



Common pitfalls Things to avoid when planning your estate

Whether you're planning your legacy or expecting to receive an inheritance, you are probably feeling a range of emotions. You may be experiencing joy at the prospect of giving loved ones a large gift and sadness that you won't be able to watch them enjoy it.

On top of that, five fears often come to the surface with a transfer of wealth:

1. A fear of losing capital because of downturns in the market
2. A fear that taxes and fees will take too big a bite out of an estate
3. A fear that bequests will not remain private
4. A fear that delays will hold up estate distributions

5. A fear that certain beneficiaries might squander their inheritance

These are very real concerns. The good news is that they can often be addressed through proper estate and financial planning.

1. FEAR OF LOSING CAPITAL

Many investors worry that the value of their investments will be eroded if the markets fall. For that reason, some people choose more conservative investments, such as Guaranteed Interest Contracts (GICs). The fear of losing money in the markets is even more pointed for people who are giving a bequest. After all, a legacy is supposed to last into the future, providing beneficiaries with a measure of financial security and freedom. The idea that a gift could be diminished or disappear altogether in a sudden market downturn is, without doubt, a frightening one.



Protecting an inheritance is relatively simple and can provide peace-of-mind to everyone involved. Conservative investments such as GICs are an excellent way to preserve the value of one's investments. For individuals with a higher risk tolerance, segregated funds should be considered. Segregated funds are similar to mutual funds, but offer the potential for growth combined with protection from downside risk through maturity and death benefit guarantees. These respective guarantees ensure that the value of an investment will not end up below an established minimum either at the end of the maturity guarantee period or upon the death of the annuitant.

As the value of segregated funds rises over time, you can often lock-in growth, setting a higher protected minimum. One feature to look for is an "escalating death benefit" that increases the amount payable to beneficiaries on death by a fixed percentage – say, four per cent – each year subject to age requirements, no matter what happens in the markets. The guarantee components make these products an attractive way to ensure that the value of a legacy will not fall below a certain minimum, while at the same time allowing the investment to benefit from potential growth in the financial markets over the long-term.

2. FEAR OF TAXES AND FEES

Declining markets aren't the only things that can cause the value of an inheritance to shrink. Estates are subject to various taxes and fees that, depending on the value of the estate, can run into thousands of dollars. Probate fees on a \$100,000 estate in Ontario, for example, amount to \$1,000. An executor's fee might be another \$750, and legal and accounting fees may add up to \$3,000 or more. The taxes due when the final income tax return is filed can take another significant bite out of an estate.

Certain taxes on death can be avoided by leaving specific assets, including RRSPs and RRIFs, to a spouse instead of to another beneficiary. Other costs to the estate can be reduced through careful tax planning that may involve selling assets or transferring them to the beneficiary before death.

Investments purchased through an insurance company can also help to minimize the impact of estate expenses on the value of a legacy. If a beneficiary is named, the value of a segregated fund or GIC will not form part of the estate and will not be subject to probate because the death benefit will be paid directly to the beneficiaries. As a result, probate, executor, legal and accounting fees are avoided. Look for investments that waive any outstanding deferred sales charges or surrender charges upon death. This can be an important inheritance-preserving feature.





Life insurance is another useful tool. If you anticipate a large tax liability on your death, you can prepare in advance to cover these costs by purchasing an appropriate amount of life insurance. This way, your beneficiaries' inheritance won't have to be used to pay these expenses.

3. FEAR OF GIVING UP PRIVACY

When a will is submitted to the courts for probate, it becomes a matter of public record. That means that anyone – including the general public, the media or even fraud artists – can view a copy of it. The size of your estate, the identity of your beneficiaries and the amount of their inheritance are now in the public domain. There are products, however, that allow assets to be transferred privately, outside the public glare of the courts.

Again, segregated funds, insurance company GICs and life insurance can meet this need and can save you probate, executor, legal and accounting fees. On an insurance company product, if a beneficiary is named the death benefits are paid directly to the beneficiaries and do not form part of the estate. They avoid the whole probate process, so their details are not accessible to the public. (Not applicable in Saskatchewan.)

4. FEAR OF DELAYS

The days and weeks that follow a loved one's death are extremely stressful. Not only are family members coping with their grief, but they must also arrange funeral and memorial services and put the estate settlement process in motion. Obtaining probate – that is, gathering and preparing the necessary information and receiving court approval – often takes a few months. The process can be longer if the estate is complicated or the will is challenged.

On the other hand, the proceeds from insurance company products, including segregated funds, GICs and life insurance, are usually paid to named beneficiaries about two to three weeks after receipt of proof of death.

5. FEAR OF "AFFLUENZA"

"Affluenza" is a term that financial advisor Thane Stenner uses to describe the loss of incentive and initiative that comes from having too much money. It's a real worry for many parents. They wonder if their children – even if they've reached the age of majority and are legally entitled to receive an inheritance – will be able to manage and invest that money sensibly. They are concerned that their legacy will be squandered or that their kids may fall under the



influence of people who want a piece of their new fortune. They also fear that their children will lose the drive to succeed in school and in their careers if they suddenly receive a large inheritance.

The fact is, receiving a sizeable bequest is a tremendous responsibility that some beneficiaries simply aren't ready to take on. To avoid transferring an inheritance to a specific heir all at once, many people set up trusts. Trusts can be a very effective wealth transfer vehicle but there are some drawbacks that should be carefully weighed, such as cost, complexity and ongoing management. Fortunately, there's also a much simpler and less expensive method for transferring an inheritance gradually. It's called an annuity settlement option.

An annuity settlement option can be attached to many insurance company investment and insurance products, such as segregated funds, GICs or life insurance. It replaces the lump sum death benefit with smaller scheduled payments over a pre-selected period of time, such as ten years or for the life of the beneficiary. An annuity settlement option is a flexible and free solution that may be appropriate if you're worried about "affluenza."

Fears about estate planning are natural. However, there are many strategies and products that can alleviate your concerns and provide peace-of-mind when you are deciding how to leave money to the next generation.

For more information about estate planning, contact your financial advisor.

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