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*ESTATE*PLANNING

Plan ahead

Five steps

Mark Halpern, CFP, TEP

"May you live to 120" is a popular birthday toast extended to friends and family members, usually with a glass of bubbly and a slice of cake. That blessing for a long life should be accompanied by the business card of a professional tax and estate planner. With so many years of life ahead, people need professional help to navigate their future in a healthy and financially viable manner.

You probably remember "Freedom 55", a term coined by London Life marketers many moons ago. It was a great marketing concept and perfect aspirational thought umbrella for life insurance and related financial products. That was back in the "good old days" when people held one job for life and retired with a gold watch and a generous pension plan, all so quaint and very last century.

Freedom 55 now occurs when your youngest child turns 55.

No more job for life

For the very first time in modern history the younger generation is not expected to do as well as their parents. In the past, our hard-working parents found decent-paying jobs with real futures that enabled them to put a down payment on a house and raise a family. Too many of today's graduates leave university saddled with big debt and no real prospect of full-time employment in their area of study. Sadly, they are often forced to move back to the family home.

For those who do manage to find work, the concept of a job for life is no longer valid. A successful career for most people now consists of various positions with several employers.

The costs of housing and real estate have skyrocketed in many places. Back in the day, baby boomers purchased homes costing about three-years' worth of salary. Those homes purchased for $25,000 fifty years ago now sell for more than $1 million in cities like Vancouver and Toronto. Adult children can't save money fast enough for a modest down payment, and those who do buy a home carry huge mortgages that can blow up when interest rates rise.

Living longer

There used to be a degree of comfort for baby boomers, who thought they'd inherit an estimated $1 trillion worth of wealth from their aging parents. But that expectation no longer holds true.

The baby boomers' parents, long known for their cautious spending and savings skills, are living longer than ever. Canadians are a graying population; many neighbourhoods are beginning to look like Century Village. Living longer means spending longer, diminishing what's left for future generations.

Our increasing longevity can be attributed to healthier lifestyles and advances in medicine. At some point, many seniors will require some form of assistance, as they won't be able to live by themselves. Some will reside with their adult children, or require personal caregivers, or move into long-term care facilities where monthly costs current-

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 866-566-2001 or mark@WEALTHinsurance.com.

ly range from $4,000 to $10,000.

Those bills add up quickly, and instead of bequeathing large sums to their children and grandchildren, elderly Canadians will need their money to pay the expenses of living longer. We already see people who are long on life and short on money, and the gap continues to grow between the haves and have-nots.

Plan well

I am reminded of the saying "the wise have eyes in their heads while the fool walks in darkness". Considering so many potentially wealth-draining situations, I recommend that you plan for your future now, especially if you want to leave money to your family and not the Canada Revenue Agency.

Here are some important steps to follow for your own estate planning.

Step 1: Buy long-term care insurance. We live in a fabulous country with universal health care for everyone, but long-term care is not included.

There are some government programs for those with long-term care needs, but frequently these programs are based on income. Buying long-term care insurance will give you and your adult children financial peace of mind and reduce some of the financial stress that comes with living a long life. Some policies include a 'Return of Premium' option that returns every dollar of premiums paid to your estate if you die without having used the policy.

Step 2: Be sure to have a current and up-to-date will with two powers of attorney -- one for your physical needs and the other for your financial needs. Most Canadians don't have a will in place, and an estimated 40 per cent have never discussed their estate intentions with their heirs. Where do you fit?

Many people wrongly assume that if they die without a will, their estate moves automatically (and tax-free) to their surviving spouse. This is true in some parts of Canada. But when assets are held jointly with right of survivorship to the spouse, in the absence of a will, your provincial government will decide what happens to your assets.

Each province has its own rules about beneficiaries and how much each is likely to receive if there is no will. Without a will, your estate will shrink from additional legal and other costs, including probate fees based on the size of your estate. In Ontario, 1.5 percent of all assets not held in joint with right of survivorship are subject to probate fees. Those Estate Administrative Taxes, "EAT", (an appropriate acronym!) will nibble away at your assets.

Step 3: Make sure your list of beneficiaries is up to date. With more than half of all marriages ending in divorce, there are more second and third (or more) marriages than ever. You may even become a parent or grandparent again. Ensure that your money will go exactly where you want it to go. You don't want to leave money to your ex-spouse's children instead of your own.

Step 4: Complete an Estate Directory. You may be extremely well-organized, with every little bit of information updated and safely squirrelled away. But if no one else knows where it is, it will cause long delays and unnecessary headaches for your executor. Where are your bank accounts, property deeds, life insurance policies, marketable securities, safety deposit boxes, etc.?

Not having that information available on a timely basis can reduce your estate by tens of thousands in legal and accounting fees. We have seen it happen. You can avoid those costly problems by using the Free Estate Planning Toolkit available at our website. It includes an Estate Directory,

Step 5: Many grandparents want to help their children and grandchildren financially, but for various reasons cited earlier, they need their money to cover their own costs of living longer. How, for example, will their grandchildren ever save enough money to buy their own home? With home prices surging, many people will never enjoy home ownership.

The most cost-effective way to achieve that lofty objective is buying inexpensive joint and last-to-die life insurance that will pay out tax-free on the second death. It is the least inexpensive way to guarantee the receipt of future dollars for pennies today. With proper planning, it can replace all the money you've spent on living and also cover your ultimate tax liabilities.

Taxes come in all shapes and sizes, and they all reduce the value of your estate. There are usually no taxes due when the first spouse dies and leaves his or her estate to the surviving spouse. But when the second spouse dies, the government assumes that you have sold everything at market value. This could result in a major chunk of your estate going to the government - ranging from 25 per cent to 54 per cent of your assets. Capital gains are taxed at 25 per cent, RRSPs and RRIFs are taxed as high as 54 per cent, and monies in your corporation get taxed at 45 per cent.

We met recently with a successful retired couple who hadn't done any tax planning and thought they were leaving a $10-million estate to their family. They were shocked to learn their beneficiaries would receive only half of that sum, and very pleased we could help them preserve their hard-earned money with comprehensive estate planning.

When taxes are due they must be paid, and if the funds are not readily available, your family may be forced to borrow the money or sell cherished assets like a long-held family cottage.

Many worthwhile strategies are available for tax-friendly philanthropy, the subject of my column last month. Charitable donations to the causes you care about are a wonderful way to instil honorable values and create meaningful legacies for your children and grandchildren, while reducing your tax bill.

Get professional help

Don't go it alone. Get the benefit of experience and knowledge of a seasoned insurance professional who can assess your needs and suggest appropriate strategies.

Simply getting insurance in place isn't enough – get the right types of insurance in the right amounts with the help of a specialist who will be there to advocate for you in the event a claim is made.

Your retirement- and estate-planning needs will probably change as time marches on, so it's a good idea to obtain a second opinion on your current planning. Our team of professionals is available across the country, so please don't hesitate to contact us for a no-obligation consultation. ❐

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals, high-net worth individuals and their families.
He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or mark@WEALTHinsurance.com
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