

FINANCIAL POST

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Are your executors ready for your exit?

Michael Nairne, Serious Money



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No one likes to think about it but it's important to be prepared for when your time comes.

Imagine that you are the victim of a freak accident. While golfing, you are struck by lightning and make an unexpected but dazzling departure from this mortal coil.

Your family is devastated. You are gone and everything you had handled falls on them. And now the litmus test: Is your financial house in order? Or are you leaving your family with a mess?

Having your financial affairs in order goes much further than having an up-to-date will, although this is critical. First, it is important that you have named the right executors. If you have a complex estate or substantial assets, they need be more than just trustworthy. They must possess sound judgment and be willing to devote the time and attention required to properly administer the estate.

One of the smartest moves you can make is to brief your executors on the reasons behind the terms of your will and any testamentary trusts that are established. The insights garnered by the executors will improve their ability to communicate with the beneficiaries and other interested parties.

Second, the primary adult beneficiaries of your estate should know the major elements of your will. Hurt feelings or bitter disappointment due to surprises in a will can lead to disputes, especially if there is a second marriage. By sitting down with each stakeholder, unnecessary upsets can be minimized. At the same time, their opinions may lead you to consider more appropriate terms and bequests. It is also an opportunity for you to reinforce with adult children how they can best be stewards of their inherited wealth.

Many people avoid these intimate and often difficult conversations. Unfortunately, the short-sightedness can end up leaving a legacy of pain, even acrimony.

A comprehensive balance sheet itemizing all assets and liabilities is the third component of a well-ordered financial house. It is surprising how many wealthy families don't have this. Your spouse and children should know where all the financial records are, including the will, bank and investment accounts, insurance policies, tax returns and safety deposit box. You don't want to place the burden of a massive document hunt on your grieving family.

Your financial planning should also answer the vital question of whether your family will be adequately provided for on your death. Your spouse should know that your assets and insurance proceeds, net of all liabilities and taxes, provide sufficient capital to amply meet your family's needs.

Finally, have you left your spouse or children with a wealth management team and process in place? A proper succession plan goes far beyond a list of money managers and professionals. It incorporates three key elements: a written long-term investment plan for the family's capital; the prior involvement of the spouse and/or children in its design; and a working relationship between the wealth manager, other professionals and the family.

Many high-net-worth individuals fail miserably on this, particularly do-it-yourself investors. There is no written plan -- one spouse keeps everything in their head, the other spouse is totally in the dark and the professionals are virtual strangers to the family.

I am seeing more high-net-worth individuals wake up to this glaring omission. They are realizing that one of the greatest gifts they can leave to their family is a seamless process of estate administration and wealth management. After all, you never know when lightning might strike.

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