Planning Ahead

THE NEWSLETTER OF MONEY MANAGEMENT AND FINANCIAL PLANNING IDEAS

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QUADRUS

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FOCUS ON INSURANCE

Update your insurance as your needs change

If you're heading into retirement, your insurance needs are likely to change. What was appropriate for you when you were younger may no longer fit the bill. You may need to:

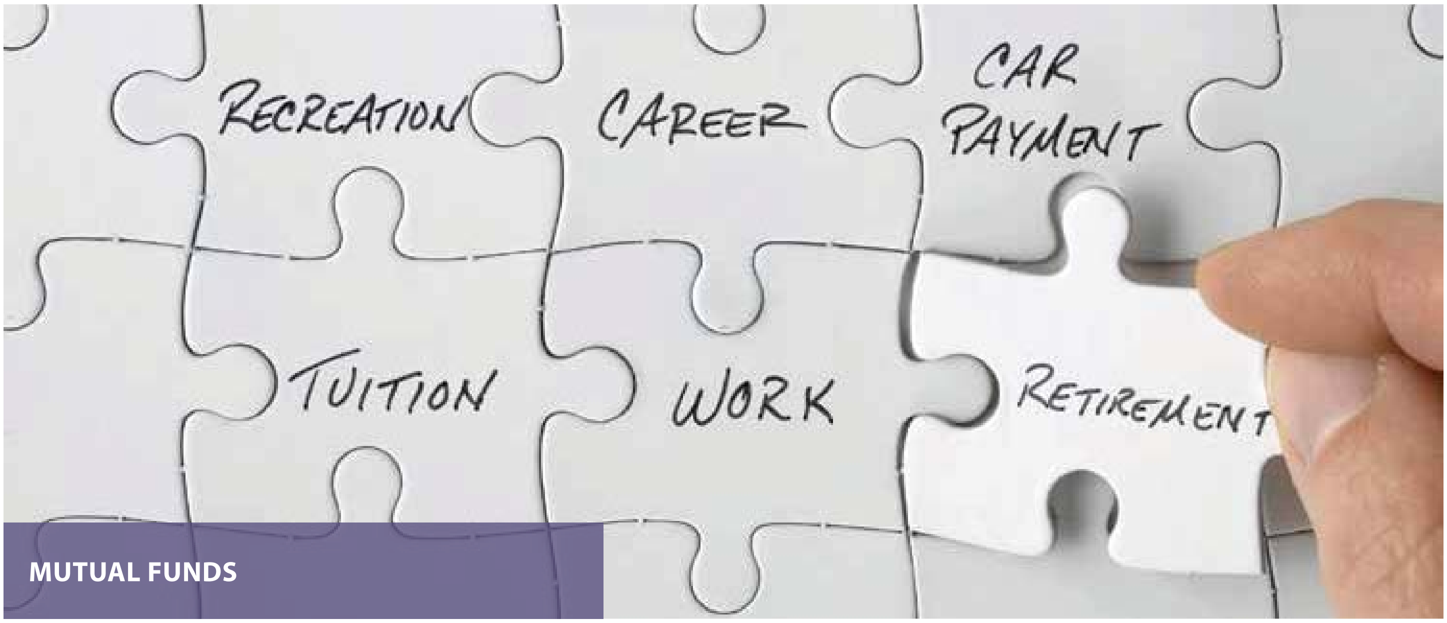
Fill The Gaps
Life insurance continues to play a key role in protecting your spouse and other dependants, but you might also want to look into long-term-care insurance to help cover the cost of a nursing home or homecare services.

Cover taxes for your estate
Insurance can work well to provide a tax-free sum to pay bills such as taxes that arise at death, so your heirs don't have to sell family assets.

Equalize inheritances
If you're leaving a large asset such as a vacation home to one child, a life insurance benefit can help to provide a matching benefit to another.

Support a charity
If you would like to make a substantial gift to your favourite charity without depriving your family of valued assets, life insurance is an alternative you should consider. There are a number of ways to use insurance as part of planned-giving strategy. We can help you choose the route that's best for you.

From the birth of a child, to a change in marital status, to retirement, please remember that we're here to help you with your insurance needs. ■



Life-stage retirement planning: It's never too early (or too late) to start

In a study last year on retirement preparedness,[1] the Conference Board of Canada found that six out of ten Canadians didn't think they had put enough away for their senior years. Notably, those aged 55 through 64 admitted they had not saved adequately, and were worried about making ends meet through retirement.

Perhaps it's something you've worried about, too. Or if you're younger, perhaps you're wondering if you should be worrying.

What's the best way to feel confident about achieving your retirement goals? Whether you're 30 years from retirement or three, a diversified, well-managed portfolio of funds can help provide the mix of security, income, and growth you need, as these examples show.

The building years

"Go for growth" is likely to be your investing mantra at this stage of life. Thanks to kids, mortgages, and a propensity for accumulation, these years tend to be typified more by spending than saving. However, time is totally on your side. With a long investment horizon, you can focus on growth-oriented equity mutual funds, knowing that you'll have plenty of time to ride out any temporary market downturns. You'll also benefit the most from compound investment growth.

Whatever else is going on at this busy stage of life, let's look at beefing up your holdings with funds that have the best potential for long-term capital appreciation. Because building your nest egg is your primary objective, we need to ensure that you have an optimal cross-section of domestic and international equity funds. We might also want to investigate country- and sector-specific funds to enhance diversification and to capitalize on specific opportunities, currencies, or economies.

Peak earning years

At this stage in your life, you may be mortgage-free (or close to it) and be earning the highest salary of your career. Your children have left home and are independent. With more income and fewer expenses, these are typically your biggest earning years and (not coincidentally) your biggest tax-paying years.

For most people at this stage, there's still lots of time for the growth potential of equity funds. That said, it's a good idea to investigate funds that can also minimize your tax bill. Corporate class mutual funds, for example, offer all the investment choices you want with the added benefits of tax-efficient distributions and easy, tax-smart asset re-allocation within the fund family.

It goes without saying that this is also the time for us to make doubly sure you're taking full advantage of tax-advantaged accounts, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Pre-retirement years

With retirement on the horizon, this is the stage when we want to start gradually shifting your fund portfolio away from capital appreciation and towards capital preservation and income generation. In the same way that dollar-cost-averaging (buying in small increments on a regular basis over time) is a smart way to acquire mutual funds, it's an equally smart way to transition out of them.

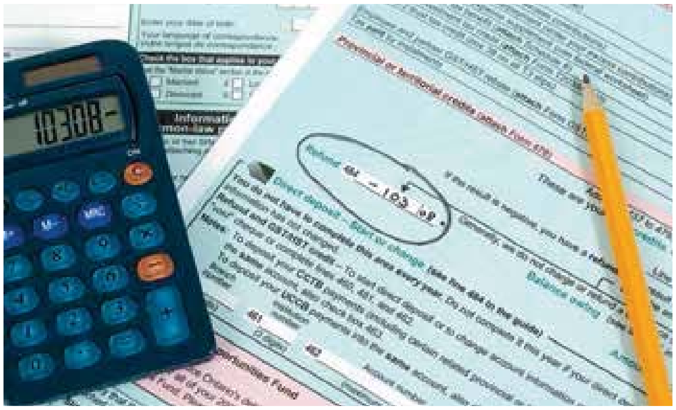
Now may be the time to use this approach to start moving into the funds that will provide your retirement income stream. This doesn't mean selling off all your growth-oriented funds. But by starting well in advance, you can enjoy the luxury of slowly rebalancing. Even if your anticipated retirement is 10 years away (or more), let's talk about what's next and set up the steps we'll need to implement your plans.

Whatever life stage you're in, remember that we're here to help. We can help you clarify your short-, medium- and long-term goals and craft a mutual fund portfolio to help you reach your financial objectives. Over time, as your life evolves, we can make sure your portfolio stays aligned to your changing needs and objectives. ■

1 Conference Board of Canada, *A Survey of Non-Retirees and Retirees in Canada: Retirement Perspectives and Plans*, October 2014.

TAX PLANNING

Max your credits



It's summertime! Chances are, nothing is further from your mind than paying taxes. But by staying on top of summertime receipts, you can make sure you take full advantage of all the tax credits available to you when you file your return next April. Here are two areas in particular where you'll want to keep those receipts.

Childcare expenses. If you have kids in formal daycare, you probably already know about childcare tax credits. But summer programs, including day camp, art classes, summer school, and sleepover camp, may also be eligible. In fact, just about any childcare expense that enables you to work, study, carry out research, or run a business may be permissible.

Child fitness tax credit. Starting in 2015, the child fitness tax credit gets a lot more generous. If your kids are under 16 (18 for a child with a disability), you may be eligible to claim up to $1,000 (double the amount you could claim last year). Best of all, the list of eligible activities is broad. So whether your son takes golf or sailing lessons or your daughter goes to soccer camp or a horseback-riding academy, save those receipts! ■

EDUCATION PLANNING

Will an RESP be enough?

A Registered Education Savings Plan (RESP) is a great way to save for a child's education. But it's not the only strategy and, depending on your child's situation, you might want to bring other effective ways to set money aside. Consider these questions…

Is it possible your RESP payments will fall short of your child's expenses? RESPs have age and contribution limits. If you missed out on contributing while your child was young, if your child ages out of eligibility, or if your contributions didn't meet your expectations, there are other investment vehicles that can help you reach your goal.

Is your child considering post-graduate studies? If your child opts for a career in medicine, law, architecture, business, or engineering, expenses will go far beyond those associated with a four-year undergraduate degree. You may want to investigate alternative investments to defray at least some of the additional costs.

Is your child keen on an Ivy League school? If you want your child to have the option of attending a prestigious U.S. university or studying abroad, an RESP will cover only a fraction of the cost. If any of these situations might be part of your future, we can show you how to enhance your RESP with other investments such as Tax-Free Savings Accounts (TFSAs), non-registered holdings, or in-trust accounts. ■

MONEY MANAGEMENT

When a saver and a spender live under one roof

A recent Nielsen survey[1] found some interesting differences between how men and women spend, and how they save. Among consumers polled, 43% of men said that now is a good time to spend, compared with just 36% of women. When a spender and a saver pair up, decision-making may become a source of stress. But it doesn't have to be that way.

Savers and spenders are simply people with different expectations. They may ultimately want the same things, but they have different timelines for those acquisitions. Believe it or not, it's entirely possible for Ms. "Live for today" to find harmony with Mr. "Save for a rainy day."

Compromise, candour, and balance are the keys. Perhaps you can agree on a savings/spending split? "If we set up a PAC that puts $350/month into our TFSA, we can earmark $150/month as mad money." Make it more tempting by agreeing that mad money not spent this month gets rolled into next month's slush fund. After all, even spenders can be encouraged to save, with the right enticements.

And rest assured, savers and spenders do agree on some things. In that same study, men and women both said that when it was necessary to cut back, it made sense to start by reducing holiday spending, phone plans, and gas/electricity costs. We have a lot of experience helping couples navigate their saving and spending goals. If this is a source of stress or conflict in your family, we would be pleased to help. ■

1 Nielsen Insights, "Money may make the world go around, but men and women have different spending priorities," March 2015.

Increase your after-tax income *and* leave money for heirs

An often-heard concern among those about to retire is how to increase after-tax income from investments, yet still have enough money to leave behind for the kids.

There is one planning solution that can help you do both. Here's how it works:

- **Step 1.** Use your capital to purchase a prescribed insurance annuity. You'll earn a higher after-tax income than if the same capital were invested in Guaranteed Investment Certificates (GICs).
- **Step 2.** Use a portion of your annuity income to purchase permanent life insurance, with your heirs as beneficiaries.

Advantage, annuity

A prescribed annuity guarantees you regular payments for life that are a blend of non-taxable capital and taxable interest. This generates a higher after-tax income than if the same capital were invested in GICs, which generate fully taxable interest income.

Here's how these two scenarios compare.

Income from GICs. If you were to invest $150,000 in GICs and earn 3.0% interest annually, you would have $4,500 in taxable income. In a 45% tax bracket, you would be left with $2,475. However, you would still retain your original capital, which you could spend or leave to your loved ones.

Income from annuity. Alternatively, you could use your original capital to buy a prescribed annuity that might pay something like $12,000 a year. The "prescribed" component is tax-efficient because it ensures that the taxable portion is the same each year.

Since only part of the annuity is taxable, you would end up with more after-tax cash — perhaps $10,000, or four times as much as the GIC route. However, all of your capital will have gone into the annuity, leaving nothing for your estate.

Leave something behind

To help you leave a legacy, you use a portion of your annuity income to purchase permanent life insurance. Coverage lasts for life, and the tax-free insurance proceeds can go directly to your named beneficiaries.

If annual premiums for the insurance policy were to cost about $5,000, or half of your after-tax cash, you would still be left with twice as much income as if you had invested in GICs.

Other considerations

With an annuity, payments are guaranteed for life, so you don't have to worry about reinvesting at a lower rate as you would with GICs. The downside, of course, is that you won't benefit if rates go up. Once you take the annuity route, you can't go back.

Generally speaking, the older you are, the more annual income the annuity will provide. However, life insurance premiums also increase with age.

We can review your situation, taking all pertinent factors into account, and help you determine the approach that makes the most sense for you. ■

Divorcing? Review your life insurance needs

For divorced single parents, support payments are often essential in helping to cover the costs of raising children. But those payments could disappear overnight if an ex-spouse dies. Your former spouse's estate is not obliged to continue support payments if they aren't stipulated in a divorce agreement or will.

If you're navigating through a divorce, make sure this scenario never becomes a possibility.

Protect your children's future

One of the best routes to a secure future is to ensure that your ex-spouse has life insurance coverage that will leave money for you and your children in the event of his or her death.

It should be a condition of your divorce agreement. Without a legal stipulation as part of a divorce, there is no obligation to protect support payments with life insurance.

You need insurance, too

In addition to insurance on the life of your former spouse, you should have coverage on your own life as well. Your children's financial future depends not only on your ex-spouse, but on you. Life insurance coverage can provide the funds needed to support them until adulthood.

Going through a divorce is stressful for all involved. We can help you explore your life insurance options and make the decisions that provide you and your children with the financial protection you need. ■

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