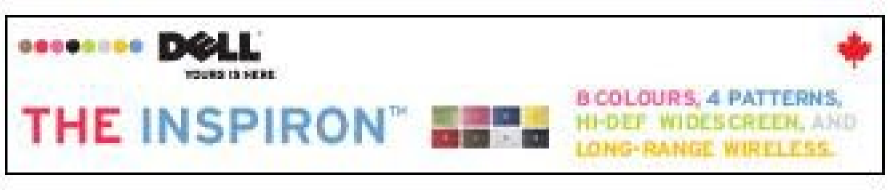

A guide to making the most of your money, from young couples to retired empty nesters

ESTATE PLANNING:
A little trust goes a long way.

Life insurance, trusts, even a second will - they can all help your gifts keep on giving after you've gone, GAVIN ADAMSON writes

It's a tricky bit of estate planning, but given the chance, Dorothy Wyman, 80, can recite chapter-and-verse the benefits of a spousal trust.


The spousal trust Dorothy Wyman's husband set up before his death helped lower her tax burden.

She knows from experience. ?About eight years ago, she and her husband, Harold, were retired, living off their pensions and registered savings plans. They co-owned an unregistered account, plus they were about to sell their cottage, the proceeds of which would become another income source.

"My husband and I thought we should re-do our wills and do some estate planning," Mrs. Wyman recalls, who lives in Mississauga, Ont.

The found out they had a challenge. Wendy Templeton, their financial adviser at BMO Nesbitt Burns in Toronto, explained that if either of them were to die, the survivor would have to report all of their combined income to the Canada Revenue Agency.

"What people forget is that if one spouse dies, all the income is being reported by the single spouse, and the tax rate shoots up," explains Ms. Templeton.

On her advice, the Wymans set out spousal trusts in each of their wills - so-called testamentary trusts - that would take effect only when either one died. When Mr. Wyman died last year they were proven prescient.

Mrs. Wyman says that, from a tax perspective, the trust effectively takes her husband's place, splitting the household income into two halves paying tax at a lower rate, as was the case when he was alive. "Basically, I'm paying a lower tax on that income because it's in a lower tax bracket," she explains.

She can now draw down on the spousal trust's after-tax income and enjoy retirement without worrying as much about finances or a big clawback from the government on her Old Age Security benefits.

"It's unfortunate that this technique isn't recognized more widely," says Ms. Templeton, vice-president, wealth transfer and estate planning for BMO Nesbitt Burns.

Potential savings depend on the province of residence, the amount established in the trust, and individual circumstances, but it can amount to more than $10,000. Generally retirees need to begin with about $500,000 in non-registered assets to consider this vehicle.

The spousal trust is among many estate-planning ideas described by financial advisers to increase the efficiency of retirement savings. Generally these ideas, which need to be considered inside a total financial plan, allow you to keep more of your life savings away from the taxman and put more in the hands of people and organizations you want - your spouse, children or charities.? Reducing probate fees ?While trusts are generally an option for the wealthy, many people can consider reducing their probate fee, which is essentially a tax that provincial governments charge for validating your will after you die. (Quebec does not charge probate).

Probate rates depend on where you live and what your estate entails. The rate is highest in Ontario, working out to about $1,500 for every $100,000 of your estate's value, or 1.5 per cent. For example, the fee to p cottage in Ontario would be $3,750.

The probate fee is generally paid from the value of your estate, meaning your beneficiaries receive less. The trick to avoiding the fee is that any items not owned solely by the deceased are not considered part of his or her estate, and therefore is not subject to probate. Most married retirees, for example, should consider if they are able to reduce probate fees and leave more to the surviving spouse.

"In most cases having assets jointly held so that they include rights of survivorship can reduce probate tax paid by your estate," says Ed Olkovich, a Toronto lawyer and author of Estate to the Heart.

The strategy isn't for everyone, but it may make sense for a husband and wife to co-own an investment account, a home or cottage together. When one partner dies, all of those jointly shared assets immediately become the property of the survivor.? A second will Sometimes a "last will and testament" isn't the last word on how your estate is to be handled. Some people specifically draw up two wills with one goal in mind: to avoid large probate fees.

"Let's say you own a manufacturing company that you might want to leave to your wife or kids," explains Mr. Olkovich. "You create a [first] will that says 'I leave the shares in this company to my two children'." He notes that items owned privately (that is, outside a financial institution), such as the shares in a private business or a cottage, can be named in a first will and left out of your last will. The government requires only your last will to go through probate, Mr. Olkovich explains.

"The last will that you make is the one that you take to court - the one that deals with stocks and bonds and things that you own that the bank won't release unless you have probate," he says.

Normally, a last will revokes all other wills but in this case your last will would include a clause that explains you are not revoking your first will, which concerns the company shares.

Again, the savings can be substantial. If the company is worth $1-million, by creating two wills you've saved $15,000. ?It's best to get a professional involved in drawing up wills and planning for probate. As Ms. Templeton puts it, the courts are strewn with "self-help estate planning." Considerations can become complex when a second marriage is involved. It's generally not wise to co-own or leave major assets with children, especially if they are still minors, say the experts.? Use insurance wisely ?Using life insurance, you can make charities the beneficiaries of smart estate planning. ?"Life insurance is one of those special instruments," says Mark Halpern, a certified financial planner and owner of Illnessprotection.com Inc. "It's a tax-free and probate-free instrument that goes straight to your beneficiaries."

If you plan to leave a certain amount to a charitable organization on your death, you can boost the value of the donation at the same time that you reduce the taxes payable by your estate, he says.

Instead of simply earmarking assets for a charity in your will, he explains, you can buy a life insurance policy with cash while you're alive and name the charity as the beneficiary. Upon your death the charity issues a tax receipt to your estate in the amount of the life insurance. If the policy is worth $1-million, the math is easy. "Assume [your estate's] marginal tax rate is at 46 per cent - that would be $460,000 in tax [that] would be mitigated" on your estate taxes, explains Mr. Halpern.

Another method involves buying the life insurance policy while you're alive and naming the charity as owner of the policy, not simply the beneficiary. You'll get a charitable receipt every year for the amount of the premium of the premium you pay, and reduce your taxes while you're alive.

"This whole area of charitable gift-planning is an entire profession," Mr. Halpern says.

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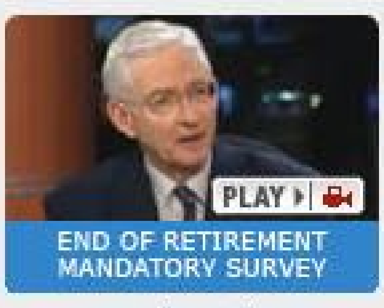
Financial Life Stages Video

A Fidelity survey found that 74% of retirees were satisfied with their finances. Peter Drake discusses this surprising find.



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