# Financial myths and realities: Succession planning

*Source: SunLife Financial*
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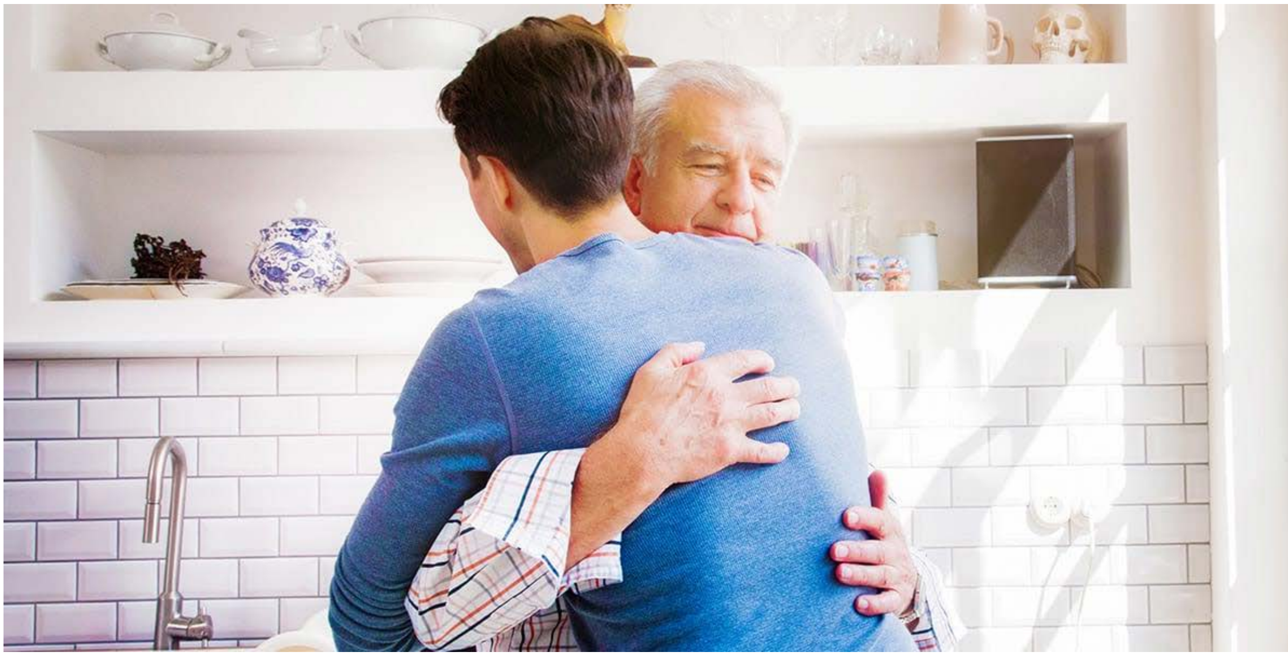
There are many money myths around, and Sun Life advisors have heard nearly all of them. Here are 2 about succession planning – and the realities behind them.



There's no shortage of misconceptions about money. Well-meaning but mistaken people often spread them to family and friends, and sometimes even try to insist to their financial advisors that these misunderstandings are correct. In this series of articles about financial myths and realities, we're sharing some of what our advisors hear on the job, with the goal of separating fact from fiction. Today's topic: succession planning.

## Myth #1: When I die, my kids will be able to sell my house to pay my final expenses

"Many of my clients think their children will just sell their houses to pay death-related expenses," explains Sun Life Financial mutual fund representative Nathalie Jacques.[1] "But to do this, the house would have to be sold and the sale closed in the month following the death, which isn't very likely."

Many people have assets (family home, cottage, RRSP, other investments, etc.) that will create an inheritance for their children, but few are aware of these 2 points:

1. The children will have to cover funeral expenses, legal fees and day-to-day expenses before these assets are sold, sometimes without any cash earmarked for the purpose, forcing them to dip into their own funds.
2. Many assets are considered for tax purposes to be "disposed of" at death at their fair market value, even if they have not actually been sold. Capital gains that result from these deemed dispositions are taxable in the hands of the deceased – that is, the estate. These deemed dispositions can therefore trigger a significant amount of tax for which a clearance certificate should be obtained (confirming that tax payment has been made or that a security has been provided) before estate property is distributed to the children. And sometimes this happens before cash from the actual sale of the property is available to pay the tax.

"This is where proper legacy planning and a statement of liquidity at death help to assess the succession's impact on the children," says Jacques. "It's a way to avoid unpleasant surprises. Keep in mind that it can take a long time to deal with all the paperwork after someone dies, and while all that's going on, the tax department and service providers won't wait."

*A life insurance policy can provide tax-free funds quickly to help cover the bills after your death.*

## Myth #2: If I die, everything will go to my spouse. We've lived together for 30 years!

In Canada, common-law and legally married couples are treated equally in some circumstances – but not all. Most provinces don't recognize common-law relationships when someone dies without a will ("intestate"), meaning that your spouse may not inherit any of your property.

"Common-law spouses still believe they will inherit from each other, but even years of living together doesn't change the fact that the Civil Code of Québec is going to apply!" points out Jacques.

The Civil Code doesn't recognize common-law spouses, which is why it's important to have a notarized will naming the spouse as heir of the property intended for them. If there is no will, legal provisions will come into play: All property will go to the children or, if there are no children, to the parents. What this means is that a common-law spouse may end up as co-owner of her own house with her elderly mother-in-law or her 2-year-old stepson.

The situation is similar in Ontario and most other provinces. In British Columbia, however, where the intestacy rules apply equally to common-law and legally married couples, your spouse inherits your entire estate only if you have no children. If you had children together, your spouse would get the first $300,000 of the estate (or the first $150,000, if the children are yours but not your spouse's). Your spouse would then get one-half of the rest of the estate, and the balance would be split among your children. The rules are somewhat similar in Alberta, where term "adult interdependent partner" is used instead of "common-law spouse." (To find out about the intestacy rules in your province, visit your provincial government's website.)

Governments, however, often do recognize common-law spouses when it comes to pensions. For example, Quebec specifies circumstances under which a “surviving spouse's pension” can be paid to a common-law spouse.

The best way to ensure that your common-law spouse receives your legacy is to put it in writing: Name your spouse as your beneficiary on your life insurance policies and RRSPs and be sure to make a will.