Johnstone's BENEFITS

THE JOURNAL

solid group plans made simple

BENEFICIARY DESIGNATIONS

Not just a one-time consideration…

When setting up how you want proceeds from your group insurance, accidental death & disablement (AD&D) insurance plans, and retirement and savings plans to be paid out in case of your death, you will consider a number of questions, including:

- Do I need to replace my income for my family, at least for a period of time?
- How do I best provide for my spouse, children and other dependents?
- How much will my funeral expenses be?
- Will I leave debt after my death?
- How much do I want to be used as a gift to a charity of my choice?

Of course, the reasons in choosing the beneficiary(s) today may change over time – mortgage is paid, dependent children have grown, no longer any financial debt. Or reasons may differ because something in your life changes with an "event" – a marriage, a divorce, birth of a new child, death of a dependent. It is therefore important to have the opportunity to review your beneficiary(s) on a regular basis to ensure your intentions are still current.

Life Insurance and AD&D Plans

Most group insurance plans include life insurance and accidental death and disablement (AD&D) insurance for employees, and optional insurance for employees, their spouse, and dependent children. When a plan member designates a beneficiary on the enrolment form, they are telling the insurer(s) the intended recipient(s) for proceeds of their group life insurance and AD&D insurance, in case of accidental death. Beneficiaries can be one or more persons, or a charitable organization, to receive proceeds outside of the employee's estate, free of taxes and estate liabilities.

Retirement and Savings Plans

For many, funds in their RRSPs (registered retirement savings plans) and TFSAs (tax-free savings accounts) are two of their most valuable assets. Therefore, protecting these funds is an important consideration. At time of death, the fair market values of these plans are treated as income and will be subject to tax at the insured's marginal tax rate, other income, and province of residence. This means that if there is $200,000 in their group RRSP, a tax bill of between $60,000 and $100,000 depending on these factors can be expected.

THE JOHNSTONE'S ADVANTAGE

Our mission is simple: **Treat each client as if they were our only client**.

Our value is clear: **We are completely independent**. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple**.

For RRSPs and TFSAs, the plan member can name a "qualified" beneficiary, so fund balances can be transferred with no tax implications or liabilities. A qualified beneficiary includes:

- Spouse
- Common-law partner
- Financially dependent child or grandchild under the age of 18, or who is dependent because of a physical or mental infirmity.

If the plan member designates a "non-qualified" beneficiary, that person would receive the full balance of the RRSP and/or TFSA, however the plan member's estate would be subject to the tax.

Contingent Beneficiaries

Plan members are encouraged to designate a contingent, or secondary, beneficiary in case their primary beneficiary pre-deceases or dies at the same time. By designating one or more contingent beneficiaries, the insurance proceeds would be payable to these recipients directly, free from estate taxes or liabilities.

Children as Beneficiaries

If the plan member names as their beneficiary a child, under the provincial age of majority, it is recommended that they also set up a trust and designate a trustee (or administrator), who can hold and use the proceeds of the insurance in trust on behalf of the minor beneficiary. In Quebec, proceeds must be paid to the child's parent(s) or legal guardian(s), and not to another trustee. If a trustee is not named for a child beneficiary, the death benefit, plus any interest it earns, will be held in trust by the province or territory, and will be paid out when the beneficiary reaches age of majority.

Estate as Beneficiary

For both insurances and group RRSPs, a plan member can choose to name their estate as beneficiary. If the beneficiary designation is blank, the death benefit and RRSP proceeds will become part of the estate. In these scenarios, plan proceeds will become part of the person's estate, and will be distributed according to the terms of their current will. Funds will be subject to taxes and creditor claims as part of the settlement of the estate.

Beneficiary Legislation – Revocable vs. Irrevocable

In all provinces apart from Quebec, as well as all territories, appointing a beneficiary is considered "revocable", meaning the beneficiary can be changed by the plan member at any time without restrictions. If another agreement, such as a divorce agreement, designates the beneficiary as "irrevocable", that beneficiary must consent to any change.

In Quebec, if the plan member has a spouse, legal or common-law, their beneficiary designation is considered "irrevocable", and can only be changed with the spouse's consent.

Designating a Beneficiary

When an employee becomes a new plan member of a group benefits plan, they first must complete an application form (our one-time, generic application form for third party administration clients can be found on our website: *Application for Group Coverage*).

CONTACT US

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JOHNSTONE'S JOURNAL is published monthly and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies and share with your employees.