



# FINANCIAL WISDOM

## - WEALTH MANAGER -

March 2022

## Where's the Money?

When Dora died on August 1, 2018, most of her assets passed by Will to her adult children and were therefore subject to probate. \$250,000 was in GICs and a fairly rapid transfer of this money to her heirs was expected. But that was not the case. They had to wait until March 2020 for it. That's right, almost two years.

Not only did the GICs attract legal and probate fees in excess of \$10,000, but while they were waiting for their share, **her kids had to pay income tax on interest earned on the money held in trust.** This proved to be a hardship for some of them who were of limited means or single parents.

Fortunately, Dora also had a life insurance policy. The claim forms for the life insurance were sent to the insurer on August 5th and cheques were delivered to the named beneficiaries, in person, by August 20th.

Money on deposit with a life insurance company is treated the same as a life insurance policy. This means that a beneficiary can be named and **proceeds will be paid directly on death without the need for probate or the services of a lawyer.** A beneficiary designation can be changed at any time, avoiding the cost of re-writing a Will. Deposits with a life insurer can also be protected from creditors by using certain beneficiary designations.

Roger used a named beneficiary as an estate planning method to make sure that his money was left to whom he wanted without them going through the costs and delays of probate. When he died, his wishes were granted within a matter of a few weeks. And there was no cost to his estate or the beneficiaries.

When **Herman and Trish filed for personal bankruptcy**, their bank accounts were seized, including their GICs with the bank. Their life insurance policies and investment plans (both RSP and non-RSP) were not seized. As life insurance policies with each other named as beneficiary, they were untouched. As husband and wife, they were 'preferred' beneficiaries, which is one of the reasons **their plans with the life insurance company were protected from seizure.** Insurance products have creditor protection benefits, provided that the investment is made before any creditor issues are apparent and the decision is a sound investment decision, then the creditor protection applies.

Dwayne has other concerns. He worries about his beneficiary's ability to manage money and wants to make sure that the insurance proceeds will last a long time. He also wants to **avoid the cost and potential tax issues of establishing a trust** after he dies. Dwayne was able to address his concerns, so far as his life insurance, RRSPs and policies were concerned, by utilizing a special beneficiary arrangement. It enabled him to direct that the death benefits would be paid out over a period of years (or, had he wished, over his beneficiary's lifetime).

Providing income instead of a lump sum may be more appropriate in certain situations. Another option is a lump sum for part of the proceeds (to provide for the immediate cash needs) and the rest paid out as a long-lasting income.

*\*Fictional characters for illustrative purposes only.*

**Have more questions? We can give you answers.**

**Mike McKale, CFP and Cindy Mills, RDA**

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