



# Is it Time to Revisit Beneficiary Designations?

## Since opening your registered plan accounts, have you revisited your beneficiary designations?

In most provinces, registered plan accounts, life insurance policies and certain assets allow you to name beneficiaries directly.<sup>1</sup> When accounts are opened, sometimes naming these beneficiaries may be overlooked, or perhaps sometimes completed without much thought. Or, as the years go by, it is not uncommon to forget who was initially named in documentation.

If many years have passed since you named certain beneficiaries, perhaps a review is in order. Here are some considerations that may lead you to revisit designations, or form a basis for a discussion with a lawyer as it relates to your estate planning.

**1. Failing to name a beneficiary** — If you haven't named a beneficiary, assets will generally pass through the estate upon death. These assets will need to be included in a probate application and could be subject to probate (estate administration) tax in provinces where applicable.<sup>2</sup> As well, if assets pass through the estate, these assets may be subject to creditors if there are claims against the estate.<sup>3</sup>

**2. Directly naming a minor** — In certain jurisdictions, if the proceeds are not directed to a trust set up for a minor, a guardian may have to be appointed or the proceeds may have to be paid into court.

### 3. Directly naming a beneficiary with a mental disability

— If the beneficiary isn't contractually competent and a trust has not been named for their benefit, a guardian may have to be appointed or the funds may have to be paid into court. This could lead to potential delays or additional costs. As well, directly naming the beneficiary may unintentionally disqualify them from receiving government benefits.

### 4. Overlooking the impact of taxes when equalizing an estate

— If you intend on equalizing your estate for multiple beneficiaries, don't forget the impact of taxes. When certain assets don't pass through an estate, it may be difficult to accurately equalize amounts for different beneficiaries. For example, suppose you have two grown children as your heirs and you designate child #1 as the beneficiary of your Registered Retirement Savings Plan (RRSP), leaving the rest of the estate to child #2. When you pass away, the date of death value of the RRSP will be included in your final year's income while the proceeds of the RRSP itself will be paid to child #1. However, any taxes due in respect of the RRSP would likely be payable by the estate, potentially reducing the amount intended for child #2.

**5. Not updating beneficiaries** — With every major life change, there may be a need to update beneficiaries. If an intended beneficiary is no longer alive, proceeds will likely pass through the estate. To avoid this situation, naming a contingent or secondary beneficiary may be useful.

**6. Using non-specific designations** — If you use non-specific designations, such as "my children", there may be uncertainty regarding intent. For instance, in a blended family, children of a new spouse may be unintentionally included. Or, if a child predeceases you, that child's share may go to your other children and not that child's family, which may not be what is intended.

If you need assistance with updating beneficiaries on your accounts, please get in touch.

1. Quebec is an exception — RRSPs, RRIFs and TFSA's that are not insurance must be dealt with in a will; however, life insurance policies allow for beneficiaries to be named directly.
2. Assets that may not go through probate include jointly owned assets that transfer to the surviving owner or certain assets that may be held in a trust, as examples.
3. This applies to certain provinces, whereby plan proceeds that may form part of the estate may be available to creditors of the estate.