

MAIN FOCUS THIS QUARTER:

## Common mistakes made in Transferring Wealth

*The importance of planning for a wealth transfer*

Each year in Canada, billions of dollars in assets are transferred at death. If you plan to transfer all or some of your assets to your heirs, you want to make sure your money goes to the people you selected in the manner you intended. Unfortunately, wealth transfer don't always occur as planned. Outlined below are some common mistakes people make when trying to transfer wealth.

### FAILING TO HAVE A WILL

A basic and all too common mistake is failing to have a will. A will communicates your intentions and allows you – and not the government – to determine how your assets will be distributed upon your death. Having a will facilitates the administration of your estate and can help you save taxes. It also allows you to choose the executor of your estate and the guardian(s) of your children

### TREAT EQUAL BENEFICIARIES UNEQUALLY

Often, when splitting assets, the intention is to divide them equally among beneficiaries – for example, equally among three children. However, if you fail to take into account the tax consequences, the wealth transfer may not be equal. Take a simple example in which you have three assets: a Registered Retirement Savings Plan (RRSP), a home and a non-registered mutual fund portfolio. Each asset is worth \$1 million. You name your first child as beneficiary of your RRSP, and in your will you leave the house to your second child and the mutual funds to your third child. You think you are leaving \$1 million to each child, but the reality is that the third child, who is receiving the mutual funds under the will, is going to have his or her share reduced by any tax your estate pays on the RRSP and the mutual funds (assumed that the home can be transferred tax-free as a result of the principal residence exemption). Assuming a 40 per cent effective tax rate,

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## Reminder!

For those who have not yet taken advantage of the new **Tax Free Savings Account**, please be sure to give us a call. Any unused contributions room can be carried forward from one year to the next so start saving **Tax-Free** today!

## Our New Look!

Enjoy our new look and newly titled quarterly newsletter, **Vested Interest**. We welcome new ideas of industry and non-industry related articles. Feel free to email us at [marina@perlerfinancial.com](mailto:marina@perlerfinancial.com) or call Marina at 604-468-0888 if you have a topic you would like to see included in an upcoming newsletter.

## Common mistakes made in Transferring Wealth cont'd.



“... it may be a better idea to name a beneficiary directly on an insurance contract where possible.”

your estate will pay \$400,000 in taxes on the RRSP, in addition to any potential taxes on the deemed disposition of the mutual funds which we'll assume are \$100,000. As a result, the third child will be left with \$500,000 – significantly less than the \$1 million the first and second child each received, and not what you had intended.

### SPOUSAL ISSUES

Another example of failing to consider the tax implications often involves second marriages or separated and estranged spouses. For example, let's say you name your spouse as the beneficiary of your RRSP or RRIF to provide for him or her after your death, and you name your children (perhaps from a previous marriage) as beneficiaries under your will to inherit the rest of your estate. You assume that your spouse will roll over your RRSP or RRIF to his or her own RRSP or RRIF, and pay tax on any withdrawals. But what if your spouse doesn't do this? Instead, he or she just takes the cash. Well, your estate will be responsible for any taxes on the RRSP or RRIF, which effectively means that money comes out of your children's inheritance.

### MINOR BENEFICIARIES

It is important to consider the age of the individuals you name as beneficiaries. Remember that generally death benefits cannot be paid directly to minors, so if you name a child as beneficiary the funds often have to be paid into court or to the Public Trustee. In addition, once a minor reaches the age of majority, he or she will be entitled to the funds, without any restrictions. If you want the death benefit to go to a minor, it is recommended that you establish a trust to receive the funds on behalf of the minor. The terms of the trust can be set out how you want the funds to be invested and when payments are to be made for the benefit of a minor. If done properly, the trust could qualify as a testamentary trust and benefit from being taxed at the graduated tax rates.

### FAILING TO NAME BENEFICIARY ON INSURANCE POLICIES AND CONTRACTS

Unless there is a specific reason for having assets flow through your estate, such as to make use of tax losses or deductions or to apply any special instructions contained in the will, it may be a better idea to name a beneficiary directly on an insurance contract where possible. If your will is submitted for probate, it becomes a matter of public record, available for anyone to view. This may delay the distribution of your estate by weeks, months or even years if your will is challenged.

When a beneficiary other than your estate is named on an insurance policy or investment contract (such as segregated fund contract), the death benefit bypasses your estate and therefore avoids probate fees (and potentially other estate administration fees). The proceeds are paid directly to the beneficiary, usually within two weeks of receiving all necessary documents. By avoiding your estate, the death benefit may also avoid claims by creditors of the estate and challenges to the validity of the will.

### UNUSED CHARITABLE DONATIONS

If you are planning on making a significant charitable donation at death, steps should be taken to ensure that your estate will be able to use the entire donation receipt. While the limit for claiming donation receipts at death is 100 per cent of net income in the year of death and the year prior to death, it is still possible for there to be unused receipts. Individuals making extremely large donations

relative to their annual income, who die early in the calendar year or who name a charity as beneficiary of their non-registered investment or life insurance policy, have a greater risk of having unused charitable tax credits. Naming a charity as beneficiary of an RRSP or RRIF is usually not a problem because charitable receipts can be used to offset the tax on the income from the RRSP or RRIF. If you have a spouse with sufficient income, he or she could also claim any unused charitable receipts for the next five years.

If you are concerned that you may have unused charitable receipts at death, consider making some charitable donations during your lifetime and reduce your taxes payable now.

As you can see, there are many reasons why it is important to plan for a wealth transfer. If you don't have a will, arrange for your lawyer to prepare one. Review your will and beneficiary designations regularly, particularly after a life-changing event, to ensure they still reflect your wishes and amend or update them as necessary. In addition, meet with your advisor to discuss your wishes for wealth transfer. He or she will be able to help ensure that your assets are distributed as you wish.

Source: *Manulife Investments*

## September 2009 Market Commentary

There are a lot of you who adopted a "bunkered down" mentality over the last year, and many others who were just too busy having fun over the summer to worry about your investments, who will be pleasantly surprised when you eventually get around to checking your investment accounts – especially if the last time you checked was in the spring. The TSX is up over 50% since it bottomed in the first week of March. The recession is technically over, and there seems to be a lot more confidence and optimism for the economy in the future. However, there is a real "Yin" and "Yang" to the market these days.

While the economy may technically be out of recession, it is certainly not healthy yet. The TSX is now at approximately 11,200, which is substantially better than the 7,000 it was back in March, but it still has a long ways to go to get back to the 15,000 it once was. I have been attending conferences and reading a lot in the last few weeks trying to get a feel for the "pulse of the market" and there is really conflicting data out there. From October through March it was very easy to see that there was going to be a "pop" in the market – stocks were simply too cheap and oversold for there not to be a bounce. Now that we have had that "pop," it becomes a much harder market to read. For those of you not technically inclined or just easily bored by numbers, feel free to just skip ahead to my summary. For the rest of you, I am going to try and just give you a sampling of some of the more contentious data that is confusing the market.

Markets are moved by two things: first, by the economic data. This is the bread and butter of economics – GDP numbers, earnings reports, unemployment data, foreclosure rates, etc. The second thing that moves markets is why economists so often get things wrong – it is how consumers feel about and react to the economic data. With confusing economic numbers it becomes very difficult for investors to sort out their feelings. For example:



### ***Tis the Season!***

As hard as it is to believe, the holiday season is just around the corner! This year, instead of our annual calendars, we will be donating the funds to charity. The selected charities are:

- The Salvation Army  
[www.salvationarmy.ca](http://www.salvationarmy.ca)
- Vancouver Rape Relief and Women's Shelter  
[www.rapereliefshelter.bc.ca](http://www.rapereliefshelter.bc.ca)
- Covenant House Vancouver  
[www.covenanthousebc.org](http://www.covenanthousebc.org)
- Vancouver Humane Society  
[www.vancouverhumanesociety.bc.ca](http://www.vancouverhumanesociety.bc.ca)

We would love to have your input on which of these charities you would like to see your donation be made to. Please email [info@perlerfinancial.com](mailto:info@perlerfinancial.com) with "Charity" in the subject line and your name and charity of choice in the body.

Together we can all make a difference!

*\*For more information on any of the selected charities, please visit their respective websites noted.*

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### ***Thank You!***

A heartfelt thank you for your continued patronage and all your referrals. Your confidence in us is truly appreciated!

# Upcoming Client Appreciation Event

Be sure to join us during our fun-filled **Harvest Day** on Saturday, October 24th, at Pitt Meadows Heritage Hall, 10am to 3:00pm. See the enclosed invitation for further details and to RSVP by October 16th by phoning Marina at **604-468-0888**. Don't forget, we will also be collecting 'gently used' winter coats during this special event for those in need.



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- Companies are meeting earnings targets but this is on the heels of them having lowered earnings forecasts by 40% on average and is on the back of aggressive cost cutting.
- GDP (Gross Domestic Product – the most common way of measuring the total value of goods produced in a year by a country) numbers are up globally across the board, but that is as a result of massive government spending and stimulus. In China it accounts for 80% of their GDP, where as normally consumer spending makes up the bulk of GDP numbers (usually 70% or so).
- Consumers are paying down debt and savings rates are up but as good as that may be for an individual, the economy needs consumers to start spending again in order to expand. Consumers still need to deleverage more before they can resume prior spending habits.
- Unemployment numbers seem to have stabilized but we have more people currently unemployed than we have had in the last 60 years – and that doesn't include the “underemployed.” These are all those whose unemployment benefits ran out and they took whatever work they could get regardless of their profession (ie, guys with MBAs working at the GAP).
- The index which tracks the number of new home sales versus foreclosures increased dramatically last quarter as new home sales picked up but it needs to double again just to break even. In other words foreclosures are still twice the rate of new sales which means more housing inventory is hitting the market daily, than is being sold.

You can see wherein the confusion lies! Essentially the economic data coming in looks good, but a lot of that is simply improved numbers relative to the truly horrific numbers we were seeing a year ago. Right now, confidence is high that the economy and market will continue to recover, but it is going to be a sluggish recovery. Government stimulus is largely responsible for the economic recovery, and there is still a lot of stimulus that hasn't even hit the market yet. My feeling is that the stimulus will sustain the economy and the market long enough for consumers to take up the spending mantle again. I'd like to think that we have learned a valuable lesson about living beyond our means, but I am pretty sure that greed was not replaced by fiscal prudence, merely scared back into submission and that spending will return as confidence comes back and eventually turns to hubris. It is a pattern that has held true for hundreds of years and I don't see it breaking anytime soon!

Stocks aren't cheap anymore. Companies are fairly valued for the most part and in order for them to grow they will need the economy to recover. The economy is recovering, but it is going to take some time and while it is in this fragile state it is susceptible to economic shocks. I am going to reiterate my “cautiously optimistic” outlook I had back in July. This is the financial equivalent to the weatherman telling you it is “cloudy, with sunny breaks and a chance of rain.” I'll try and be a little more definitive by saying I think that a year from now the market will be significantly higher than where we are today and we are due for a nice three year run in terms of returns, but I also think that it is extremely unlikely that the TSX is going straight back to 15,000. There will be a retrenching or catching of breath by the market at some point in order to let the economy catch up with stock prices.

