NetWorth

Education Planning

Many parents hope their children will pursue higher education – and for good reason. A post-secondary education can prepare your child for a fulfilling career, lead to enhanced earnings potential and, ultimately, steer them on the path to a successful and rewarding life. However, if adequate savings are not in place for post-secondary education, your children could graduate with the added stress of carrying significant student debt before they've even secured their first job.

With the start of the new school year, many parents are feeling the effect of rising tuition fees and all other associated and ancillary costs with children enrolled in post-secondary schools. With these costs in mind, education planning should be an important component of your overall family wealth management plan. Beginning a dedicated education savings plan, particularly while your children are still young, helps ensure you have the funds necessary when they begin their post-secondary studies.

Savings Plan

There are many ways to fund your children's higher education. What's right for your situation depends on many factors, including: your disposable income; whether financial assistance will be provided by other family members, such as grandparents; the ages and number of children involved; the options for your savings if your child doesn't pursue a formal post-secondary education program; and whether you want your children to have control over the assets when they reach the age of majority. The good news is that Canada Revenue Agency provides families with flexibility and an opportunity to have their savings grow within a tax-free environment with a Registered Education Savings Plan (RESP).

Many parents begin saving for their children's post-secondary education by establishing a RESP. While your RESP contributions are not tax deductible, the funds grow tax-deferred inside the plan and are eligible for additional contributions from the federal government through the Canada Education Savings Grant (CESG). The CESG is a program that deposits up to $500 per year directly into your child's RESP. Under the program, the federal government pays a grant of 20% on the first $2,500 contributed annually to a maximum of $500 per beneficiary (up to $1,000 if there is unused grant room from a previous year) into the RESP. To obtain the maximum benefit from an RESP and the CESG, it makes sense to start your savings program early. It is important to note that you can keep the RESP open for a maximum of 35 years.[1] Over the life of the RESP, parents can contribute up to $50,000 per child, and each child qualifies for up to $7,200 in CESGs. As well, RESPs may be eligible for additional educational grants through other federal and provincial programs, where applicable.

Let's connect

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Withdrawals

When your child is finally enrolled in a qualifying post-secondary educational program (or specified educational program) and the RESP funds are used to pay for education expenses, the accumulated income and growth on the principal contributions (including CESGs) is taxed in your child's hands, resulting in little or no tax if withdrawn over a few years, because of the basic personal exemption and the tuition and education tax credits.[2]

Your RESP contributions can be returned to you (or your child) tax-free at any time. However, a withdrawal of the RESP contributions will require repayment of the CESG if your child is not attending a qualifying post-secondary educational program.

It is important to consult with a qualified financial and tax professional prior to establishing your child's RESP account to ensure it is appropriately structured and tailored to meet your family needs.

[1] 40 years for an individual plan with a beneficiary who qualifies for the disability tax credit.

[2] The 2016 Federal Budget proposes to eliminate the education tax credit effective January 1, 2017. These proposals do not eliminate the tuition tax credit.

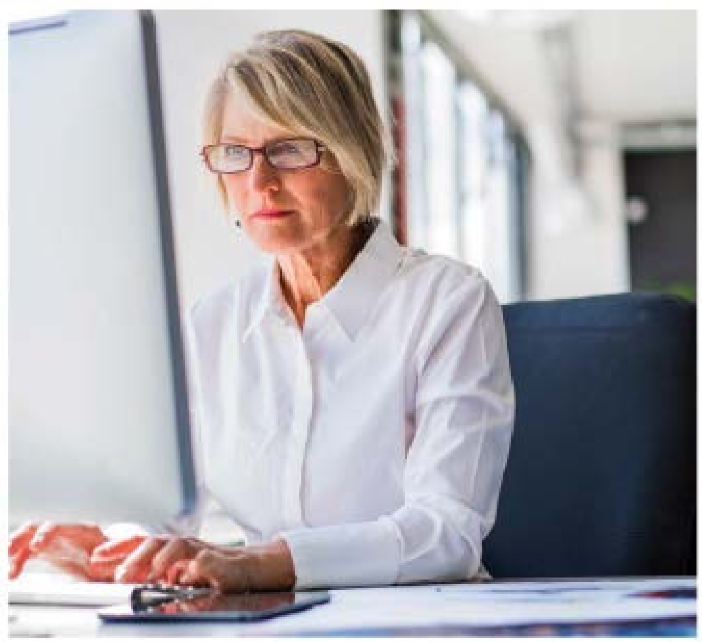
Row, Row, Row Your Boat – Navigating Your Retirement Income Streams

When the time for retirement arrives, payments from the Canada Pension Plan (CPP), Registered Retirement Income Fund (RRIF), and Old Age Security (OAS) are typically the main sources of income for many Canadians. It is important to consider these income streams and discuss the planning opportunities with your financial advisor as you approach your retirement years. This article provides an overview of these programs and some considerations when navigating down the retirement river.

The most enquired question in retirement planning is: When should I start taking my benefits? There is no simple answer to this question; however, we will examine factors to consider when making this decision.

The CPP is a government program funded by individuals and their employers over their working lives. The premiums paid determine the amounts you are entitled to. CPP, in most cases is taken at 65 years of age; however, you can take CPP early at age 60 or as late as age 70. Taking CPP early will reduce the annual benefit you are entitled to whereas deferring the take-up will increase your annual benefit. Your need for retirement income will dictate when you start taking the benefit. Other considerations include life expectancy, whether you're still working, your spouse's entitlement, tax implications and other sources of income in retirement.

A RRIF is a retirement account funded through your past Registered Retirement Savings Plan (RRSP) contributions. A RRIF is established



when investments from your RRSP are transferred to a RRIF (no later than by the end of the year in which you turn age 71). Annually, the government requires you to withdraw a percentage of the account value as retirement income. If you are not expecting other eligible pension income to access the $2,000 federal pension income credit,

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consider converting a portion of your RRSPs into a RRIF at age 65. An early conversion starts a pension income stream to which you can claim the $2,000 pension income tax credit annually. This strategy helps you gain access to their retirement funds early and can also be combined with pension income splitting to access your spouse or common-law partner's unused pension tax credit. For more information, please see our BMO Wealth Management publication titled "Pension Income Splitting provides Tax Planning Opportunities for Couples".

Lastly, the OAS is funded out of general revenues of the government and is available to Canadian residents over the age of 65, who have resided in Canada for at least 10 years since their 18th birthday. Canadians who have resided in Canada for at least 40 years since their 18th birthday will be entitled to the maximum benefit (currently $573.37 per month). OAS starts at age 65, however, can be delayed until age 70. Where OAS is delayed, a 0.6% increase to the monthly amount is granted, resulting in a 36% increase if fully deferred until age 70. Where there are other sources of income and good health, deferring OAS may be worth considering. However, OAS is an income tested benefit, and where an individual's net income is above $73,756 (2016), the OAS begins to get clawed back so tax implications will play an important role in this decision.

All three sources have different considerations and ages as to when you could start receiving benefits; be sure to discuss with your BMO Nesbitt Burns Investment Advisor when these passengers should be brought aboard the retirement vessel.

Relocation to the United States

Our ally and friendly neighbour to the south is the retirement destination for many Canadians. Prior to relocation, consider the following list (by no means an exhaustive list), of estate planning issues:

- Are you an acting trustee of a Canadian resident trust, or, an acting executor (liquidator in Quebec) on an estate resident in Canada? If so, your move may cause a change in residency of the trust (estate) which may give rise to a deemed disposition and capital gains tax payable by the trust. In addition, you may not be able to give trading instructions regarding securities on the Canadian side after your residency changes to the U.S.
- Are you an attorney under a Continuing/Enduring Power of Attorney for Property (mandate in Quebec), for someone? If so, you may not be able to give trading instructions regarding securities on the Canadian side after your residency changes to the U.S.
- Are you married, and if so, have you entered into a Marriage Agreement? If so, does the Marriage Agreement expressly address preferred governing laws? Does your Marriage Agreement exclude division of the Matrimonial Home ("MH"), and if so, does it contemplate a substitute for property?
- Do you own assets in Joint Tenancy with Right of Survivorship with anyone? If so, consult with the appropriate professional regarding the tax implications upon actual or deemed disposition in your destination jurisdiction.
- Are you a beneficiary of a trust? If so, consult with the appropriate professional regarding the tax implications of your move for all parties and on both sides of the border, including a potential change of residency (and deemed disposition, taxable) if you are the sole or controlling mind beneficiary.
- Do you have a valid Will? Does it reflect your current intentions, address your destination residency and location of property, and does it create a succession which will be tax efficient for your beneficiaries on both sides of the border? With respect to Wills and the administration of estates, the laws of the jurisdiction of residency at date of death govern. For example, if you continue to own real estate in Ontario, British Columbia, or Nova Scotia after your move, upon your death there is likely to be significant probate tax payable with respect to that property.
- Do you have a valid Continuing Power of Attorney for Property and a valid Power of Attorney for Personal Care (in Quebec, a "mandate in case of incapacity" includes the continuing Power of Attorney for Property, End of Life Directive and Power of Attorney for Personal Care) which will be compliant with the laws of your destination jurisdiction? Do you own securities, and if so, is the account located on the same side of the border as your destination residence and of the residence of your appointed attorney for property? If not, neither you nor your appointed attorney, if residing on the other side of the border from the securities account, will be able to provide trading instructions. In that case, consider migrating your securities account to your destination jurisdiction and granting a new Power of Attorney for Property, in the new jurisdiction.

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Executor vs. Trustee

Legal terms can be confusing. For example, an estate is a trust but a trust is not an estate. An executor is a trustee but a trustee is not an executor.

Let's clarify. The office of an executor is to administer and distribute the estate of a deceased according to the Will, expediently. The office of a trustee is to manage assets of the Trust according to terms of trust for as long as the Trust Instrument dictates. The important point is that the role of the executor is not the same role as that of a trustee. The roles do not overlap.

The role of an executor arises upon the death of a testator, if the named executor accepts the appointment. The role of a trustee arises upon delivery of property, when such delivery is accepted. Often the executor and the trustee (of a testamentary trust) are one and the same person, but the roles are not the same.

Some similarities and differences between the roles are:

Similarities

- Both are fiduciaries. This means that the executor must defend the estate against all claims, and the trustee must do only that which is in the best interest of the trust's beneficiaries.
- Both risk personal liability. An executor and a trustee bear a personal liability (to creditors, beneficiaries) where it can be demonstrated that there has been a breach of fiduciary duty, bad faith, fraud, or negligence.
- Both have legal but not beneficial ownership of the property in their care. An executor and a trustee can access the property, but they may not use or otherwise benefit from, the property.

Differences

- The executor operates in the public domain, where a Will is submitted to the court for probate. The trustee of an inter-vivos trust operates in the private domain of the settlor and of the beneficiaries.
- Absent litigation or other delays, the executor's timeline is typically a few months or a short few years. The trustee's timeline is typically a few years or a few decades.
- It is significantly easier for a trustee to resign than for an executor to remove him/herself, from office. The trustee must inform all involved parties of the resignation, but the trustee does not require anyone's consent. The executor, on the other hand, must ask the court to be removed, and must provide compelling reasons.

Offices of an executor and of a trustee involve much work and time, in addition to the risk of a personal liability for damages. Obtain advice of the appropriate legal professional before accepting an appointment.

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