WELL-ADVISED

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Welcome to financial forecast season, when media experts make stock market predictions. Trouble is, you'll hear numerous conflicting reports. That's because no one can predict the markets. It's best to remain unswayed by short-term forecasts. Trust in a well-diversified portfolio designed to meet your individual goals over the long term.

WANT TO SEE INTO THE FUTURE?

Say that a couple is struggling with a decision about whether to help their child purchase a home. The couple wonders, and worries, if the cash outlay will interfere with their retirement. We often help with this type of financial planning situation – when you must look to the future to make a decision today. In this case, the look to the future is estimating the amount that the couple needs to retire. With that projection, we can ultimately determine how much of a cash outlay the couple can afford.

Projections lead to solutions

Here are a few more examples of projections we create to help individuals make financial planning decisions.

A vacation property owner is deciding whether to transfer the property to her children now or through her will, based on tax implications. To help her decide, we present the current tax that would be payable on capital gains and an estimate of the tax amount at life expectancy.

An individual nearing retirement wants to know the best time to begin Canada Pension Plan (CPP)/ Quebec Pension Plan (QPP) benefits and Old Age Security (OAS) benefits. We show how the monthly and cumulative dollar differences compare when starting at earlier and later years.

A retiree is determining how to cover the tax payable on estate assets. We begin the process by putting together a projection of the estimated amount of the eventual tax liability.

A business owner is planning retirement savings, and we create projections to compare the performance of a registered savings plan, registered pension plan and accumulating funds within the corporation – a choice that's more exacting in light of the new passive income rules.

Whenever you face a situation that calls for a look into your financial future, please give us a call. We'll provide the projections you need and help you make an informed decision. ■

RRSP VERSUS TFSA: DID YOU EVER HAVE TO MAKE UP YOUR MIND?

If you make your maximum allowable contributions each year to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA), you won't face the often difficult RRSP versus TFSA decision. But many families have one or more members who must decide which vehicle is best for their available investment dollars – quite often a lower-income spouse or adult child starting out.

Identify your objectives

Since an RRSP is designed for retirement savings, we're only comparing the two vehicles in regard to long-term savings for retirement income. This makes it very important to identify short-term, medium-term and long-term goals in your financial plan. Choose the TFSA to meet any goals that call for withdrawing funds before retirement. An exception might be saving for a first home with the intention of using the RRSP's Home Buyers' Plan. If a down payment is one of your financial goals, talk to us about whether you should use a TFSA, RRSP or both vehicles in your situation.

The long-term savings decision

Once you feel confident in designating a certain amount to retirement savings, you're ready to make the RRSP versus TFSA comparison. Determining which vehicle is better from a performance perspective revolves around one factor – your marginal tax rate, or tax bracket:

- A TFSA and RRSP perform equally when your marginal tax rates are the same at the time you contribute and when you withdraw funds in retirement.
- An RRSP comes out ahead when your tax bracket is higher upon contributing and lower when withdrawing.
- A TFSA wins out when your tax bracket is lower upon contributing and higher in retirement.

It's important to note that the above comparisons are based on any RRSP tax refunds deposited into the RRSP. Also note that some guesswork is involved, as you need to forecast your marginal tax rate in retirement. All of this is a process we can do together. And we'll be sure to factor in Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) and Old Age Security (OAS) benefits, as these amounts can move a low marginal rate up to the next tax bracket.

Three effective strategies

Hedge your bets. Deciding between a TFSA and an RRSP is a challenge if there is difficulty forecasting your tax bracket during retirement. A solution is to hedge your bets – simply divide your annual contributions between a TFSA and an RRSP.

Adapt to change. You can invest in a TFSA during years you're in a lower tax bracket, then switch to RRSP contributions if increased annual income pushes you to a higher tax bracket. Remember, you were still building RRSP contribution room during your income-earning years. In some cases, an individual may wish to redeem TFSA assets, contribute the funds to an RRSP, and benefit from a significant tax refund.

More than math. You may have a psychological reason for choosing one vehicle over another. For example, someone who lacks financial discipline may worry about using a TFSA for retirement savings because it's so easy to withdraw funds. This person may choose an RRSP because early withdrawals are subject to both withholding tax and income tax, and contribution room is lost permanently.

If you or a family member ever wants guidance in choosing between a TFSA or RRSP, please consult us. We'll show you how performance compares at retirement and discuss other personal factors that may affect your decision. ■

TFSA AND RRSP COMPARISON:

When marginal tax rates are equal upon contribution and withdrawal

Amount of TFSA net contribution reflects that TFSA contributions are made with after-tax dollars. RRSP contribution amount and calculations assume that any RRSP tax refund is deposited into the RRSP.

	TFSA	RRSP
Contribution [Pre-tax dollars]	$1,000	$1,000
Tax [30%]	$300	n/a
Net contribution	$700	$1,000
Value in 25 years [6% growth]	$3,004	$4,292
Tax upon withdrawal [30%]	n/a	$1,288
Net amount	**$3,004**	**$3,004**

COUPLES WITHOUT CHILDREN APPROACH FINANCIAL PLANNING DIFFERENTLY

When you think of the messaging and imagery in financial media stories and advertising, do you ever get the impression that financial planning is mainly for a couple with three kids, a new SUV and a dog? Yet the latest census tells us the so-called traditional family is no longer Canada's most common household – that title now belongs to the one-person household.

One hidden demographic is couples without children. Yet, among Canadian households with couples, most provinces have more households of couples without children than couples with children. Nationally, it's almost an even split between couple households – 51% with children, 49% without children.[1]

Here's a look at some of the financial planning issues and opportunities unique to couples without children.

The savings advantage

Raising children is costly. Without the financial obligation of saving for education, braces, summer camp and all the other costs of living, couples without children are presented with a savings opportunity.

If you're part of a couple without children and you save and invest wisely, you can capitalize on this opportunity and reach your nest egg objective sooner than if you had children. This savings boost gives you flexibility because now you have the choice of taking an earlier retirement.

Getting ahead of the game means that a couple without children will typically begin the retirement discussion sooner. Do you want to retire earlier? Or retire at a more traditional age and enjoy an even more comfortable retirement? When you're giving this decision some thought, please consult us regarding the retirement income your investments will provide. If you retire at, say, age 55, you'll want to plan on income to support your desired lifestyle for about 30 to 40 years.

No children doesn't mean no insurance

Disability insurance and critical illness insurance protect your financial security regardless of whether you have children. Long-term care insurance or self-insuring for long-term care is especially important because you don't have children to provide or supervise care if needed.

The question is whether you need life insurance, and the answer is possibly. At younger ages before you have accumulated enough wealth, your income may be needed to support your spouse's lifestyle, in which case you have a life insurance need. You could also require life insurance for business needs if you have a co-owner, or for estate planning needs if life insurance is used to make a charitable gift or offset taxes payable by your estate.

Planning your estate

When you're not leaving an inheritance to children, estate planning is easy to put on the back burner. The fact is, however, that because you don't have children to name as beneficiaries of your estate, you likely need to give the beneficiary decision more consideration than usual. Some individuals without children choose siblings, nieces or nephews as their heirs. Others leave a legacy to a charity supporting a cause they believe in.

If an individual has children, naming a child as executor is a common choice. When you're part of a couple without children, you may want to name your spouse, a sibling or close friend as executor. But do consider that administering an estate involves quite a bit of work that takes many months or even years, and that involvement can be strenuous at older ages. You may want to consider naming an interested niece or nephew, a professional or a trust company.

Leaving an inheritance isn't an essential need for everyone without children, for a variety of reasons. For example, if your nieces and nephews are looked after financially, they don't have a need for your savings. Or if you're an only child, you don't even have the choice of naming siblings, nieces or nephews. Instead of leaving an inheritance, another option for retirees without children is to freely spend their nest egg and enjoy life to the fullest. In this case, it's prudent to establish a stream of guaranteed retirement income to ensure you don't outlive your savings.

We recognize that Canadian couples without children are a large demographic group, with many unique aspects to their financial life. Please feel free to talk to us whenever you have questions or need assistance with your financial plans. ■

1. Statistics Canada, Census of Population, 2016

QUICK, NAME YOUR MOST VALUABLE ASSET

Did you name your house? Your Registered Retirement Savings Plan (RRSP)? An investment account? Your most valuable asset is arguably what funds everything else – your income. It stands to reason, therefore, that your income should be protected. That's where disability insurance enters the picture. In fact, disability insurance is often referred to as income protection insurance.

Disability insurance provides a monthly benefit when an illness or injury prevents you from working. The most common long-term disability claims in Canada are related to musculoskeletal conditions, mental health and cancer. Musculoskeletal conditions include back pain and arthritic ailments involving pain, flexibility or mobility issues. Other common causes of claims are heart disease and injuries. A Statistics Canada survey shows that one in five working-age Canadians has a disability that limits their performance of daily activities, with 43% classifying their disability as severe or very severe.[1]

Assessing group disability insurance

Long-term disability insurance provided through your employer may suit you perfectly, but for some people's needs, group disability insurance has gaps. Perhaps the waiting period before benefits begin is longer than desired. The maximum period during which you receive benefits is not long enough. Or maybe the maximum monthly benefit falls short of your cost of living.

A common gap involves the definition of disability. The best coverage is "own occupation" coverage, which means that you receive benefits if the disability prevents you from performing the duties of your regular job. If you have "any occupation" coverage, you receive benefits only if the disability prevents you from working at any job.

If you do want more comprehensive disability coverage, you can supplement group coverage with an individual disability insurance policy. For example, someone whose group plan offers own occupation coverage, but only for a two-year benefit period, may purchase individual disability insurance with a two-year waiting period that provides own occupation coverage until age 65.

Please contact us if you would like us to assess your disability insurance needs or evaluate your current disability coverage.

Protection for business owners

As a small business owner or a self-employed professional, you likely have disability insurance for its traditional use of replacing lost income if an illness or injury prevents you from working. But please consult with us if you might also have a need for any of these additional types of disability coverage. Overhead expense insurance, a form of disability coverage, helps cover such costs as employee salaries, rent and utilities during the period you are disabled. You can also cover the cost of an individual disability insurance policy to attract and retain a key employee. If you're in a partnership, disability insurance can fund a buy-sell agreement that enables a partner to purchase the disabled partner's business interest. ■

1. Statistics Canada, Canadian Survey on Disability, 2017

WATCH OUT FOR THE WINDFALL SYNDROME

A sum of money lands in your lap, perhaps a tax refund or an inheritance, and you're overcome with the urge to splurge on lavish purchases. That's the windfall syndrome – if it's not from your regular paycheque, it's free money.

In fact, you may experience this very temptation just around now if you've already received or are about to receive an annual bonus from your employer. Before you shop for the ultimate home theatre or book a flight to Tahiti, remember that the annual bonus isn't all that different from a paycheque. It's a form of income, and it's taxable.

Practical choices

When money comes your way, beyond your paycheque, you have an excellent opportunity to pay down credit card balances or any other debts with a high interest rate. Another option is to give your investment program a boost – contributing to your non-registered account, Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP) or spousal RRSP. Or you may wish to contribute the funds to a Registered Education Savings Plan (RESP) for your children or grandchildren. In the case of an annual bonus, some employers with a workplace RRSP program offer the choice of transferring the bonus directly into your RRSP, without tax being deducted.

Striking a compromise

For some people, the temptation to splurge on a luxury item is just too hard to resist. A solution is to spend a smaller percentage of the annual bonus or unexpected windfall on a luxury item, while dedicating most of the amount to investments or paying off debt. You can enjoy your personal life today and support your financial life for the future. ■

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