

## Blended Families and Property Distribution

### Learning Objective:

- Identify relevant estate planning objectives and considerations in a blended-family scenario.
- Explain options, alternatives and implications related to potential strategies for the distribution of property while considering client objectives.

### The Facts

Jason, age 53, and Claire, age 39, married 18 months ago; a second marriage for each of them. Each has two children from a previous marriage. Jason's sons, Alexander (age 22) and Philip (age 19) live with his ex-wife. Claire's daughters, Julie (age 14) and Holly (age 13) live with Jason and Claire and expect to do so until they finish college or university.

Jason wholly owns and operates an incorporated business and draws \$150,000 in salary from the company annually. Claire is a self-employed freelance interior designer, a vocation that nets her about \$45,000 a year, after expenses, but before taxes.

The home that the couple live in is registered in Jason's name and is valued at \$620,000. Jason owned the home prior to the couple's marriage and brought it into the relationship as the family home. Their major assets are summarized below.

## CLU Advanced Learning Series (Participant)

### Case Study: Blended Families and Property Distribution

#### Asset Summary

ASSET	OWNERSHIP	WHEN ACQUIRED	FAIR MARKET VALUE	Notes
House	Jason	Prior to marriage	\$620,000	
Vacation Home	Claire	Prior to marriage	\$210,000	
RRSP	Jason	75% prior to marriage, 25% after	\$240,000	Beneficiary – Jason’s estate
RRSP	Claire	60% prior to marriage, 40% after	\$80,000	Beneficiary – Claire’s estate
Incorporated Business	Jason	Prior to marriage; grew \$100,000 during marriage	\$600,000	Jason is the sole shareholder
Life Insurance	Jason	2+ Years Ago, prior to marriage		Jason is the policy owner and life insured  Beneficiary – Jason’s estate  Term policy with \$400,000 death benefit

The beneficiaries for both RRSPs and life insurance on Jason’s life were set up shortly after their divorces, before the couple ever met, and have remained unchanged.

Jason and Claire have wills, each naming their children as their residual beneficiaries, in trust until they reach age 25. Jason’s will was written shortly after he divorced his first wife and Claire’s was executed shortly before she married Jason. She had not had a will up until that point. When it comes to estate planning, the couple are each concerned primarily about protecting the interests of their own children but are not unsympathetic to the needs of a surviving spouse.

Actually, the concerns regarding their respective children, particularly Claire’s is a major point of contention in their marriage. Claire’s two daughters are still very close to Claire’s ex-husband, to the point that the new relationship creates a great deal of friction between Claire and her ex. Fallout from those tensions is a very strained relationship between Jason and the girls, who resent his introduction into the family and have never accepted Jason as their “new father”. The family dynamic is, in fact, strained to the point that Jason and Claire are uncertain that their marriage is going to work out.

Regardless of the future of their marriage, you have suggested to Jason and Claire that they need to review their wills, given their dramatically changed circumstances since their divorces. Your discussion regarding wills also has the couple wondering about the most effective methods of transferring property between themselves, or to their children, either during their lifetimes or at death (assuming, of course, that they stay together). They have asked you to put together recommendations regarding ways to transfer their property with an eye to reducing taxes and other expenses, while still meeting their estate and financial planning objectives.

A while ago Claire had a lengthy chat with her neighbour, Rose, about, among other things, financial planning. Rose listens to the financial shows on the radio and has read a couple of books on financial and estate planning and considers herself to be an expert. She offered Claire a series of ideas for her estate:

- a) Claire had mentioned that her vacation home had been in the family for three generations and she would like to see it eventually passed down to her daughters, to keep the tradition alive. Rose suggested that the surest and best way to affect this would be to change the ownership to joint with rights of survivorship with the daughters as soon as they reach maturity, at age 21.
- b) Rose suggested that, if Claire executes a new will with Jason as her beneficiary and executor, she should also name an alternate executor. Rose suggested Claire's cousin, who is an estate lawyer in Tennessee, in the United States.
- c) Since Jason does not need Claire's assets for him and his sons to live on, Rose suggested that Claire change the beneficiary of her RRSPs from her estate to her two daughters, in equal shares, to avoid probate costs.
- d) Given that Claire and Jason seem to be having some marital issues, Rose felt that it might be prudent for them to get counselling and to see about putting together a matrimonial contract to deal with financial matters, should a separation be on the horizon.
- e) Since Claire operates a sole proprietorship business, Rose suggested that she should transfer her RRSP assets to a plan issued by a life insurance company, and then make the appropriate changes to the beneficiary designations, to provide protection from her creditors.

### Question 1

In the event that Jason and Claire’s marriage should not work out, identify the financial issues for each of them and their families. Pay specific attention to issues like: division of assets, the family home, and support payments, with all partners in mind.

When answering this question, apply the matrimonial property, support and other legislative rules as they currently exist in your province of residence.

**Reference:**

- *Wealth Planning Strategies for Canadians, 2020 Edition, 5.3 & 5.7*

### Question 2

Discuss for Jason and Claire four basic methods by which property could pass between them or to their children, outlining the practicality and timing of each method and any tax ramifications.

**References:**

- *Wealth Planning Strategies for Canadians, 2020 Edition, 22.3.1*

### Question 3

From the five ideas that Rose suggested to Claire, pick four ideas and explain whether the idea is good or bad. For each of the four you pick, explain your reasoning to support your conclusion as to why it is good or bad.

**References:**

- *Wealth Planning Strategies for Canadians, 2020 Edition, 5.3.2, 22.3.1, 22.3.6, chapter 11, chapter 20,*
- *Estate Planning with Life Insurance, 7th Edition, 3.1(b)(x) and 3.2(b)*

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