

Naming Beneficiaries for Registered Plans

Designating a beneficiary for your RRSP, RRIF and TFSA is an important part of estate planning

Naming a beneficiary allows you to limit the income tax liability on your estate, as well as ensures you leave a financial legacy for your loved ones.

In this brochure, we will review the tax implications for different types of beneficiaries, cover key considerations when choosing a beneficiary, and outline how to designate your beneficiaries. Given registered plans and estate planning both involve complex, detailed tax and financial rules, we encourage you to discuss this information and review your plans with your credit union investment advisor.





Limiting the Income Tax Liability

Let's be honest—no one likes to see their savings go to the government. Registered plans, because they contain tax-sheltered funds, have unique income tax liabilities you need to consider when naming beneficiaries.

RRSPs and RRIFs

When you die, the value of the RRSP or RRIF is treated as though you withdrew the entire value from the registered plans in the year of death. The result can be a very large tax bill, depending on the value of your savings. There are three options to minimize income tax:

- 1) You designate your spouse/common-law partner as the sole beneficiary.
- 2) Your beneficiary is your child or grandchild who is financially dependent.
- 3) On a RRIF, you designate your spouse/common-law partner as successor annuitant and sole beneficiary. Upon your death the RRIF would continue in the name of your spouse/common-law partner and all funds continue to be tax sheltered.

TFSA

Income earned in the TFSA between the date of death and the date the plan is closed is taxable to the beneficiary or to the estate, where no beneficiary has been designated. However, where you designate your spouse/common-law partner as successor holder and sole beneficiary, he or she will replace you as the holder of your TFSA and will not have to pay income tax on the funds in the TFSA after your death.

Key Considerations When Designating a Beneficiary

There are a number of factors to consider when determining who you name as beneficiary for your registered plans. These include:

- The financial needs of your family.
- The tax implications—both federal and provincial.
- The administrative costs—for example, your Will may need to be probated.

Before you make a final decision, you will want to consider a number of factors. If you are uncertain how to proceed, consult a credit union investment advisor or your lawyer.

Key considerations include:

- You may appoint one or more primary beneficiaries, as well as one or more alternate beneficiaries.
- You may want to consult a tax expert.
- If a child under the age of majority or an incompetent individual is named beneficiary, there may be a legal requirement that the proceeds of the RRSP, RRIF or TFSA be paid to the Public Trustee or Official Guardian or to a court-appointed property guardian.
- If your designated beneficiary predeceases you, the designation on the contract does not provide for the proceeds to pass to that beneficiary's children.
- The content of Wills are subject to federal and provincial legislation that could affect your choice of beneficiaries.

Questions to consider when selecting a beneficiary:

Designating Your Spouse

- Does your spouse/common-law partner already have sufficient registered investments?
- Is your spouse/common-law partner the higher income earner?

Designating Someone Other than Your Spouse

- Is that person the sole residual beneficiary of your estate assets?

Designating a Child

- Does your child qualify as financially dependent under the Income Tax Act?
- Will your child's court-appointed property guardian or the Public Trustee/Official Guardian agree to the purchase of an immediate annuity, or if eligible, to transfer the proceeds to an RRSP or RRIF in the name of your child?

Having Proceeds Payable to Your Estate

- Are the nature and extent of your assets such that, regardless of the designation on the RRSP, RRIF or TFSA, the Will may have to be probated?
- What are the probate and administration costs that would be associated with the RRSP, RRIF or TFSA?

How to Designate a Beneficiary

Once you have decided who your beneficiary will be, you need to ensure this information is documented officially. There are typically two documents where you can designate a beneficiary for your registered plans:

- 1) The RRSP, RRIF or TFSA contract.
- 2) Your Will.

There are advantages and disadvantages for each approach, as well as advantages and disadvantages of not designating a beneficiary.

DESIGNATION ON THE RRSP, RRIF OR TFSA CONTRACT

Advantage: It is not necessary to obtain Letters Probate or Administration because the beneficiary has been clearly identified on the contract.*

Disadvantage: If you designate your spouse/common-law partner as beneficiary, the option of taxing some or all of the RRSP or RRIF proceeds on your estate income tax return for year of death may not be available.

* If you reside in Quebec at time of death, a designation of beneficiary and successor annuitant/holder on an RRSP, RRIF or TFSA contract will not be recognized. A designation of beneficiary is only recognized in a Will.

DESIGNATION IN YOUR WILL

Advantage: Provides you with the ability to structure a diverse distribution plan with multiple beneficiaries.

Disadvantage: Additional costs may be incurred as it may be necessary to probate your Will in order to give force and effect to your designation. Furthermore, if your Will is revoked or destroyed, the designation may be lost.

NO DESIGNATION

Advantage: In certain circumstances it can be advantageous to provide no specific designation on the contract or in your Will. Instead, individuals you identify can inherit the RRSP, RRIF or TFSA under a bequest or as a residual beneficiary.

Using a specific bequest in the Will allows you to impose trust conditions on the distribution of the funds. A bequest in a Will also permits you to direct who will be entitled to receive an individual's share of the proceeds if that beneficiary predeceases you.

Disadvantage: There may be additional expenses and delays in the administration of your estate if it is necessary to obtain Letters Probate or Administration to deal with the RRSP, RRIF or TFSA. In addition, the funds may be attachable by creditors of your estate or subject to claims against your estate.

Making the 'Best' Designation

Your credit union investment advisor can help you understand the many considerations involved in choosing the right beneficiaries for your registered plan. The decision of who is the right beneficiary is something only you can decide.

Additional Considerations

CHANGES IN PERSONAL CIRCUMSTANCES

It is important to revise designations should there be any changes in your personal circumstances. When you prepare a new Will, any former Wills are revoked.

PROTECTION FROM CREDITORS BEFORE AND AFTER DEATH

RRSPs and RRIFs may not be protected from creditors. However, after your death, if you have designated a beneficiary, funds in your RRSP or RRIF cannot be claimed by creditors.



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