The estate plans of effective people

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The term estate planning conjures images of wealthy philanthropists living out their retirement years on a tropical island, sipping piña coladas, while managing a plethora of family trusts and private foundations.

In truth, estate planning is important for everyone, not just the rich. If you have any assets at all, you need an estate plan so these assets go to the people you care about.

Here's a 10-step guide to an effective estate plan.

1. Designate a team of professionals

You don't have to go it alone. Get your financial, insurance, legal and tax advisors involved to make a plan that works legally and may reduce tax as well.

2. Draw up a household balance sheet

This is a snapshot of your financial position, where you list your assets and liabilities. It's a great starting point to help discover everything that needs to be dealt with.

3. Understand your life insurance needs

Life insurance can play a critical role in any estate plan, providing extra funds to take care of loved ones, to help pay any taxes owing upon death or simply to leave a greater inheritance.

4. Draw up your will

Having a will is only one step in the estate-planning process, but it's an important one. If you die without one, provincial law dictates who gets your assets upon death, which may not coincide with what you intended.

5. Consider a power of attorney for property[1]

A power of attorney for property gives someone else the legal ability to deal with your financial affairs based on its terms and may continue to be valid in the event of your incapacity.[2]

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1 Depending on your province of residence, a Representation Agreement may serve the same purpose as a Power of Attorney. In Quebec, a Power of Attorney is also called a Mandate and the attorney is called the "mandatary".

2 In Quebec, a Protection Mandate given in anticipation of incapacity can cover both property and personal care. Your mandatary will not have any power to act under a Protection Mandate until the document is officially validated by the Court (a process known as "homologation.")

6. Consider a power of attorney for personal care[3]

This power of attorney authorizes someone to make personal, health and medical decisions on your behalf in case of your incapacity.

7. Minimize taxes and other fees

A tax specialist can advise you on the tax benefits of leaving certain assets to certain people. For example, appreciated securities can be left to a charity and tax on capital gains may be reduced, while other appreciated property, as well as your RRSP and RRIF, can be left to a spouse or partner on a tax-deferred rollover basis.

8. Keep track of accounts and important information

Make a list of your key personal information, advisors, important documents (and their locations), accounts, other financial assets and computer passwords, and put this list in a safe place so it can be easily referenced by your estate executor later on.

9. Review and update your plan regularly

Major life events provide a good time to update your plan. The birth of a child, separation or divorce, death of a parent, and other events could all impact your original plan.

10. Let someone know

Though it's often the hardest step, it is a good idea to let your family know what you're planning to do, at least in general terms. That way, family disputes may be lessened if they understand the reasons behind your wishes. You should also make sure that your estate executor knows exactly where to find the information that will be needed to administer your estate.

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[3] Again, terminology may differ among provinces.

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