

Financial Insights

from Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

When Did You Last Review Registered Plan Beneficiaries?

Beneficiary designations matter more than you might think. Often overlooked after accounts are opened, the way you name beneficiaries for registered plans—such as RRSPs, RRIFs and TFSAs*—can affect the efficiency, tax implications and distribution of your assets. As we begin another year, why not review these designations to ensure they still align with your objectives?

Why Name a Beneficiary?

Designating a beneficiary offers several advantages:

1. Ease of Transfer — Plan assets can pass directly to the beneficiary, bypassing the probate process, which often delays distribution.

2. Reduced Estate Costs — Probate or estate administration fees may be avoided (depending on jurisdiction).

3. Flexibility — Beneficiaries can differ from those named in a Will.

Tax Implications of Designations

Naming certain beneficiaries can defer or reduce taxes on registered plans:

- **Tax Deferral** — Tax can generally be deferred if the RRSP/RRIF beneficiary is the deceased annuitant's: i) spouse/common-law partner; ii) financially dependent (grand)child under the age of 18; or iii) financially dependent, mentally or physically infirm (grand)child of any age.
- **Tax Minimizatm ion** — Naming a registered charity as a beneficiary may generate a charitable tax credit to offset taxes due on the plan.

A Reminder: The "Successor" Designation

For RRIFs and TFSAs, naming a spouse/partner as "successor," rather than "beneficiary," offers other benefits:

- **RRIF Successor Annuitant** — The successor can continue operating the RRIF as the new annuitant, with the minimum annual payment remaining the same as established for the deceased. The successor can transfer the RRIF to another RRIF in their own name (or RRSP if not yet 71).
- **TFSA Successor Holder** — Income earned in the TFSA continues to be tax-free for the new successor holder (assuming no excess contribution). The successor can operate the account into the future, but new contributions are subject to their own TFSA contribution room.



Three Common Beneficiary Designation Mistakes

1. Not aligning beneficiary designations with your estate plan. Plan designations should be coordinated with your overall estate plan. If aiming to equalize an estate among multiple beneficiaries, keep detailed records and seek legal/tax advice to understand how taxes may affect each heir.

2. Failing to update beneficiary designations. Life changes, such as death or divorce, can impact your choices. Review designations regularly. If a named beneficiary dies before you and no contingent beneficiary is named, the proceeds typically become part of your estate.

3. Naming a spouse/common-law partner as a "beneficiary" instead of a "successor holder." This can potentially lead to administrative complications or tax consequences. For example, with a TFSA, if a spouse is named as a "beneficiary" (not as a "successor holder"), any income earned in the TFSA after the holder's death may be taxable.

When Was the Last Time You Reviewed Account Beneficiaries?

Regularly reviewing and updating beneficiary designations helps keep your estate plan aligned with your wishes, protects loved ones and can maximize what you pass on. If you haven't reviewed yours recently, now is a great time. Please get in touch.

Always consult legal and tax professionals to ensure your designations support your broader estate planning goals. *Note: In Quebec, beneficiary designations are generally not recognized on these plans. Related assets are distributed through the individual's Will or marriage contract.



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