

Planning a legacy

You're retired and comfortable, but life could still take an unexpected turn
James Daw explores how to use your money to help others and protect yourself

Bob and Mary Smith are retired and enjoying a comfortable life at age 68. They look forward to many more years together, but they are also thinking about their legacy.

Specifically, they wonder if they will have enough money, even if they live to age 95. If they will have enough, then how large of an estate can they expect to leave their two children, and how much can they give in a will to their favourite charities?

So, they turned to TriDelta Financial Partners, a small firm of certified financial planners with offices in Oakville and North York. The firm specializes in customized strategies for estate planning, and has dealt with other couples in a similar situation.

President Ted Rechtshaffen and vice-president of estate planning Asher Tward frequently encounter couples who discover they will have a comfortable income from their pen-

sions and assets. Yet, they have saved or inherited more capital than they will ever need, or feel comfortable spending.

The couples want to remain in control of their capital — just in case. But, after preparing a financial plan, TriDelta can propose strategies for minimizing risk, saving taxes, enlarging their estate and providing more for charitable donations.

The Smiths are a fictional couple whose situation is based on an amalgam of four other sets of TriDelta clients. The recommendation developed for them includes two possible strategies that most couples would never have considered.

THE CLIENTS: Bob spent much of his career as a manager with a car maker. Mary was an educator for 25 years, and finished her career as a vice-principal.

Bob's pension is \$65,000 and Mary's \$40,000 a year. Government pensions provide them a

further \$27,000 per year. Their pension income is more than enough to cover what they spend after taxes, which is about \$65,000 a year. Their spending is rising at only 1 per cent a year, yet their indexed pensions are increasing at 2.5 per cent. And they aren't yet drawing down

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their registered retirement savings.

In addition, Bob and Mary own their own home, currently valued at \$550,000. They have about \$400,000 in savings, including both registered and non-registered.

They are in good health, although Bob suffered a heart attack four years ago and underwent triple-bypass surgery.

Mary has the odd aches and pains, but no major health concerns.

THEIR QUESTIONS:

► Do we have enough savings to cover us for the rest of our lives, even if we live to 95?

► Will we have extra money and, if so, how much should we spend on ourselves, give to the children today, or leave to them for an estate?

► Can we set ourselves up in a different way to minimize taxes, both today and in our estate?

THE DIAGNOSIS: TriDelta does financial projections, assuming the couple's assets, invested in shares of public companies, would grow at an average annual rate of 6 per cent, and the value of their home at 4 per cent.

► Please see **Advice, F6**

Financial Planners

They found a way to have their egg and leave it, too

► Advice From F1

The planners conclude that Bob and Mary have no concerns about outliving their money. If they are like some other couples when they reach their seventies, they will continue to save a large portion of their income, and re-invest the minimum annual withdrawals from their registered retirement income funds. If they continued to save and their investments continued to grow, they could well have an estate of \$3.6 million after 20 years, if they live that long. In the meantime, they will pay income taxes totalling more than \$1.1 million.

THE PERSONAL GOALS: Bob and Mary like the idea of being able to leave \$1.5 million to each of their two children, and \$600,000 to their church, the Ontario Heart & Stroke Foundation and the University of Western Ontario.

They would leave it up to their children to decide whether to keep their inheritance, or pass on money to the grandchildren.

TRIDELTA'S PROPOSAL: The planners suggest there is a way to keep their nest egg, improve the chances of the children receiving a large estate and provide an even larger charitable donation.

STEP ONE: Instead of investing more savings with their stock broker, have Mary apply for a million dollar universal life insurance policy.

The couple would have enough excess income from their investment accounts, pension income and minimum RRIF withdrawals to pay the \$35,000 annual premium.

The death benefit would be guaranteed to grow to \$1.6 million by the time Mary reached age 85. After paying \$595,000 over 17 years, they could stop paying premiums and the policy would continue in force. The death benefit would be tax-free.

If for some reason Bob and Mary decided to increase their annual spending, they would have the flexibility to reduce their premiums and accept a smaller death benefit.

"By utilizing guaranteed life insurance to fulfill a part of their estate plan, we were able to minimize overall risk," said Tward. "We also ensure a very good return on the investment. This effectively hedges their additional investment risk as well as their tax risks."

STEP TWO: Establish a charitable foundation so that a portion of their surplus income could produce an immediate tax credit, and allow their savings within the foundation to grow tax free.

Only 3.5 per cent of capital held by the foundation need be donated to charity each year. The rest of any contributions and investment earnings can accumulate and be donated at the time of Bob or Mary's death, or continue to grow under the direction of their children.

This strategy was developed with the help of David Stevens,



DAVID COOPER/TORONTO STAR

Ted Rechtshaffen, left, and Asher Tward of TriDelta Financial Partners frequently encounter couples who have saved or inherited more capital than they will ever need, or feel comfortable spending. But they want to remain in control of their capital — just in case.

who heads the tax group at the Toronto law firm of Goodman and Carr and is a leading expert on charitable giving.

The legal costs to establish a small foundation would be as little as \$2,500, and there would be annual cost of roughly \$300 for a tax filing.

Bob and Mary would start with a \$4,500 contribution in the first year, but Tward projects the couple's rising pension income could allow contributions to reach \$55,000 in year 20.

THE PAYOFF: "The net impact of these estate planning strategies is tremendous," said Rechtshaffen. "With just the insurance component, Bob and Mary's total estate value would grow from \$3.6 million to \$4.3 million if they live to age 88. That's a

\$700,000 increase."

Part of the increase would come from saving about \$120,000 in income tax.

Adding the charitable foundation would raise the estimated tax savings over 20 years to \$345,000. So, the Smiths could leave \$2 million to each of their

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children instead of \$1.5 million, and donate \$750,000 to charity instead of \$600,000.

"All of this while reducing overall portfolio risk," said Rechtshaffen. "This is because these strategies are not dependent on achieving certain in-

vestment returns, but are instead based on guarantees from insurance contracts and current tax laws governing charitable giving."

WHAT IF THINGS CHANGE?

Tward points out the Smiths are not permanently locked into carrying out the strategy. If things do not work out as expected they have some flexibility to fine tune the plan later.

For example, their children could move to the other side of the country or the Smiths could decide they wanted to spend more money on vacation travel and accommodation. They could scale back their insurance and foundation payments without totally abandon-

ing the strategies, or start using some of their investment capital in order to maintain the prescribed plan.

"We were able to provide Bob and Mary with financial peace of mind, and open their eyes to the legacy they would be able to leave to their family and key charities," Rechtshaffen said.

TriDelta offers free consultations, but would typically charge \$2,500 to do a financial plan. This fee would be waived for clients who choose to implement all or part of the recommended solution, using TriDelta's investment or insurance services.

The firm's website, tridelta.ca, includes a simple calculator that gives couples or individuals a rough idea of how large an estate and tax bill they can expect.