Can be structured to have income earned taxable to the lower-income children/beneficiaries</li> <li>• Structure may offer creditor protection benefits for the family</li> <li>• Probate fees may be avoided</li> </ul>	<ul style="list-style-type: none"> <li>• Depending on trust structure, you may no longer have access to the assets for personal use</li> <li>• Costs associated with the administration of the trust</li> </ul>

### Tax considerations

When assets are transferred into an inter vivos trust, this creates a disposition for tax purposes, which may result in a tax liability for you. There are also annual tax considerations that need to be accounted for. For more information on specific tax planning for trusts, the Fall 2016 edition of RBC Wealth Management Services *Perspectives* magazine includes key information in the article “*Year-end planning checklist for trusts.*”

### Testamentary trusts

This type of trust is one that comes into effect after death, and the creation of the trust is generally documented within the text of the Will. Testamentary trusts allow individuals to pass specific assets to beneficiaries without allowing them to gain control of the assets. The assets held are invested and managed by the trustee of the trust, with income and capital distributed to the beneficiaries in accordance with wishes as stated in the Will. Testamentary trusts present a potential option to provide for all desired beneficiaries who are part of the family, as it’s possible to establish more than one trust for different family members.

### Testamentary trusts

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> <li>• May offer a level of control over the timing for the distribution of assets to beneficiaries</li> <li>• May provide an effective solution for concerns around spendthrift beneficiaries and disabled beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Costs associated with the maintenance of the trust</li> <li>• Probate fees may be applicable for assets funding the trust</li> </ul>

## Trust structures for blended families

With the rise of stepfamilies and blended families in Canada, there's a greater need for assistance in navigating the often complicated aspects that these family types face in estate planning and passing down wealth. Those who are part of a blended family may be challenged by potentially competing interests while at the same time trying to ensure family members are treated equitably.

For those in a blended family situation, trusts may offer the ability to tailor according to individual needs and preferences. The following chart outlines some of the key types.

### Trust structures

Trust	Details and potential advantages
<b>Alter Ego</b>	<ul style="list-style-type: none"> <li>• Inter vivos (during lifetime)</li> <li>• Must be 65 years of age or older when establishing the trust</li> <li>• The settlor (creator of the trust) is entitled to income and no other person other than the settlor can receive or use income or capital from the trust during the settlor's lifetime; at death, assets are then distributed according to trust agreement</li> <li>• Assets transfer outside of the estate and avoids probate fees; may protect against challenges to the Will</li> </ul>
<b>Joint Partner</b>	<ul style="list-style-type: none"> <li>• Inter vivos</li> <li>• Must be 65 years of age or older when establishing the trust</li> <li>• Only the settlor and his or her spouse or common-law partner are entitled to receive income from the trust until both individuals pass away</li> <li>• No other person other than the settlor and their spouse or common-law partner can receive or use income or capital from the trust during their lifetime</li> <li>• Ensures surviving spouse or partner continues to receive the benefit of the assets during his or her lifetime</li> </ul>
<b>Testamentary</b>	<ul style="list-style-type: none"> <li>• Comes into effect after death; generally, terms set out in the Will</li> <li>• Presents options to provide for all desired beneficiaries who are part of the family</li> <li>• May offer a level of control over the timing for the distribution of assets to beneficiaries</li> <li>• Possible to establish more than one trust for different family members</li> </ul>
<b>Testamentary Spousal</b>	<ul style="list-style-type: none"> <li>• Comes into effect after death; generally, terms set out in the Will</li> <li>• Provides support to surviving spouse; can also direct that on spouse's or partner's death, remaining assets get distributed to children</li> <li>• Creates tax-deferral benefits on the rollover of assets to the spousal trust and ability to protect family interests</li> <li>• Spouse must be entitled to income from their trust during their lifetime. No one else can receive or use the income or capital of the trust during the spouse's lifetime</li> </ul>

**Note:** For more planning information specific to blended families, please view the Fall 2016 edition of RBC Wealth Management Services *Perspectives* magazine article, "Making wealth transfer work for blended families."

## Outright gifts and inheritances

In considering all of the options available, the most straightforward approach to passing down wealth is through outright gifts during an individual's lifetime. For some, the reasoning behind this approach is largely to help out children or grandchildren with activities such as purchasing a home or pursuing education. Among those who prefer this option, some of the value is often generated in seeing the benefits of those gifts during their lifetime.

When considering giving a lifetime gift, an important drawback to recognize is that in doing so, you relinquish all control over the asset, which for some, may not be an acceptable outcome. Depending on individual circumstances, concerns often centre around how those assets will be used and whether it will negatively impact the receiver's motivation to achieve success on their own. These same concerns often also hold true for inheritances.

When leaving assets to your children or grandchildren, it's important to first examine a few key considerations.

1. A gift or inheritance could become matrimonial property. Depending on an individual's province of residence, matrimonial property claims may apply to assets left to children and to the income generated by these assets. (E.g. If an individual deposits his or her inheritance into a joint account with his or her spouse or uses the funds to purchase a matrimonial home, the joint account or the home may be subject to a matrimonial property claim and division if the individual divorces his or her spouse.) Therefore, children receiving these assets may want to keep them separate and not contribute them to the marriage.
2. Spendthrift beneficiaries. A common worry among some parents is the fear their children may spend their inheritance carelessly or make poor financial decisions, without any planning for their own future. This is where ongoing communication and education around financial responsibility and money management becomes so valuable.
3. Creditor claims. Some parents have concerns around exposing any gifted assets or inheritances to their children's creditors. As part of their estate plan, individuals may search for ways to provide their children with some protection while allowing for

flexibility to access funds. Here, it's essential to consult with a qualified legal advisor regarding any creditor protection options available to you.

## Joint tenancy with right of survivorship

Another simple form of transferring assets is through the registration of assets in joint ownership, specifically Joint Tenancy With Right of Survivorship (JTWROS). This form of ownership allows two or more people to own an asset together, such as a vacation property, for example. All individuals listed as joint tenants share ownership and control of the asset, and upon the death of one of the individuals, the ownership automatically passes to the surviving individual(s) who are part of the agreement. By passing directly to the surviving individual(s), the asset is not part of the estate and as such isn't subject to provincial probate fees.

## Joint assets

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> <li>• Simplifies administration of the estate</li> <li>• Avoids probate until death of last surviving tenant</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't prevent joint tenant from using or taking the jointly held assets before death</li> <li>• May be claimed by creditors</li> <li>• Precludes the use of certain estate planning tools (such as testamentary spousal trusts) because they do not flow through the estate</li> </ul>

**Note:** Quebec residents cannot use a Joint Tenancy With Right Of Survivorship (JTWROS) agreement, since an automatic right of survivorship does not exist under Quebec law.

## Beneficiary designations

An additional method for wealth transfer that falls under the "simple" umbrella is through the use of beneficiary designations on registered plans, Tax-Free Savings Accounts (not available to residents of Quebec) and life insurance policies. The main benefit here is that assets pass directly to the beneficiaries without having to go through the estate. What's important to keep in mind, however, is ensuring these designations remain updated and is consistent with any designation made in your Will.

## The paramount role of communication

Regardless of approach or timing of the transfer, central to the success of passing down wealth is open and ongoing communication with family members. For many, estate planning and wealth transfer discussions often stir up feelings of discomfort, as there may be strong emotions involved. But despite the potential discomfort in having those conversations, open dialogue among all those who are or will be included in the estate plans is so crucial, for two key reasons. First, it provides the valuable opportunity

to educate children and grandchildren about financial responsibility and money management, and also helps them better understand the types of structures and planning decisions that have been put into place. Second, it opens up discussions around why certain strategies have been used and gives the receiving generation a clearer idea as to why decisions were made in a certain way, effectively decreasing the likelihood for conflict and potential emotional upset and disruption to family harmony.

### 3

## When giving to multiple beneficiaries what is the difference between fair and equal? Are there specific considerations for business owners?

Within certain situations and scenarios in life, the words “fair” and “equal” may sometimes be used interchangeably. For example, it may be accurate to say two hockey teams that tied were fairly and equally matched; giving an apple for an apple is a fair and equal trade. Even the very basic definitions of fair and equal suggest an element of overlap in the two terms, with the former being defined as “just, unbiased and equitable,” and the latter defined as “identical in amount, size, number, value, or intensity, or evenly proportioned or balanced.”<sup>8</sup> When it comes to estate planning, however, the definitions become more distinct, where fairness often falls into more of a subjective or situational realm, and equal is qualified more objectively and concretely. Potential challenges in focusing on fairness as the priority in estate planning may rest in the fact that what is deemed to be fair by an individual may not necessarily translate to equal, and the giver’s interpretation of what’s fair may not be in sync with the children’s or other beneficiaries’ point of view or expectations. These inconsistencies may be the source of significant issues down the road, ranging from resentment and family conflict to challenges to a Will if an individual feels they have been slighted or have not been adequately provided for.

Trends seem to be indicating that claims against estates

may be on the rise in Canada, given that some of the factors that often increase the proportion of challenged Wills include the increase of more complex family structures, changes in economic climate, and the simple fact that more estates are being passed down given the rise in the senior population.<sup>9</sup> And while statistics on estate litigation haven’t been tracked historically, there are some unofficial records from Ontario approximately three years ago that seem to indicate approximately 1 in 9 estates are contested in court, as noted in the RBC Wealth Management informational article, “Until death do us part: then everything can change.”<sup>10</sup> These aspects and statistics highlight the importance of looking at the complete spectrum of factors and placing the main focus on dividing assets equitably while at the same time being conscious of the fact that there may be certain situations where fair doesn’t have to mean equal. At the end of the day, it’s about finding the solutions to strike the right balance, depending on your individual circumstances, and ensuring family communication and understanding are consistent throughout the process.

### Why fair may not always be equal

Decisions around dividing an estate and passing down wealth are often closely tied to what individuals perceive

to be fair. Those perceptions may be based on a broad range of considerations and assumptions, such as the circumstances of their intended beneficiaries, family dynamics, current situations, financial needs of younger family members, relationships, and the list goes on. Any combination of these factors may push an individual to make certain decisions that they may justify as fair from their perspective, but the actual financial outcomes of those decisions may not translate to an equalization of assets and wealth among the beneficiaries.

Understandably, every individual and family situation is unique and there are certain instances when fair doesn't necessarily have to mean equal (which will be discussed later in this section of the report). An underlying theme or driving force within estate planning, however, with the exception of the few special circumstances, should be on dividing assets in an equitable fashion to limit the likelihood of any future resentment among children or other heirs and to keep the family united.

### Potential sources for inequality

Depending on individual circumstances, there may be the presence of certain inequality factors that should be taken into consideration as part of the planning. First and foremost, it's important to differentiate between what's fair and what's equal as it relates to your unique situation, and then structure your decisions in a way that promotes equality. What follows are some key factors to assess and understand:

1. **Taxable vs. non-taxable assets.** When dividing and directing assets during estate planning, it's important to consider whether there are tax impacts that may create an unfair burden on one beneficiary over another. While some decisions may seem equitable on the surface, tax implications may throw off that intended balance. For example, if an individual opts to designate one child as the beneficiary of a registered plan and another child to inherit the after-tax residue of the estate, there are a range of things, such as the taxes on an RRSP/RRIF and capital gains on any non-registered assets, that could significantly decrease the after-tax residue. As such, it's important to work with a qualified professional advisor to ensure the tax aspects of estate planning decisions are adequately accounted for.
2. **Blended family situation.** For those who are part of a blended or stepfamily, the lines are often blurred as to what is deemed to be either fair or equal, and there may be competing priorities within the family. Intentions to equalize certain family members may often be complex, as some individuals feel strongly about providing for their children from their previous relationship but not for their stepchildren, for example. In this situation, defining and discussing your intentions takes on a heightened level of importance, as does working with a qualified professional to find approaches to achieve those outcomes and ensure financial protection. As was discussed in Question 2 of this report, certain trust structures may be a very effective option to consider in this regard. There are also other planning structures well-suited for complex family situations to help equalize such as life insurance, a portfolio earmarked for a certain child, or beneficiary designations.
3. **Disabled dependant.** If an individual has a child who is disabled or who needs more assistance than others, this represents a situation where fair doesn't have to mean equal. Again in this situation, communicating your decisions and reasoning in advance is so valuable to help the other child or children recognize that circumstances dictate and justify a deviation from an equal split. These discussions may also help to clearly define your idea of fairness, given the situation, and that providing more for the child who needs the additional support is actually an effort to better equalize in the end result.
4. **Lifetime gifts versus inheritances.** Depending on the individual and on family dynamics, it may be worthwhile to consider whether any lifetime gifts should be factored into the equation as part of an attempt to equalize beneficiaries in a Will. In other words, this would entail looking at whether there's current inequality among your children from lifetime gifts or support and whether it's something that may create resentment or conflict if those are overlooked in your plans. For some, this may come down to personal preference or viewpoint; regardless which stance is taken, however, discussing whether you will "count" these gifts as part of the overall equalization is crucial so children understand the reasoning behind the decision and have the knowledge in advance as to

why there are potentially bigger inheritances for one child or certain children over another, or why lifetime gifts haven't been included as part of the overall equalization. To better illustrate this point, let's look at a basic example:

**Joe has three children,** Mark, Ashley and Jason. Joe has decided to leave each of his children an equal inheritance in an attempt to ensure the children feel they have been treated equitably. What Joe hasn't accounted for, however, was that during his lifetime, he provided a gift to Mark to help pay for a downpayment on his first home, and he gifted funds to Ashley to pay for her wedding. He hasn't provided any lifetime gifts to Jason, as he secured a very good job after university and hasn't needed any financial assistance. For Joe, it's crucial to discuss his standpoint on fairness with his children and that he hasn't factored lifetime gifts as part of overall equalization. Alternatively, Joe may want to consider decreasing both Mark's and Ashley's inheritance based on what he gifted to them for the downpayment and the wedding, respectively, if his main priority is to ensure an overall equalization among his three children.



5. **Varying financial situations among children.** This is a common challenge often faced by those who are planning to give wealth. For example, one child may have a higher-paying job and already own a home, whereas the other may be completing a post-graduate degree or hasn't found a career in their field or purchased a home. In these types of situations, it's important to define what fair means to you, but at the same time recognizing that there's no way of knowing what each child's situation may be in the future. Despite the fact that their situations aren't the same currently, adhering to an equitable approach to the division of assets may be the best option to avoid future resentment.

### Being proactive with communication

When deciding what's fair and what's equal in estate planning, the reality is that feelings largely come into play, as well as potential assumptions about a loved one's situation either now or in the future. Combine that with the fact that fairness is a term that may often be open for interpretation (and may not be in line from one generation to the next), and it becomes clear how issues and conflict may arise and escalate if family conversations and discussions don't occur as part of the planning and decision process.

### 5 key benefits of upfront communication

1. Provides context to your decisions and helps your children develop an understanding of the reasoning behind choices made.
2. Removes the element of surprise in the reading of a Will and unanswered questions around why certain decisions were put into place.
3. Creates a forum for feelings to be dealt with upfront, which helps decrease the likelihood of resentment later on.
4. Allows children to communicate their interests and concerns, which may improve decision making or provide a perspective that you would otherwise be unaware of.
5. Promotes ongoing family unity and harmony after your death.

## The role of documentation

Even when family meetings and discussions take place, a prudent approach is to document the reasoning behind the specific decisions. And for those who absolutely don't feel comfortable discussing it with family up front, recording the reasons is crucial, as it will serve as the only explanation for loved ones as to your thinking process and perceptions as to what was fair and equitable from your perspective. Some individuals even choose to do videos or letters outlining what they've done if they don't want to have those discussions ahead of time. Another option some individuals pursue is having a family advisor involved in the decision-making process to relay the information to beneficiaries.

## Vacation property succession planning

This is an area many individuals don't spend enough time thinking through and discussing with family members before a decision is made to pass down the property. And oftentimes, an attempt to simply split the property equally among children is neither the best decision, nor the one the children are even hoping for. In fact, cottage properties are the source of many estate litigation cases, because individuals have overlooked individual family dynamics and circumstances and instead zeroed in on the black and white aspect of being equitable. Before opting for a straightforward equal split among children, some key questions to address include the following:

1. How many of the children are interested in owning the cottage?
2. Is co-ownership practical for each child and their own family?
3. What are the financial and time obligations for the property and who is able to, and wants to, take this on?<sup>11</sup>

Family meetings may be very helpful in this regard and are the only way to clearly identify what each family member's interests and personal position are. If a child isn't interested, you can then look at other ways to equalize them outside of the property division and know that they will view the decision as fair and equitable.

## Fair vs. equal for family businesses

The topic of family businesses is one that generates a great deal of questions around what's fair and what's

equal in succession planning, and this represents a main situation where fair doesn't necessarily have to mean equal. Challenges may often arise in a climate of meritocracy and when there are strong viewpoints that a certain child or children may have a bigger right to inherit a business over another or others. More specifically, there's often one child who's more involved than others and has put the sweat, time and hard work in. Or, there may be multiple children involved, but one stands out for making the business more profitable or for growing it and thus increasing family wealth.

Given the fact that approximately 80 percent of businesses in Canada are family owned, ranging in size from small all the way to large-scale corporations,<sup>12</sup> the importance of thorough and detailed succession planning cannot be understated. And though a commonly identified fear among family business owners is creating family disharmony in how the business is passed down, it's important to recognize that there are strategies to handle every type of situation while preserving family values and goals.

## Succession planning process

One of the first steps in family business succession planning is understanding your goals through inclusive intergenerational discussions. An effective medium to conduct these discussions is through family meetings. These meetings provide an environment and forum to talk about overall family values and provides an opportunity to gain better insight into the next generation's interests and viewpoints regarding the business.

From there, the next step is to use clear and defined goals to act as your compass to what you (your family) hope to achieve with the family business. Goals start as general statements and evolve as you better understand your personal, family and business circumstances.

When it comes to the business, every member of the family may have his or her personal agenda depending on individual circumstances. For example, the person being involved in the family business creates very different needs than when that person was not involved. Likewise, having an ownership stake can change an individual's view on what the business represents. This is where the three-circle model becomes a useful tool to map out differences in needs and views. The three circles represent the three groups family members (and non-family members) can

fit into. The circles overlap to illustrate that individuals can be part of several groups. Once mapped, it should become clearer how different needs and views could exist depending on where a family member fits into the structure, as well as how and where individuals best fit into the structure. This information may then be used as a guiding principle for dividing the business in a way that promotes fairness and then seeking out alternate approaches to equalize where needed.

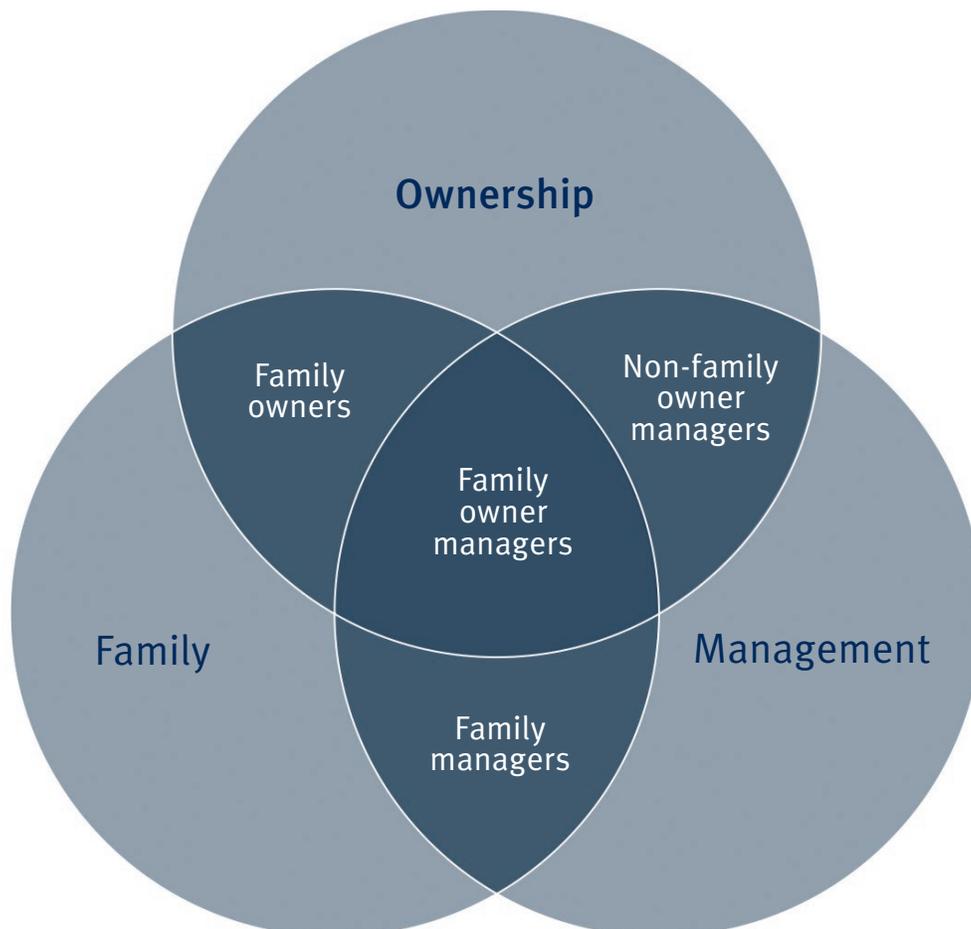
### Options to consider to promote fairness

In accounting for all factors of a business, regardless of the situation or complex circumstances, there are succession planning tools and approaches that effectively address every potential need. These options help keep fairness at the forefront, and at the same time create an outcome where equality is still achieved through secondary means.

- Using non-business assets to equalize for other child(ren)

- Using life insurance as an equalizer for children not involved or sharing in the value of the business
- Leaving a child in the business, but without voting rights or shares
- If there are no other usable assets, establish that one sibling has to buy other siblings out

Much like with personal estate planning, succession planning for family businesses also hinges very strongly on open communication with all family members. This holds especially true when the business itself is not being passed in an equal manner. Children need to understand the decisions and the structures behind them, and even more so the context and reasoning. If children are not receiving an interest in the business but are being equalized in another way, it's crucial to explain how fairness has been preserved through other means that were more appropriate for their situation.



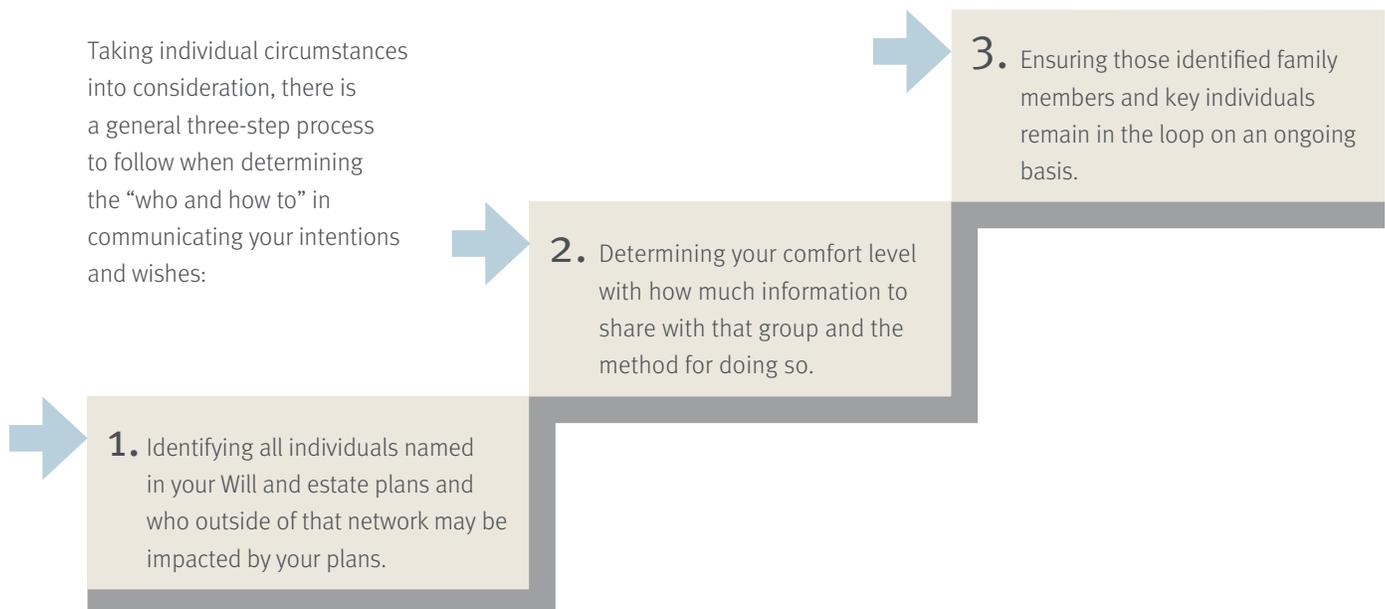
## 4

## Outside of legal Will appointees, who should know what about your wishes and intentions?

Among Canadians, statistics indicate that more than half of individuals have close relationships with at least five family members. In addition to the family network, just over 50 percent of Canadians report having five or more close friends. Combining these statistics, Canadians on average therefore possess a personal network of support and companionship that totals approximately 10 people.<sup>13</sup> In applying that information within the realm of estate planning, a main question that should be addressed

is who of those individuals need to be aware of your intentions, as well as who outside of that close network should also know your wishes. While historical thinking and practice for many was not to disclose anything until the reading of a Will, and though some still favour this traditional mentality, there are distinct advantages and necessities when it comes to communicating with certain family members and other key individuals regarding specific aspects of the overall plans.

Taking individual circumstances into consideration, there is a general three-step process to follow when determining the “who and how to” in communicating your intentions and wishes:



### Individuals named in a Will

When putting together an estate plan and Will, there is often a great deal of time and thinking behind each of the decisions made. With the support and guidance from qualified legal, tax and wealth advisors, selecting the approaches and structures that best suit an individual’s needs and situations is so central to the ultimate realization of the intended outcomes; ensuring the family is taken care of according to your wishes, and to assure a legacy is left in the manner you want it to be. When you consider all that goes into planning in this regard, and the careful and thoughtful mapping that takes place, it begs the question as to why some individuals overlook

the importance of open lines of communication with the receiving end to ensure those intentions and objectives are identified and understood. Regardless of the level of complexity or situation, the point to be made is that when the right plans have been structured, and the right people are informed of those plans, the stage is better set for a smooth and successful wealth transfer process.

### In the family

A key area some individuals may tend to overlook is the importance of ensuring a spouse is fully informed and up to date regarding plans, documentation, and account information. Some individuals may assume their spouse

already knows all of these details, but there are often scenarios in which only one spouse handles certain accounts, investments or assets, for example. A very beneficial and important starting point is to ensure you and your spouse do a collective inventory and compile a comprehensive list of information pertaining to your family's accounts (banking, investments, etc.), advisors, assets, pension information, and insurance policies. Doing so will help ensure that all assets are accounted for. Each spouse should maintain his or her own list to share with each other, and it may prove worthwhile to discuss the details with one another as a method to become more familiar with what to expect and also to remove any sense of uncertainty for how to access or manage those components.

Further to a spouse or partner, the most crucial family members to inform about your plans and intentions are children, along with other individuals who will be the recipients of any inheritance or assets. Depending on circumstances and family dynamics, there may be feelings among some that disclosing wealth transfer information ahead of time may come with certain risks, and this is a discussion that will be covered more in depth in the following section of this report.

### Non-blood relatives

A common question among some is whether to include relatives through marriage, such as in-laws, children's spouses or stepchildren in discussions about estate plans. Often times, it comes down to personal preference and the particular family dynamics in those situations. A beneficial approach to consider is consulting with your qualified legal, tax and wealth planning advisors regarding any complexities that exist in your family situation, and the potential advantages and disadvantages of including non-blood relatives in the communication, as well as the level of information to be shared.

### Methods to consider

There is understandably a range of comfort levels in discussing estate plans with family members, but the key aspect to recognize is that there is an approach to meet every need and every individual. For example, some individuals favour keeping information to a minimum and only let their children know that they have taken steps to plan for the future of their estate, that they've treated

them equitably, and where the crucial documents can be found. At the other end of the spectrum, some individuals believe in full disclosure, having regularly scheduled family meetings with children and other close relations and ensuring each family member has a copy of the Will. While these represent vastly different approaches, there are a number of strategies or options that may work for different families.

One of the most effective communication approaches to consider is scheduling and maintaining annual or semi-annual family meetings, either in person or via phone or video conferencing. In these meetings, consider designating a family member as the note-taker, where notes then get distributed and filed. Doing so helps ensure information is accurately documented and decreases the likelihood of conflicts over inconsistent memories or forgotten details. The main benefits of this ongoing form of communication is open dialogue and improved levels of understanding among family members, along with keeping family members updated as to any potential changes or adjustments to your plans or pertinent documents.

### The role of executor

An executor is an individual (or institution) appointed to administer the assets of an estate (called a liquidator in Quebec). The executor is legally appointed in the Will, and this is a role that demands a great deal of time, energy and attention to detail. With such a large responsibility and undertaking, an executor is central to the success of the estate administration, but unfortunately there are certain elements that some individuals overlook both in how they select their executor and the information they share with them.

In general, the administration of an estate includes preparing an inventory of assets and liabilities, paying off the liabilities, and distributing the remaining assets as required under the terms of the Will. The executor must settle the estate in a timely and even-handed manner according to the intentions stated in the Will and must also comply with the provincial/territorial laws governing the estate.

With that in mind, when choosing an executor, individuals should carefully consider both the importance of an executor's duties, as well as their willingness, knowledge and ability to act practically and effectively. In blended

family situations, selecting an executor may become an even more challenging decision, as some individuals may be faced with choosing among a spouse, children from their prior relationship, children from their current relationship, or a combination. Given the scope of the executor's duties, it's crucial to examine how well those individuals will be able to work cooperatively or consider the potential benefits of choosing a third party. For more details about choosing an executor, third-party services, or acting as an executor, RBC Estate & Trust Services offers some valuable information at <http://www.rbcwealthmanagement.com/estateandtrust/estate-services.html>.

One of the unfortunate realities among executors is that many are unaware of the scope of the role to which they've been appointed, and in some cases, executors aren't even aware they have been named as such until the reading of a Will. When either of these scenarios occur, it opens the door for significant stress, confusion and conflict. As such, it is so important to ensure the executor you choose is aware of the demands of the role, and is always updated and kept in the loop as to any changes or modifications to your estate plans and where your Will and other documents and information is stored.

### Power of Attorney

With the increasing life expectancy within Canada (which is currently averaged at 81.2 years),<sup>14</sup> it is beneficial to proactively think about and plan for the potential of incapacity as part of estate planning. This is where selecting a Power of Attorney comes into play. There are two types of Power of Attorney (in Quebec, it is referred to as a "Protection Mandate"). In general, a Power of Attorney for Property is a person, persons or trust company appointed to make decisions about the property, finances, assets and investments on an individual's behalf in the event that the individual becomes incapable of making the decisions himself or herself. A Power of Attorney for Personal Care is appointed to make personal care and healthcare decisions on an individual's behalf. It may also include instructions for doctors and other caregivers as to the kind of personal or medical care the individual may want, or does not want, should they ever become incapable of making those decisions. In some provinces or territories, the two Power of Attorneys are separate

legal documents and they may or may not appoint the same person as attorney.

Much like an executor, being appointed as a Power of Attorney entails a large amount of responsibility and time, so individuals should be very mindful and conscious about who they appoint. It is also important to consider whether the choice will create any potential conflict within the family or whether there are constraints such as geographical distance, if they have their own family responsibilities to tend to, if they are also acting as your executor, and potential stresses or emotional burdens associated with choosing a certain family member or close friend.

### Third-party Power of Attorney services

The decision process for selecting a Power of Attorney is one that should be given very careful consideration. Depending on circumstances, a neutral third party may be an ideal option in regards to a Power of Attorney for property, and this an area where RBC Estate & Trust Services provides expertise and guidance, with professionals who are well-versed and experienced from both a technical and an emotional perspective. RBC Estate & Trust Services also offers Power of Attorney administration services to assist individuals who have been named Power of Attorney for property and provides expert support in navigating and handling the tremendous responsibilities that come with taking on the role. For more information, please visit <http://www.rbcwealthmanagement.com/estateandtrust/index.html>.



## 5

## What should heirs be educated on or have knowledge about when it comes to your estate plans?

Among the Canadian population, there are some interesting statistics that serve to highlight the knowledge and information sharing commonly lacking from one generation to the next when it comes to estate plans. For many, the disconnect centres on what heirs expect to receive and what intentions are actually in place. For example, 35 percent of individuals are counting on money left behind in a Will to help fund their futures, but, on average, Canadians overestimate how much they'll inherit by about 50 percent. Additionally, 86 percent of seniors surveyed in a recent Ipsos Reid poll noted that they have no plans to give up their own needs and desires in order to provide a large inheritance for their children. Furthermore, 62 percent of those surveyed noted they are unconcerned about the inheritance that will remain for their children after they have supported their own needs.<sup>15</sup>

Throughout this report thus far, a central theme has been the importance of communication as part of effective estate planning. Specifically, the previous sections have focused on why open lines of communication are so valuable as part of the process, the potential pitfalls of avoiding these crucial discussions, and who in your family and close network should be involved in the ongoing discussions. To round out all aspects of communication, it is important to also examine the “what” aspect:

1. What elements of planning are critical for family members and other involved individuals to be aware?
2. What amount of information should they be privy to?

### Key individuals in estate plans

From an informational and administrative standpoint, one area some individuals may overlook is ensuring family members and heirs know who the professionals are that have been involved in the estate planning process and how to reach them. This may include, but is not limited to, the executor(s), accountants, wealth advisors, lawyers

and tax advisors. As part of compiling an inventory of information for family members, as discussed in the previous section, a good rule of thumb is to include the names and contact information of any individual that family members or heirs need to talk to when you pass away. Unfortunately, if these details aren't recorded somewhere — and the necessary people don't know how to find this information — the end result may be an increased amount of time and complexity in sorting out various aspects of the estate. In addition, when family members are in a position where they are scrambling to track down information or key details, this may create a heightened sense of stress and potential conflict during an already emotionally challenging time.

To avoid these difficulties, it may prove beneficial to introduce your family members and heirs to all relevant professionals during your lifetime as a means to establish the relationship among the next generation. If you and your spouse have different professional advisors for your banking, investments, taxes and legal matters, for example, the first step should be ensuring each spouse has been introduced to these respective individuals to help streamline the process of knowing who to contact after a spouse's death. Once this occurs, or if both spouses share the same advisors, the next step is to consider introducing them to other family members. These introductions will provide that initial connection for your heirs and will help promote the continuing relationship. The benefit here is that the next generation will hopefully develop a level of comfort with those professionals and then be able to work with advisors who already know your history and who are familiar with your planning. Additionally, these relationships may help facilitate a smooth estate administration and can ensure any planning you carried out during your lifetime is continued or completed after your death.

## Accounts, information and documents

Regardless of individual viewpoints on transparency about estate plan details, there are some logistical aspects that shouldn't be overlooked in any circumstances. There are a variety of administrative aspects related to an individual's estate that should be appropriately accounted for and logged, including banking and investment accounts, assets, insurance policies, and pension information, as well as any relevant supplementary details and information relating to these accounts and documents. Beyond an awareness of the information itself, family members and heirs should be informed about where and how to access it after your death or in a situation of incapacity. The RBC Wealth Management Family Inventory may be a useful guidebook in this regard, providing direction on key details to log and helping individuals gather all pertinent information.

Further to having this comprehensive list and making its whereabouts known to the appropriate individuals, it's equally as important to keep it updated and ensure family members and your executor(s) remain in the loop regarding any large-scale changes or modifications. The following are some of the main situations that would trigger the need for an update to your inventory list or a communication update among family members and your executor.

### Let your family know when these documents are updated or these events occur:

- Updating of Will or drafting of new Will
- Divorce, separation or remarriage
- Death of a spouse
- Changes to account information/details or where accounts are held
- Opening or closing of accounts
- Change in professional (lawyer or accountant, for example) or working with a new professional advisor
- Insurance policy changes or cancellation

## Digital legacy

In today's technology and cyber-driven world, it's also important to consider your digital legacy and how a surviving spouse and/or children will be able to deal with it. An individual's existence in the digital realm includes components such as your electronic documents, online currency and accounts, email and social media accounts, and domain names. As such, details regarding your digital assets and how to access them should likewise be included as part of your overall list, as this may reduce the administrative burden of dealing with this aspect of your estate. What it comes down to here is realizing that with the ever-expanding digital space and the rising need to protect online information, properly accounting for the entire spectrum of your digital presence is valuable from both a personal and financial perspective. Potential issues for those who don't consider their digital legacy include:

- Potential fraud or identity theft
- Inability of family members to access or close accounts
- Emotional difficulties for family members based on lingering digital presence after a parent's or other family member's death
- Inability to access key contacts or information stored in email accounts
- Delayed administration process
- Lack of full personal closure
- Loss of access to family photos, videos or other personal files stored in digital spaces



## Finding a balance with information sharing

A common concern among many in putting together their estate plans is sharing too much information to the next generation too early. For some, there may be a great deal of uncertainty and debate around whether to disclose the specific amounts of inheritances or other forms of wealth or assets being passed down in advance and what impact that may have on intended heirs. In weighing out this decision, it is important to factor in both the potential benefits and possible risks, as well as how they relate to your individual goals and situation, as well as family dynamics and circumstances.

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> <li>• Gives heirs the ability to proactively and accurately plan ahead for the wealth they are intended to receive</li> <li>• Eliminates any element of surprise or shock</li> <li>• Provides an opportunity for the giver to help heirs prepare in advance and to build improved financial literacy and money management skills</li> </ul>	<ul style="list-style-type: none"> <li>• May create a sense of entitlement</li> <li>• May decrease an heir's motivation to reach goals, achieve success and build their own financial resources</li> <li>• May create a sense of resentment down the road if the disclosed amount changes due to an unexpected event or illness that forced the giver to use those funds</li> </ul>

## Understanding wealth transfer structures

A key component to the education process as it relates to estate planning is helping heirs and the younger generation in general develop a greater awareness and knowledge as to the structures and methods that exist for intergenerational wealth transfer and how and why they are used. Again here, it's not about disclosing amounts or specifics, but rather helping the next generation understand the process, structures being used, and reasons for those decisions.

To better illustrate the potential shortcomings when even a basic explanation about a wealth transfer method isn't provided, let's consider the example of a trust. Without any previous education about it, many heirs may not know what a trust is, how it works and/or why it is used. Viewed without any background knowledge, for someone

whose intended wealth has been set up in a trust structure, it may come across like a complex and limiting strategy that prevents the heir from accessing the wealth. This in turn may create feelings of frustration and resentment, all rooted in the lack of understanding about the structure itself. Therefore, heirs may greatly benefit from being informed about the methods used, why you have structured it that way and the purpose behind the strategy.

## Importance of financial literacy

An overarching theme that is closely connected to information sharing when it comes to estate planning (and wealth planning in general) is building a stronger sense of financial literacy among heirs and younger generations. The basic concepts of saving, spending and sharing learned at a young age contribute to establishing a foundation of financial literacy skills. And while some may be in a situation where the next generation are already teens or young adults or already in adulthood, while perhaps not the most ideal, it's never too late to start either. In fact, regardless of the age of your heirs, estate planning may present an ideal opportunity to make financial literacy a priority within your family.

## Financial literacy in Canada

Financial awareness and literacy is a topic that's increasingly coming to the forefront in Canada, but according to the Rand Youth Poll, a market research company, only 35 percent of parents talk to their kids about money.<sup>16</sup> This is an unfortunate reality given the fact that helping younger family members develop financial literacy skills is one of the best methods to increase confidence and abilities in managing wealth. A focus on financial literacy within the family also helps specifically in relation to estate planning, providing the next generation with a better understanding of both the processes and elements of intergenerational wealth transfer. This in turn enables those who are planning to pass wealth down with an improved comfort level that intentions will be met and understood and that their wealth will be managed successfully into the future. The importance of this form of education takes on an even greater relevance given that findings from the 2014 Canadian Financial Capability Survey found that eight out of 10 young Canadians are not confident in their financial knowledge, and that 60 percent of adults rate their financial knowledge as "fair" or "poor."<sup>17</sup>

## Events and resources

At both an educational and institutional level, financial literacy is an area that is experiencing growth through a variety of programs, initiatives and organizations across the country. In fact, the month of November is nationally recognized as Financial Literacy Month, where over 1,000 events and workshops taking place throughout every province and territory.<sup>18</sup> Supporting this, the Spring and Fall 2016 editions of RBC Wealth Management Services *Perspectives* magazine include informative articles covering smart financial management tips and strategies for key age demographics.

Spring 2016: <https://www.rbcwealthmanagement.com/ca/en/research-insights/building-financial-literacy-among-the-younger-generations/detail/>.

Fall 2016: <https://www.rbcwealthmanagement.com/ca/en/research-insights/financial-management-among-young-adults-realities-and-strategies/detail/>.

With significant shifts taking place among the Canadian population, both in age demographics and in the types and complexities of family structures, turning a focus on effective estate and wealth transfer planning is becoming increasingly relevant. Add to this the fact that the coming decades will mark the largest wealth transfer in history, and it is clear that passing down wealth should be a topic that is top of mind for many. Despite these population and wealth realities, however, the fact remains that fewer than half of Canadians have firm retirement plans in place and even fewer have developed any sort of estate plans.<sup>19</sup>

The main purpose behind this report has been to address some of the common and most relevant questions and topics Canadians face in estate and wealth transfer planning. Through these discussions, the hope is to help individuals build a greater sense of awareness of the specific details and considerations within this area of planning. Additionally, by improving overall knowledge and recognizing the central role communication plays in successful wealth transfer, individuals may be better equipped to move beyond any feelings of discomfort and uncertainty that often derails this type of planning, and instead recognize the vast benefits that exist when decisions are properly approached and in a way that promotes improved financial literacy among all family members.

While one of the key takeaway messages of this report is that there are strategies and options to help effectively meet every type of personal situation or need, the uniqueness of each individual's and family's circumstances emphasize why it is so imperative to work with qualified tax, legal and wealth professionals throughout the entire planning process. In doing so, there is greater assurance that comprehensive plans are developed, that they accurately reflect specific circumstances, and that timely and customized decisions are made based on the latest information available.

Whether you are a young adult, middle-aged or an older adult, it is never too early or too late to think about and focus on estate planning. And though it is a fact of life that no one can ever precisely predict what the months, years and decades ahead may hold, making estate planning a priority is one of the best ways to protect both your own and your loved ones' futures and financial security.



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