Protecting Your Wealth

You've worked hard to build your family's wealth; that's why protecting it is a key priority to ensure you are prepared to meet your current and future wealth management goals and commitments. This article discusses several considerations that can help to safeguard and enhance your wealth.

Review your portfolio regularly

Building and managing an investment portfolio requires careful planning, ongoing attention and sound financial expertise – combined with an intimate understanding of your goals, risk tolerance and time horizon. Meeting with your BMO financial professional regularly to discuss your investment portfolio's progress, positioning, as well as changes in your financial circumstances is important to achieving success. These meetings provide an opportunity to reconfirm your investment objectives, determine whether your risk tolerance has changed, and discuss if rebalancing your portfolio's asset mix is required, due to your ever-changing personal situation.

Ensure your estate is in order

An estate plan helps protect your family and ensures your financial affairs will be taken care of, according to your wishes. At a minimum, an estate plan should include:

- An up-to-date Will that reflects your intentions and names an appropriate executor(s);[1]
- A continuing Power of Attorney for Property[1] in the event of mental or physical incapacity; and
- An End of Life Directive, and Power of Attorney for Personal Care, or Living Will to address medical, home care and end of life decisions.

Your estate plan should be reviewed whenever there is a change to your personal situation, such as a birth, death, incapacity, retirement, marriage, divorce, change in residency, significant increase or decrease in wealth, or sale of a business.

Insurance coverage

Insurance can play an important role in preserving your family's wealth by providing financial protection against the unexpected.

Life insurance – Life insurance helps to ensure that, upon your death, your family's financial future will be protected. Term insurance provides a tax-free, lump sum payment to the named beneficiary(ies) of the policy, if death occurs within the policy's term. Term insurance can provide coverage for temporary needs such as funeral expenses, to settle outstanding debts, including mortgages, and to help replace the income of the deceased to cover living expenses.

Permanent insurance, such as whole life and universal life, provides coverage for long-term needs that are ongoing, evolving and of a permanent nature, such as estate preservation, business succession planning, supplementing retirement income, income tax reduction, and paying one's final taxes and estate settlement costs. These policies provide lifetime insurance protection as long as the premiums are paid. Permanent life insurance includes a life insurance component and may include an investment component.

Disability insurance – Disability insurance is designed to replace a portion of your income in the event you become disabled due to accident or illness and are unable to work. While your employer may offer disability insurance as part of their company benefits package, you should check the details of this policy as company benefits often only cover a percentage of your income.

Critical illness insurance – A critical illness such as cancer, heart attack or stroke can have a devastating impact on your financial well-being. Once diagnosed with a qualified illness, a critical illness insurance policy generally pays a tax-free cash benefit (typically about 30 days after the initial diagnosis, and assuming you survive), which is equal to the amount of insurance you purchased. How you use the money is entirely up to you, and can include: taking a sabbatical to recuperate, help pay off your mortgage, make renovations to your home to accommodate any special needs, inject money into your business to keep it going while you're recovering, or even pursue private medical treatment outside Canada.

Establish an emergency fund

If you're not prepared, an unexpected expense can negatively impact your wealth. By setting money aside in an emergency fund, you'll have funds available to meet life's unanticipated expenses – and reduce the need to rely on credit cards, loans or personal savings; all of which could jeopardize your financial future. Consider keeping at least three to six months' worth of living expenses in your emergency fund. By contributing regularly to a savings account or a Tax-Free Savings Account ("TFSA"), you can work toward building your emergency fund over time. Alternatively, you can make deposits to a non-registered investment account and allocate a portion of the assets to a short-term savings vehicle to have funds readily available if you need them.

Develop a succession plan for your business

Business owners devote a significant amount of time, energy and, in most cases, their own money to building their business. A business succession plan should detail the business owner's desires with respect to the sale and succession of their business, as well as the disposition of their ownership in the company. This will help to ensure a smooth transition into retirement for the business owner, as well as continuity of the business for employees and customers.

If you plan to pass the business to a family member, it's important to begin discussions well in advance of your retirement, because the chosen individual may not have the required skills, or even the desire to take over the business. On the other hand, if you're selling your business to a competitor or a partner, or bringing on a new employee to groom and take over the business, you want to be sure to extract maximum value from any sale of your business.

There are financial and tax strategies that can be incorporated into a succession plan to help ensure the most profitable exit from your business. For instance, if you plan to transfer the business to family members, consider an estate freeze, which allows you to retain an interest in the business in order to generate a retirement income, while passing any future growth of the business to the next generation.

Consider a marriage contract, especially for second marriages

While both partners enter marriage with the best of intentions, not every marriage ends happily ever after. Upon divorce, and depending on the circumstances and details of the situation, each divorcing spouse may be entitled to make a claim against one-half of the value of property owned by the other spouse, that was acquired or accumulated during the marriage.[2] The only property not divisible upon divorce is property received as a gift or inherited during the marriage. To bypass the law, many couples enter into a marriage contract.[3] A marriage contract is designed to bypass the legal regime of the province from governing financial arrangements and property division between spouses in the event of a marriage breakup. They are legally binding and enforceable agreements which, if drafted properly, provide a viable alternative to litigious court appearances.

Those marrying for the second or third time, especially where children from previous relationships are involved, may be particularly suited for a marriage contract. These individuals are often conscious of the need to specify the manner in which their finances and property will be shared or divided in the event of divorce, based on their wishes and intentions, and not on provincial statutory law.

If marriage is in your future, and you're concerned about protecting your assets in the event of divorce, it's important to consider a marriage contract.

Develop a wealth management plan

One of the most effective ways to safeguard your prosperity is through wealth planning. After conducting an in-depth discovery process that considers both your current and future wealth goals and obligations, your BMO financial professional will work with you to develop a wealth management plan that provides reassurance that all your priorities have been considered and addressed. The benefits of having a comprehensive wealth management plan include:

- Makes the most of your assets;
- Helps protect your assets;
- Helps ensure your wealth ends up in the right hands, as you intended;
- Employs tax-efficient strategies in every area of your financial dealings;
- Sets out a plan to achieve a comfortable retirement;
- Factors in the unexpected; and
- Ensures your loved ones will be taken care of – now and in the future.

Developing a wealth management plan, and regularly reviewing it with your BMO financial professional, helps ensure it remains dynamic, and continues to address your evolving personal priorities and financial goals.

For more information, please speak with your BMO financial professional.

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[1] In Quebec, an executor is referred to as a liquidator, and 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.

[2] Quebec Civil Code differs greatly from common-law provinces' matrimonial or family law regimes.

[3] In Quebec, the effect of a marriage contract is to "engage" the law which the spouses elect (e.g. Separate as to Property, Partnership of Acquests) to govern the division of their property in the event of marriage termination. In all other provinces, a marriage contract is used to "bypass" the law from governing in the event of divorce.

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ID2779 (04/23)