

Benefits of naming beneficiaries

In the broadest sense, a beneficiary is a natural person or other legal entity who receives money or other benefits from a benefactor. While it seems an easy task to name a beneficiary, in many cases that's not true at all. Let's take a look at naming a beneficiary on financial products:

Many financial products allow for the naming of a beneficiary. The most common, of course, is life insurance. The option is also available for Registered Retirement Plans and pensions. Beneficiary laws are decided at the provincial level. As such, only a few provinces currently allow for the naming of a beneficiary on Tax-Free Savings Accounts (TFSAs).

Provincial beneficiary rules are applied broadly. It is important to note that financial products provided by a life insurance company almost always allow for the naming of a beneficiary because of federal legislation. This applies to life insurance, of course, but also to all deposit products, including TFSAs and non-RSP plans.

The ability to name a beneficiary on your financial products can eliminate the costs and delays of proceeds settled through your estate. Naming a beneficiary should not be taken lightly. Make sure your wishes are clear by following these important steps:

Decide who gets what - In many cases this is quite obvious; for example, Ron and Kate are married and name each other. It can be more complex if either has been married before or they have other obligations.

Name names - It is very important to use full legal names as well as relationship to the insured. If a designation is not clear, the proceeds may be paid into court causing delays and extra costs.

Use percentages - With multiple beneficiaries, proceeds will be distributed equally unless you specify otherwise. If you want unequal distributions, be clear on the percentage amounts.

Avoid naming your estate as beneficiary - This can delay the distribution of proceeds and add costs. It can also expose certain proceeds unnecessarily to creditors, or require income taxes be paid when they could be postponed. Keep your personal financial affairs private as the details of proceeds through a Will become part of the public record.

Consider contingent beneficiaries - A contingent or secondary beneficiary, available only through life insurance companies, receives proceeds if your primary beneficiary dies before or with you. Be careful naming minors as you will also need to name a trustee to look after the proceeds until the child reaches the age of majority. Get your trustee's permission *before* naming them.

Keep designations up-to-date - Most people don't want to leave proceeds to an ex-spouse, and basic life changes could require that you re-evaluate your beneficiaries. Review beneficiary choices regularly.

For information purposes only and not intended as specific beneficiary advice.

Time to review your beneficiary designations? Call today!



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