FINANCIAL WISDOM

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Financial Strategies & Divorce

History tells us about half of marriages in Canada end in divorce. Andrew and Sara are about to end theirs and are concerned about the changes that will have to be made to their financial and estate plans. Some financial and estate issues they need to consider are:

Life Insurance – The first thing that needs to be done is a review of the beneficiary designations. If there are children, they may be the new beneficiaries and trustees will be needed if they are minors. This will affect both personal plans and group benefits. When one parent is responsible for child support payments, new life insurance may be needed to cover this obligation.

After the sale of their house, Andrew and Sara may each buy a new home with their share of the proceeds as the down payment. As either may have a new mortgage, life insurance will be needed to cover it.

If either remarries, a complete review of their life insurance needs will be in order. If the various needs and obligations are not adequately provided for, a long and costly legal battle may follow.

Wills – Andrew and Sara will each need to make new wills. Provisions will need to be made for both child custody and support obligations. It is best to have a lawyer prepare the new wills, as do-it-yourself will kits are usually not adequate.

Depending on province, unless a will is specifically prepared in anticipation of a marriage, new wills need to be done again after either remarries. Prior obligations still need to be provided for in the new will.

Disability Insurance – Both Andrew and Sara will be on their own and no longer able to rely on each other should either become disabled. Group benefits, if they have them, may not be adequate to meet all their needs. Personal disability insurance may be needed to help provide for every day needs and other obligations should illness or injury prevent either from working for a period of time. A complete review and analysis of their disability needs should be done.

Critical Illness Insurance – This insurance provides a lump-sum tax-free benefit if the insured survives a heart attack, cancer, stroke, or other listed serious illness. If either Andrew or Sara suffers a critical illness, money should be the least of their worries.

Registered Retirement Savings Plans – If one spouse has more in their RRSPs than the other, a divorce settlement may require an equalization of funds. The Canada Revenue Agency allows tax-free transfers between RRSP plans of one spouse to the other due to a marriage breakdown. Review RRSP beneficiaries as well.

Provision for the tax liability on death needs to be considered. Life insurance can be a very economical way to pay the taxman and assures the full value of the RRSPs goes to your beneficiaries.

A marriage breakdown can be very disruptive for the whole family. Future disruptions can be minimized by dealing with all your financial and estate plans today. A little time and a few dollars now can avoid months of delays and thousands in expenses later.

Questions about navigating divorce? Give us a call!

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