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# The value of naming a beneficiary

**Tax, Retirement and Estate Planning Services**

# Use insurance contracts to reduce estate expenses

Naming a beneficiary is an important part of your estate planning. When you name someone other than the estate as beneficiary of an insurance contract, the insurance company is obligated, under the Insurance Act, to pay any death benefit proceeds directly to the named beneficiary on record, avoiding the estate. Having the death benefit proceeds avoid the estate provides many advantages. It can avoid the delays of settling the estate, including estate litigation (such as will challenges), and bypass probate (probate fees vary by province)[1] and other estate administration fees. Other estate administration, accounting, and legal fees could add up to another five per cent or more depending on the complexity of the estate—money not going to your loved ones.

## Market risk/liquidity

Settling an estate can be lengthy, frequently taking months or even years if the will is challenged or there's other estate litigation. During this time, the investments are often frozen and exposed to market risks (e.g., a market correction). Instead, when a beneficiary is named, the death benefit proceeds are usually paid within **10 business days** of receipt of proper documentation. This puts money in the beneficiary's hands quickly to use as they see fit and significantly reduces exposure to market risks.

Having even a portion of your estate with an insurance company can provide beneficiaries with much needed cash, alleviating the stress of having to pay any outstanding expenses and incoming bills while they wait for other funds from the settlement of the estate.

## Assets not subject to the deceased's creditors

When assets flow through an estate (which generally occurs when non-registered assets are paid by financial institutions other than insurance companies), they may become vulnerable to the deceased's creditors. Beneficiaries could receive a substantially smaller inheritance if assets are not protected. Having the death benefit proceeds bypass the estate offers potential protection from estate creditors.

## Control

You can use the annuity settlement option to automatically transfer segregated fund proceeds upon death into an annuity and specify scheduled payments for the beneficiaries. This is useful if you are concerned about your beneficiaries' ability to manage money and prefer to have the proceeds and future interest paid out to them gradually over time.

## Ease the burden on the executor

While being an executor can be very rewarding, it's also a big responsibility that comes with the risk of personal liability. By having assets dealt with outside of your estate so your executor doesn't have to manage them, you can ease the burden and reduce the risk for your executor.

## Privacy

Bypassing probate also preserves confidentiality as probate is a matter of public record; payments made by insurance companies are generally a private matter.[2] This can be beneficial in situations where you and want to keep your wishes private and undisclosed between family members.

When you name a beneficiary with Manulife segregated (seg) fund contracts and guaranteed interest accounts (GIAs), you can keep more of your money in your family.

## The value of bypassing probate – based on $1,000,000 example in Ontario

| Fee | Structure | Mutual Fund ($) | Seg fund or GIA ($) |
|---|---|---|---|
| Probate fee | $15 per $1,000 > $50,000 | 14,250 | 0 |
| Estate Administration Fees | Executor: Varies by province (up to 5% for corporate executors)<br>Legal and Accounting: Varies depending on complexity<br>Total fees: 1.5% of assets used in this example | 15,000 | 0 |
| **Total Cost** | | **29,250** | **0** |

For illustration purposes only. Costs will vary depending on the province, complexity of the estate and length of time the assets were held in the contract.

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[1] In Quebec, the probate process and the probate fees (which are minimal) only apply to non-notarial wills.

[2] In Saskatchewan, jointly held property and insurance policies with a named beneficiary are included on the application for probate but don't flow through the estate and aren't subject to probate fees.



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