

May 2020

Choosing Beneficiaries for Your Assets

Power Play Blog 2.0

What will happen to the holdings in your financial accounts once you pass away?

By now, you have heard me talk enough about the merits of writing and executing a formal will using qualified legal counsel. However, what about those assets – life insurance, retirement accounts, RSP, TFSA, 401K, etc. – where you can name a specific beneficiary? A will covers the designation of most assets upon your death. However, assets that require a specific beneficiary designation are distributed according to those named. A beneficiary designation takes precedence over the directions in a will or trust document.

This article contains information and thoughts to help guide you through this particular area of your will planning. When you first designated a beneficiary on these plans, I am sure there was a specific reason or situation you had in mind; for example, income replacement for a surviving spouse in the case of life insurance. Now is the time to revisit those reasons, and any named beneficiaries, to ensure that those principles still exist today, and are still relevant. Are those beneficiaries still alive ... did you get married or have children (or more children) since the time you first addressed this topic ... did you leave money to a charity that is no longer in existence?

There are several things to consider in addition to those mentioned above. For example, if you are dedicated to making things equal in your will and decided to leave some assets to heirs in different forms, remember the tax man is always waiting. For example, if one of your children gets a valuable heirloom worth a certain amount, while you name a second child as beneficiary on an RSP to even things out, remember there is a tax burden (usually covered by the estate) on the funds inside the RSP that may make the two values unequal in the end. Additionally, if you are leaving money to minor children, in choosing the appropriate age for them to receive their inheritance you should consider specifically 1) how financially responsible the child will be at that age 2) the impact this type of inheritance may have on the child and 3) the size of the inheritance.

As we work through each of these situations with our clients, and the legal experts we partner with, we always discuss how to deal with the kids. Remember a minor does not have the legal capacity to receive an inheritance until they reach the age of majority. We have many clients, who as parents, feel 18 is still too young to handle a large sum of money from an inheritance. Some advisors promote the idea of naming the estate as beneficiary on these types of assets, and then allowing the executor and the terms of the will dictate how and when your heirs receive these funds. At ONE we will always support the decisions our clients make in conjunction with their advisors and the lawyers drawing up the will. We encourage you to have that discussion and pay attention to this important, and sometimes delicate matter sooner rather than later. Wash your hands, stay safe and remember, we at ONE are here to help.