



## Important Topic: Understanding Beneficiaries and Successor Annuitants

When it comes to estate planning, naming a beneficiary is crucial. It allows your assets to pass directly to your chosen recipients, avoiding probate and the associated 1.5% probate fee on those assets.

The options and terminology may be new and confusing so allow us to step through it.

### Beneficiary and Successor Annuitant

Beneficiary => Receives the money. The funds or investments are transferred to a third party.

Successor Annuitant => Receives the account. The account receives a new owner.

A successor annuitant can only be a spouse, and this designation is available only for RRIFs, LIFs, TFSAs, and FHSAs.

### Order of Inheritance

For RRIFs, LIFs, TFSAs, and FHSAs, the order of inheritance is:

1. Successor Annuitant
2. Beneficiary(ies)
3. Contingent Beneficiary(ies)

For RRSPs, LRSPs and LIRAs, there is no successor annuitant option—only beneficiaries and contingent beneficiaries.

1. Beneficiary(ies)
2. Contingent Beneficiary(ies)

For RESPs, one would need to name a ‘Successor Subscriber’ to keep the RESP going after one’s passing. This would need to be done in one’s Will.

### Tax Implications

#### Surviving Spouse: RRIF/LIF

If named as a successor annuitant, the account continues in the name of the surviving spouse with no immediate tax consequences.

If named as a beneficiary, the full value of the deceased’s RRIF will be taxable on the deceased’s final tax return, unless it is transferred properly to the spouse.

To avoid taxation, the surviving spouse must elect a direct transfer of the RRIF proceeds into their own RRIF, RRSP (if under 71), or an annuity.



This must be done per CRA guidelines using Form T1090 (Death of a RRIF Annuitant – Designated Benefit Election).

If they don't transfer the funds to an eligible registered account, the amount is taxable to the estate.

### **Surviving Spouse: RRSP/LRSP/LIRA**

The funds in the account can be rolled over to a surviving spouse on a tax-free basis, but there is some documentation that needs to be filled out.

CRA Forms for Tax-Free Transfer - T2019 – Registered Plans – Refund of Premiums

This form is used to declare the RRSP proceeds as a refund of premiums, allowing the surviving spouse to roll over the RRSP without immediate tax consequences.

The estate will receive a T4RSP slip showing the fair market value of the RRSP at death. The surviving spouse must report the amount on their tax return but can offset it with the deduction from the transferred amount (via Form T2019).

If they don't transfer the funds to an eligible registered account, the amount is taxable to the estate.

### **Surviving Spouse: FHSA**

If named as a successor annuitant, the account continues in the name of the surviving spouse with no immediate tax consequences.

If your spouse is named only as a beneficiary (not successor holder), the FHSA is collapsed upon death.

The funds transfer tax-free to your spouse, but they must move the money into their own FHSA, RRSP, or RRIF within the rollover limits to avoid immediate taxation.

If they don't transfer the funds to an eligible registered account, the amount is taxable to the estate.

### **Beneficiary is Not a Spouse**

For a RRSP, RRIF, LIF, LIRA, LRSP and FHSA, when the account owner passes away all the assets in the registered account will be considered income on their final tax return, and the estate would have to pay tax on those amounts. Note that a third party may receive the funds but the Estate must pay the taxes due. There are cases where the Estate cannot cover all of the taxes and the beneficiaries are asked to repay sufficient funds to cover the tax.

For a TFSA, the amount will pass to the beneficiaries and have no tax implications.

### **What Happens If a Beneficiary Predeceases You?**

If you have multiple beneficiaries (e.g., a 50/50 split between children A & B) and child A predeceases you, the treatment of Child A's share will depend on how the financial institution handles beneficiary designations.

At TD: Child B receives their 50% while Child A's 50% share would go to the estate of the deceased. As such, the Will dictates the treatment.

Note that if the Will divided assets evenly between the children & their families, Child B & family end up with an extra share. To deal with this, to even things out, one can add a "Hotchpot clause" to the Will (see below).

At some other institutions: Child A's 50% may go to the estate of Child A and end up with their family, depending on how the beneficiary designation is structured. This would allow for even distributions.

At TD, contingent beneficiaries are only considered if all primary beneficiaries predecease you (both child A & B pass away). At this time we are not able to designate contingent beneficiary for individual beneficiaries.

Note that if a beneficiary predeceases you, you can change all the beneficiaries to reflect the new reality. However, this is only possible if you are still cognitively able. Once you lose decision-making capacity, you cannot make changes.

### Ensuring Fair Distribution – Hotchpot Clause

We believe that the best way to ensure that an Estate is divided fairly is to add a Hotchpot clause in your Will. A hotchpot clause ensures that any lifetime gifts or assets inherited outside the Will are considered by your executors when dividing the estate. For example, if child B receives 50% of a registered account, and child A's 50% goes to the estate, the hotchpot clause can require an equalization of the estate so that both families receive their fair share.

### Final Takeaway

Successor annuitant and beneficiary designations are useful tools for an efficient transfer of assets and for avoiding probate tax, but they do not allow for detailed instructions for multiple beneficiaries. If you have specific wishes for asset distribution we should discuss leaving the assets to your Estate where your Will can deal with the complexity.

Importantly, we review beneficiaries with you during our annual meeting. This is part of our Wealth Checklist to help ensure all is in order.

If there something that needs to be addressed immediately, please do not hesitate to contact us.

We have listed the definitions of the accounts below.

- RRSP = Registered Retirement Savings Account
- LRSP = Locked in Registered Retirement Savings Account (Federal)
- LIRA = Locked in Registered Retirement Savings Account (Provincial)
- RRIF = Registered Retirement Income Fund
- LRIF = Locked in Registered Retirement Income Fund
- TFSA = Tax Free Savings Account
- FHSA = First Home Savings Account
- RESP = Registered Education Savings Plan

## Market Update: January 2025 – Markets Were Up

January proved to be a positive month with almost all markets moving upwards. In the investment world the news has been dominated by three surprising events.

First, the Canadian Government backpedaled on their planned increase of the capital gains inclusion rate (the percentage of a capital gain that is taxed). After thousands of hours spent by individuals, companies, and government departments preparing for the separation of capital

gains before and after June 2024, none of this is needed. Capital gains inclusion rates will be the same as last year. As it will be for 2025. The change has been postponed until 2026, if then.

Second, President Trump imposed 25% tariffs on Canadian and Mexican goods. Canada has threatened to retaliate with similar tariffs on US goods. As this is damaging to both economies (there are real advantages to trade!), most analysts cannot see how such tariffs can remain. The expectation is that some sort of arrangement will be reached to remove, or constantly delay, such tariffs. Mexico has already agreed to send 10,000 troops to their border to help stop the flow of fentanyl and illegal immigrants into the US, thereby meeting Trump's key demand. Their Tariffs have been postponed.

While Canada has increased its patrol of the US border, including the introduction of more drones, it does not appear to have made the type of commitment that might appease Trump. Nor has Canada made a significant commitment to increase its military spending to meet its obligations to NATO, something it has not done for many years. Interestingly, at present the US has more troops in Alaska (and they are armed) than Canada has troops in all of the north (and they are unarmed). Hopefully, cooler heads will prevail, and there will be an agreement to avoid the tariffs

Third, Deep Seek, a Chinese based company, produced a new AI assistant (like ChatGPT) that it claims was built for much less money, without the latest new chips, and in much less time. If these claims prove to be true, this could hasten the availability of AI software and at a lower price. This news was taken to be bearish (bad) for the chip makers and the companies that were spending a lot of money building similar products. In truth, while some spending may prove to have been wasted, I do believe that faster chips can only help whatever software is running, and there remains a tremendous shortage of such chips. More importantly, however, is that a less expensive and more easily available AI assistant would be incredibly bullish (good) for every company that can use it (all companies?). Historically, whenever a product becomes less expensive demand grows, it does not shrink.

Separately, earnings continue to rise. Also, the US manufacturing sector is no longer retracting but is now expanding. The US economy remains strong and is probably one of the only strong economies in the world.

We continue to believe that the economy will continue to push forward, likely a tad slower, but that a real recession is unlikely in the near future. Earnings continue to grow, consumers continue to defy expectations and spend, wages remain strong, jobs are available, and there are still several trends, such as technology and health care, that are stimulating much change.

We remain cautious about the short term and positive and optimistic about the medium, and long term. Most importantly, we are confident that working together we are able to meet your, our client's, objectives. At the end of the day this is all that truly matters.

Have a great month and let us know if there is anything we can do for you,

Meir & Adam



**Meir J. Rotenberg, MBA, CFA®**

Senior Investment Advisor  
TD Wealth Private Investment Advice  
T: 416 512 6689  
meir.rotenberg@td.com

**Adam D. Shona, B.Comm, CIM®**

Investment Advisor  
T: 416 512 7645  
adam.shona@td.com

**Nelson Gordon**

Client Relationship Associate  
T: 416 512 6813  
nelson.gordon@td.com

**Jon Bentley**

Client Service Associate  
T: 416 308 7064  
jon.william.bentley@td.com

**TD Wealth Private Investment Advice**

5140 Yonge Street, Suite 1600  
North York, Ontario M2N 6L7  
Fax: 416 512 6224  
Cell: 416 602 1614  
Toll: 800 382 4964



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