Estate planning

Planning for tomorrow, today

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1. Introduction

By planning for tomorrow today, you can retain more of your assets, protect your estate and leave a lasting legacy for your family.

A common misconception is that only the wealthy need to concern themselves with estate planning. This misconception can result in significant unnecessary costs for your estate and additional burdens for survivors. In fact, just about everyone can benefit from the development of an estate plan. Young or old, wealthy or middle class, an estate plan can reduce the taxes and expenses of an estate, simplify and speed the transition of assets to your beneficiaries and ensure beneficiaries are protected

The purpose of this publication is to provide an overview of the estate planning process and address the main elements of an estate plan. Since some of the issues addressed in this publication vary among provinces and territories, this guide is only intended as a general reference. Your personal estate plan should be prepared with the assistance of professionals such as an estate lawyer (or notary in the province of Quebec) and tax advisor. Ask your RBC advisor for more information about the financial planning issues that may be relevant to your situation. Also, ask your RBC advisor about preparing a financial plan.

It should be stressed that this publication is intended for a Canadian resident who is not a U.S. citizen. If you have dual citizenship or residency in another country, there may be additional strategies and issues you need to consider. Speak to a legal advisor specializing in cross-border estate planning before you act on any of the information provided in this guide.

2. Common elements of an estate plan

When most people hear the term estate planning, they typically think of their Will. While a valid Will is a fundamental component of any estate plan, several other items should be considered in order to have a complete plan. These include:

- Ensuring all adult family members have a valid and up-to-date Power of Attorney (Mandate in Quebec)
- Evaluating your insurance coverage (e.g. do you have sufficient coverage?)
- Reviewing ownership structures (e.g. which assets will pass through your estate or outside your estate?)
- Updating beneficiary designations on registered plans and insurance policies
- Planning for taxes at death
- Evaluating advanced estate planning opportunities (e.g. the use of trusts)
- Considering charitable giving
- Making pre-planned funeral arrangements

Given the wide range of objectives you may wish to achieve, proper estate planning requires careful consideration of many factors. Often, in an effort to minimize income taxes or avoid probate taxes, another objective is thwarted. For this reason it is important to weigh and balance the costs and benefits of different courses of action. Ultimately, the issues addressed in the Will are a reflection of all elements of the estate plan.

3. Creating your estate plan

Typically, an estate plan does not require a substantial commitment of time or money. Often, an estate plan can be constructed by following six simple steps.

Following these steps will help you prepare a plan that accurately addresses all of your estate issues:

1. Prepare an inventory of your assets and liabilities.
2. Define your estate planning objectives.
3. Evaluate your objectives based on your current financial situation.
4. Determine which actions are necessary to achieve your objectives.
5. Consult the appropriate advisors to implement the components of your plan.
6. Periodically review your plan.

Step 1: Prepare an inventory of your assets and liabilities

Determining a deceased individual's assets and liabilities and the location of their personal records upon death is often problematic. Frequently the deceased's assets are scattered among various bank accounts, safety deposit boxes and locations in their home (including on a computer). Locating and making an inventory of the deceased's assets and liabilities is an additional burden for the estate's executor/liquidator.

To prevent this problem, consider preparing a summary of all the assets you and your spouse currently own as well as your liabilities. The summary should identify the ownership structure of these assets (i.e. sole or joint ownership) as well as any beneficiary designations applicable to the assets. This information is necessary for various elements of your estate plan such as tax minimization and Will planning.

Assets that might be included are:

- Your home and vacation property
- Your registered (RRSP, RRIF or TFSA) and non-registered investments
- Bank accounts
- The face value of annuities and insurance policies
- Personal property (including cars, jewelry and art)
- Pension assets (i.e. membership in a company pension plan)
- The current value of any business you own and its structure
- The current value of any interest you have in a trust
- Digital assets, such as frequent flyer points

Liabilities that might be included are:

- Mortgage on your home and vacation property
- Investment-related debt
- Credit cards
- Other personal obligations (e.g. family support)

In your inventory you should also document where the following items are located:

- Your signed original Will(s) and Powers of Attorney
- Birth and marriage certificates
- Marriage contracts
- Divorce decrees/separation agreements
- Insurance policies
- Real estate deeds
- Safety deposit boxes and keys
- Details of pre-planned funeral arrangements
- Trust documents
- Names and addresses of your professional advisors
- Names and addresses of the executor(s)/liquidator(s)/trustee(s) of your Will
- Names and addresses of the beneficiaries of your Will
- Names and addresses of guardians/tutors for children
- Digital passwords

Please note that due to the sensitive nature of the information described in your inventory, you should keep it in a secure location and password-protect any electronic versions of the information. The only individuals with access to the information should be you and those who may be required to use the information (such as the attorney authorized under your Power of Attorney/Mandate and your executor/liquidator). You may also wish to consider providing a copy to your lawyer to be stored for safekeeping, with clear instructions with respect to when and to whom the information can be released.

The completion of a **family inventory** will prove invaluable to your surviving heirs, executors/liquidators, trustees and advisors in the settlement of your estate. The family inventory acts as a comprehensive list of information pertaining to your family's accounts (banking, investment, etc.), advisors, assets, pension information, insurance and more. Speak to your RBC advisor to obtain a copy of our Family Inventory workbook.

Time spent on defining your estate objectives will help to ensure your estate plan accurately addresses your objectives as well as potentially saves you money.

Step 2: Define your estate planning objectives

There's a multitude of potential estate objectives to consider when you're developing your estate plan, including both the personal and financial goals you would like to achieve with your plan. Here are some key questions you need to answer to determine your plan objectives:

a) Who will be the beneficiaries of the estate?

Determining the distribution of your estate can present a significant challenge if there are numerous potential beneficiaries. Beneficiaries can be classified as primary or secondary depending on your intended order of distribution. Frequently, a primary distribution of your estate will include a small number of heirs such as your spouse and children. Often, the secondary distribution may include a larger number of heirs. It is important to consider what would happen to a beneficiary's share if they were to predecease you.

b) What impact will the estate plan have on your family?

This can be a significant issue, depending on the beneficiaries named in your Will. The distribution of an estate can be an emotionally charged period that may result in friction among family members. It may be beneficial to discuss your estate plan with beneficiaries to ensure your intentions are understood. In some cases it may be beneficial to consider more complex structures such as a living trust or a testamentary trust.

c) For how long do you intend to provide support to your immediate family?

Often an estate plan seeks to assist an individual's children and spouse. You should consider whether this should be done through outright gifts or through a trust, and if so what terms the trust might include. You may wish to provide support for an individual's lifetime or, perhaps, for a shorter duration. For example, you may only wish to assist your children until they have completed their education. If you plan on providing support to any minor children, consider naming a trustee to hold and manage these assets on behalf of the children.

d) Are there significant family assets that will need to be addressed?

If you have assets of significant value and complexity, such as a family business, you need to determine how they will be distributed and maintained. Business owners have additional planning needs and should consider having a business succession plan that addresses the business needs and goals. Other assets that can present a significant challenge may include a family cottage, chalet or farm.

e) Is minimization of income tax and probate taxes important?

A comprehensive estate plan generally seeks to minimize or defer tax both during an individual's life and upon death. Taxes triggered upon death (as a result of the deemed disposition rules) as well as provincial or territorial probate taxes (which vary among jurisdictions) can be substantial, and planning to minimize these taxes can help preserve your estate for your intended beneficiaries.

While minimizing taxes arising as a result of your death is an important estate planning objective, it may only be one goal of your estate plan. Other objectives may include:

- Maintaining control over your property during your lifetime
- Ensuring your property is disposed of on death in accordance with your wishes
- Transferring ownership of your business to your beneficiaries in an orderly fashion

f) Do you want your beneficiaries to receive their inheritance immediately or at some future date?

Determining when your beneficiaries should receive their inheritance from your estate is an important consideration when estate planning. Consider the age and maturity of your beneficiary, the amount being left to them and their experience with handling money. These factors will help you determine whether your beneficiary should receive an outright distribution of their inheritance or whether the distribution of their inheritance should be staggered over a number of years.

g) Do you wish to leave any portion of your estate to charities?

There are various methods of passing assets to charities either before or at death, commonly referred to as "planned giving." Some of these methods can yield tax savings for the individual today while providing a long-term benefit to the charity. Ask your RBC advisor for additional information on this topic.

h) Do any of your beneficiaries have special needs?

Without careful planning, leaving a lump sum amount to a person with a disability who is receiving government disability assistance payments may disqualify them from those benefits. The ways to plan for a person with a disability vary among the provinces and territories, and obtaining proper advice is crucial.

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A financial plan will help you evaluate your estate and retirement objectives.

Step 3: Evaluate your objectives based on your current financial situation

Once you have clearly defined your estate objectives, the next step is to determine how they can be achieved based on your current financial position. In conjunction with your objectives, you will need to consider other factors such as inflation, tax liabilities due to the deemed disposition rules and U.S. estate tax, as well as provincial or territorial succession and family law legislation.

Inflation

Inflation is a key issue that must be considered with any long-term planning such as retirement or estate planning. While we are currently experiencing a period of relatively low inflation, ignoring its long-term impact could result in significant hardship for your surviving heirs. Even a modest rate of annual inflation can, over a period of time, significantly reduce a beneficiary's spending power.

For example, let's assume your intent is to provide your spouse with an annual income of $20,000 per year for their lifetime. To maintain your spouse's spending power 10 years from today, their income would need to rise to $26,880 and to $36,120 in 20 years assuming a 3% annual inflation rate.

Taxation

Taxation is another key issue that must be considered. Tax rules are constantly evolving, requiring you to monitor your estate plan periodically to ensure your objectives can still be fulfilled. The potential tax liabilities that arise at death are discussed in detail later in this publication.

Legislation

It is important to ensure your estate plans conform to current legislation, such as provincial/territorial family law and succession laws. Changes in legislation can affect your estate planning objectives and impact the intended distribution of your assets. It is important to evaluate and modify your estate planning objectives in light of any changes in legislation and to seek appropriate legal advice.

Summary

Evaluating your estate objectives can be a complex task, depending on the number of estate objectives you identify and the size of your estate. In simple situations, such as a single individual with no dependants, you may proceed directly to the creation of a Will and the various types of Powers of Attorney.

More typically, you will need to consider estate objectives in conjunction with your retirement objectives to properly assess your situation. This is best achieved through the development of a financial plan with your RBC advisor. A financial plan will help you evaluate your estate and retirement objectives. It will also provide a detailed evaluation of your current situation and an outline of how your objectives can be achieved.

Step 4: Determine which actions are necessary to achieve your objectives

Your action plan will result from the objectives identified in Step 2 and your estate evaluation conducted in Step 3. The fundamental component of your action plan will likely be the construction of a Will or, if you currently have a Will, a review of the document. A significant number of potential issues can be easily resolved with a well-constructed Will. For example, opportunities such as the use of testamentary trusts and special provisions for beneficiaries can be addressed.

Other potential elements of your action plan may include changes to the legal ownership of assets (i.e. placing the assets into an inter-vivos trust), a full review of beneficiary designations for your registered plans and life insurance policies, the purchase of additional insurance to address estate preservation objectives and possibly gifting of assets prior to death.

Step 5: Consult the appropriate advisors to implement the components of your plan

This step is crucial to ensuring your estate plan is properly implemented. You may require the assistance of several professionals such as an estate lawyer (or notary in the province of Quebec), an accountant, a financial planner, possibly a trust officer and your RBC advisor. Make sure that as you seek out these advisors, you select individuals with expertise in estate planning.

Questions for potential estate advisors

- What degrees or relevant designations do you hold?
- How long have you practised estate planning?
- Have you implemented estate plans of similar complexity to my own?
- What information can I provide to facilitate your implementation of the estate plan and reduce your work time? (Remember, you will likely be paying these advisors an hourly fee for their services.)
- Is there any charge for an initial consultation? Do I have the option of an hourly fee or a flat rate for your services?

Step 6: Periodically review your plan

You should always be vigilant and cognizant that changes in your financial and personal situation and in legislation may require changes to your overall estate plan. Periodic revisions are a must to ensure your estate plan is still achieving your objectives you set in Step 2.

4. Methods of transferring your assets

There are four methods of asset transfer that should be considered when creating an estate plan, illustrated in the chart that follows this section.

Each of these methods has its advantages and disadvantages.

A Will is the starting point for your estate plan. A Will is a legal document that sets out how you intend your estate to be managed and distributed after your death. A Will represents the most common means of estate asset transfer; however, all methods should be considered. These alternative methods may be used in conjunction with a valid Will. Without a valid Will, the dissolution and distribution of the estate may be complicated by provincial/territorial intestacy laws.

The provincial/territorial intestacy laws, discussed later in more detail, govern the disposition of assets effectively not disposed of by a Will or other methods.

Assets subject to probate

Wills

A Will represents the most fundamental element of an estate plan. A Will serves two basic purposes:

- Names an executor (or liquidator in Quebec), who may be a person(s), institution or trust company, responsible for carrying out your wishes and distributing the assets that pass through your estate after your death
- Ensures your property will be distributed to your beneficiaries in accordance with your wishes, with minimal expense and delay

As previously mentioned, your executor/liquidator can be any person, institution or trust company you wish to administer and distribute your assets after your death. Your executor/liquidator will have many responsibilities, including making funeral arrangements, determining the value of your estate assets and liabilities, probating your Will if necessary, preparing and filing tax returns, paying your debts and ultimately distributing your assets.

It is generally recommended that you name an executor/liquidator who is one generation younger than you to ensure they will be able to act on your behalf. You may want to consider appointing an alternate executor/liquidator should your executor/liquidator be unwilling or unable to act. You may also appoint more than one person to act as your executor/liquidator. In general, executors/liquidators must act jointly. You may wish to include a clause in your Will stating how multiple executors are to settle differences of opinion between them.

Consider the residency of your named executor/liquidator. If your executor/liquidator lives in

A Will typically includes:

- An outline of the administrative powers of the executor(s)/liquidator(s) and trustee
- Instructions for the management and distribution of your assets, which may include an immediate distribution of assets to your beneficiaries and/or the creation of a testamentary trust(s) to allow for a distribution at a later date
- The naming of a guardian for your minor children (referred to as a tutor in Quebec)
- Instructions to minimize income taxes, if possible
- Wishes regarding the burial

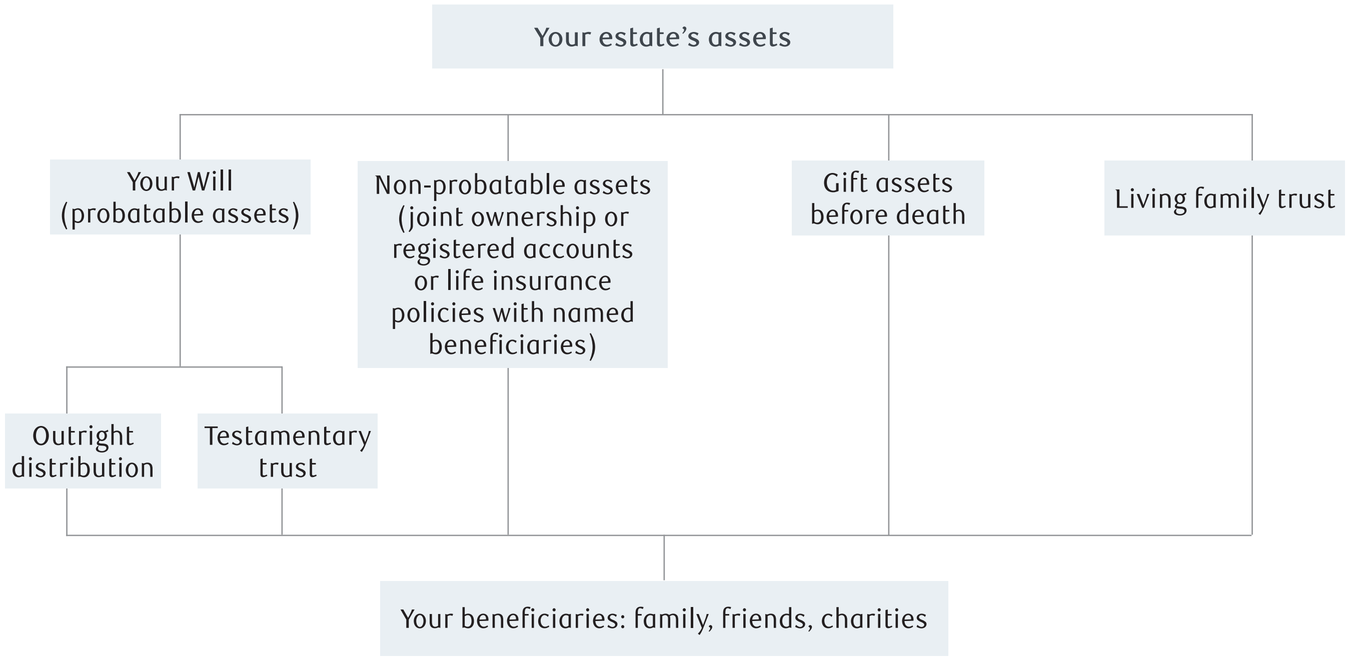
another province or territory or country, there may be negative tax consequences. As well, there may be administrative challenges and regulatory issues relating to a non-resident executor's/liquidator's ability to give investment instructions to professional advisors in another jurisdiction.

The beneficiaries named in your Will can be any person or entity (e.g. a charity) that you wish to name. In general, you have freedom to name beneficiaries of your choosing. However, this freedom may be somewhat restricted by provincial/territorial legislation that requires you to make adequate provision for those who were dependent on you for ongoing support, such as your spouse and/or children.

The instructions outlined in your Will only take effect upon your death and are in no way binding upon you during your lifetime. For example, if you indicate in your Will that a painting is to be left to your brother but at a later date decide you would like to sell the painting, your brother will not have a claim to the painting. If inclined, you may want to revise your Will at that point to provide your brother with some other asset. Provided you are mentally capable, your Will may be revised at any time in the future to reflect changes in your personal or financial situation.

A grant of probate is often required in order to be able to fully administer an estate. Probate is an administrative procedure to validate the Will and confirm the authority of the executor/liquidator to act on behalf of the estate. Probate is often required by third parties in order to transfer ownership of assets. In general, if probate is required, all assets that pass through the estate and the Will will be subject to probate taxes. Probate taxes will range from a flat fee in some provinces to a percentage of the fair market value of the assets being probated. It should be noted that, in Quebec, a Notarial Will (described further below) does not require probate.

Methods of transferring assets in your estate



Types of Wills

There are two types of Wills that can be created and a third option in the province of Quebec.

Formal Will

A formal Will is usually a typed document signed by you in the presence of at least two witnesses. These witnesses cannot be your beneficiaries or their spouses. Formal Wills are normally created by a lawyer or notary to ensure your Will achieves your stated objectives.

There are pre-printed Will documents as well as software programs to produce a "do-it-yourself" Will, but you should be careful when using either of these alternatives to ensure the document actually states your desired objectives and complies with current legislation.

Holograph Will

A holograph Will is written entirely in your own handwriting and is signed by you. It is not necessary to have a witness to your signature. Several provinces and territories recognize this type of Will as being valid, but there are numerous potential pitfalls. For example, if any of the text in the Will is ambiguous or can be interpreted in a different way, the estate may not be distributed in accordance with your original intent. Use of a holograph Will is not recommended. If you prepare a holograph Will but a holograph Will is not allowed in your province or territory, you will be deemed to have died intestate. In such a case, your estate will be distributed in accordance with provincial or territorial intestacy laws. This may not be in line with your intended distribution scheme.

Notarial Will

This is only an option for residents of Quebec. A notarial Will is created by a notary and normally signed in the presence of a single witness. The original copy of the Will is kept by the notary.

How often should your Will be reviewed?

In some situations, an out-of-date Will can be worse than no Will at all. You should review your Will at least every three to five years to ensure it continues to accurately reflect your wishes and complies with legislative changes.

More frequent reviews may be necessary when significant changes in your financial or personal situation occur. For example, in most provinces and territories, your Will is revoked when you get married unless your Will was made in contemplation of marriage. Failing to review your Will before or after marriage may negatively impact your estate planning objectives. In addition, in most provinces and territories, your Will is not revoked when you are separated, and only certain parts are changed if you get divorced. Accordingly, this is also an important time to review and likely get a new Will.

Some other examples of when your Will should be updated are:

- When you move to another province
- When there are changes in legislation
- When you give birth to or adopt a child
- When an executor/liquidator, trustee or significant beneficiary predeceases you
- When significant assets are sold

In addition to a direct or outright distribution of estate assets in your Will, assets can be left to a testamentary trust for the benefit of your beneficiaries.

Preparing a Will

It can be difficult, without the assistance of experts, to create a Will that achieves your objectives, prevents undue difficulties for your heirs and executor/liquidator, and conforms to all the legislative requirements.

Although the cost of having an estate lawyer or notary assist you may appear high, it is money well spent when you consider the costs of not doing it correctly in the first place or not doing one at all and dying "intestate" (see chapter 5).

Before you sit down with an estate lawyer or notary to draft a Will, make sure you do your homework. Make sure you have considered all elements of your estate plan, discussed any issues with your spouse and beneficiaries and considered all components of the Will (e.g. your selection of executor(s)/liquidator(s) and trustee(s)) before sitting down with the lawyer or notary. This will save the lawyer or notary time, lower your costs and ensure your Will accurately reflects your wishes.

Testamentary trusts

In addition to a direct or outright distribution of estate assets in your Will, assets can be left to a testamentary trust for the benefit of your beneficiaries. The creation of a testamentary trust is documented within the text of the Will. This type of trust only takes effect at death.

A testamentary trust allows you to control the timing and distribution of assets to your beneficiaries. The assets held in the trust are invested and managed by the trustee of the trust, with income and capital distributed to the beneficiaries in accordance with your wishes stated in the Will.

Often the trustee is also the executor/liquidator of the estate, although you may wish to consider having a separate person act in this capacity.

If you have a particular child or person you wish to benefit who may not be experienced in handling finances, a testamentary trust may allow you to ensure the beneficiary does not exhaust the assets too quickly.

Typical situations where a testamentary trust might be used include:

- **Spousal trust** – a trust established for the benefit of the surviving spouse for their lifetime. Under this structure, the surviving spouse is the only person allowed to receive income and capital distributions from the trust during the spouse's lifetime. When the surviving spouse passes away, the remaining assets pass to the beneficiaries outlined in the Will of the first deceased spouse. This strategy may be considered if you are in a second marriage and/or you wish to ensure the assets pass to your desired beneficiaries in the event your spouse remarries.
- **Trust for minor children** – in general, funds left outright to a minor child in a Will cannot be paid directly to the minor child as they do not have the legal capacity to receive those funds and provide a valid discharge to the executor/liquidator. Depending on the governing provincial or territorial legislation and the amount of the funds, the funds may have to be paid to a parent on behalf of the minor child, a court appointed guardian of property for the minor child, a provincial/territorial body, such as the Public Guardian and Trustee, or into court. The use of the funds may also be restricted. To avoid any difficulties in dealing with these funds, you may wish to establish a testamentary trust in your Will for the benefit of your minor children and appoint a trustee to manage the funds on the children's behalf.

  In Quebec, if you have minor children to whom you want to leave money, a trust is not required. In Quebec, it is the responsibility of the tutor (usually the parents of the child) to hold and administer the funds for the minor child. However, if you want to bequeath assets to a minor and do not want the assets administered by the children's tutor, then it may be beneficial to create a trust for your minor children in your Will.
- **Trust for a beneficiary with a disability** – a trust to provide continuing financial support for a beneficiary with a disability. Passing the assets to a trust, as opposed to making an outright distribution, may allow the

beneficiary to maintain their eligibility for government disability support benefits.

- **Trusts for spendthrift beneficiaries** – if you have a particular child or person you wish to benefit who may not be experienced in handling finances, a testamentary trust may allow you to ensure the beneficiary does not exhaust the assets too quickly.
- **Trusts for creditor protection** – a properly structured testamentary trust may protect the trust assets from the beneficiaries' creditors, including marital creditors.
- **Insurance trusts** – proceeds from a death benefit of an insurance policy may be transferred to a trust. This arrangement may avoid probate taxes and offer the deceased some control over the proceeds.

Assets not subject to probate

In general, if your assets do not pass through your estate, they are not subject to probate tax. There are ways to plan your estate to minimize or significantly reduce the amount of probate tax payable on your death. These include registering your assets in joint tenancy with right of survivorship, designating beneficiaries on your registered plans and life insurance policies, gifting assets before death and transferring your assets to a trust during your lifetime. It is important that you carefully consider these strategies with the assistance of a legal advisor to ensure they do not interfere with your wishes or estate planning objectives.

Co-ownership of assets

There are two ways of owning property with one or more persons. One is joint tenancy with right of survivorship and the other is tenancy in common.

Joint tenancy with right of survivorship (JTWROS)

Note: *Quebec residents cannot use JTWROS since an automatic right of survivorship does not exist under Quebec law.*

JTWROS allows two or more people to own an asset together. Each joint tenant has an equal, undivided interest in the whole property. Upon the death of one of the joint tenants, ownership of the asset automatically passes to the surviving tenant(s). By passing

directly to the surviving tenant(s), the asset does not form part of the estate, and thus, is not subject to provincial or territorial probate taxes.

While this method of ownership can be effective in minimizing probate taxes, there are some potential risks associated with joint tenancy arrangements that should be considered before changing ownership into JTWROS. These include:

- Transferring your assets into JTWROS may result in a loss of control and inability to make decisions relating to your assets. The original owner may no longer have total ownership and control over those assets. For example, it may be possible for any one of the joint tenants to withdraw funds from a joint bank account at any time without the other account holder's consent.
- Changing ownership of an asset may have tax implications. A transfer of ownership to JTWROS may be treated as a disposition for income tax purposes. This will result in an immediate tax consequence to the transferor. As the assets have not actually been sold, the transferor may not have the cash to pay the resulting tax liability.

  There is an exception for transfers between spouses. When transferring assets into joint tenancy with a spouse, the assets transfer at cost, as opposed to fair market value.
- Changing ownership to JTWROS may expose the jointly held asset to family law or creditor claims.
- The use of a JTWROS ownership structure may ultimately cause the property to end up in the hands of someone other than the person you ultimately intended to receive the property. You cannot control the disposition of property held as JTWROS through your Will. The property generally passes to the surviving joint tenant(s) regardless of the provisions in your Will. Therefore, it is important that the person(s) added as joint tenant(s) is also the intended beneficiary(ies). Otherwise, the asset may pass to an unintended heir upon death.
- The JTWROS arrangement may be challenged by your executor/liquidator or potential beneficiaries of your estate. This may be the case where you have put assets into joint tenancy with one child and your other children stand to benefit under the Will. Jointly held assets are a source of a considerable number of disputes in Canada. It is therefore important to document your intentions with respect to the JTWROS arrangement to avoid any uncertainty and any legal proceedings that may arise as a result of this transfer, which may cause unnecessary expenses to your estate.

Severance of a joint tenancy can occur by mutual agreement or unilateral action. In some instances, a JTWROS may be severed by operation of law; for example, where a matrimonial home is jointly owned with a person other than your spouse or where one of the joint tenants becomes bankrupt. The severing of the tenancy makes the arrangement a tenancy in common arrangement with the other tenants.

Tenancy in common

A tenancy in common is another form of co-ownership of an asset by two or more individuals. Unlike JTWROS, co-owners in a tenancy in common arrangement can own equal or unequal interests in an asset (for example, one individual can own 20% of a house in tenancy in common while the other owns 80%). On the death of one of the co-owners, their interest will not

There are ways to plan your estate to minimize or significantly reduce the amount of probate tax payable on your death. These include registering your assets in joint tenancy with rights of survivorship, designating beneficiaries on your registered plans and life insurance policies, gifting assets before death and transferring your assets to a trust during your lifetime.

pass to the surviving co-owner, but will pass according to the Will of the deceased owner. If the deceased does not have a Will, the provincial or territorial intestacy laws will dictate the distribution regime.

Unlike JTWROS, the deceased's portion of the assets held in a tenancy in common arrangement will generally be subject to probate taxes because the assets will need to be distributed through the estate of the deceased tenant.

Registered plans with named beneficiaries

If you intend to leave your registered plans, such as your registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or tax-free savings account (TFSA), to your spouse or any other individual, and you wish for the proceeds of these plans to pass outside your estate to minimize probate taxes, you must ensure this person is designated as the beneficiary in the plan document. When making a beneficiary designation for your RRSP, RRIF or TFSA, you should consider any other disposition of your estate, either in your Will or contract of insurance or through a JTWROS arrangement. You should also consider naming alternate beneficiaries (if possible) in the event one of your beneficiaries predeceases you.

You should consult appropriate tax and legal advisors with respect to the tax and other implications of transferring assets through a beneficiary designation to ensure your wishes are fulfilled properly (for instance, on your death, the beneficiary designated on your RRSP or RRIF will generally receive the gross proceeds from the plan). Your estate will be responsible for the taxes payable with respect to these plans as a result of your death. This could result in an inequitable distribution of assets if the beneficiaries named on the plan documentation are different than the beneficiaries under your Will. Your intention to transfer ownership of these assets to your designated beneficiary should be consistent with the terms of your Will. That is to say, your Will should not contradict who is named on your plan to avoid disputes after your death. As well, the designation of minor beneficiaries should be avoided due to the difficulty in settling the registered plan proceeds after death.

Note that subject to the attribution rules, income earned and retained in an inter-vivos trust is generally taxed at the top marginal tax rate.

For additional information on inter-vivos trusts, such as a family trust, alter-ego trust or joint partner trust, talk to your RBC advisor.

Currently, Quebec residents cannot designate beneficiaries on registered plan documentation. However, they can provide designations through their Wills.

Life insurance with named beneficiaries

Similar to registered plans, if you intend to leave the proceeds of your personally owned life insurance policy to your spouse or any other individual, consider naming that person as the designated beneficiary on your policy in order to minimize probate taxes on the value of the death benefit. If you only name one beneficiary, you need to consider how the funds will be distributed if your beneficiary predeceases you.

You can designate a beneficiary on a life insurance policy in any province. If you designate your spouse as a beneficiary in Quebec, the designation is irrevocable unless it is designated as revocable or the spouse waives their irrevocable rights. In all other situations and provinces, the beneficiary designation is revocable unless made irrevocable at the time the policy is put in place, or some future point in time.

A designation made on a life insurance policy can be revoked by a declaration in a subsequent instrument or other document. For example, a designation in a Will could revoke an earlier beneficiary designation on the insurance policy. It is therefore important to ensure the designation on the policy is not unintentionally revoked.

Inter-vivos trusts

Common-law provinces and territories

The use of a trust in estate planning represents a slightly more complex method of asset transfer. Many people think a trust is a separate legal entity (like a corporation) because our tax laws treat a trust as a separate taxpayer, generally requiring it to file a tax return. In fact, the essence of a trust is that it is a relationship between the trustee(s), who holds legal ownership of the trust assets, and the beneficiary(ies), who is entitled to the use and enjoyment of the assets.

In simple terms, a trust provides an intermediary between you and your intended beneficiaries. By using a trust you can transfer ownership of an asset out of your hands, allowing your heirs to benefit from the asset and at the same time allowing you to retain control.

There are two types of trusts. An inter-vivos trust (sometimes referred to as a living trust) is a trust that is created during an individual's lifetime. The second type of trust is a testamentary trust, which is created on and as a consequence of the death of an individual (discussed earlier).

A living trust can be structured to provide the person gifting the assets (known as the settlor) with significant control and flexibility over the timing and amount of assets distributed to the trust's beneficiaries. Control of the trust assets by the settlor is derived from the trust indenture (document), not from controlling the assets directly.

The taxation of trusts can be complex and depends on a number of factors, including how the trust is structured, the terms of the trust and the location (residency) of the trust. Accordingly, it is important to seek appropriate advice from a tax and legal advisor if you decide to use a trust.

Quebec trusts

In the province of Quebec, the concept of the trust is slightly different from the other common-law provinces and territories.

One difference is that there is no division of ownership (legal and beneficial) under Quebec civil law. The trust property of a Quebec trust constitutes an independent and separate patrimony whereby the settlor, the trustee or the beneficiary do not exercise any real rights to this property. (“Patrimony” is basically the assets and liabilities of a person that can be valued and that could be subject to creditor claims if requested.)

The settlor transfers property from their patrimony to another patrimony constituted by them, which they appropriate to a particular person (the beneficiary). The trustee undertakes, by their acceptance of such role, to hold and administer those funds for the benefit of the beneficiary.

There are also some other differences between trusts created in Quebec and those created in other Canadian provinces with respect to the functions participants in the trust can perform and the ability to add beneficiaries to a trust. Despite these differences, Quebec trusts generally operate in the same way as other trusts in the rest of Canada.

Use of inter-vivos trusts

There are many reasons to consider establishing a trust during your lifetime, whether for estate or tax planning purposes, including:

- Reduction of probate taxes – assets that have been previously transferred to an inter-vivos trust will not form part of your estate on death and will not be subject to probate taxes.
- Provision of long-term income and protection for minor children or dependants who are not capable of looking after themselves, or are inexperienced in handling finances.
- Fulfilment of charitable objectives.
- Preservation of privacy and confidentiality – a Will becomes a public document once it is probated. However a trust document remains private and is not subject to public scrutiny throughout the administration of the trust.
- Income splitting opportunities – subject to the attribution rules, there may be opportunities for income splitting of trust income with family members in lower tax brackets.

Gifting assets before death

Without question the easiest method of transferring assets is to gift them to your heirs prior to death. Gifting is frequently used, without the motivation of its estate planning merits, to assist children and family members with activities such as a home purchase or business financing.

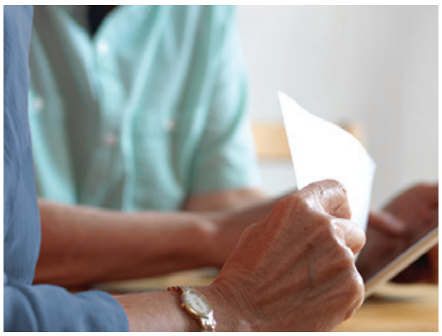
Gifting assets can have potential tax benefits if the asset is given to a registered charity or if the asset was income-producing, resulting in less taxable income. Be careful when gifting income-producing assets such as stocks or bonds. Your altruistic act may trigger an unexpected tax liability for you. Generally, gifting an asset to an individual (other than a spouse) is treated as a sale at fair market value, thus triggering any unrecognized capital gain on the asset. Also, the income attribution rules will be applied if the gift is to your spouse or a minor child. Under this rule, the income earned on gifts to either of these persons will still be taxable in your hands (except for capital gains received by a minor child).

You should also be wary of transferring an asset for nominal value (e.g. $1) or some other amount less than fair market value. In some cases you may be taxed on the full capital gain associated with the asset, and the person receiving the asset will, for tax purposes, have received it at the price they paid you for it, resulting in double taxation.

One drawback of gifting is that you relinquish control over the asset, which may not be an acceptable outcome. As well, you may be exposing the gift to the recipient’s creditors and family law claims. You should consider whether the gift would be protected in the event of a separation or divorce under the provincial or territorial family law legislation. Finally, while gifting assets represents a simple method of transferring your assets to your intended beneficiaries and reducing probate taxes, like most things, it should be done in moderation. Before a gift is made, you should ensure that, by making the gift, you do not jeopardize your own lifestyle. This is best evaluated within a comprehensive financial plan.

To learn more about gifting to charities, ask your RBC advisor for more information.

5. What if you die without a Will?



Most provinces and territories do not recognize the common-law spouse status under their intestacy rules. This may result in a common-law spouse being left out of the estate entirely.

If you die without a Will, you are considered to have died "intestate." Unfortunately, many individuals believe that if they were to die without a Will, their estate would simply pass to their spouse. While a spouse and children will likely end up with the estate's assets, it is very likely it will not happen exactly as you intended.

Each province/territory has its own set of intestacy rules that define the estate's beneficiaries and how much each is to receive. These rules are fairly simple in that they do not allow for any flexibility in how much and who will benefit from your estate.

Typically, the spouse will receive a preferential share of the estate ranging from the first $50,000 to the entirety of the estate assets. The balance of the estate, if any, is divided between the surviving spouse and children in proportions that vary depending on the province or territory.

Many provinces and territories do not recognize the common-law spouse status under their intestacy rules. This may result in a common-law spouse being left out of the estate entirely. However, in most provinces and territories, a common-law spouse may petition the courts for support as a dependant or otherwise. It should be noted that a key exception to this is in Quebec, where common-law spouses generally have limited rights in this regard.

If these issues are not enough to prompt you to create a Will, you may also want to consider the following:

- A court-appointed administrator (called a personal representative in some provinces/territories) will manage and distribute the estate.
- In Quebec, if you die intestate, your heirs, by majority vote, will have the opportunity to designate someone to act as a "liquidator" of your estate. Failing agreement among the heirs, the court may designate the liquidator. This process may result in disputes over who should be appointed, resulting in family tension and added legal expenses.
- Distribution to your beneficiaries could be delayed.
- Additional legal fees may be incurred to settle the estate.
- Additional income taxes may be payable since all assets may not automatically pass to the spouse (thereby losing the tax deferral that is available when assets pass to a surviving spouse or common-law partner).
- You will not be able to provide any direction with respect to who you would like to have as guardian (or tutor in Quebec) for your minor children.

6. Taxes at death

Consider naming specific beneficiaries on the plan documents for assets such as an RRSP/RRIF, TFSA, insurance policies, segregated funds and pension plans to minimize probate taxes on these assets at death.

While there are no true estate taxes in Canada, there are at least three potential taxes or pseudo-taxes that may be incurred at death:

- Income tax due to the deemed disposition rules
- Provincial/territorial probate taxes
- U.S. estate tax on your U.S. assets

Deemed disposition

In the year of death, a final (terminal) tax return must be filed by the executor/liquidator of the deceased's estate that includes all income earned by the deceased up to the date of death. Also included in income at death is the net capital gain recognized under the deemed disposition rules.

The deemed disposition rules of the Income Tax Act (ITA) treat all capital property owned by the deceased as if it was sold immediately prior to death. Thus, generally all unrecognized capital gains and losses are triggered at that point with the net capital gain (gains less losses) included in income on the deceased's final tax return and subject to tax.

The ITA includes provisions to defer the tax owing under the deemed disposition rules if an asset with an accrued capital gain is left to a surviving spouse or to a special trust for a spouse (known as a qualified spousal trust) created by the deceased's Will. This provision allows the spouse or the spousal trust to take ownership of the asset at the deceased's original cost. Hence, no tax is payable until either the spouse or the spousal trust sells the asset or until the surviving spouse dies. The tax is then payable based on the asset's increase in value at that point in time.

RRSPs and RRIFs

In addition to the potentially significant tax liability from recognized capital gains, it is also necessary to deregister (i.e. collapse) any registered assets such as RRSPs or RRIFs on death. The full value of the RRSP or RRIF

In situations where the estate is extremely simple and does not require any involvement with a third party such as a financial institution, the Will may not need to be probated.

on death must be included on the deceased's final (terminal) tax return. There are exceptions to this income tax treatment; if the RRSP or RRIF is left to a surviving spouse, a common-law partner or, in some cases, a financially dependent child or grandchild.

An RRSP or RRIF can generally be transferred on a tax-deferred basis to a surviving spouse's own RRSP or RRIF. Also, an RRSP or RRIF can generally be transferred on a tax-deferred basis to a financially dependent child or grandchild who is under age 18, even if there is a surviving spouse. In this case, the registered funds must be used to purchase a term-certain annuity with a term not exceeding the child's 18th year. For example, if a financially dependent 10-year-old child was to receive RRSP assets from their deceased parent, an eight-year (18 – 10) fixed-term annuity would need to be purchased. Also, if there is a financially dependent child or grandchild that is mentally or physically infirm, the RRSP or RRIF funds can be transferred on a tax-deferred basis to the child's or grandchild's own RRSP or RRIF.

It may also be possible to transfer the RRSP or RRIF assets on a tax-deferred basis to a registered disability savings plan (RDSP) of a physically or mentally infirm child or grandchild of the deceased. Certain conditions must be met, including the beneficiary must be eligible for the disability tax credit; the beneficiary must be a resident of Canada; the beneficiary must be age 59 at the end of the year or younger; the transfer must not exceed the RDSP lifetime maximum contribution limit of $200,000; and the holder of the RDSP must provide written consent for the contribution.

Probate taxes

As mentioned previously, upon death, the executor/liquidator of your estate will typically be required to probate your Will with the provincial or territorial court.

Note that U.S. situs securities held in discretionary managed accounts, where the individual directly owns the U.S. situs securities, will still be subject to U.S. estate tax, even though the buy and sell decisions are not made by the individual owner.

Your executor/liquidator must submit to the court the original Will and an inventory of your assets that pass through your estate. Upon acceptance of these documents by the court, letters probate (also known as letters of administration or certificate of appointment of estate trustee with a Will) are issued. This document certifies that the submitted Will was duly proved and registered in the court and that the administration of the assets of the deceased has been given to the executor(s)/liquidator(s) for their administration of the estate.

With the executor's/liquidator's submission to the court, they must also pay a probate tax. This tax is generally based on the total value of the assets that flow through the estate. The rate charged varies among provinces and territories with some provinces and territories having a maximum tax. All provinces except for Alberta and Quebec levy potentially significant probate taxes.

Probate is not required for a notarial Will in the province of Quebec, and for those who have other types of Wills drafted in Quebec, the probate tax is nominal.

In situations where the estate is extremely simple and does not require any involvement with a third party such as a financial institution, the Will may not need to be probated. As well, probate taxes can be reduced by using previously discussed strategies such as naming beneficiaries on registered plans and insurance policies, placing assets in JTWROS and using inter-vivos trusts.

U.S. estate tax

In addition to the taxes payable in Canada, you may also be subject to a tax bill from the U.S. government. Canadian residents who are not U.S. citizens or green card holders and who own property that has a U.S. location or connection, such as U.S. real estate, shares in publicly traded U.S. corporations and certain bonds and other debt obligations issued by U.S. individuals, corporations or governments (known as "U.S. situs" property), are generally required to pay U.S. estate tax based on the market value of their U.S. assets at death.

Any assets that are considered "U.S. situs" property will be subject to this tax. Most people do not realize that investing in the securities

For more information on U.S. estate tax, speak with your RBC advisor.

issued by a U.S. corporation in their Canadian brokerage account may result in a U.S. estate tax liability for their estate.

Note that U.S. situs securities held in discretionary managed accounts, where the individual directly owns U.S. situs securities, will still be subject to U.S. estate tax, even though the buy and sell decisions are not made by the individual owner. U.S. situs securities held inside an RRSP, RRIF or TFSA will also be subject to U.S. estate tax.

Under the Canada-U.S. Tax Treaty, you will only be exposed to U.S. estate tax if you meet two thresholds in the year of your death. The first threshold is based on the value of your U.S. situs assets and the second threshold is based on the value of your worldwide estate. In general, you may be exposed to U.S. estate tax if the value of your U.S. situs assets is greater than US$60,000 and the value of your worldwide estate is greater than US$10 million (indexed for inflation).

For individuals with significant net worth, U.S. estate tax may represent a significant tax burden on their estate, and they may require the assistance of a cross-border tax specialist.

Potential methods of minimizing U.S. estate tax exposure include:

- Selling your U.S. assets prior to death. This is the simplest method of avoiding the tax, but timing is everything with this strategy as the sale could result in an immediate Canadian tax liability.
- Using life insurance to cover the U.S. estate tax bill. This allows your total estate value to be maintained. You should be aware that owning a life insurance policy may increase your exposure to U.S. estate tax, as the value of the death benefit may be included in the value of your worldwide estate for purposes of U.S. estate tax if you have incidents of ownership. You may want to consider purchasing or transferring the life insurance policy to a trust. The trust will own the policy so you do not have incidents of ownership.
- Individuals with substantial U.S. holdings may wish to consider using a Canadian holding corporation since the assets would be owned by the Canadian corporation and not by the individual. However, holding U.S. real estate in a Canadian corporation may not avoid U.S. estate tax.
- Reducing the value of your worldwide estate so it is below the threshold.
- If you want exposure to the U.S. market, holding shares of Canadian mutual fund corporations that invest in the U.S. market or units of Canadian mutual fund trusts (including exchange-traded funds trading on a Canadian stock exchange) and pooled funds that invest in the U.S. market instead of U.S. securities.
- Holding U.S. property as tenants in common rather than as JTWROS to avoid having the property subject to U.S. estate tax twice in the same generation.

7. Life insurance

As part of estate planning, life insurance serves one of two purposes: to create an estate for your heirs or preserve your existing estate.

Life insurance can play a significant role in your estate plan as it provides a solution to a wide range of potential objectives. As part of estate planning, life insurance serves one of two purposes: to create an estate for your heirs or preserve your existing estate.

A life insurance policy is a contract where you pay premiums during your lifetime for a benefit payable upon your death. You can arrange to have the insurance proceeds paid directly to beneficiaries named on the policy (a spouse or children for example) or to your estate. Generally, life insurance premiums are not deductible, but the death benefit paid to the estate or a beneficiary is also not subject to income tax. If the death benefit is paid to the estate, probate tax may apply.

There are different types of insurance available. The information below is intended as general background information that will help you discuss your specific insurance needs with your licensed life insurance representative.

Basic types of life insurance

Term insurance

Term insurance provides protection for a specific period of time. It pays out the benefit only if you die during the term of coverage. Term insurance is typically used to fund a short-term estate need such as paying off an outstanding mortgage, protecting the estate against an immediate shortfall or preventing financial hardship by replacing lost income caused by the death of the life insured.

This coverage is usually offered as a 5-, 10- or 20-year term, after which time it may be possible to renew the policy at a new premium rate automatically under the active policy. This coverage is generally the least expensive coverage to purchase as it will only be necessary for a short duration. If the coverage will be required for a longer period, it may be more cost efficient to consider permanent insurance options. Depending on the policy, you may be able to convert a term policy to a permanent insurance policy with the same insurer, without having to re-qualify for the coverage during the term conversion period.

Permanent insurance

Permanent insurance provides protection for your lifetime. As long as you pay the premiums, the death benefit will be paid. The majority of these types of products have a cash value or cash-surrender value and are considered exempt policies, where the investment earnings on the cash value are not subject to annual taxation. Three forms of permanent life insurance are term to 100, whole life and universal life.

Term to 100

Term to 100 coverage provides long-term protection in your estate plan. This type of life insurance coverage often has a constant annual premium throughout your lifetime that is higher than the premium charged initially for a term policy. This policy will remain in force as long as you pay the annual premiums, but if the premiums stop, so will the coverage. This policy typically has little or no cash value.

Whole life

Whole life coverage is similar to term to 100 coverage in that it is intended to remain in effect for your lifetime. In addition to the permanent insurance coverage, a whole life policy also includes a

Common uses of insurance

- To provide liquidity in an estate to pay off liabilities such as taxes, mortgages or debts. This will ensure that non-liquid assets, such as a cottage or business, do not have to be sold but can be left to your beneficiaries.
- To establish a fund to provide income for an individual you wish to support, such as your spouse, children or grandchildren.
- To provide flexibility in planning for family business succession and equalization.
- To make a donation to charity.

savings component. A portion of the premiums you pay for a whole life policy is directed to a savings component. Over a period of time the policy's savings component (managed by the insurer) will result in the accumulation of a cash value (referred to as a cash surrender value). The cash value features may help keep the coverage in place if premiums are not paid. Cash value is an asset and may be accessible in several ways if needed.

Universal life

A universal life policy is a combination of life insurance and a tax-deferred savings component. Your premiums fund the insurance coverage with the balance invested in various investment options that you select. The premiums can be increased to raise the amount of tax-deferred savings (with some limitations) or reduced to simply cover the cost of the insurance coverage. Premiums may be suspended if sufficient cash value has been accumulated in the policy to fund the insurance coverage. Cash value is an asset and may be accessible in several ways if needed.

Insurance for estate planning purposes

The use of universal or whole life insurance products rather than term insurance is the preferred option where the purchase of insurance is for estate planning purposes, such as covering estate taxes on death or leaving bequests without the advent of taxes payable.

As with all insurance products that are geared towards estate planning purposes, you should perform a thorough cost-benefit analysis to assess the appropriateness of the strategy.

How much insurance is enough?

The amount of coverage you require will depend on your estate objectives and current financial status. As you age, you may find that the level of coverage you require declines or perhaps changes from short-term to permanent coverage. Determining exactly how much and what type of insurance is most suitable for your situation can be best assessed through the preparation of a financial plan and the aid of a life-licensed representative.

The financial plan and life-licensed representative can help you determine both short- and long-term needs in conjunction with your overall financial objectives.

8. Planning for incapacity

You should review your Power of Attorney document(s)/mandate(s) every few years or as circumstances change.

Power of Attorney

Throughout this document we have discussed the issues you should consider when you are planning your estate. The final component of your estate plan should address potential situations where you may become physically or mentally incapacitated. A Power of Attorney is a legal document in which one person (the "donor") gives another person or people (the "attorney(s)") the authority to act on their behalf. A standard Power of Attorney for property (called a Protection Mandate in Quebec) empowers your attorney to legally make decisions about your finances and property on your behalf, and that authority survives in the event that you become incapable of making these decisions yourself (as such, these attorneys may be described as "enduring" or "continuing").

In some provinces and territories, a different legal document may be used to delegate decisions about your personal care, or one document will contain your authority for an attorney to make both personal care decisions as well as financial and property decisions. This separate legal document is sometimes called a living Will, Power of Attorney for personal care, mandate, health care directive or proxy, advance directive or representation agreement. A living Will may indicate the type of medical treatment you may or may not wish to receive should you become incapacitated and are no longer able to state your wishes. A living Will should be created with the assistance of a lawyer or notary and discussed with your family physician and family members.

Typically, a Power of Attorney for property is only used if the donor is unable to act or make decisions for themselves; although legally the attorney may have immediate authority even if the donor is still completely capable. The terms of the Power of Attorney document, the conditions for its release and legislation in the donor's province or territory of residence will determine when the Power of Attorney is effective and may be used.

It is strongly recommended that you have a qualified legal advisor prepare your Power of Attorney. This helps ensure you create a document that contains the clauses necessary to enable your attorney(s) to effectively carry out your wishes.

Creating a Power of Attorney

It is strongly recommended that you have a qualified legal advisor prepare your Power of Attorney. This helps ensure you create a document that contains the clauses necessary to enable your attorney(s) to effectively carry out your wishes. Generally, a Power of Attorney must meet certain statutory requirements to be valid. These requirements may differ from one jurisdiction to another.

The general requirements for creating a Power of Attorney:

- It should be in writing and signed by the donor in the presence of one or more witnesses, depending on the requirements of provincial or territorial laws.
- The donor should have reached the age of majority in the jurisdiction where they live, and have the requisite mental capacity.

Several jurisdictions have limitations regarding witnesses. Generally, the following individuals should not witness the signing of a Power of Attorney:

- The attorney(s) or the spouse of the attorney(s)
- The donor's spouse or common-law partner
- A child of the donor

Other restrictions on witnesses may apply, depending on the province or territory and other factors.

Living benefits

Everyone understands the value of life insurance – it provides your family with financial protection in the event of your passing. Yet very few people consider the financial repercussions of having an illness or recovering from a serious accident. Your visions of retirement may include trips to exotic locations, weekday morning golf and many other relaxing activities. You're probably not thinking about using the funds for secondary health care coverage or a private care facility or for renovating your home to accommodate an illness or injury.

Living benefits insurance provides you with the security of knowing your portfolio will stay intact and that, no matter your physical condition, you will be comfortable in your retirement years. Living benefits insurance provides you with money if you are unable to earn an income or have to pay additional living costs due to your medical condition.

Determining exactly how much and what type of living benefits insurance coverage is most suitable for you can be best assessed with the aid of a life insurance-licensed representative. There are three main types of living benefits:

- Disability insurance
- Critical illness insurance
- Long-term care insurance

Disability insurance

Disability insurance replaces a portion of your income if a sickness or injury keeps you at home for a sustained period of time, making you unable to work at your occupation.

Unlike worker's compensation, personal disability insurance coverage ensures you are paid regardless of where the injury occurred. That's not to say that only those with hazardous occupations should be covered. The need for this protection is universal. The ability to replace a lost income should be a key part of any financial plan. After all, the ability to earn an income is your most valuable asset.

Many employer group plans have a disability component; however, they often have conditions that limit the amount of time you can receive benefits. If you were to leave your employer, you would lose the coverage. Your personal disability insurance will protect you for many years and will not be altered if your occupation changes or your salary decreases. When premiums are paid with your own after-tax money, the benefits are tax-free.

Critical illness insurance

Critical illness insurance provides a lump sum of money if you are diagnosed with and survive one of a prescribed number of illnesses, including cancer, Parkinson's disease, Alzheimer’s disease or such events as a heart attack, stroke or bypass surgery. Some plans cover as many as 25 different illnesses and events.

The lump sum benefit you receive may be used in any way you see fit: to seek advanced private health care at home or in other parts of the world, fund renovations to your home in accordance with your condition or enable your spouse to stop working and help care for you. There are no regulations as to how you can use the proceeds.

Critical illness insurance can also provide protection for your business. In the event you are unable to run your business due to an illness, the benefit can be used to help maintain your fixed costs until you are able to return.

Long-term care insurance

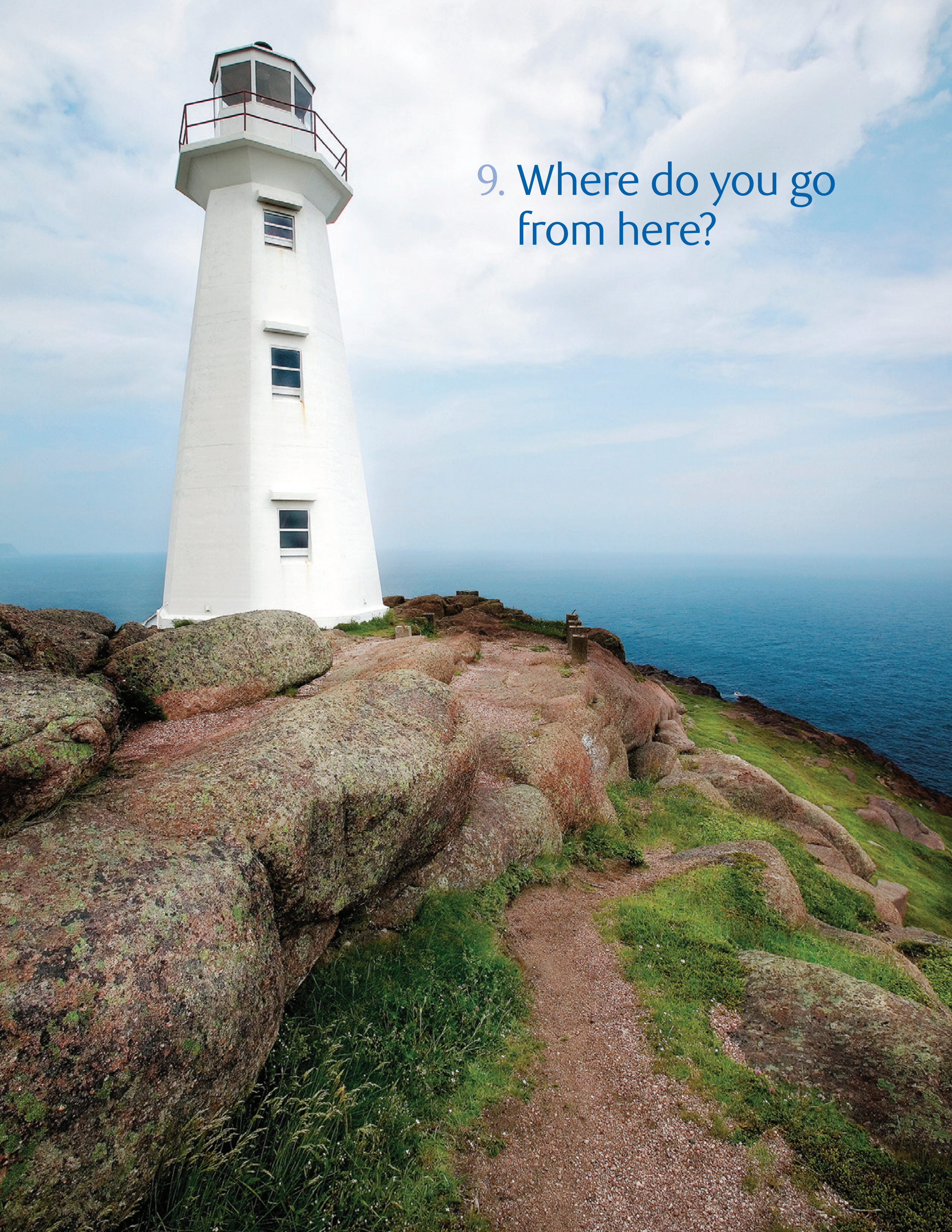
Long-term care insurance provides the necessary funds to pay for additional health care once you are no longer able to care for yourself. Funds are paid as a daily benefit to cover the cost of either home visits from a qualified individual or care at either a public or private care facility.

Anyone who has personal experience with paying for care at a private care facility can appreciate the value of long-term care insurance. With a maximum benefit of about $325 per day, individuals can receive approximately $120,000 per year, tax-free, to cover the cost of their care (inflation protection is available). If you are thinking about long-term care insurance for yourself, you may also want to consider paying the premiums on a policy designed to cover certain older family members whose future care may one day become your responsibility.

Pre-planned funeral arrangements

When funeral arrangements are pre-planned, there is considerably less potential for stress, confusion and mistakes. Making arrangements for a loved one in a rush can cause additional pain and stress at a difficult time. For this reason, more and more Canadians are considering pre-planned funeral arrangements as part of their estate plan. This allows for family input, minimizes the chance of additional costs and ensures your wishes are followed without burdening family members. A pre-paid funeral arrangement can also provide a special tax exemption for the income earned within the arrangement, subject to limitations.

9. Where do you go from here?



After reading this publication you will hopefully have gained a greater appreciation for the issues that exist in estate planning and be motivated enough to act. Creating your own estate plan will not necessarily be an arduous task but does require a commitment of time and some money.

The following steps should be considered as you begin this process:

- Follow the six steps outlined in the "Creating your estate plan" section. The most important step is establishing your estate objectives. Take your time.
- If you require additional information in any of the areas discussed in this publication, talk to your RBC advisor.
- Speak to your RBC advisor about creating a financial plan. A financial plan will assist you throughout the evaluation phase of your estate plan, addressing Will planning and life insurance needs assessment within the context of your overall objectives.
- If you require additional insurance coverage, contact your life insurance-licensed representative for assistance.
- Develop your estate plan with the assistance of your accountant, lawyer, notary (if applicable) and RBC advisor. If you do not have a relationship with an accountant, lawyer or notary, ask your RBC advisor to refer you to one.
- Contact your RBC advisor to find out how agent for executor, corporate executor and trustee services can assist you with your estate planning.
- Implement your plan. The most significant hurdle facing you is time. Most often people set out with the best of intentions but never implement the plan. If you have made it this far, make sure you complete the process.
- Finally, once your estate plan is complete, recognize you are still not finished. Your estate plan should be revisited every three to five years and at major life events such as your marriage, separation, divorce or the birth of a child to determine if it's still in keeping with your objectives.

You may choose to utilize the services of a professional trust company such as RBC Royal Trust to act as your executor/liquidator, or as your agent if you have been named as one, in administrating the estate assets. Some of the advantages of a corporate fiduciary include neutrality, availability, expertise, and continuity for long-term trusts. Appointing a corporate fiduciary can help to ensure the administration of the estate is done in accordance with the relevant laws, relieve your family members or friends of the burden of administering your estate, and mitigate any potential conflict among co-executors/liquidators or with beneficiaries.

If you have questions about who to appoint as an executor/liquidator or the typical responsibilities of an executor/liquidator, please speak to your RBC advisor to find out more about the services provided by RBC Royal Trust.

Finally, once your estate plan is complete, you must recognize that you are still not finished.

Prior to implementing any strategies contained in this article, individuals should consult with a qualified tax advisor, accountant, legal professional or other professional to discuss the implications specific to their situation.

Please speak with your advisor.

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