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Will vs Beneficiary

Tax free inheritance

The double-edged sword of naming beneficiaries

Naming beneficiaries on your various investment accounts can play a crucial role in financial and estate planning, offering a straightforward way to transfer them directly to chosen individuals when you die. But while this tactic is beneficial in many scenarios, it also comes with complexities worth considering.

Understanding beneficiary designations

Beneficiary designations are common with certain types of investment accounts, like RRSPs (Registered Retirement Savings Plans), RRIFs (Registered Retirement Income Funds) and TFSA (Tax-Free Savings Accounts). These accounts allow the account holder to name individuals who will directly inherit those assets.

In addition, all investment products issued by life insurance companies, including non-registered accounts, can have beneficiaries named. These beneficiaries can be either “revocable” or “irrevocable”, the latter meaning that no changes to the designation or cash withdrawals can be made without the beneficiary’s consent.

Advantages of naming beneficiaries include:

- **Avoiding probate fees:** Especially significant in jurisdictions like Ontario, where probate fees can reach up to 1.5% of an estate’s value, naming a beneficiary allows these assets to bypass the probate process, potentially saving significant money in fees.
- **Speed of asset transfer:** With beneficiary designations, assets can be transferred quickly to beneficiaries without waiting for probate, which can be beneficial in times of backlog, like during the COVID-19 pandemic when the probate process was delayed.

While saving time and money are definite advantages of naming beneficiaries, designations can conflict with the terms of a will, leading to potential unintended consequences. Here are some examples to consider:

- **Inconsistent estate plans:** If a beneficiary designation conflicts with a will's instructions, the most recent document generally takes precedence. This can lead to complications if changes are made to one document and not the other.
- **Tax implications:** Some accounts, like RRSPs, may have tax implications upon the death of the holder. Although assets pass directly to the designated beneficiaries, the associated taxes are typically the responsibility of the estate. This means that beneficiaries could refuse to pay their fair share of taxes from the remaining assets.
- **Exclusion of heirs:** In cases where a beneficiary predeceases the account holder and no updates are made, the remaining beneficiaries to that account may inherit the deceased beneficiary's share. This could potentially exclude the intended heirs of the deceased beneficiary — like a spouse or children — from receiving their portion of the assets.

To avoid these pitfalls, it's crucial to carefully plan and regularly review both beneficiary designations and estate documents.

Some strategies to consider to help avoid problems later on

- **Make sure your documents are consistent:** In other words, that beneficiary designations align with the overall intentions expressed in your will. Regular reviews, especially after major life events like marriages, divorces or the death of a family

member, are important.

- **Consider tax implications:** Lean on your advisor or another financial or estate planning professional to help you understand the tax responsibilities associated with different accounts so your estate has enough liquidity to cover taxes without unfairly burdening any beneficiary or heir.
- **Legal guidance:** Work with an estate planning professional to craft a comprehensive plan that considers all potential outcomes, so there are clear instructions for any scenario that may arise.

While naming beneficiaries can be a powerful tool in estate planning, it should be carefully integrated into your broader financial plan. Regular updates and professional advice are key so your plan reflects your wishes without resulting in unintended consequences.

Interested in learning more? We're always here to help — reach out to us anytime.



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How to set up a tax-free — or at least tax-reduced — inheritance for your kids and grandkids

You've spent your entire life building wealth for your family. While some taxes at death are inevitable — it's simply part of living in Canada — there are smart strategies to minimize what goes to the CRA and maximize what goes to your loved ones.

Strategy #1: Max out your TFSA

This is the easiest and most powerful place to start. Despite the name “Tax-Free Savings Account,” your TFSA can hold a full range of investments, not just savings.

Here’s what makes TFSAs so valuable for inheritance planning: when you pass away, your TFSA transfers tax-free to your beneficiaries. If you’re married or have a partner, it transfers tax-free to your spouse first. Upon the second death, it passes tax-free to your children or other named beneficiaries.

When you name beneficiaries on your TFSA, the funds bypass your will and avoid probate entirely. The money goes directly to your beneficiaries — no taxes, no complications. If you name two beneficiaries, they each get half; three beneficiaries means each gets a third.

One important note: while a TFSA can transfer to a surviving spouse and combine with their TFSA, it cannot roll into your children’s TFSAs. They receive the money tax-free in cash, which they can invest however they choose.

Strategy #2: Use RESPs to give kids a head start

While not technically an inheritance, a Registered Education Savings Plan is a tax-efficient way to transfer wealth to the next generation.

You can contribute up to \$2,500 per year per child, and the government matches \$500 through the Canada Education Savings Grant — essentially a guaranteed 20% return before any investment growth. When funds are withdrawn for post-secondary education, they’re taxed in the

student’s hands at a very low rate or not at all.

The real benefit? Your child graduates debt-free and can start saving toward their own goals instead of spending years paying off student loans. Family plans can cover multiple children, and withdrawals are flexible as long as the child is enrolled in a qualifying program.

Strategy #3: Gift money while you’re alive

There’s no limit to how much you can gift to your children or grandchildren while you’re alive. Many people are becoming more generous during their lifetimes rather than waiting until death.

The key consideration is ensuring gifting doesn’t compromise your own financial security, particularly regarding potential long-term care costs. Working with a financial advisor can help you understand how much you can comfortably gift while maintaining a cushion for unexpected expenses.

When the numbers show a clear surplus, you can gift with confidence — helping children pay off a mortgage, fully fund their TFSAs, or provide a down payment for their first home.

Strategy #4: Leverage life insurance

Life insurance is one of the most powerful tax-sheltered vehicles for transferring wealth. For families with significant estates, it can dramatically reduce the effective tax rate at death — in some cases from 70% down to 30%.

While premiums aren’t cheap, the long-term tax savings can be substantial. In scenarios we’ve modeled for clients, strategic use of life insurance has meant the difference between heirs splitting \$8 million versus \$5 million.

The RRSP/RRIF challenge

RRSPs and RRIFs are often the most tax-inefficient way to pass money to heirs. Upon the second death in a couple, the entire amount is treated as income in one year. With a \$500,000 RRIF, the CRA can take over 50%, leaving heirs with roughly half.

The solution? As you approach your later years, deliberately withdraw funds from your RRSP/RRIF at lower tax brackets and move that money into more tax-efficient vehicles — primarily your TFSA first, then non-registered accounts. Paying 30–40% tax now is far better than your heirs paying over 50% later.

A few common misconceptions

“I already have a will, so I’m all set.” While wills are essential, everything that flows through your will goes through probate. Using beneficiary designations on TFSAs, life insurance and other accounts allows more of your wealth to bypass probate.

“Insurance is just for emergencies.” Life insurance can be a sophisticated wealth transfer tool. Understanding when term insurance makes sense versus when permanent insurance becomes valuable for estate planning is key.

“I should save everything in my RRSP for the tax benefits.” RRSP contributions save taxes today but can create a large tax bill for your heirs tomorrow. Balancing contributions between RRSPs, TFSAs and non-registered accounts creates far better tax efficiency.

The bottom line

Death and taxes are both certain, but how much tax your estate pays isn’t set in stone. With thoughtful planning — maximizing TFSAs, using RESPs strategically, gifting during your lifetime, considering life insurance, and managing RRSP/RRIF withdrawals wisely — you can significantly increase what your children and grandchildren receive.

The key is starting these conversations early and reviewing your plan regularly. If you’d like to explore which strategies make sense for your family, we’re always here to help. Reach out to us anytime.

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