MoneySense

Retirees need to start thinking ahead

There seems to be some big-time denial of the inevitable going on

by Jonathan Chevreau, May 4th, 2017

In April, a CIBC survey discovered almost a quarter of Canada's baby boomers have no formal plans for taking care of elderly family members. This is a disturbing pattern that is consistent with the well-known fact that more than half (56%) of Canadians don't even have a will.

In both cases, there seems to be some big-time denial of the inevitable going on. Here at *Retired Money*, we tend to focus on the more pleasant aspects of the post-full-time work lifestyle but the very fact one is old enough to have accumulated significant wealth also means one is that much closer to sickness and ultimately of death.

The trial run may be the need to care for aging parents, but once they're gone, the next in line will be ourselves, our spouses and other loved ones. And the best time to prepare for these inevitabilities is while all parties are still young and healthy enough to talk about it.

CIBC vice president David Nicholson says families shouldn't have to wait for a health emergency or unexpected event to force a hurried conversation about caregiving and financial planning. CIBC found 90% of Canadian adults acknowledge the importance of discussing these matters but only 62% with a parent age 65 or over actually engage in this conversation. This reluctance stems in part about concerns the old folks may think the kids are merely after their money. Even so, one in six who are 65 or older believe eldercare should be a top issue.

As for wills, CIBC found 68% of those with 65-year old parent or older do have a will in place, but only 23% of the same group have a financial plan for their senior years, 43% have a legal power of attorney and 39% a health-care power of attorney.

According to Tom Deans, author of *Willing Wisdom*, 12.5 million Canadians don't even have a will and hence no estate plan. And even among clients of estate planning experts, 90% of the time the children don't find out the full extent of their parents' wealth (and wisdom) until one of them passes away and the will is read out to the grieving heirs, Deans says.

The need for younger family members to pay attention sooner is underscored by a passage in Deans' book that describes the all-too-common situation whereby the whole family is disinherited during a late-life redrafting of a will, in order to designate a "younger, ahem, 'caregiver' " who becomes the sole beneficiary.

Sadly, we all may have less time than we assume. Of the 7,000 Canadians who die every day, 19% die in their 90s, about 33% do so in their 80s, 23% die in their 70s and 12% in their 60s: But 7% die in their 50s and another 7% die even before then, according to Deans.

Little wonder "sudden wealth" can descend upon families at any time. Another CIBC study released in 2016 showed $750 billion will be inherited by Canadians in the next decade, which Deans says translates into $205 million today, tomorrow and every day for the next ten years." The fastest growth bequests will be from boomers to their millennial children, he says.

Les Kotzer, a wills lawyer with Thornhill, Ont.-based Fish & Associates author of *The Family Fight* and other estate planning books, stresses the importance of having a second will. This is a major technique for minimizing the cost of probate fees of 1.5%. The first is for assets controlled by third parties and which therefore must go through probate: typically financial assets. The second will is for assets like personal effects and shares in the family business, which do not need to go through probate (also known in Ontario as an Estate Administration Tax or – aptly! – EAT).

Using a second will is a strategy that wealth and health consultant Sandy Cardy recommends all the time, in part because it provides a lot more privacy about the assets that don't have to go through probate. But, she cautions, you have to get some experienced wills practitioners to ensure that the second will doesn't revoke the first one.

In the case of business owners wishing to pass the family business on to the kids, you certainly need to plan well in advance of death. Tactically, a popular technique for intergenerational wealth transfer is the estate freeze, says Adrian Mastracci, portfolio manager with Vancouver-based Lycos Asset Management.

The founder literally "freezes" growth of such assets as the business, investments or real estate, in effect transferring future growth to the heirs. In the case of a private company, assets are transferred at current fair market value for shares of equal value in the private company; the heirs become shareholders and their wealth rises as the shares rise, while the founder's shares no longer rise in value. Family trusts can also be used but Mastracci says some rules have changed as some trusts approach their 21-year life.

Cardy adds that if you do go for an estate freeze, you need to talk to an estate lawyer who knows how to protect the kids' shares in the business from matrimonial claims. Estate freezes can also be used to lock in the value of a cottage, Cardy says.

Another key consideration is the lifetime capital gains exemption, which is $835,700 per spouse, available in 2017 (for qualifying small businesses, farm property and fishing assets). Mastracci says full use of this exemption generates tax savings of more than $190,000 per spouse across Canada.

In short, it's all about families communicating while they still can. Deans' book lists seven questions successful families need to ask themselves. And CIBC lists five steps families should take: talk about future plans, be able to locate key documents, set expectations for care giving, create a financial plan and seek financial and legal support to build an estate plan.

Jonathan Chevreau is founder of the Financial Independence Hub and co-author of Victory Lap Retirement. He can be reached at jonathan@findependencehub.com