

Understanding estate planning

Estate planning can be a seemingly awesome subject to those persons just starting to learn about it. For some, it's like learning a new language complete with terms like estate splitting and income sprinkling, inter vivos and testamentary trusts, and estate freezes and holding companies.

Nevertheless, to understand the scope of estate planning, it's necessary to go beyond the labels and to keep in mind the underlying objectives of the process. The principal objective of estate planning is to ensure that within the framework of the client's intentions, his or her property will be managed most efficiently during their lifetime and their wishes will be carried out most effectively after his or her death. Estate planning is not just for very high-income earners. Every family man or woman and every business and professional man or woman should have an estate plan as well as every grandparent and every great-grandparent. Generally speaking, an estate plan is applicable to every person who needs:

- to create an estate
- to conserve his assets
- guidance in making appropriate plans for the distribution of his assets to himself as income during his lifetime or to his spouse, children, descendants after his death.

Everyone needs a will

Initially, an outline will have to be drawn up as to how the estate assets and/or the income derived therefrom are to pass to the beneficiaries. To meet these intentions, the basic item in every estate plan is the will. Often a valid will (that is periodically reviewed) is all that is required for purposes of estate planning.

In other cases, a plan that will enable the client to split his or her income to reduce taxes is needed. In more complex cases the plan will accomplish an estate freeze to minimize the income tax payable on certain types of property which may be deemed to be disposed of immediately before death.

The client should always make the decision as to the distribution of assets to dependents and others who have a claim. Nevertheless, the financial security advisor must be prepared to bring his or her attention to any matter that looks out of line. The client, of course, will be concerned about saving taxes (this would include both Federal and Provincial income taxes). Once the possible alternative routes are pointed out, it is the client's decision whether the plan should vary or not. Some may feel that the interests of the beneficiaries are of the utmost importance when dividing up the assets and/or income. Others may be of the opinion that saving or deferring tax is the primary consideration, but they may lose sight of their overall purpose. For example, a client may have heard about the marvelous tax results available through use of a spousal trust and may demand such an arrangement for his own situation even though he has a young wife and a relatively small estate. It may not have occurred to him that the wife will require the entire estate to raise the family and the whole estate could pass to her completely free of tax without the use of a trust.

Make it flexible

Flexibility is a key ingredient in any estate plan. The plan should be adjustable in the event of either a change in the law or in family circumstances. For instance, what will happen in the event of the birth of an additional child, premature death of an intended beneficiary or a divorce? The desire for flexibility will often call for the implementation of a simple plan at least in the initial stages, with room for amendment to more complex arrangements as the need arises.

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Take the opportunity

Many financial security advisors find that it's to their advantage to become involved in estate planning not only because of the value-added element but because it has been shown to lead to many more sales. Buy-sell agreements, the creation of trusts for children and

estate freezes all can give rise to life insurance or annuity sales. Of course, the financial security advisor's role in such a setting is to be part of a team of professionals which will include the client's lawyer and accountant. By using such resources, the client will be in a position to implement the most appropriate estate plan to meet their needs.

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