Estate Planning Basics

For many, estate planning can be a difficult subject to discuss. People naturally shy away from talking about issues such as illness, death and their last wishes. Often many couples do not have these discussions until they are faced with crisis, such as a critical illness or the loss of a loved one.

Even if it is difficult to begin the discussion, establishing an estate plan may be one of the most important things that you can do for those that you care about most. Having a solid estate plan in place means that, your family will know and carry out your last wishes, and you may continue to provide care for your loved ones even after your passing.

Put Planning in Motion

Starting the discussion

A critical part of the retirement and estate planning process is to start these discussions early. This is much easier to do when you and your spouse[1] are in good health and not facing a crisis. Being proactive in planning allows you and your family to focus on estate planning strategies in a more positive light rather than having to make decisions influenced by an impending loss.

Why estate planning is important

Establishing an estate plan is important because it allows you to organize your financial affairs and provide for the well being of your family. This can help to mitigate the various challenges that a surviving spouse may face during a transition time, such as widowhood, and provide peace of mind that important details have been dealt with.

Consider the following facts and realities:

- **Extended longevity and retirement horizon** - Statistics show that the average life expectancy of Canadians continues to increase and that women continue to have higher life expectancies compared to men. Increased longevity will in all likelihood result in Canadians spending more years in retirement.

  Women live, on average, five years longer than men and women who survive to age 65 can anticipate living an additional 21.5 years[2]. Traditionally, women tend to be younger than their spouses so they are more likely to transition to widowhood and face a considerable period of their retirement years alone.

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[1] All references to a “spouse” includes spouse or common-law partner.
[2] Statistics Canada, 2008. “Life expectancy, abridged life table, at birth and at age 65, by sex, Canada, provinces and territories. CANSIM Table 102-0512. Ottawa.

- **Impact of widowhood** - Reports published by Statistics Canada suggest that widowhood has a direct impact on the standard of living of senior women and that many women experience economic hardship as a result of being widowed[3]. Having an estate plan can help to alleviate the financial stresses that may be associated with widowhood.

Practical Planning Steps

Prepare an inventory of your assets and liabilities and identify sources of cash flow

- List all assets owned jointly and separately by you and your spouse. Some examples include your home, cottage, bank accounts, insurance policies, pension assets and jewellery. Identify those assets that have designated beneficiaries such as your registered investments, pensions and life insurance policies.
- List all liabilities whether they are jointly or separately held. These would include mortgages, loans, lines of credit and credit card debt.
- Identify those income sources which are expected to fund future cash flow such as private pensions, government pensions (e.g. CPP and OAS), registered assets, and investment accounts. Consider how these income sources could be impacted when one spouse dies. For example, you will no longer receive OAS for both spouses and the CPP benefits could in all likelihood be reduced. In addition, defined benefit pension payments are generally reduced when converted to a survivor pension upon death of the plan member.
- Identify expenses which are likely to be incurred both before and during retirement. Consider what changes, if any, may result after the death of a spouse, For example, living expenses may increase if the surviving spouse has to move into a long-term care facility.

Prepare an inventory of significant documents and identify where they are located

Your inventory may include:

- Birth certificates
- Marriage certificates and marriage contracts
- Real estate deeds
- Insurance policies
- Location of safety deposit boxes
- Existing Wills and Powers of Attorney

Define your estate planning priorities

As you develop your estate plan, remember to include your personal objectives and not only those of a financial nature. Consider alternate scenarios of what could happen in your life, to determine whether your Will and estate plan is appropriately drafted. For instance, what if both you and your spouse die at the same time, or your executor predeceases you. How would these events impact your estate plan?

[3] Statistics Canada. 2006. "Death of a Spouse: the Impact on Income for Senior Men and Women", Analysis In Brief. Catalogue no. 11-621-MIE2006046. Ottawa.

- **Draft a Will -** A Will is essential to any well-developed estate plan. Consequently, if you do not have a Will then you should consider having one drafted and executed. If you have a Will, ensure that it is reviewed periodically to determine if it still reflects your personal and financial objectives.
- **Appoint a Power of Attorney (POA) -** A complete estate plan includes planning for possible illness, accident, or other disability that may leave you unable to manage your financial affairs or your personal medical care. A POA for property is a legal document that empowers another person to manage your financial affairs during your lifetime. In some provinces and territories, it is now also possible to name a POA for personal care, which allows you to name someone to make decisions on your behalf concerning nutrition, shelter, clothing, and consent for medical treatment or withholding treatment should you become incapable of doing so. In all cases, POA arrangements terminate upon your death, at which time your Will takes effect.
- **Appoint an executor -** An executor is one or more individuals, or an estate professional (i.e. trust company), appointed in your Will to administer your estate after your death. An executor is also responsible for carrying out other important duties. such as making funeral arrangements, applying to the court for probate, preparing final tax return(s), paying any outstanding taxes, and obtaining tax clearances from the Canada Revenue Agency. You should select an executor with the right qualifications to carry out your wishes under your Will.

Preserving your estate through insurance

Review your current life insurance policies, and determine if there is sufficient coverage to address your financial and estate preservation objectives. Insurance may also be used to address specific gift giving objectives, both before and after death.

Because Canadians are living longer, they need to consider the risk of serious illness or disability. You should review and assess your coverage under your current critical illness, and/or disability insurance.

Regularly review your estate plan

An estate plan is not static. It is important that you review it regularly and make sure it addresses your needs and wishes.

Finally, ensure that all important documents are well-organized and safely stored for future reference, and that your family know where to find the documents.

Taking these steps and knowing that your affairs are in order, will provide peace of mind to all concerned.

Contact your TD Wealth advisor today for additional information.

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