Solutions for you®

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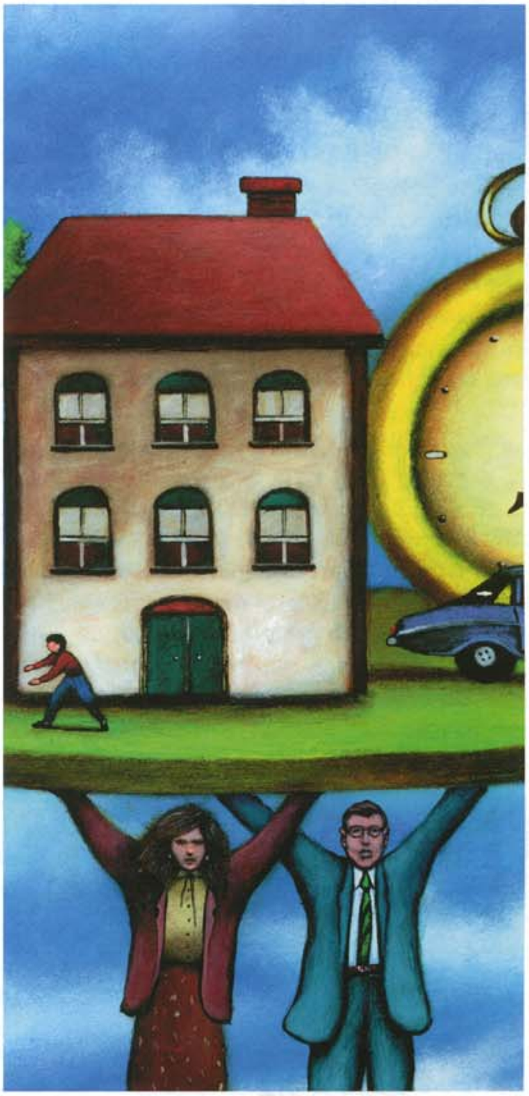

SURVIVING DIVORCE

Marriages are supposed to last forever. After the cake and champagne, the toasts and the toasters, most couples expect to spend the rest of their lives together. Yet one-third of them won't make it to their 30th wedding anniversary.

Divorce is one of the most difficult life transitions. It has deep emotional overtones for a couple and their children. And it has serious financial implications for both husband and wife.

If you're in the process of separating or divorcing, you must protect your interests. Here are just some of the key issues you should be aware of:

For more tips on how you can work together with your advisor to plan your financial future, visit CAIFA's Website at www.CAIFA.com/informedconsumer.

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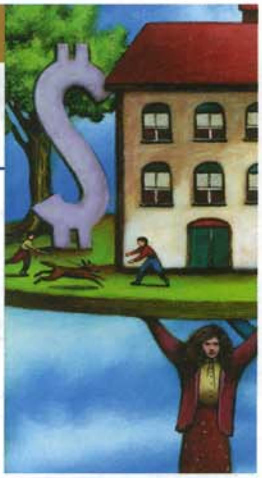


What does life insurance have to do with it?

Life insurance is one aspect of financial planning that is often missed during divorce negotiations. Policies are important assets that sometimes have an equity value that can be cashed out and split. Whether you or your spouse hold term, whole life, universal life or multi-life policies, it's important to be aware of the value of each contract and to ensure that your lawyer includes them in the comprehensive list of your holdings.

In addition, consider whether you will have sufficient insurance coverage following the divorce. Sometimes the courts will order the spouse responsible for paying child support or alimony to insure these payments with a life and/or disability policy. The primary caregiver might also need extra coverage to protect his or her new single-parent family.

TIP SHEET

Insurance assets are usually required to be frozen while the details of the divorce are being worked out. You will not be able to make any changes to your policies—including to beneficiary designations—during this time.

Splitting the investments

Divorce can derail your financial plan. Suddenly, assets and liabilities must be separated —not shared— and some of your long-term investments may have to be cashed out in the process. Your lawyer can help you split registered and non-registered investments in a way that doesn't trigger excessive taxes and redemption fees. He or she can work with a trained appraiser to value property such as homes, real estate and works of art.

Compile a list of all your assets. These can include:
- RRSPs and company and government pensions
- non-registered investments, such as stocks, bonds, bank accounts, GICs and mutual funds
- the family home
- a cottage
- vacant land
- other property such as household furniture, paintings, sculptures and antiques

Be sure that you know what's important to you. For example, a spouse who is nearing retirement age may want to maximize RRSP contributions. Another, who has less disposable income, may want investments that produce income to supplement living expenses.

TIP SHEET

After the dust settles, take some time to redesign your investment portfolio to match your new lifestyle. Take into account issues such as your risk tolerance, the cash flow you have available for investment purposes, diversification and your retirement goals.

Taking care of your business

Do either you or your spouse own an interest in a privately held business? Business assets receive different treatment in the various provinces. Sometimes they are not included in the list of a couple's assets, or sometimes they must be equally divided between spouses.

If interests in a business are to be split, they must be valued by a professional. Provincial legislation may not specifically define the term "value," or the date on which the value must be determined.

TIP SHEET

Carefully consider whether you or your ex-spouse is more active in the business. It's usually advisable for the less active spouse to relinquish his or her interest in the business in return for an equalization payment consisting of other assets of equivalent value. This results in a clean break and protects the business from any significant disruptions that could reduce its value.

Taxing matters

Minimizing your taxes should always be a key financial planning goal. In the case of divorce, making tax-efficient decisions becomes more important than ever—it is key to reducing your joint tax bill and sharing the savings.

Whereas child support payments are not tax-deductible by the payor and are not included as income by the recipient, spousal support payments can be deducted by the payor and must be claimed as income by the receiving spouse.

TIP SHEET

If your family owns both a house and another property—say, a cottage—you could save a significant amount in taxes by allocating one property to each spouse. Every family is entitled to sell one principal residence without paying tax, and a divorce creates two families.

How to speak "legal"

Are you and your lawyer speaking the same language? Here are some important terms you need to understand:

• Spouse. For the purposes of the Family Law Act (Ontario), a spouse is someone who is actually married or entered into a form of marriage in good faith. The FLA does not currently recognize a common-law spouse or same-sex spouse as a spouse in property issues.

• Separation date. Most often, the specific date when one spouse moved out of the home. In some circumstances, the separation date may be set at a time when spouses were still living in the same house – even sharing the same bedroom or bed. Keep in mind that there can't be a separation if only one party knows of it.

• Asset valuation. A way of calculating the real value of investments, property and business interests, generally at the separation date, to provide an economic snapshot of a couple's assets.

• Equalization payment. An amount paid by one spouse to the other to ensure that each leaves the marriage with an equal share of the assets acquired during the marriage. The assets owned by each party are added up. Then the difference between the two values is divided in half. The spouse with the greater number of assets pays this amount as an equalization payment to the spouse with fewer assets.

• Marriage contract. A legal document that deals with such things as support and division of assets upon separation.

TIP SHEET

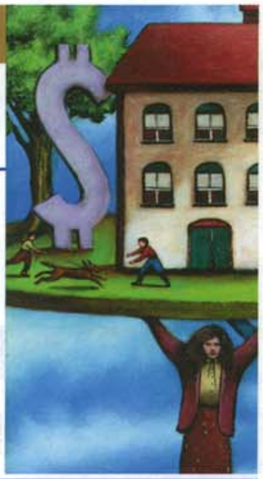
The financial agreement you and your lawyers reach must, by law, be equitable. Make sure your marriage contract will stand up to any court challenges by providing accurate valuations of your assets and recommending fair strategies for dividing investments and property.

Care for your assets

There can be a hefty price to pay for not changing beneficiaries when a marriage fails. Changing the beneficiary under a life insurance contract or RRSP can be done by sending your financial advisor (or agent of record under a life insurance contract) a letter indicating the beneficiary change. The letter is then forwarded to the appropriate institution on your behalf. While the beneficiary of an RRSP can be changed within a will by way of a codicil, it is important to note that changes to the beneficiary designation of a life insurance policy can only be done by the insurance company.

TIP SHEET

A change of beneficiaries is not permanent and can be easily reversed if your separation ends in reconciliation.



What about the kids?

One of the most devastating aspects of divorce is its impact on children both emotionally and financially.

So how can you ensure that your children maintain the same standard of living after the divorce?

Here are some things to consider:

• Continued support. It is important to continue to provide financial support for your children's future needs, such as education. If an estranged spouse is making regular monthly payments into a Registered Education Savings Plan (RESP), those payments must continue, no matter how acrimonious your relationship with the spouse has become.

• Ongoing health coverage. Ensure your children's medical needs remain covered under one parent's group healthcare plan for items not covered by provincial healthcare programs, such as prescription drugs, eye care, physiotherapy and extended hospital stays. Children who do not live with an estranged parent can still be listed as a dependant on a group healthcare plan.

• Guaranteed cash flow. Be sure to maintain or purchase insurance coverage that will ensure a cash flow is maintained to your children in the event of death, disability or critical illness.

• Inflation check. Ensure support agreements are protected against inflation. Be sure to take rising costs of living into the post-divorce planning.

• Estate planning. Marriage breakdowns are a good time to review your will and the guardianship of children. A testamentary trust can ensure that a child whose parents have divorced is looked after in the event of a parent's death.

ASK YOUR ADVISOR

Get the most out of your meeting with your financial advisor by taking along a list of questions you'd like answered. Some of the most critical questions you should be thinking about:

- Do you want copies of all our insurance contracts—including joint policies, individual policies and group medical plans? Is there any other information we can provide?
- Which investments should I fight to keep? What will benefit me the most at my stage of life?
- What does a valuation expert look for when he or she is establishing the worth of a business? What information can I make available to ensure the assessed value is as accurate as possible?
- Can you recommend tax-saving strategies that apply to my specific situation? How should my lawyer structure support payments so both my ex-spouse and I pay less in tax?
- Would you be willing to attend a meeting with my lawyer so you can talk directly about the pros and cons of different approaches to the division of our assets?
- What assets do I have that designate specific beneficiaries? What forms or letters does each institution need to change these designations?

Getting the best advice

As your divorce proceeds, it's essential that you surround yourself with the best possible advisors. All members of the Canadian Association of Insurance and Financial Advisors (CAIFA) have earned or are working towards their Certified Financial Planner (CFP) or Chartered Life Underwriter (CLU) designation. The internationally recognized CFP designation qualifies an advisor to recommend investment products and financial strategies. CLUs specialize in life insurance and tax planning and may also provide financial guidance to business owners.

No one plans to get a divorce. But developing a solid financial planning strategy for the future is the first step towards your new future.

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