RRSPs – A smart estate planning opportunity

RBC Guaranteed Investment Funds

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What is estate planning and why is it beneficial?

Estate planning is the process of arranging your financial affairs so that the wealth you've accumulated over your lifetime will be distributed according to your wishes.

Depending on your situation, estate planning could include writing Wills, setting up trusts, establishing powers of attorney and planning ahead to avoid unnecessary taxes. What all of this does is allow you to determine how you wish your estate to be administered, and it may also protect your assets from taxation and fees so more of your wealth can go to your named beneficiaries.

Who needs to do it?

No matter how young or old you are, how much wealth you have, whether you're married with children or are single, everyone can benefit from developing an estate plan. It not only gives you comfort in knowing your wishes are in place, it can also reduce the taxes and expenses of an estate, as well as help to make the transition of assets to your beneficiaries a quicker and smoother process.

By planning your estate, you're helping to minimize many of the problems (e.g. family conflict, estate freezes) that may otherwise arise. Without a plan, your legacy may be eroded by estate fees, and it may take months or even years to pass on your estate. And, if you leave family members with no instructions, it could cause confusion, hurt feelings and family discord.

How can RRSPs issued by a life insurance company help with your estate planning?

For the majority of Canadians, Registered Retirement Plans (RRSP) are the main source of retirement income, and may be the most significant estate asset you hold. On the other hand, registered assets can also represent the most obvious tax liability in your estate, which means you need to have strategies in place that help you avoid the erosion of these investments.

Why choose segregated funds for your RRSP?

Holding segregated funds in your RRSP means that your investments are issued and backed by the strength of a life insurance company. Segregated funds can be beneficial to your estate planning for two main reasons:

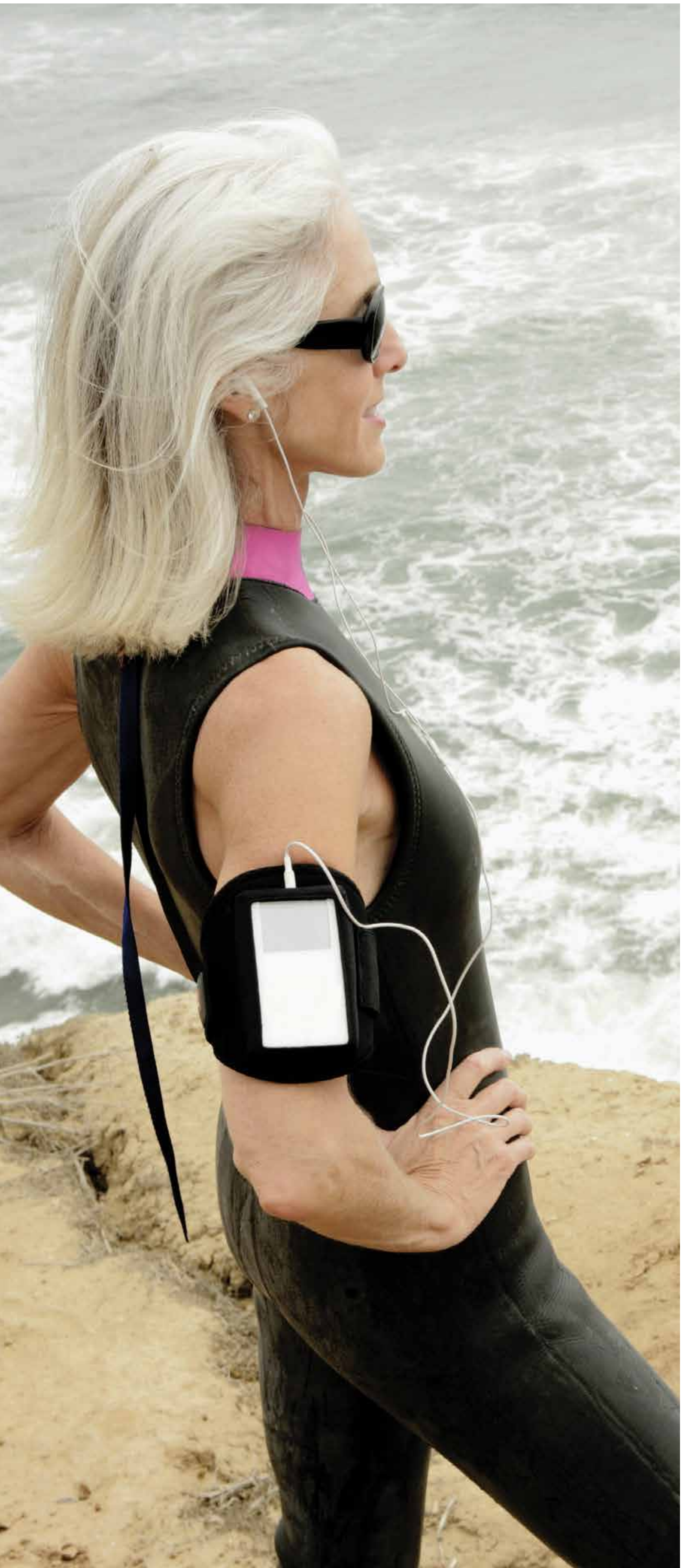
1 Capital preservation

The death benefit feature preserves your capital for your named beneficiaries. It guarantees that your beneficiaries will receive a specific percentage of the value of your investment upon the death of the person whose life is insured under the contract (known as the annuitant), even if the market value of your investment goes down. It's a feature you won't find in any mutual fund or traditional stock or bond portfolio, and it's your reassurance that the inheritance you want to leave for your loved ones will be there for them.

2 Bypassing probate*

Investing in segregated funds enables your assets to bypass probate (the process by which a court formally approves a Will as the valid and last testament of the deceased person), thereby minimizing the costs of probate.

Probate is often a lengthy, costly and public process. So, not only can your beneficiaries end up with less money, but your financial and personal information may also become available to the public.



* Probate fees and requirements vary from province to province.

Why it's important to name a beneficiary

Once you've decided to open an RRSP account, it's important to think about naming a beneficiary. This is one step in the estate planning process that can have an impact on the amount you actually leave as a legacy to those you care about most. If you do not name a beneficiary, your RRSPs become part of your estate, and this may result in probate taxes payable on the value of your plan (excluding Quebec and Alberta). It could also mean that if a qualified beneficiary is not specifically named in your plan or through your Will, then the value of the plan will be taxed on your final income tax return. A qualified beneficiary could be a spouse or common-law partner, or a financially dependent child or grandchild.

You have several options for naming your beneficiary:

1 Naming your spouse

You should consider naming your spouse or common-law partner as the beneficiary of your registered plan for several reasons.

- Your registered plan assets may be able to be passed directly on to your spouse on a tax-deferred basis and the proceeds transferred to their own registered plan.
- It's a smart way to avoid your estate having to pay taxes on those assets on your final tax return.
- It can also save on probate taxes because the registered assets can move directly to the beneficiary without having to pass through your estate.

But there is a time limit. Your spouse has up until the end of the year following the year of your death to make the transfer to their registered retirement plan.

2 Naming your children or grandchildren

If you leave your RRSP or RRIF to your child or grandchild, the total value of your plan will be taxed on your final income tax return. There are ways to avoid this:

- You can have the total value of your plan taxed on your child's or grandchild's income tax return if they're financially dependent on you.

- Your child or grandchild will be eligible to buy a term certain annuity with your plan assets — which will pay them until age 18 — if they are a minor who is financially dependent on you. Just remember, they will have to report the annuity payments in the year the funds are received as taxable income.
- Your registered assets can be transferred to an RRSP, RRIF or life annuity if your child or grandchild was financially dependent on you at the time of your death because of a physical or mental incapacity. This helps you avoid adding the total value of your plan to your final income tax return.

3 Naming your estate

Sometimes this is a good idea. One reason may be that you don't want your beneficiaries to have full control of their assets after your death. By naming your estate as the beneficiary, these amounts will be put through your estate and into a testamentary trust as directed in your Will.

Although the registered assets will be fully taxable, it's possible that any tax you incur may very well be offset by unused non-capital losses or large charitable donations made in the year of your death.

A disadvantage to naming your estate as beneficiary, outside of potentially increasing probate taxes, is that once probated, your Will becomes a public document and may expose your estate to creditor claims.

What happens to your RRSP at death?

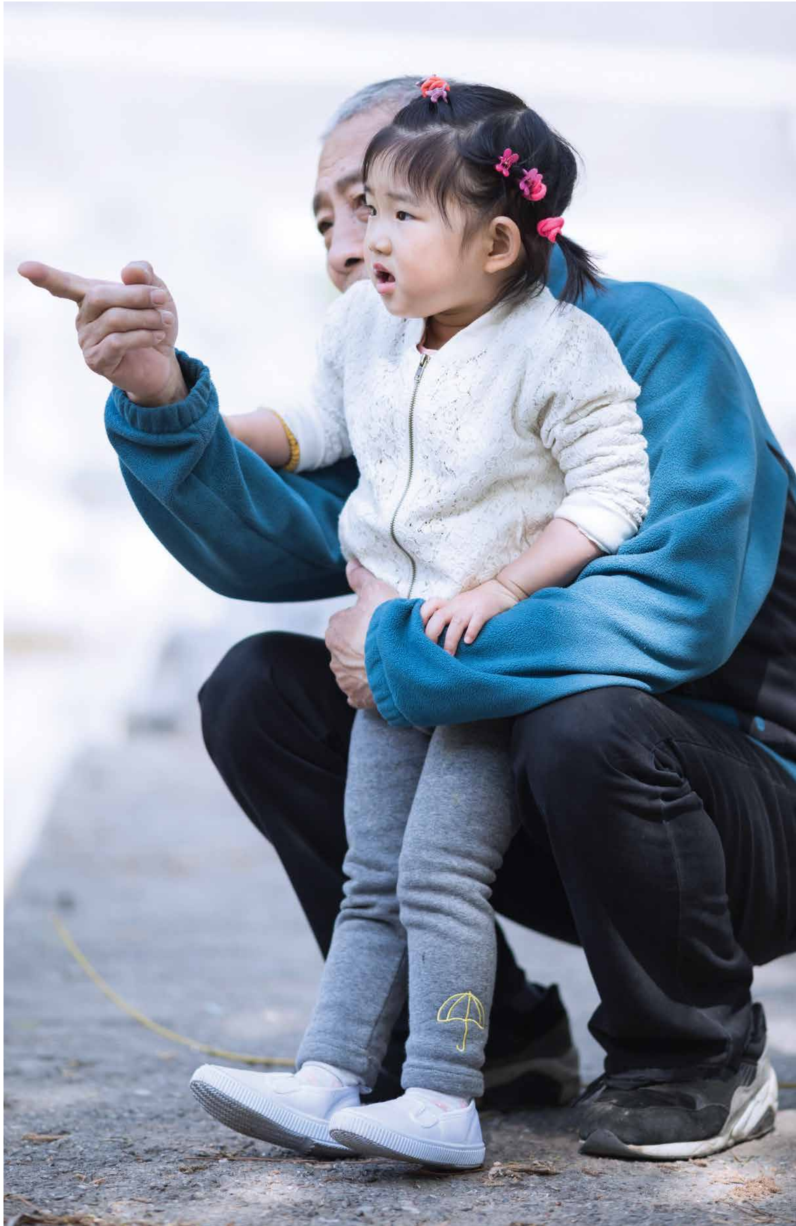
There are many ways segregated funds held in RRSPs can help fund the taxes that result from the dissolution of your RRSP or RRIF.

- If you choose to name your spouse as the designated beneficiary, your spouse can elect to roll the proceeds into their own RRSP or take a lump sum in cash.

  If your spouse chooses the latter option, the value of the RRSP balance should be included in your final tax return. This is where life insurance can become a valuable asset protection vehicle in the estate planning process.
- If you choose to name your children as beneficiaries upon death, the death benefit amount of your RRSP will be paid as cash to your beneficiaries and the full amount will then be subject to tax. Your next logical step will be to pre-fund this tax by buying a life insurance policy.

  By doing so, the cost of funding the tax liability with life insurance may be less than the refund on the taxes you would receive every year from your RRSP contribution.

As you can see, it's important to take the time to review your beneficiary designations and the amount of insurance in place as they can help lower the cost to fund the tax liability incurred at death.



Why RBC GIFs are a smart investment for your estate

When you're looking for an estate planning solution, RBC® Guaranteed Investment Funds provide a solid choice to meet your needs. Segregated funds offer you the growth potential of a mutual fund with the security of principal guarantees. RRSPs are one of the best ways to plan for your future. And, as you can see, choosing to invest in segregated funds within your RRSP can provide many additional benefits including capital preservation, bypassing probate and minimizing fees as well as taxes. To learn more about how RBC GIFs can be an effective estate planning solution to protect your financial future and those of your loved ones, speak with your advisor today.

Family Inventory Guide

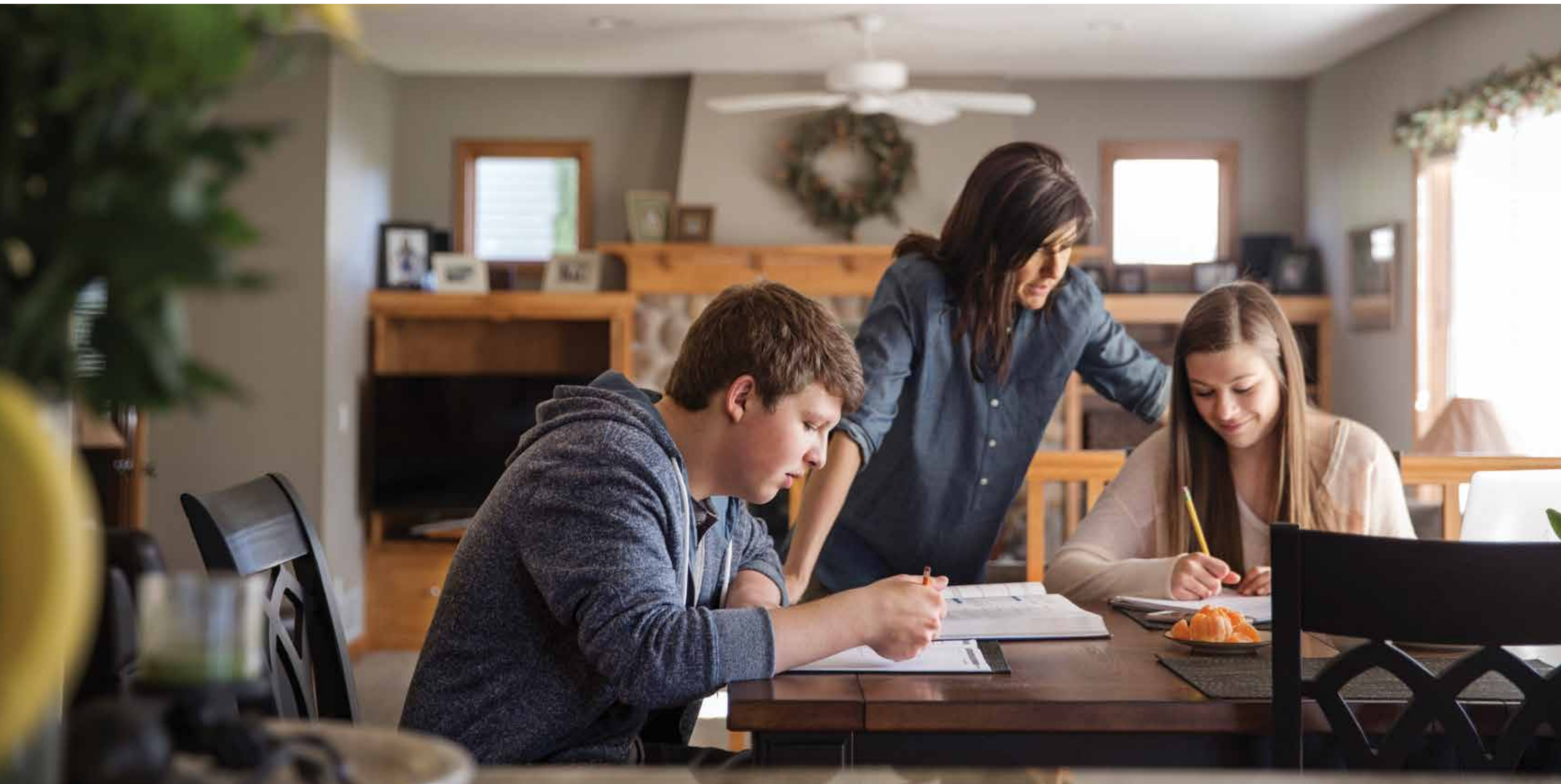
This is the first step in developing your estate plan. We recommend that you use the Family Inventory Guide together with the Estate Planning Brochure. The Guide provides a comprehensive list of all the information that pertains to your family's current financial status: personal information, insurance policies, assets, accounts, as well as legal and advisory contacts. Having an up-to-date and completed guide will provide invaluable information to your heirs, executors, trustees and advisors as your estate is settled. You can obtain a copy of this guide from your advisor.

Estate Planning Brochure

Learn more about the benefits of using segregated funds in an estate planning strategy. Find out how purchasing RRSPs through your insurance company can protect you from probate fees and taxes. You can obtain a copy of this brochure from your advisor.

Executor Checklist

With so many steps involved in settling an estate, we've made it easier for you by putting together a checklist you can use in conjunction with the Estate Planning Brochure. You can obtain a copy of this checklist from your advisor.



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RBC Guaranteed Investment Funds are individual variable annuity contracts and are referred to as segregated funds. RBC Life Insurance Company is the sole issuer and guarantor of the guarantee provisions contained in these contracts. The underlying mutual funds and portfolios available in these contracts are managed by RBC Global Asset Management Inc. When clients deposit money in an RBC Guaranteed Investment Funds contract, they are not buying units of the RBC Global Asset Management Inc. mutual fund or portfolio and therefore do not possess any of the rights and privileges of the unitholders of such funds.

There is confidence in knowing that your assets are well invested and well protected. RBC Guaranteed Investment Funds are a powerful investment solution to help you meet your needs.

For more information regarding RBC Guaranteed Investment Funds, please speak with your advisor.

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