Wealth Management
Dominion Securities



Ten strategies to build and protect your family's wealth



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Most Canadian millionaires take a modest view of their financial status, viewing themselves as "financially secure" rather than "rich" or "wealthy."

Regardless of how you view your financial status, if you are responsible for $1 million or more in household investable assets, you have specific concerns not shared by the average Canadian family. You have a higher tax burden and a larger investment portfolio to manage. You may also have unique concerns such as:

- Dealing with multiple real estate properties, possibly located in different countries
- Maximizing a complex executive compensation package
- Raising financially responsible children in a privileged environment
- Selling or transitioning your business
- Transferring family assets to the next generation while keeping taxes to a minimum
- Making the most of your philanthropic legacy

To help you address these unique concerns, there are certain strategies that usually don't apply to the average Canadian family, such as:

- Income-splitting strategies that can reduce your family's tax bill.
- Donating securities with significant capital gains to qualified charities without paying capital gains tax
- Insurance solutions to cover large tax liabilities your estate would otherwise have to cover out-of-pocket

Strategy 1: comprehensive financial planning

When you have above-average financial assets, you also need an above-average financial plan. With your family's more complex financial situation, you have a wider range of concerns than the average Canadian family.

With a comprehensive financial plan, you can address these various concerns, and identify strategies to protect and enhance your family's wealth. This type of plan

goes beyond the simple retirement savings and income projections provided by a standard financial plan. It encompasses all aspects of your financial affairs, including cash and debt management; investment planning; tax, retirement and estate planning; and risk management.

A plan usually includes:

- An in-depth discovery discussion to learn about your personal and family goals
- Financial projections based on your current financial situation
- Key recommendations
- Financial projections based on implementing those recommendations
- An action plan

Contact us to find out how a comprehensive financial plan can benefit you and your family.

Strategy 2: consolidation of assets

Wealthy investors sometimes open multiple investment accounts of the same type with different financial institutions, believing it to be an effective way to diversify their investments. By diversifying your investments, you can reduce risk. However, diversification is really about how you invest your money – not where you keep it. Investing through multiple accounts, rather than helping you diversify, can actually have the opposite effect because it's more difficult to get a clear idea of how you're investing your assets. There are many other reasons to consider consolidating your assets with one trusted advisor instead.

These include:

- **Reduced costs**. With many investment programs, fees are on a sliding scale. The more assets you have in the program, the lower the fee.
- **Simplified administration**. It's easier to keep track of your investments with fewer account statements and tax forms.



- **Easier estate settlement process**. Your executor has one point of contact, making things easier for them during a difficult time.
- **More efficient retirement income planning**. With an understanding of all your different income sources, it's easier for your advisor to determine how you can maximize your after-tax retirement income.

We can help you determine if you can benefit from a consolidation strategy.

Strategy 3: teaching your children financial responsibility

Many people who have built substantial wealth have done so through hard work. Because of this, they appreciate the value of money.

However, they may be concerned that their children or grandchildren, being raised in a more privileged environment, may not share their values.

If you're concerned about raising financially responsible children, there are a few strategies that can help. One strategy is to provide a reasonable allowance for spending, saving and sharing with charities. This helps children learn valuable budgeting skills, understand the value of saving for the future and develop a social conscience. A "reasonable" allowance might be one dollar per week for each year of age.

Another idea is to set a family monthly or semi-annual budget that accommodates reasonable activities and purchases for the entire family. If your child asks for something that's not in the budget, you can say that it will be considered for next time.



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Strategy 4: effective use of surplus assets

Like many people with above-average financial resources, you may have surplus assets that you will never need during your lifetime. Instead of continuing to expose these assets to your high tax rate, consider ways you can protect them. Three options include:

- Making lifetime gifts to low-income family members. If the family member is under 18, they will be taxed on any capital gains at their lower tax rate, but interest and dividend income will be attributed to you and taxed in your hands. If they are over 18, they will be taxed on any income generated by the assets, again at their lower rate.
- If there is an insurance need, put assets into a tax-exempt life insurance policy, where the income they produce grows on a tax-free basis. When your estate is settled, this income is paid to your beneficiaries as a tax-free death benefit.
- Donate publicly listed securities that have appreciated in value to qualified charities – without paying any capital gains tax.

Contact us for more information on how you can protect your surplus assets.

Strategy 5: risk management

You have worked hard to accumulate your wealth, so it's important to protect it from the various risks that are a part of life.

1. Risk of lawsuit

Above and beyond purchasing liability insurance, you may be able to protect your surplus assets in several ways. These include giving them to a family member, transferring them to a trust, sheltering them within a creditor-protected life insurance policy or, if you own a business, within a holding company.

2. Risk of market downturns

Diversifying your investment assets is the main way to reduce this risk. In addition to the traditional diversification techniques (by asset class, geographic area and industry sector), some families with $1 million-plus investment portfolios may be able to access a larger variety of investments.

3. Risk of income loss

Ensure that you have adequate disability, critical illness and long-term care insurance to protect you and your family against the risk of temporary or permanent income loss.

Contact us for assistance with risk-management strategies.

Strategy 6: vacation home planning

If you own a vacation property, there are many issues to consider, especially when there's family involved. One issue that can often be a source of family conflict is how to pass along the vacation property to your children.

By planning ahead, you can maintain family harmony, while potentially reducing taxes.

Here are some strategies to consider:

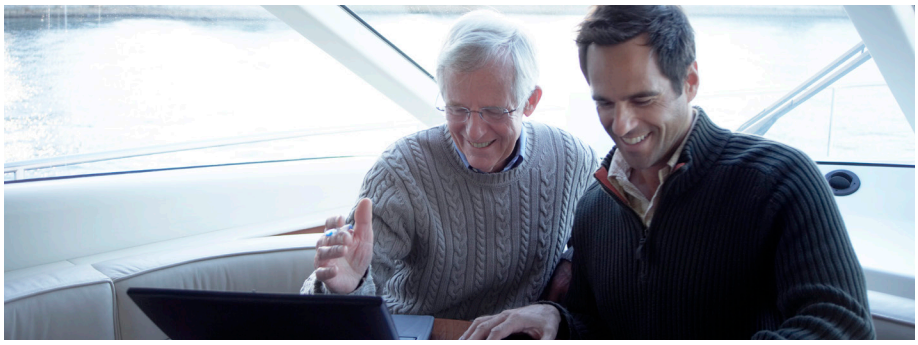
- Give the property to your children through an inter-vivos family trust to defer future capital gains tax and avoid probate tax.
- Take out an insurance policy to cover capital gains taxes triggered by the disposition of the property when your estate is settled.
- Create a co-ownership agreement establishing the ground rules when more than one child will own the property.

Strategy 7: charitable giving

Here are a few ways to make the most of your charitable gifts:

- When you donate publicly traded securities that have appreciated in value to a qualified charity, you may not have to pay capital gains tax on the accrued gain. Plus, you receive a donation receipt equal to the fair market value of the donated security.
- Establish a charitable foundation to create an enduring philanthropic legacy. A private foundation gives you a high level of control and flexibility, but there are ongoing costs and administrative requirements. Donating to a public foundation is a more convenient alternative for those who prefer less day-to-day involvement.

Ask us for more information on how you can create an enduring charitable legacy.



By shifting income from a high-income parent to a low-income spouse or child, a family can realize significant tax savings.

Please contact us for more information about building and protecting your family's wealth.

Strategy 8: testamentary trusts

A testamentary trust can provide significant estate planning opportunities. It allows you to give assets to your beneficiaries with certain conditions that you have specified. This may be appropriate where you have a minor or disabled beneficiary. A testamentary trust can also create a solution to complex family situations, such as a second marriage.

Strategy 9: family income splitting

Income splitting is an effective way to reduce your family's overall tax burden for two key reasons:

- With Canada's graduated tax rates, you pay a higher tax rate as your income increases.
- Every Canadian resident can earn a certain amount of income (about $8,000) tax-free due to the basic personal tax credit (varies by province).

By shifting income from a high-income parent to a low-income spouse or child, a family may realize significant tax savings.

Strategy 10: business succession planning

If you are planning to pass along your business to the next generation, here are some strategies that can help:

- Determine which child is most interested and most capable to lead your business. Once you've made your decision, have your chosen successor gradually take on more responsibility and meet key business contacts at least five to 10 years before you transition out. Let your chosen successor lead the succession plan, as this often results in a more successful transition.
- Create a financial plan and consider incorporating strategies such as Individual Pension Plans, an estate freeze to minimize taxes, a shareholder's agreement and insurance to cover unforeseen events or fund buy-sell arrangements.

Ask us for more information on business succession planning.

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