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Naming Beneficiaries for Your RSPs

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Most people list tax elimination or minimization as a top priority in their estate plans. For most, Registered Savings Plans (RSPs), which includes RRSPs and RRIAs, are one of their most significant assets. Most RSP accounts hold investment funds or securities that are very liquid, often accessible within a few days.

Unlike most other assets, you can choose a specific beneficiary to receive the proceeds of RSP accounts directly. By naming an individual in this manner, probate can be avoided. Often referred to as a "tax," probate is levied by a provincial government on all assets distributed by means of a will. Remember, this probate "tax" does not avoid the income tax owed by disposing of RSP funds. Your estate will still be responsible for paying the income taxes on your final tax return. This can include the full amount of your RSP accounts.

Spouses (including common-law) usually name each other as the beneficiary of their registered plans. Not only does this avoid probate, but also postpones the full taxation of these funds until the death of the surviving spouse. While naming an individual other than a spouse as beneficiary avoids probate, it does not defer the taxation of the funds.

Jon and Dawna have named each other as beneficiaries of their RSPs. As their accounts are with a life insurance company, they have also named their adult children as secondary beneficiaries. This means that if they happen to die at the same time, their children will receive the proceeds directly.

Karl, a widower, has chosen to have his RSP proceeds dealt with by way of his will. While this exposes the proceeds to the costs and delays of probate, it allows him to place more restrictive conditions on the RSP money. One of his children, the middle daughter, is very poor at handling money. Karl has made provision for her share of the estate, including his RSPs, to provide her a structured income instead of a lump sum.

Sally, a single mother, is a long-time supporter of her favourite charity. She named her estate as the beneficiary of her RSPs and added a provision in her will that would distribute the RSP proceeds to the charity. This creates an offsetting tax break that wipes out the taxes owing on her RSP funds. Sally also has a life insurance policy with her children as beneficiaries to make up for the charitable donation.

As you can see, there can be any number of circumstances that require additional thought and planning before naming a beneficiary of RSPs. If you have any questions, please contact our office for more information.

Do you need help with your retirement planning? Contact our office!

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