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CIBC PRIVATE WEALTH

The Ruppert Team

The Great Wealth Transfer

The greatest intergenerational transfer of wealth in Canada's history is set to take place.
Is your family ready?

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Introduction

Over the next decade, Canadian inheritance could hit $1 trillion, and all parties involved need to be ready.

According to the Investor Economics Household Balance Sheet Report[1], there were a total of 471,000 households with accumulated wealth of at least $1 million at the end of 2006. At the end of 2020, this number had grown to 913,000 households, driving the amount of wealth controlled by these affluent families from $1.6 trillion to $4.2 trillion. There's no doubt about it – we are entering an age of unprecedented wealth transfer for parents and children, marking it the greatest wealth transfer in modern history.

[1] Investor Economics Household Balance Sheet Report

Wealth Transfer Stages

Transferring financial and real assets typically occurs in three stages.

Stage 1: Lifetime

In this first stage, affluent families transfer wealth during the lifetime of the owners. Usually, the owners are parents who give to their children for general financial support or large purchases such as homes or other investments that may require initial capital.

Stage 2: Inter-household

In this phase, the transfer of wealth occurs at the end of life of one parent. For many affluent families, a will is in place and many accounts and properties are in joint names in order to alleviate tax implications.

Stage 3: Inter-generational

In the last stage, the transfer of wealth occurs at the time of passing of the surviving spouse. The estimated amount to be transferred is typically lower than in the second stage due to factors such as probate fees, income and capital gain taxes, funeral costs, and capital erosion. Although these factors may impose some challenges, we can expect over $1,200 billion to transfer to the next generation over the next decade.[1] The main demographics that will benefit from this transfer include young Baby Boomers (born between 1955 and 1964) and Generation X (those born between 1965 and 1980).

Transfers of wealth in all three stages are critical to ensure that a family's financial plan does not result in unnecessary taxes and other costs.

[1] Source: Investor Economics 2021 Household Balance Sheet Report

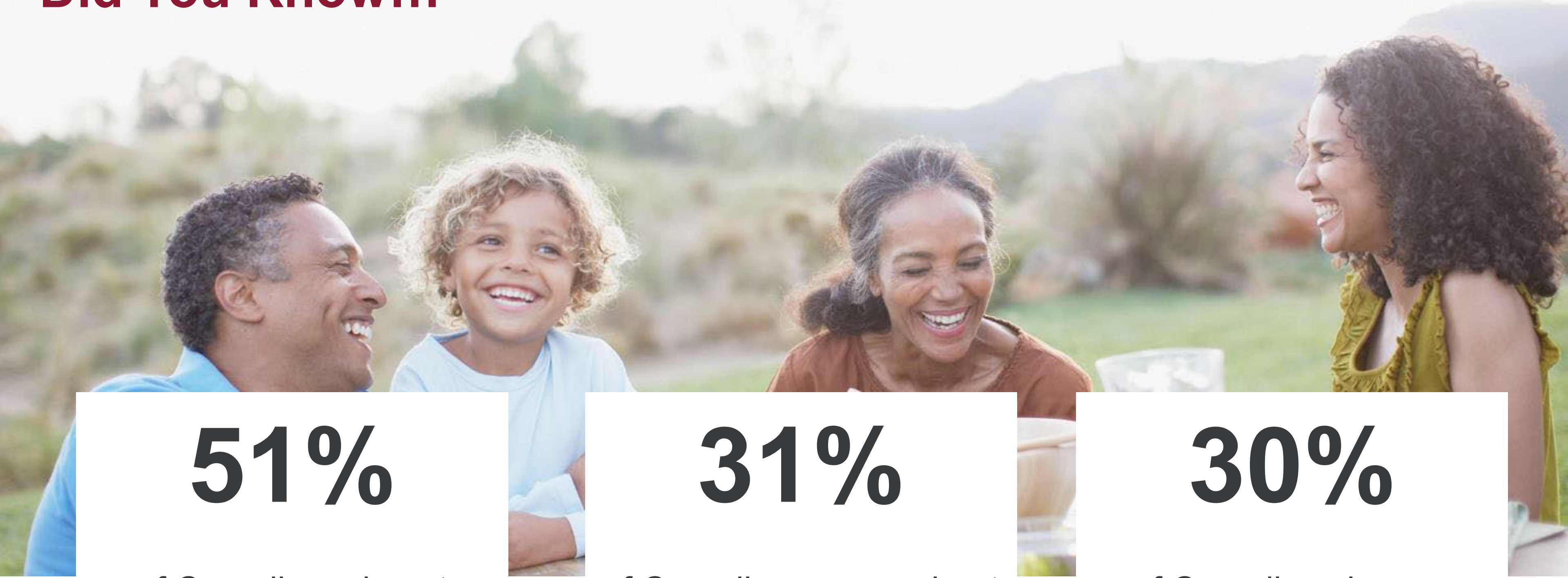
Estate Planning: What Is It?

A plan for what will happen to all of your possessions after you pass away.

Three common goals for creating an estate plan:

1. Protection of assets
2. Preservation of a legacy for your heirs or others
3. Efficient distribution of your estate in accordance with your wishes

Did You Know…



51%

of Canadians do not have a will[1]

31%

of Canadians worry about becoming a burden to their loved ones[2]

30%

of Canadians have a formal estate plan[3]

[1] Angus Reid Institute Poll, 2018

[2] CIBC article: The Family Playbook: Planning for the Care of Your Aging Parents.

[3] CIBC article: Estate Plan Essentials

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Importance of Estate Planning

- ✓ Organize your affairs
- ✓ Provide effective transfer of wealth
- ✓ Simplify your estate administration
- ✓ Support tax minimization
- ✓ Asset protection
- ✓ Provide a structure to carry out your wishes
- ✓ Provide instructions for loved ones
- ✓ Give you peace of mind

Getting Started: 8 Steps to Successful Estate Planning

1. Designate a team of professionals
2. Take a financial inventory
3. Understand your life insurance needs
4. Draw up your will
5. Consider making a power of attorney for property
6. Consider making a power of attorney for personal care
7. Track and review
8. Share your plans

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Step 1: Designate a Team of Professionals

Team of professionals, may include:

- Financial advisor
- Lawyer
- Accountant
- Trust and estate consultants

Topics of discussion:

- Vision for your family wealth
- Philanthropy
- Legacy
- Identify potential hurdles to overcome

Step 2: Take a Financial Inventory






Important things to consider:

1. Worldwide assets - not just Canadian assets

2. Form of ownership
   - Property owned jointly with another person
   - Property held inside a trust
   - Property held inside a corporation

Step 3: Understand Your Life Insurance Needs

Life insurance proceeds can be used to:

- Pay estate expenses
- Leave an inheritance
- Manage risk
- Replace income

Different types of insurance:

1. Whole Life Insurance
2. Term Insurance
3. Universal Life Insurance
4. Disability Insurance
5. Critical Illness
6. Long-Term Care Insurance
7. Annuities

Step 4: Draw Up Your Will

A will is a written legal document outlining your intentions for the management and transfer of estate assets.

Planning a will involves:

- Naming beneficiaries
- Naming estate representatives and trustees or both
- Naming guardians for minor children
- Pre-planning direct transfer of assets
- Setting up testamentary trusts

Pitfalls of dying without a will:

- The provincial laws of intestacy will determine how your estate is distributed
- Potentially additional taxation
- Potential legal challenges
- Potential family friction and stress
- Additional cost and delays

Step 4: Draw Up Your Will (continued…)

What to consider when selecting…

Beneficiaries

- ✓ Choose whomever you want
- ✓ May consider an alternate beneficiary

Estate Representative

- ✓ Time and willingness
- ✓ Objectivity
- ✓ Residency
- ✓ Age
- ✓ Experience and reliability

Steps 5 & 6: Establish Powers of Attorney

A **Power of Attorney (POA)** gives the designated individual the authority to handle your affairs and if it has the right wording in it, can continue if you no longer can do so due to mental or physical incapacity.

Type*	Purpose
Financial Power of Attorney / Power of Attorney for Property	For financial matters
Power of Attorney for Personal Care	For health matters such as medical decisions for you when you are no longer able to

* Other documents may serve the purpose of these POAs outside of Ontario.

Make sure the Attorney you select is aware of the level of responsibility involved.

Step 7: Track and Review

- Keep an inventory of what you have
- Keep a list of trusted advisors and professionals
- Store documents safely
- Keep track of your digital assets, including social media accounts

Review regularly

- Review your entire estate plan every 3 years and your financial plan at least once a year

Does your family know where your key documents (i.e., your will, financial documents, bank accounts, list of key advisors) are stored?

Step 8: Share Your Plans

Communicating your intentions gives your loved ones confidence your wishes are fulfilled.

1. Document who will be responsible for carrying out your wishes
2. If you feel comfortable doing so, tell those involved of their responsibilities
3. Communicate the what, why, and how of your plan
4. Introduce your advisor(s) to your estate representative, the person you appointed in your power of attorney and beneficiaries. Your advisor(s) can be a key person to help pull things together.

When putting together your estate plan, there are many issues to consider. Having the right documents in place can ensure your intentions are being followed.

Read our key estate documents report to learn more.

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Tax Considerations

Two tax considerations in estate planning are:

1. Probate fees/taxes

2. Income tax consequences on death

1. Probate Fees

What is probate?

- Court process which confirms that the will of the deceased is legally valid
- Probate process is administered by each province

What are probate fees?

- Provinces charge a probate fee for the court process
- In some provinces, fees are based on the assets owned by the deceased at time of death

Some assets may pass outside the estate and may not be subject to probate fees

- Registered plans and insurance with designated beneficiaries
- Assets owned joint with right of survivorship

Speak with your legal advisor for information on probate fees and probate planning

2. Income Taxes on Death

Tax payable on taxable capital gains

- On death, government deems you to have "sold" all of your capital property for fair market value

Tax payable on RRSPs and RRIFs

- RRSPs and RRIFs are fully taxable to the deceased plan holder
- May be able to "roll over" on a tax-deferred basis to spouse/common-law partner or financially dependent (grand)child

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Strategies to Reduce Income Taxes on Death: RRSP and RRIFs

1. **Rollover to spouse or partner**
    - No immediate tax consequences when deceased's date of death value of RRSP/RRIF rolled over to spouse/partner's RRSP/RRIF

2. **RRSP/RRIF rollover to dependent child/grandchild**
    - Guardian/trustee for child can purchase annuity to age 18 –defers tax and allows child to take advantage of marginal rates each year

3. **RRIF/RRSP transfer to mentally/physically infirm child/grandchild**

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Taxes on Death: TFSAs

- There's no tax on death for the holder of the TFSA
- Any income or gains accruing after date of death will generally be taxable to the recipient

1. **Designate your spouse/partner as a 'successor holder'**
   - Does not affect their own TFSA contribution room
   - Account will roll over to them
2. **Designate a non-spouse/partner as a beneficiary**
   - Proceeds will bypass the estate and go right to the beneficiary (generally avoiding probate)

Estate Planning Best Practices

- ✓ Have the "talk" with aging parents about their estate plan and share your own
- ✓ Ask parents for advice on your own will or retirement plan
- ✓ Create a financial plan that considers caregiving arrangements and costs
- ✓ Seek financial and legal counsel about building your estate plan and have a list of trusted advisers
- ✓ Keep an inventory of what you have including bank accounts, investments statements, real estate and outstanding debt.
- ✓ Store documents safely and keep a record of where you've stored them

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Wealth Transfer Considerations

1. Gifting
2. Joint ownership
3. Trusts
4. Business succession planning
5. Common gaps

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Strategies to Protect your Wealth When Gifting

- Gift when you're ready
- Protect your gift in event of relationship breakdown – make a demand loan, potentially interest free, or a traditional mortgage rather than an outright gift
- Tax consequences of gifting – cash vs real estate vs securities

Looking to help your children? You're not alone!

76% of Canadian parents would help their kids move out, get married, or move in with a partner. Yet, 68% either misunderstand or say they don't know the tax and other financial implications of gifting.

Source: CIBC Poll, 2017

Joint Ownership with Adult Children

Pros

- May avoid probate
- May simplify estate settlement
- Flexibility for joint owner to do transactions on behalf of the other owner

Cons

- May trigger capital gains at time of registration of joint ownership
- Loss of control - joint owner can do transactions regardless of the other owner’s wishes/intentions
- May be subject to creditor or family property claims of joint owner
- May not clearly indicate intention (e.g., gift or solely probate fee savings)
- May lose other tax benefits (e.g., principal residence exemption)

Trusts

The purpose of a trust may be:

- Provide ongoing support and protection for dependents
- Provide support for disabled dependents without compromising government benefits
- Help protect inherited assets in the event of a relationship breakdown or from claims by third parties
- Allows you to set out the terms of when and how money is passed on

Common types of trusts:

1

Testamentary trust

Only comes into effect upon death

2

Inter-vivos trust

Set up and takes effect during your lifetime

Testamentary Trust

What are testamentary trusts?

- A trust that arises because of your death
- Set out in a will or beneficiary designation

Possible benefits

- Provide ongoing support for spouse/partner and dependents or both
- Trust assets are managed by Trustees, as opposed to potential mismanagement by beneficiaries if left directly to them
- Generally will not form part of beneficiaries' estates on their deaths

Pitfalls

- Selection of appropriate Trustees
- Generally, income retained in the Trust is taxed at top individual tax rate
- Deemed disposition of Trust assets every 21 years

Inter-vivo Trusts

What are inter-vivos trusts?

- These are trusts set up while the settlor is alive

Potential Benefits

- Provide support for dependents
- Trust assets may be managed by an independent Trustee
- May prevent inclusion of assets under family law legislation

Pitfalls

- Selection of appropriate Trustees
- Income retained in the Trust is taxed at top individual tax rate
- Deemed disposition of Trust assets every 21 years

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Business Succession Planning

Ask yourself: What will happen to my business once I retire?

- Should I transfer the business to family?
- Do my children even want to work in the business?
- Do I have a strong management team that can take over?

Keep

1. Groom a successor
2. Owner-investor option
3. Hybrid approach

Sell

1. Sell to management
2. Sell 100% to a strategic buyer
3. Sell a stake to a private equity firm

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Common Gaps

What are the common gaps that can occur when settling an estate?

- Having a vague will or no will at all
- ‘DIY’ planning and probate tax avoidance missteps
- Not reviewing your plan regularly and not updating it with life events
- Managing family dynamics
- Incorrect documentation of beneficiary details
- Not communicating your wishes and details of your estate plan to your beneficiaries

Final Thoughts

The great wealth transfer is upon us – and it is a multi-faceted and emotional process. A trusting relationship with a seasoned financial advisor who prioritizes your needs and the best interests of your family will allow you to navigate the complexities of estate planning.

Call me to discover how my team can honour your legacy and ensure your family and business are taken care of. The Ruppert Team and our wealth and estate experts will help you manage multi-generational wealth by developing a tailored plan to reflect current and future financial goals.

The Ruppert Team

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Roy Ruppert
FCSI, CIM
Senior Wealth Advisor

As Senior Wealth Advisor and Portfolio Manager, Roy has successfully led The Ruppert Team ensuring his clients receive elite portfolio construction as well as tax minimization and estate planning strategies. Capitalizing on the vast resources of CIBC, Roy is able to provide tailor-made financial strategies to some of Canada's most affluent investors. Roy's business has been built on a solid foundation of mutual respect and trust by a diverse group of clients and their families.

George Anthony
MA, CFP, CIM
Associate Investment Advisor

As Associate Investment Advisor, George believes that a key part of his role is to provide clients and their family with excellent service. George starts by understanding the financial goals of his clients, allowing him to develop customized investment plans and effective strategies to help them achieve their financial goals.

The Ruppert Team

Lana Anguelova

Financial Associate

Lana is an IIROC Registrant with over 16 years of investment experience. She is responsible for all aspects of client service such as account openings and documentation, client correspondence and trading for The Ruppert Team. This includes the provision of investment information, taking buy/sell orders, and responding to account inquiries.
Lana was born in Bulgaria and moved to Canada in 1999. She speaks Bulgarian as a second language and is also a wife and mother to twin boys.

Lorna Quinn

Administrative Assistant

As the administrative assistant, Lorna works closely with the team to organize material for client presentations, generate reports, maintain documentation, and coordinate meetings. With over a decade of copywriting experience, Lorna also manages social media accounts, crafts white papers, sends correspondence to clients, and maintains the team's website. As a former teacher, she also edits financial copy to ensure it is more accessible to learn and understand.
When Lorna is not working, she enjoys writing, reading, and spending time with her family—especially her young daughter.

Diana Younan

Administrative Assistant

Diana has been with CIBC for 15 years working in several roles including assistant branch manager, financial service associate, and most recently, a private banking associate. With extensive experience, Diana provides our clients with outstanding customer service. As a graduate from Ryerson University's Retail and Service Management Program, she understands the importance of interpersonal skills which she brings to our valued clients.

Diana was born in Qatar and speaks Arabic as a second language. When Diana is not working, she enjoys cooking, baking, and spending time with her family and friends.

Your Team of Experts

We partner with CIBC experts
to help address all of your wealth needs.

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Roy Ruppert is an Investment Advisor with CIBC Wood Gundy in Mississauga. The views of Roy Ruppert do not necessarily reflect those of CIBC World Markets Inc. George Anthony is an Associate Investment Advisor working with Roy Ruppert, Investment Advisor. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.