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ESTATEPLANNING

What is a...

Smooth Wealth Cascade?

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When people think about building wealth, they usually think first about investing. That's certainly part of it, but even more important is planning. Planning provides perspective. It also serves as a foundation for all the structures you put in place to grow, protect, and pass on your assets.

In this article, I want to focus on how planning ensures a smooth transfer of wealth to the next generation – what we call the "wealth cascade," from parents to children and from grandparents to grandchildren. Proper planning will help you address these six areas.

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1. Getting the basics in place

Some administrative essentials must be in place to facilitate a smooth wealth cascade. These include wills, powers of attorney for finances and personal care, and an estate directory that helps you organize important information about your personal financial affairs. Our Estate Planning Toolkit that includes an estate directory, is available free at our website. See details at the end of this article.

And before you plan to share your wealth with beneficiaries, you need to ensure that you have enough available to spend throughout your life. This means adjusting your mindset to consider 3 things: 1. Preserving your Assets 2. Maximizing Your Income, and 3. Tax-Efficiency. It's no longer about what you make but more about what you get to keep. Of course, being well diversified to avoid market volatility is very important. Maximizing the income obtained from your assets will help you afford the comfortable lifestyle you so richly deserve.

2. Using tax-efficient strategies

As Benjamin Franklin observed in 1789, "Nothing is certain except death and taxes." It's been that way for 233 years. Without appropriate strategies, taxes will take a huge bite out of your beneficiaries' inheritances.

Life Insurance can provide a tax-efficient solution because the death benefit is paid to beneficiaries tax-free. Money accumulated inside a Life Insurance policy also grows tax-free, so you remove yourself from what we call The Tax Grind. Alternatively, you can name beneficiaries as "successor owners" so the policy itself passes to them intact without a taxable disposition.

You can even decide to transfer the policy to children during your lifetime with no taxes due. If you do this, children get Life Insurance coverage, and they can access the cash surrender value of the policy to make a down payment on a home, finance their education or start a business. They can leverage your gift to build their own wealth and legacy.

There are many other effective ways to use Life Insurance as part of your estate plan. It's a flexible tool that can, with planning, be precisely calibrated to meet your needs.

3. Setting up structures for minor heirs

Grandparents often want to leave money to grandchildren – but if the grandchildren are under age 18 the money can't pass directly into their hands.

We have many grandparents who purchase Life Insurance policies on the lives of their grandchildren. One approach is to have the grandparents fund a trust and instruct it to pay premiums on policies insuring each grandchild's life. These policies can be paid up after a certain number of years – providing grandchildren with insurance protection for life.

When grandchildren reach age 18 (or another age grandparents choose), the trust can distribute the policies to them in a tax-deferred rollout. Once owned personally, the grandchildren can then access the cash surrender value where required. Just as important, thanks to this planning, they get the confidence that comes from knowing they're insured even if a health issue comes along that makes it hard to qualify for a new policy.

4. Aiming for fair rather than equal

Fair and equal are not the same. In many situations, equal gifts aren't fair. Take the example of a business owner with four children. Only one is involved in the business. Does it make sense to split the business equally so the child who has been working hard every day to run the company becomes a minority shareholder?

Instead, the parent could leave the business in full to the child who is taking it over, and plan to provide equivalent bequests for the other children, funded by Life Insurance for pennies on the dollar. There's no risk of market volatility eroding those gifts. The three children outside the business won't have to depend on their sibling to decide when business dividends will be paid and how much they will receive. They can take the proceeds of the insurance and go on with their lives.

5. Maximizing your charitable legacy

I've said many times that you can leave your legacy to the tax department, to your family or to charity. Most people reject the first option.

Strategic philanthropy can help you make a bigger gift to your favourite causes and move from success to significance. It can also reduce your estate's tax bill – for example, allowing you to balance the effect of the taxable transfer of a business or real estate (such as a cottage) to the next generation.

It can benefit your heirs in other ways, too. When you set up a large charitable gift as part of your estate plan, you're demonstrating your commitment to your values and sense of social responsibility. That's a priceless thing to pass along to your children and grandchildren.

In addition, strategic philanthropy often involves setting up a private foundation or donor-advised fund. Both allow you to involve the next generation in the distribution of funds – something that keeps them involved and motivated to become philanthropists themselves.

And remember that donations made to charity on death can offset up to 100 per cent of an estate tax bill and any amounts over 100 per cent can be carried back one year. That means if you have a $500,000 estate tax, consider creating a $1,000,000 Life Insurance gift for pennies on the dollar that can be paid out to charity on death. This mitigates the estate tax and instead creates a $1,000,000 gift for future family members to distribute in perpetuity to causes that you and they are passionate about.

6. Communicating your intentions

Estate squabbles often rip families apart and sometimes create headlines. The best way to avoid them is to make sure everyone in the family understands your plans ahead of time.

Build a communication strategy – a family playbook so everyone understands why you've set things up in certain ways and there are no surprises. It can be hard to start these conversations, but it's well worth it.

If you're concerned that knowing the details of their inheritance will stop children from fulfilling their potential, bear in mind that there are many ways to structure bequests so beneficiaries don't receive everything at once.

Defence is as important as offence

When hockey teams battle it out in the playoffs, it's almost always the team with the best goalie and defensemen that wins the Stanley Cup.

In estate planning and wealth preservation, as in hockey, defense can be more important than offense. When you are putting strategies in place to ensure a smooth wealth cascade, defensive strategies must be part of the plan. They're what makes sure you've checked all the boxes, left the biggest legacy possible to family and charity, and minimized both taxes and family conflict. We can help get your estate plan into Stanley Cup shape.

You have worked hard for your money, and you love your family. Most readers would prefer to leave a larger estate to the people and causes they care about, with as little as possible for the tax department. It makes sense to invest 60 minutes of your time with a professional planner to keep your money in the family. Contact us to determine how we can help you, or to get a second opinion on your current planning. Don't do this alone - seek professional help. The best way to achieve financial peace of mind is to get advice from an impartial, experienced Certified Financial Planner or Trust and Estate Practitioner.

Our advisors across the country look forward to helping you. Contact us today to arrange your no-obligation consultation. ❑

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He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy.

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Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html

The 2022 Toolkit now includes:

-Estate Directory

-Estate Planning Checklist

-Executor Duties Checklist

-Business Owners Planning Guide

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