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MAIN FOCUS THIS QUARTER:

Estate Planning

Source: Manulife Investments

Estate planning should be a financial priority at almost any stage of life. In fact, an estate plan is absolutely essential for organizing your financial affairs and providing for the well being of your family members.

Simply put, an estate plan is written documentation of how you want your assets to be owned, managed and preserved during your lifetime and how you want them dispersed after your death.

Why is it important to have a plan?

To ensure a simple, tax-efficient and organized transfer of your assets to loved ones.

When you start your plan, there's a lot to think about. You want to live your life to the fullest, and ensure that your heirs will get the most out of the assets you're setting aside for them. Here are a few of the things you'll need to know:

YOUR WILL

The will is a roadmap for planning your estate and should be updated on an ongoing basis - particularly as your circumstances change throughout your life. A will is quick and easy to produce and will generally cover the following:

- The distribution of assets within the estate (e.g. investments, real estate, possessions)
- Naming beneficiaries of the estate (e.g. immediate or extended family, institutions, etc.)
- Naming the executor - the individual(s) or organization chosen to administer the estate

If you should die without a will (referred to as intestate), the province you reside in will step in to administer your estate using a formula. In this case, you've essentially forfeited your say on how things are divided and who will be in charge of the process.

INSIDE:

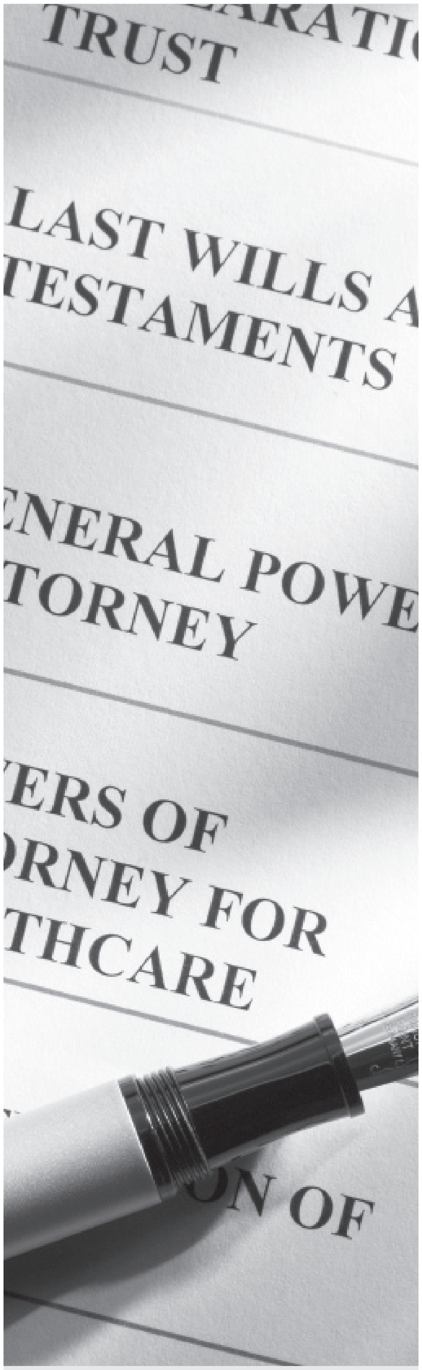
Monthly eNewsletter!

If you, or someone you know, are not yet on our monthly eNewsletter mailing list, and would like to be, please be sure to contact **Marina** at

marina@perlerfinancial.com
or call **604-468-0888**.

We will be sure to add you to the mailing list to keep you up to date on various Financial Planning and community information.

Estate Planning... cont'd.



Thank you!

... for all the referrals we have been receiving. We truly appreciate your continued patronage and confidence in our firm.

WHAT IS PROBATE?

Probate is the process by which a provincial court confirms the validity of your will. Potentially, it can be quite time consuming, tying up your assets for months or longer.

Probate fees are essentially the taxes that must be paid to the provincial government before your executor can begin to administer your will. The fees vary from province to province and are based on the value of the assets in your estate. In most provinces, the fee structure is tiered. In addition to probate fees, there are fees payable to the executor administration services and fees payable for legal and accounting services. In the end, the cost of probate can be significant.

REDUCING TAXES

If you have a will, upon your death it is your executor's responsibility to file a tax return for you. The government will consider you to have sold all your assets immediately [at time of] death and any capital gains/losses will be crystallized. That may lead to a big tax bill. Depending on your individual needs, there are strategies you can employ within your estate plan to minimize the amount of taxes you have to pay and to avoid probate. Below are a few key examples:

· Maximize asset "roll-overs" - transfers to your spouse [to] defer capital gains liabilities

· Get advice on setting up a trust to ensure your beneficiaries are well looked after

· Give gifts of cash or possessions while you are still alive

· Consider charitable donations to create valuable tax benefits

· Buy life insurance that is paid out to the beneficiary on a tax-free basis

· Restructure investments with insurance companies to avoid probate on death

It's important to have a strategy in place to preserve the value of your estate for loved ones. Work with your financial advisor to determine what exactly is in your estate, and then devise your plan.

If you have any questions about estate planning, please be sure to call Fraser McDowell at 604-468-0888.

Keep your beneficiaries in mind after a divorce

Source: Dynamic Funds
By Tim Cestnick

Today, I want to talk about divorce, and how it affects your RRSP beneficiary designations. You'll want to avoid some traps here.

The traps

When two people divorce, they often forget to look after all of the nitty gritty financial details. Consider your registered retirement savings plan and registered retirement income fund for example. A divorce does not, in most provinces, result in a revocation of a former spouse's entitlement as a designated beneficiary of those plans. That is, your ex- may still be entitled to your registered plan assets if you're not careful.

Consider the story of Diane Slater and Henry Klassen. They were married in June, 1982, and divorced in June, 1994. While married, Mr. Klassen was the annuitant of RRSPs with Ms. Slater designated as beneficiary.

After their divorce, Mr. Klassen, who kept the RRSPs in the split-up, failed to change the beneficiary of the plans, and then he died in November, 1994, just five months after the divorce.

Two issues arose when Mr. Klassen died. First, who should be entitled to the RRSP assets - Ms. Slater, or Mr. Klassen's kids? Second, if Ms. Slater was entitled to the RRSPs, who is liable to pay the tax on the RRSPs? (Since Ms. Slater was no longer Mr. Klassen's spouse, there would be no tax-deferred rollover to her.) The first issue was simple. The court ruled that Ms. Slater was entitled to the RRSPs.

When a divorced person fails to change the beneficiary on his or her plans, and failing appropriate wording in a separation agreement, the courts generally assert that the deceased could have changed the beneficiary designation easily and, failing to do so, the ex-spouse is entitled to the assets.

On the second issue, Mr. Klassen's kids lost again. Subsection 146(8.8) of Canadian tax law causes the RRSP assets to be taxable in the hands of the deceased if the RRSP is left to anyone but a surviving spouse.

The result? Mr. Klassen was taxable on the RRSP assets in the year of his death, and his estate (not Ms. Slater) was liable for the tax bill. Things can get even more complicated if you make an RRSP beneficiary designation in your Will, and later divorce. Consider Jack and Jill. Suppose that Jack and Jill are married, Jack is the annuitant of RRSPs, and has named Jill as beneficiary on the RRSP application form. Then, Jack makes his Will and names Jill as beneficiary of his RRSPs in his Will as well. The couple then divorces.

Jack is a smart guy. After the divorce he goes back to his lawyer who draws up a new Will that revokes his previous Will and leaves everything to his brother. The new Will contains no RRSP clause. Then Jack dies.

Who gets Jack's RRSP? Much to the chagrin of Jack's brother, Jill gets the assets. You see, while Jack's second Will revoked his first (and therefore revoked the RRSP beneficiary designation in the first Will), it did not revoke the beneficiary designation made on the RRSP application form itself.

The tips

The law surrounding the designation of beneficiaries on RRSPs, RRIFs, and life insurance contracts is complex, and can vary from one province to the next. Still, your strategy should be the same. After a divorce, be sure [to change] the beneficiary named on your registered plans with your financial institution itself. And if you've named a beneficiary of those plans in your Will, be sure your lawyer includes in a new Will (subsequent to your divorce) a clear revocation of all previously made RRSP beneficiary designations.

Payout Annuities – "What are they?"

Source: Canada Life

Payout annuities are insurance products that pay you a guaranteed regular income for a fixed term [or for] the rest of your life.

Payout annuity income payments consist of a blend of interest and principal based on:

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· Your age and gender (and in certain cases your spouse's age)

· Current interest rates

· Length of time the payments are guaranteed

· Amount of money used to purchase the annuity

· Type of annuity

Normally, payments are fixed, but if you are concerned about inflation, you may choose to have annuity payments indexed, that is increased by a fixed percentage each year to a maximum of 4% for registered policies and 6% for non-registered policies.

Benefits of Payout Annuities

Payout annuities have specific benefits and can be created using a number of features and options to meet your income needs.

Consider a payout annuity for the following benefits:

Simple – In return for a lump-sum premium, you can choose to receive a stream of payments to suit your needs. It's ideal if you're not able to or don't want to actively manage your money or pay fees for someone else to do it for you.

Avoid outliving your money – Not knowing how long you'll live is a retirement income planning issue. Life annuities provide payments for life and can form the cornerstone of an effective retirement plan.

Easily customized – There are many plans, terms and variations available, depending on your unique situation and circumstances. Annuities can be combined with growth-oriented products to form part of a diversified investment plan to mitigate risk.

Your choice of payments – The income stream for an annuity can start immediately or be deferred to a pre-determined date, depending on your needs and preferences.

Speedy estate settlement – You can appoint a beneficiary to avoid probate and undue delays in settling your estate and benefit from potential creditor protection.

A stable income stream – If you don't like the turbulence and volatility of stock markets, annuities can provide regular income to fund a major expense (e.g., mortgage, education, vacation, or other ongoing expenses like property taxes, utility bills, etc.).

Minimize effects of inflation – Indexed income payments help offset inflation (maximum of 4% for registered assets and 6% for non-registered assets).

More favourable taxation – Non-registered annuity payments are a blend of interest and return of capital. A prescribed annuity is taxed more favourably than a non-registered fixed-income product. These payments can help minimize claw back of applicable government benefits since only part of the annuity payment is considered net income for tax purposes. Non-registered annuities also help level out tax charges and yield more after-tax income up front.

[One disadvantage of annuities is that they are based on current interest rates. Today's rates are low, so call Fraser to discuss strategies to avoid locking in low rates.]

Have a safe and wonderful summer!

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