



## Celebrating aging, embracing the future: Planning for the unexpected

Many of us avoid conversations about illness, incapacity or end of life decisions, but making a plan doesn't mean expecting the worst – thoughtful preparation for the unexpected will ensure your lifestyle and legacy stay protected.

### Start by aiming for a healthy lifestyle

Building wealth affords you the opportunity to pursue interests you enjoy, and good health helps make that possible. For example:

- Lowering financial stress results in less risk of a heart attack, while reducing debt can reduce the risk of depression and anxiety disorders.
- Getting adequate sleep can lead to stronger decision making, memory and reaction time.
- Exercising regularly improves cognitive function and drive.

### Be prepared by planning ahead

While good habits can help prevent negative health outcomes, nothing is guaranteed. It's important to have plans in place to mitigate the stress that can result from a change in your physical or mental condition. Here are steps you can take to help ensure you and your family's financial interests are taken care of.

#### 1. Assign powers of attorney

No one wants to think about becoming incapacitated, but it's always a good idea to prepare for the scenario. A power of attorney (POA) is a legal document that allows you to appoint someone to make health or financial decisions on your behalf if you become unable to do so. The laws and terminology regarding substitute decision making vary among the provinces and territories. The document may be referred to as a POA, health-care directive or mandate and the person being appointed may be called an attorney or mandatary.

When selecting someone to make decisions on your personal care, consider choosing someone who lives close enough to assist you in emergency health-care decisions. Depending on your circumstances, you can also appoint a professional, such as a trust company, as your POA for property.

Another option is to appoint two people jointly as a check and balance to prevent misuse of funds. This can reduce the chances of one person misusing the funds, as they must agree on every choice they make, financial or otherwise.

#### What's inside

1. Celebrating aging, embracing the future: Planning for the unexpected
2. Planning for the family vacation property
3. The Happiness Portfolio



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## 2. Review your Will and estate plan

Your estate plan outlines how your assets will be distributed and who will carry out your wishes, but it only works if it's kept up to date. It's important to review your Will and any related documents, such as beneficiary designations and trust arrangements, while you're still in good health and have full mental capacity. If your health declines or you become cognitively impaired, you may no longer be able to make changes. Working with your professionals to review these documents regularly will help ensure your legacy is protected and carried out according to your intentions.

## 3. Protect your business

If you're a business owner, it's crucial to have a written buy/sell agreement in place and name someone who will keep your business running if you need to step away from the business due to a serious health event.

Buy/sell agreements outline the conditions of transferring business ownership in the case of specific triggering events, such as death, disability or incapacity. This allows other owners or key employees to purchase your interest (known as a cross purchase) or for the company to purchase your interest (known as an entity purchase) at the agreed-upon price and terms in the document.

## 4. Understand the impact of changes in your income

A health crisis can result in lost income and increased expenses, causing significant lifestyle disruptions. To determine how you'll be affected, we can help you calculate the cost of your current lifestyle and identify all sources of income, including employment wages, investment earnings, business income, employer pensions and

government benefits. We can also help you assess long-term costs and income and ensure you adjust for inflation and the expected growth of your savings and investment assets.

## 5. Do you need critical illness insurance?

Thanks to scientific advances and lifestyle improvements, we're living longer, healthier lives, but the risk of a critical illness remains – especially as we age. This can result in significant financial consequences. Your health may prevent you from working, and medical bills not covered by insurance can mount.

Critical illness insurance pays out a tax-free lump sum if you're diagnosed with a specific illness or disease covered by the policy and survive for the prescribed qualification period. Receiving this tax-free benefit doesn't affect the amount you may also receive from disability insurance, and once the claim is approved, you can use the funds to meet any needs required.

## 6. Protect yourself from financial abuse

As we age, our mental capacity can diminish, leaving us at risk of becoming a victim of elder financial abuse. Whether it's someone at your door who's claiming to sell a water heater or a loved one asking for a large loan for some kind of emergency, many people believe that seniors can be tricked out of their hard-earned savings.

In addition to appointing a POA you trust, consider naming a Trusted Contact Person (TCP) – preferably someone other than your POA. The TCP is an emergency contact your financial advisor can reach out to if they can't get in touch with you or have any concerns about your health; however, they do not have permission to make financial decisions on your behalf.

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# Planning for the family vacation property

Many Canadians appreciate the benefits and joys of owning a cottage, cabin or chalet (“vacation property”), and wish to pass the ownership and enjoyment to the next generation. Designing a succession plan for the future ownership of your family vacation property can be challenging, especially because these properties often hold tremendous sentimental and monetary value.

## Communicate, communicate, communicate

Parents often agonize over a complex succession plan for the family vacation property, only to learn later that some, or all, of their children have no interest in its eventual ownership. That's why it's important to keep the lines of communication open between all parties when developing your plan, and that it's regularly reviewed to ensure it remains relevant for everyone concerned. This is especially important in situations where children are unsure, their lives are unsettled, or sibling rivalry exists. Your succession plan for the family vacation property may need to be flexible and/or revised to make certain that it takes into consideration the unique dynamics of your ever-changing family situation.

## Don't forget the taxes

The value of the vacation property relative to the value of your entire estate is an important consideration. Over the years, its value may have increased significantly, resulting in insufficient funds in your estate to pay the capital gains and probate tax (if applicable), as well as to compensate or equalize any children who will not be inheriting the property.

Provided that the vacation property is owned by you alone or jointly with another person and is “ordinarily inhabited,” the Principal Residence Exemption can be applied to a vacation property upon declaration (or election) of the property as the principal residence in the year of disposition. If you do not apply the Principal Residence

Exemption to a vacation property upon disposal, you may have the opportunity to reduce the capital gains tax payable by amending the adjusted cost base (“ACB”) of the property, to add eligible renovation/capital expenses to the original cost of the property.

Depending on your province of residence and the province in which the vacation property is located, significant probate tax may apply to the fair market value (“FMV”) of the property upon death of the owner, in addition to the capital gains tax. Probate tax may be avoided by holding the vacation property in a qualifying trust, a corporation (though this ownership structure is generally not recommended), by way of joint tenancy with right of survivorship, or by gifting it during your lifetime.

### Plan for liquidity

Most people apply the Principal Residence Exemption to the family home and have their estate pay any capital gains tax with respect to a vacation property after their death. However, if your estate has a shortfall of liquid funds to pay the capital gains tax, you’ll need to consider ways to provide additional funds in your estate for this purpose. Instead of gifting the property, you can give your children the option to purchase it from your estate upon your death. Your children can use all or a portion of their cash inheritances to fund the purchase. The proceeds of the sale will then be available to the estate to pay taxes and distribute the balance to your beneficiaries.



Insurance can also be used to provide a funding solution. In this situation, your children purchase an insurance policy on both your and your spouse’s lives. Your children are both the owners (pay the premiums) and beneficiaries (receive the proceeds at death) of the policy. Upon the last parent’s death, the proceeds of the life insurance policy provide the funds necessary to pay the taxes owing by the estate, and perhaps fund equalization payments to the other beneficiaries.

Another option is for the life insurance policy to be owned by you and name your children or your estate as beneficiaries in order to provide the necessary liquidity. Note that the latter may result in additional probate fees.

### Using a trust to manage multiple users

If several family members will be sharing the vacation property, or if multiple buildings or parcels of land need to be kept together, a trust can provide easier management and fewer risks than co-ownership. Trustees are appointed – usually one to represent each family group – and the trustees decide on time allocations and repairs, as well as paying insurance, taxes and utilities. In this situation, a maintenance fund should be established to provide for major expenditures.

One tax consideration of using a trust is the “21-year rule,” which deems capital property in the trust to be sold at fair market value every 21 years, potentially triggering capital gains tax.

### Consider a “cooling off” trust

It is possible to transfer the vacation property to your children during your lifetime – known as an “inter-vivos” transfer. However, the transfer will trigger capital gains tax on any increase in the value of the property since its purchase. The tax is payable unless you elect to utilize the Principal Residence Exemption at the date of the transfer, and if the vacation property qualifies as a principal residence during the time you owned it. This also applies to the transfer of your vacation property to a trust – except for an Alter Ego, Spousal, or Joint Spousal/Partner trust. One disadvantage of a transfer of your vacation property to an inter-vivos trust is that you lose control over – and perhaps access to – the property which can lead to problems if your intention is to continue using the property during your lifetime. Another disadvantage is that transferring the property to your children exposes the property to the children’s creditors, family law claims, and unexpected events which may make the property vulnerable.

### Residential property flipping rule

Vacation property owners should be aware of recent changes to the tax law that seek to ensure profits from “flipping” real estate properties are taxed. Specifically, on or after January 1, 2023, any person who sells a residential property they have held for less than 12 months is considered to be flipping the property and will be subject to full taxation on their profits as business income (and not as a capital gain), with specific exceptions for certain life circumstances, such as a death, disability, the birth of a child, a new job, or a divorce.

# The Happiness Portfolio

Retirement has long been touted as the light at the end of the tunnel, at least from the day-to-day grind. But while some are excited about the prospect of living a life of travel and leisure, many lack a plan to use the rest of their free time meaningfully. Increasingly, Canadians are discovering that once they retire, unlimited free time can be too much of a good thing, causing some to even crave going back to work.

**Susan Latremoille, Co-founder of Next Chapter Lifestyle Advisors**, isn't surprised by these numbers. "I noticed many of those looking forward to retirement with great anticipation would then not be as happy as they thought they would be," she explains. "We should replace the word retirement with 'reirement.'"

**Marianne Oehser, a retirement and relationship coach and fellow Co-founder of Next Chapter Lifestyle Advisors**, shares that sentiment, noting that many assume their retirement will unfold naturally, to their detriment. "When the initial euphoria of freedom and lack of stress wears off, they face the reality of life with 40 to 60 more hours of free time to fill each week," she explains.

So many people spend their adult lives preparing financially for their post-working years, but they don't take the time to prepare for the other aspects of retirement. Next Chapter Lifestyle Advisors aims to help Canadians address their non-financial retirement planning needs, which include living well, giving back and leaving a legacy.

## Understanding your values and goals

When trying to envision your retirement, self-reflection is a critical part of the process, says Latremoille. Understanding your values, whether they include volunteering for a particular cause, staying fit, spending time with family and friends, or returning to a hobby you didn't have time for, will help you chart a path through your daily life.

Still, not everyone has a hobby to fall back on full time. Latremoille finds executives and professionals often want to remain active in some way by serving on boards, mentoring or using their expertise to help a volunteer organization. It's understandable, she says,

noting that work provides a social connection and represents a big part of our identity. Just as you are always learning during your career it's important to keep your mind active and keep learning new things.

Even if you have a vision of what your retirement looks like, consider test-driving your plan by taking a sabbatical or working part time. This approach serves as an off-ramp to help ease people into the rigours of this new phase of their lives, explains Latremoille. Slowly moving into retirement can give you a safety net and help you build confidence to know when it's time to move on, she says.

## A different kind of portfolio

Oehser developed a framework called The Happiness Portfolio® to help clients find fulfillment and personal success in retirement. She and Latremoille liken it to an investment portfolio, which requires a degree of balance and diversification.

## Acknowledging the financial element

It's important to acknowledge that money can be an ongoing source of stress throughout retirement, no matter how well-prepared you are. For many high-net-worth Canadians, even business owners who have sold their companies to retire, it can be an enormous adjustment to live on a finite source of income.

Similarly, finances can be a source of marital strife during retirement if you haven't adequately communicated what you want and expect of each other. Sometimes, spouses are on entirely different planets when it comes to how money should be spent and invested during retirement. Oehser suggests couples sit together, write down their assumptions about finances and other elements of their retirement, and then talk about what they've each written down.

Ultimately, retirement can be everything you hoped for and more, with a little forethought and planning. And if you're already retired and hitting the end of that honeymoon phase, it's not too late to shift your mindset, notes Latremoille.

## Speak with your BMO Private Wealth financial professional to learn more.



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