Why Estate Planning is Important to You

Estate planning is one of the cornerstones of a sound financial plan. Essentially, the purpose of an estate plan is to preserve your wealth both during your lifetime and after.

- Are you making the most of tax-saving opportunities available to you?
- Are you building savings that will ensure you have enough money to retire when you want and how you want?
- Have you provided adequate assets to support your dependents?

What you do today can make a world of difference to your happiness and the future of the people you care about most. The benefits of an estate plan can be calculated not only in dollars but also peace of mind.

There's more to your Estate than you might think

It is commonly thought that only the very wealthy have an "estate" worth attention. Not true. Your estate may not be of a size that makes headline news, but it is probably more impressive than you realize. You will see what we mean once you've had an opportunity to take stock of the assets that make up your estate.

The way to find out the value of your estate is to prepare a net-worth statement. This is simply a personal balance sheet which lists what you own (assets) and what you owe (liabilities). Assets minus liabilities give you your net worth. Your estate planning needs become clear once you know where you stand.

How to complete your Personal Balance Sheet

1. Under the assets column list all the major things you own – savings and investments as well as possessions such as your home, car, furniture, clothing, jewelry, antiques and heirlooms.

2. Next write in the amount of each asset – what money you have in chequing and savings accounts, the current cash value of your pension, retirement savings, and term deposits and so on. You'll need to estimate the value of some items. The best way of doing this is to think in terms of today's selling price. In other words, what amount you could realistically expect if you were to sell right now. Let's say you live in an area where house prices are rising but an average of 10% or more a year. This means a home bought for $800,000 two years ago might sell at a figure close to $1,000,000 in today's market. On the other hand, a car with a selling price of $36,000 new, two years later would be valued at approximately one half the original price, so its asset value would be shown as $18,000.

3. What you owe goes into the liabilities column. List everything that must be paid off like credit card balances, back taxes, a mortgage, or any other loan you might have.

Where do you stand?

Whether you have a positive net worth (assets exceed liabilities), or a negative net worth (liabilities exceed assets), this information is key to your estate planning. Owning more than you owe, a positive net worth, is obviously good news. But for estate planning purposes you need to examine your assets very carefully.

- Do you have enough in liquid assets – cash and investments that can readily be turned into cash such as a Canada Savings Bond (CSB) or even a Tax Free Savings Account (TFSA) – to wind up your financial affairs?
- Bills, taxes, funeral costs and any money you owe will have to be paid immediately.

Perhaps, one of the most valuable assets you have is your home.

- Will your family be able to continue living there based on the income your other assets provide?

Maybe you are just starting on your working career and have had little opportunity to build an estate. This is particularly likely to be the case if you have young children to support. Over the years, you'll probably have a growing, positive net worth. But right now, your net worth statement might show you owe more than you own.

A negative net worth signals an immediate estate planning need. Otherwise premature death could mean tremendous financial hardship for any dependents you have. Even as a person with no direct financial responsibility for others. It is important to ensure there is enough money so no on else is burdened with paying expenses and debts on your behalf.

There are many low-cost solutions to handle these kinds of estate needs. We will explore these options in Part 2 of the Estate Planning Series.