Case Study: Estate Planning with Trusts

Learning Objective:

- Identify how trusts can be used to achieve non-tax objectives
- Identify the need for planning for incapacity
- Analyze a client's current financial status and financial planning objectives with a view to determining a planning strategy involving the use of trusts
- Illustrate the benefits of the use of trusts in estate planning

The Facts

Ernie married Ruth 45 years ago, when he was 21 and she had just turned 19. Together they continued to build the small publishing business that Ernie inherited from his father. The business grew to a value of over $2,000,000 and was generating net income of more than $300,000 a year. Ernie and Ruth sold the business for proceeds of $1,750,000 net, after-tax, last year.

The business had provided a very comfortable income for the family, particularly over the past 30 years — perhaps too comfortable. The couple's three children (now all in their mid-to-late 30s) never wanted for anything (clothing, cars, exotic vacations, etc.) when they were in their teens and early twenties. As a result, they never really developed a respect for or a proficiency with money. None of the children, who are all married with children, and earning $50,000 to $60,000 a year with reasonably responsible jobs, is yet able to manage their money effectively.

Ernie and Ruth invested the net proceeds from the sale of the business into term deposits. The couple needs the income that the deposits generate (over $50,000 a year) along with their pensions, but do not expect to have much need to dip into the capital. Along with RRSPs and their mortgage-free home, as well as a joint last-to-die $400,000 universal life insurance policy, the couple has an estate valued at almost $3,000,000.

Now retired and with money in the bank, Ernie and Ruth are growing increasingly concerned about planning their estate. They have come to you, as their newly hired financial planner, for advice regarding a number of issues:

- Both Ernie and Ruth's parents suffered from progressive senility later in life. They fear that this could happen to either, or both of them, and wonder what steps they might take to protect their assets against the possibility of their own declining judgment.
- After their deaths, the couple would like their children to be able to access maximum income from the assets, with minimum tax.
- Both Ernie and Ruth want their children to benefit from their assets, but are also concerned about eventually passing their estate along to their grandchildren.
- They want their insurance proceeds allocated for the benefit of their children/grandchildren, but want to ensure it would be free of probate fees or the claims of creditors.

Question

Suggest four steps that the couple might take, utilizing their wills or outside the structure of the will, to achieve their objectives.

Reference

- *257 Advanced Estate Planning Study Guide (pp. 2-29 to 2-35)*
- *Wealth Planning Strategies for Canadians, 2019 Edition (Chapter 23)*
- *Estate Planning with Life Insurance, 6th Edition (Chapter 10)*