VIEWPOINT 2018 JUN 05

THE REVERSE REMAINDER CLAUSE

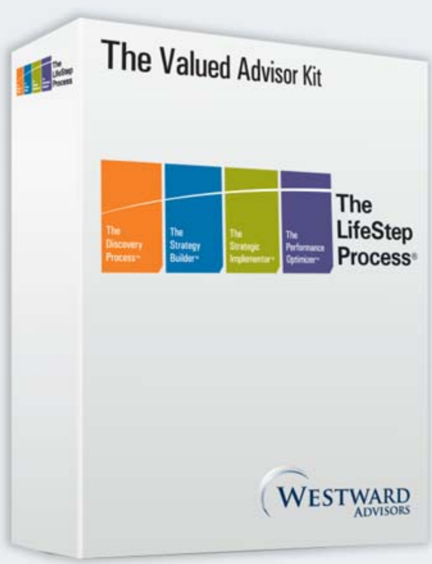
WESTWARD ADVISORS

WESTWARD'S VIEW

We frequently encounter the sentiment *"The kids are getting enough"* in our work with successful entrepreneurs.

We developed **The Reverse Remainder Clause** as a tool to help entrepreneurs probe this sentiment. It can help the entrepreneur discover a path to eliminate the underlying frustration and create new and exciting opportunities in the realm of charitable gifting.

For an entrepreneur actively pursuing The Reverse Remainder Clause, life insurance can play a significant and exciting role. Westward's LifeStep Process can help design and implement a life insurance plan as part of an overall charitable gifting plan.



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The Issue

When talking about estate planning goals with clients, we commonly hear successful entrepreneurs say, *"The kids are already getting enough."*

It begs a second question, *"If not the kids, then to whom?"* To answer this question, let's first consider the structural framework.

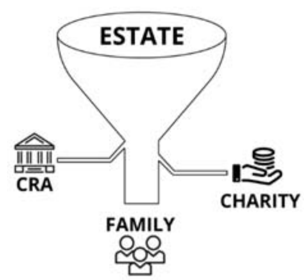
The Structural Framework

Our entrepreneurial clients will not consume their net worth during their lifetimes. Many will continue to grow their net worth throughout their lifetimes. Not one has said they will purposely destroy net worth to avoid giving any more to the kids. As such, the entrepreneur is effectively a custodian of capital on behalf of their estate's beneficiaries, of which there are only three:

1. The Canada Revenue Agency **(CRA)**
2. Charities
3. Family

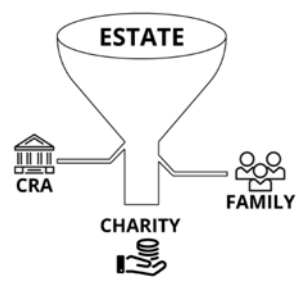
The portion for CRA is a function of the tax code. The tax advisors will take steps to minimize this portion within the tax law and thereby avoid overpaying taxes. There's not much decision making for the entrepreneur to do here.

The Default Remainder Clause



Where the entrepreneur has to put more thought is in making conscious decisions during their lifetime about how to divide the remainder for charities and family. Those decisions are embodied in lifetime gifts and the final gifts made in the will. The will contains a **Remainder Clause** identifying to whom the remainder of the estate will be distributed after making all the specified gifts. The **Default Remainder Clause** is to gift the remainder to a surviving spouse or children, after making specified gifts to charities and others.

The Reverse Remainder Clause



So back to the question, *"If not the kids, then to whom?"*

The structural framework makes the answer clear. The entrepreneur's sentiment that *"The kids are already getting enough"* is signalling that the entrepreneur no longer subscribes to the Default Remainder Clause. The entrepreneur has subconsciously moved the kids from the estate's remainder group to the estate's specified gift group. Somebody has to be in the remainder group, and if family is no longer in the remainder group, then that leaves just one "choice": charities.

The entrepreneur has effectively transitioned from wanting the Default Remainder Clause to wanting the Reverse Remainder Clause: after providing specified gifts to family, the remainder will go to charities.

Going Forward

Consciously recognizing the Reverse Remainder Clause empowers the entrepreneur to actively pursue creative and exciting charitable gift planning during their lifetime. When the remainder of the estate is gifted to charities, life insurance can play a major role in achieving and enhancing the charitable gifting goals.