T·E·WEALTH

DECEMBER 2017

STRATEGIES

SUBSCRIBE TO THE DIGITAL VERSION OF STRATEGIES AT INFO@TEWEALTH.COM

What's stopping Canadians from learning about money?

If you're like most people who aren't in the financial services industry, you'd probably rather watch toast burn than sit through a seminar about taking control of your finances. But guess what? If your financial knowledge is weak and you're not working with a financial planner, you're probably leaving money on the table that you didn't even know was available.

A study by the Financial Planning Standards Council (FPSC) and the Financial Planning Foundation shows that Canadians who engage in comprehensive financial planning report significantly higher levels of financial and emotional well-being than those who do only limited planning or none at all.[1] Having a better understanding of your options lets you choose the ones that will help you reach your financial goals more effectively.

While there are ample resources (both free and fee-based) to help educate or counsel Canadians on financial matters, most of us don't use them to the extent that we should – if at all. Why not?

You probably think this is the part where I tell you to just buck up and stop procrastinating already. Well, it's not that simple. There are actually some legitimate barriers holding us back from learning more about financial issues. These are based in unconscious personal biases and demographic influences. The following is by no means an exhaustive list, but it shows some of the more common deterrents in each of these areas.

Personal bias

Personal biases can create barriers to financial literacy that are based on perception rather than actual knowledge. The way we perceive financial services, and financial service providers, can prevent us from becoming more involved in the financial planning process. A report from the Society of Actuaries, in conjunction with The Financial Literacy Group, shows how this can cause us to make decisions that might impede our financial wellness.[2] Here are three of the more common biases:

Lack of awareness

A lack of basic financial knowledge can itself be a barrier to improving literacy or seeking financial advice. If you're unaware of just how important financial planning is, you may underestimate the value of increasing your knowledge and working with a planner. This means you'll be less

INSIDE

likely to consider learning about financial products that could be beneficial in helping you achieve your financial goals.

Uncertainty aversion

Financial jargon is often overwhelming and can make people feel embarrassed about their lack of financial knowledge. This may cause them to hold back when talking with financial experts. Or, it may deter them from seeking professional help altogether which could affect their ability to buy a home, support their children's education or retire comfortably. This is known as the principle of ambiguity or uncertainty aversion in behavioural economics: people avoid what they don't understand. Worse still, if someone does seek advice despite lacking adequate financial knowledge, they could be susceptible to overpaying on fees – or even fraud. This creates yet another barrier: lack of trust in financial services providers.

> "If someone does seek advice despite lacking adequate financial knowledge, they could be susceptible to overpaying on fees – or even fraud."

Lack of trust

Because we tend to place greater trust in our family, friends and colleagues than we would in a stranger, we sometimes go to them for advice even when it may not be in our best interest to do so – as in the case of financial matters. By all means, ask your aunt Edna for the name of her financial planner, but don't take stock tips from her because her medicinal plant shares are doing really, really well right now.

There are ways to ensure you're working with a certified professional who is required to take continuing education courses and uphold ethical standards. See if they're registered with a governing body like the FPSC (or the IQPF in Quebec) if they're a financial planner, or the Securities Commission in your province or territory if they're an investment advisor. And ask for references from their clients. This can help alleviate your fears about whether or not you're getting advice that's in your best interest.

Sensationalized media stories or negative word-of-mouth experiences may be the exception – not the rule – so don't shortchange yourself. You could be missing opportunities to learn about things that could really boost your retirement nest egg, like tax savings and investment strategies.

When you look at the objective outcomes of people who increase their financial knowledge and work with a planner compared with those who do not, it becomes easier to override these biases and see the value in upping your game.

Demographic influences

Unlike personal biases, which are more internally based, demographic influences are the result of external barriers. Certain groups may have a restricted ability to acquire financial knowledge, regardless of whether or not they have an interest in doing so, due to their life circumstances. Statistics Canada research shows that demographic markers can affect financial well-being, and three of the more common ones are income, gender and immigration.

Income

A study conducted by Statistics Canada, known as the Canadian Financial Capability Survey (CFCS), found that income plays a notable role in our level of financial literacy.[3] People with higher incomes generally have increased financial knowledge, which may be due to the fact that they have more disposable income, creating a greater need for financial services. They also tend to associate with those who encourage behaviours like saving and investing.

The following quiz scores show a correlation between annual household income and financial literacy:

- Canadians with household incomes of $67,000 or less achieved an average score of 62%
- Canadians with household incomes in the median range ($67,001 to $95,000) had an average score of 67%
- Canadians with household incomes above the median (above $95,000) had an average score of 71%

As you can see, financial literacy scores for Canadians who earn over $95,000 per year are about 10 percentage points higher than those for Canadians in the lower income group. Because people in higher income brackets also tend to have higher levels of education, increased financial knowledge may be correlated with increased education itself.

> "Women face different financial challenges than men."

Gender roles

Women face different financial challenges than men. Canadian women can expect to live about 4.5 years longer than men, which means they need to finance a longer period of retirement. They also have higher disability rates than men, and may incur higher long-term care costs as they age. A woman's cumulative lifetime savings may be lower than a man's due to the gender pay gap and shorter working lives. They tend to work more part-time jobs than men and have gaps in employment due to caregiving responsibilities.[4] These gender-related barriers create a greater sense of urgency for the financial literacy of women.

Using data from the CFCS survey, a study released by Statistics Canada in 2016 found that gender plays a notable role in financial literacy. A 2014 survey showed that 22% of men were able to correctly answer 5 of 14 questions related to interest, inflation and risk diversification, compared with only 15% of female respondents.[4]

The study also found that in opposite-sex couples where the male partner is mainly responsible for the long-term financial management of the household, only 10% of women answered the five key financial literacy questions correctly, while 33% of male partners did so. The difference in levels of literacy tends to be more pronounced among more senior Canadians. When couples share the responsibility for the financial management of the household, or where a woman's contribution to household income is similar to that of her male partner, there is no gender difference in financial knowledge.

With improved education, the immigrant employment rate generally rises, as do income levels.

With each of these demographic influences, we see that obstacles to financial knowledge are removed as levels of education and income increase. In general, higher levels of education correlate with increased income, which increases both a need for better financial literacy and an appreciation of its value.

So with increased education and income, the financial literacy of this demographic improves significantly.

Immigration

According to Statistics Canada, recent immigrants continue to have lower employment rates than native-born Canadians; however, this gap has been narrowing since 1996. Added to the challenge of finding work, many immigrants struggle to understand and avoid the pitfalls associated with high-interest credit, service charges and other money matters because they lack the language and terminology associated with financial services in Canada.[5] This makes them easy prey for unscrupulous service providers.

Where to start

There are plenty of excellent resources and financial experts to choose from when you're ready to dive into the world of financial planning, but if you're still struggling with some of the above-mentioned barriers, here are two reliable and easily accessible places to start.

1. The Financial Consumer Agency of Canada (FCAC) helps Canadians increase their financial literacy by giving guidance on things like paying down debt, budgeting, building savings and increasing knowledge of financial products and services. Their website includes articles, tips and questionnaires in basic financial language, to help you navigate the world of financial planning. You can even take a financial literacy self-assessment quiz to find out how you measure up to the average Canadian.
2. Another reliable resource can be employer-sponsored financial education or counselling programs if this is something that your workplace offers. The financial companies that provide these services are usually vetted by your HR department to ensure they have a good reputation and are on side with any national, provincial and territorial governing bodies. These professionals are usually well versed in all aspects of financial planning and can help you look at your overall financial picture with an eye on reaching your life goals and retirement objectives.

> "Ensure they have a good reputation."

You can also now find online games, tools, calculators and an insane amount of articles to help you improve your financial knowledge. Register for a free lunch-and-learn seminar or make an appointment with a planner to explore your options. These days, it's way more interesting than watching toast burn. And once you get started, you might be surprised to learn how unstoppable you really are.

Lucy Conte, T.E. Wealth, Toronto

[1] https://goo.gl/GtHcgf

[2] https://goo.gl/ujMGmT

[3] https://goo.gl/AQmqyo

[4] https://goo.gl/39Qqpd

[5] https://goo.gl/hQeyDv

Investing is a bit like home renovation. You could do it yourself—but should you?

Unless being an investor is your full-time job, it's difficult to do that job well. And even if you do have the required knowledge and time to take the reins of your investments, hiring an expert to do it for you still might make more sense.

Managing your own portfolio might be feasible if you have a solid understanding of financial markets, are familiar with concepts like diversification, rebalancing and asset allocation, and you have the discipline to stick to a plan. But even if you have the requisite skills to manage your own money, there are good reasons for outsourcing the job to a professional investment advisor.

If there's one thing that tends to get in the way of good investing habits more than anything else, it's human emotion. Many do-it-yourself investors become their own worst enemy. They might buy a stock when it's already soared and sell in a panic near the bottom. These investors also tend to trade too often and attempt to time the market – tendencies which increase costs and reduce overall portfolio returns in the long run. The effects of these harmful behaviours can be dramatic. As the following graph from J.P. Morgan's *Guide to the Market* illustrates, over a 20-year period, the average self-guided individual investor severely under-performed every single major investment class.*

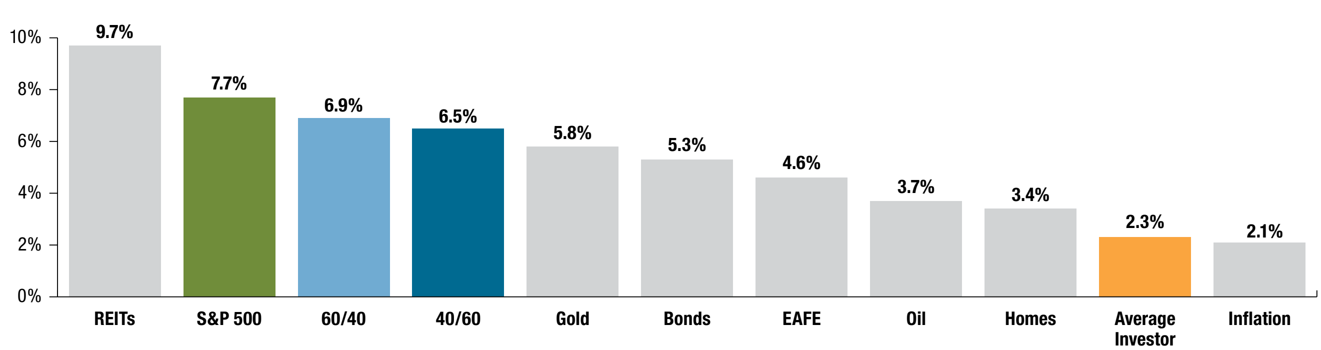
By contrast, a professional investment advisor can instill discipline in your portfolio, protecting you from your emotions. When markets become volatile, as they do from time to time, a manager is there to keep your eye on the long-term plan, reminding you of your financial goals.

Advisors also provide significant value through education. With so many investment products out there, it's difficult for most people to make sense of them all. An advisor can explain what can be expected from various investment classes. They can also underscore the benefits of constructing a portfolio that maximizes returns while reducing volatility, and how to accomplish this in a tax-efficient manner.

Not all investment advice is equal. Here are some things to look for when selecting an advisor:

- **Are they registered with a regulatory body?** Any Canadian firm or individual offering to sell investments or provide investment advice must be registered with the securities regulator in their

20-year annualized returns by asset class (1997–2016)



Source: J.P. Morgan Asset Management, Dalbar Inc.

province or territory, unless they have an exemption. Check with your region's Securities Commission to ensure the person or firm you're dealing with is registered.

- **Do they have additional credentials?** Non-mandatory designations such as Chartered Financial Analyst (CFA®), Chartered Investment Manager (CIM®), Certified International Wealth Manager (CIWM), Estate and Trust Professional (MTI®) and Personal Financial Planner (PFP®) can be attained in addition to registration with a regulatory body. Attaining these designations is a sign that an advisor has specialized skills that may inform their portfolio strategies.

> "Many do-it-yourself investors become their own worst enemy."

- **How are they compensated? Fee-based, salaried or on commission?** Depending on the compensation model, there may be incentive for an investment advisor to act in ways that do not prioritize your financial well-being. Generally, fee-only advisors are perceived to offer the most conflict-free advice because their income does not come from selling you financial products.
- **Is there an independent custodian?** By placing your assets with an independent third-party custodian, you are creating a firewall between your money and your advisor. If an independent custodian suspects fraudulent activity of any kind, they will contact the account holder or report the advisor to the appropriate regulators. The custodian also sends quarterly statements directly to each client that detail all activity in their account, including deposits, withdrawals, trades, and any management fees that were deducted. This provides the investor with full transparency regarding their money, and an official record of their account.

Signs there may be a conflict of interest

Whether you already have an advisor or are in the market to hire one, it's wise to be vigilant for signs that their advice might be in conflict with your best interests. These might include:

- Pushing in-house investment products that are not compatible with your objectives
- Frequent trading, resulting in increased commission fees
- Recommending 'exempt' investment products that are not suitable for you
- Using high-pressure sales tactics
- Claiming to have inside information about an investment

Just as there are some shady home renovation contractors, there are also investment advisors you'd probably rather not deal with. Asking the right questions up front and being attuned to signs of conflicts of interest can save you time, hassle and unnecessary financial loss.

Andrew Hepburn is a freelance financial writer and journalist based in Toronto. He's written for the Globe and Mail, Maclean's, and Morningstar, among other publications.

"By placing your assets with an independent third-party custodian, you are creating a firewall between your money and your advisor."

*Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high quality U.S. fixed income, represented by the Barclays U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/16 to match Dalbar's most recent analysis.

Oprah Winfrey, Michael Jordan and Warren Buffet each have one. Should you?

You may be asking yourself, "What could I possibly have in common with the greatest talk show host, basketball player and investor of our time?" Well, from a financial point of view, many of the issues you face are similar to theirs – only theirs involve millions (or billions) more dollars.

Most high-net-worth individuals can relate to questions like: How should I structure my business and personal affairs to minimize taxes? What types of assets should I be invested in to reach my financial goals? Will my estate be managed and distributed according to my wishes?

While it's no surprise that these celebrities all use a Family Office Services provider to oversee these and many other aspects of their financial lives, it might surprise you to learn that you don't have to be a celebrity or ultra-wealthy person to do the same.

Family Offices have been used by ultra-high-net-worth families and individuals for many years, and in the last few decades this form of comprehensive wealth management has also been made available to families of more modest means. In some cases, as with clients of T.E. Wealth, families with even a few million dollars in assets (including the value of their homes) can benefit from the savings of time, money and stress that a Family Office can provide.

The challenge

Typically, a family's financial affairs are handled by the following different professionals:

- A Chartered Professional Accountant (CPA) to prepare annual tax returns and provide occasional tax planning tips
- A lawyer or notary to draft wills, powers of attorney and trust agreements
- An investment advisor to oversee the family's investment portfolio
- An insurance agent to advise on life and health insurance

A designated family member is usually responsible for overseeing communication between these professionals, and then implementing their recommendations to preserve, grow and ultimately transfer the family's assets to the next generation. This role can be further complicated if the family's attention is divided by the ongoing management of a family business, health or personal issues, or a lack of knowledge or interest in wealth management.

The solution

A Family Office can act as a single point of contact to oversee all of these services, and ensure that the best interests of you and your loved ones are always the first priority. They are, essentially, the Chief Financial Officer for you and your family. But their role goes much deeper than you may imagine.

For most high-net-worth families, asset protection across the generations is a primary concern. One of the ways a Family Office can help you achieve this is through efficient tax planning, with a view on minimizing taxes to your successors. They can also structure your affairs in a way that simplifies administration, which will reduce overall costs, avert legal challenges and speed up the settlement process – sometimes by years.

Some of the financial services they can provide may include:

- Financial planning
- Investment management
- Tax advisory
- Estate and trust services
- Consolidated asset and liability reporting
- Charitable giving advice
- Multi-generational financial education

By having one point of contact oversee all of these services for you, you can expect:

- To save time – spent on meeting and coordinating with multiple professionals.
- To save money – through a tailored estate plan that reduces personal taxes and probate fees. Using one lawyer to plan and draft all of the wills and powers of attorney for a family offers additional savings.
- Peace of mind – knowing that your professionally prepared financial plan will protect your family and assets. Your planner can also act as a buffer between family members in cases of disputes.

So how can all of this expertise benefit you and your family? Here are three examples.

1. Estate planning for a retired couple

Situation

- Mary and Giovanni are in their mid-seventies and have been retired for several years
- Giovanni has had several health issues during the past two years
- They have three grown children, two of which are married and have minor children of their own
- Their third child has had drug and alcohol issues for many years, and has relied on the family for emotional and financial support most of her adult life

Issues

- Mary and Giovanni drafted a will many years ago, before their grandchildren were born, and taking the extent of their third adult child's personal issues into consideration.
- They want to treat all of their children equally.
- They are concerned about their third child's ability to manage her affairs when they are gone.
- They want to contribute to their grandchildren's post-secondary education to give them a good start.
- They want to pass on their assets to their children while minimizing personal taxes and probate fees.[1]
- Giovanni is concerned about his long term health and access to timely health care advice and treatment.

Family Office solutions

- Assist with drafting new wills and powers of attorney.
- Establish trusts for all family members that are designed to hold their personal assets, reduce probate fees, and for creditor proofing purposes.
- Work with a lawyer to set up a living trust for the third adult child, and arrange to transfer investment assets to fund

current and future care costs.
- Establish RESPs or universal life insurance polices to fund the grandchildren's education.
- Enroll Giovanni in a private health consulting clinic that has referral relationships with major U.S. healthcare centres.

2. Sale of a business to create a family legacy

Situation

- Greg and Judy are in their sixties and have sold the family business for millions of dollars; they are considering semi or full retirement.
- One adult child would like to start his own separate business.
- Another adult child wants to continue pursuing a post-secondary education to be either a professor or professional.
- They have three grandchildren under the age of 10.
- Greg and Judy are actively involved in various community organizations.

Issues

- Retirement planning/funding concerns.
- How will Greg and Judy, who have worked for many years in the business, keep active during retirement?
- How do they treat their adult children fairly?
- How do they not spoil their grandchildren, and teach them the value of money and hard work?

Family Office solutions

- Create a personal financial plan and cash flow analysis that projects future investment income/lifestyle expenses, to ensure they have adequate savings for retirement; provide updates every 1-2 years.
- Refer Greg and Judy to a personal lifestyle coach, who can assess their interests and find opportunities to help them remain active during retirement.
- Consider establishing a family bank to lend the adult child funds on favourable lending terms to establish new business.
- Establish individual trusts for each adult child to fund lifestyle and educational expenses.

- Establish RESPs for each grandchild.
- Enroll adult children and grandchildren in a Family Office financial literacy program to learn about personal finances.
- Establish a foundation to fund community initiatives; include adult family members on the board to oversee the foundation; involve grandchildren in researching investments and assessing funding applications.

3. Managing a dual executive family

Situation

- Fred and Ming are both senior executives with large publicly traded Canadian companies; both work long hours and are involved in numerous philanthropic initiatives.
- Both receive a significant portion of their annual employment compensation in the form of stock options.
- Fred's parents are in their eighties and live on the other side of the country; Ming's parents are also in their eighties and are living in a condo located a few blocks from Fred and Ming's home.
- Fred and Ming have two children in private school; both children are actively involved in extracurricular activities.

Issues

- Neither Fred nor Ming have enough time to manage their personal finances.
- They have each accumulated significant stock and stock options in their respective companies, but think that they should diversify their investment holdings.
- Each set of parents would like to stay in their respective homes as long as possible, but neither Fred nor Ming have the time to assist them.
- Fred and Ming do not have enough time to shuttle their children to their various extracurricular activities, and rely on Ming's parents and other private school parents to provide daycare and transportation.

Family Office solutions

- Create a family financial plan for Fred and Ming, including investment manager selection and annual tax filing services.
- Arrange to have a portfolio manager review their respective stocks and develop short and long-term diversification strategies.
- Arrange interviews and assist in the selection of in-home service and health care providers for their parents; arrange for monthly billing and follow up with outsourcing firms on any concerns or issues.
- Arrange interviews for hiring a nanny to assist with the children and manage the relationship with the nanny's outsourcing firm, including monthly invoicing and HR matters.

If you're wondering how a Family Office can work for you, it's worth having a conversation to find out. Because whether you're a celebrity or not, chances are you could probably benefit from a few solutions that you may not even have known existed.

Jason Kinnear, Manager of Family Office Services at T.E. Wealth, is a Chartered Professional Accountant and Chartered Business Valuator. He previously worked in public accounting with high-net-worth individuals and families, providing tax advisory, business valuation and succession planning services.

[1] Probate fees do not apply in Quebec.

Why should I have a financial plan?

Depending on which survey you look at (and there are many to choose from), anywhere from one third to three quarters of Canadians say they don't have a written financial plan in place. Whatever the actual number, it seems safe to say that many Canadians do not have a plan – which makes them vulnerable to financial insecurity. If you're one of them, you may be wondering: Do I really need one?

Common misconceptions

One common misconception is that financial planning is expensive. The cost to prepare a plan varies across different financial planners, with some offering them free of charge while others may charge $5,000+ for a comprehensive plan. The quality of each plan also varies, so a plan that you get for free may not be as effective as a $5,000 plan. What many people overlook is that even if a plan costs $5,000, you can offset that fee with the money you save by following your plan's recommendations. Tax-saving strategies, lower interest payments, or increased rates of return are some of the ways a financial plan can pay for itself.

Another common reason people don't have a written plan is that they feel they already have a good enough grasp of their finances. But what if "good enough" isn't quite enough? There may be certain aspects of financial planning that you're not aware of, such as the tax implications of joint accounts with adult children, spousal rollovers, spousal loans, and family trusts. The list goes on, and as the saying goes, "you don't know what you don't know." A financial plan can help identify opportunities to increase your net worth that you didn't even know existed.

> "Tax-saving strategies, lower interest payments, or increased rates of return are some of the ways a financial plan can pay for itself."

How it works

A comprehensive financial plan covers all aspects of your financial life including cash flow planning, investments, retirement planning, estate planning, tax planning and insurance. Think of it as your personal roadmap. It shows where you are today (your net worth), where you would like to go (your goals), and the steps required to get there (the strategy).

There is, of course, much more to it than that. Here are some of the things a written financial plan can help you do:

Achieve your goals

Do you ever ask yourself questions like: Will I have enough money to retire? Will my family be taken care of if I die? Can I afford to buy that vacation property? Everyone has financial goals, but many people don't know whether or not these goals are realistic. A financial plan will help you define your financial goals, determine whether they are realistic, and outline a strategy for achieving them.

Your plan will let you know if you're on track to achieve your goals, or whether you need to make some adjustments. It's often those adjustments that people who lack a proper plan are not aware of. It's easy to spend excess cash flow on the latest technology, or for retirees to pull out cash from their RRIF account to buy a car, but can they actually afford to do this? Often, people don't realize the impact of their decisions until many years down the road, but by then it could be too late. Having a saving, investing, and spending plan will help increase your wealth and put you on track to achieving your goals.

Increase confidence and peace of mind

People who have a financial plan ("planners") and follow it are more likely to be confident in their ability to achieve their goals and retire. According to a CFP Board survey done in the U.S., only 30% of people who don't have a plan feel very confident about managing their money and reaching their financial goals, compared to 52% of planners.[1]

A different study found that 63% of people agreed that they worry less about money because of a financial plan, while 73% of respondents believe that financial planning has helped give them greater peace of mind.[2] The same survey found that people with a financial plan are two times more likely to be confident in their plans to retire. Interestingly, financial confidence is said to be a better predictor than financial knowledge when it comes to outcomes associated with day-to-day money and debt management.

Research conducted by the Financial Planning Standards Council (FPSC) found that money is the number one stress factor for Canadians.[3] These studies all seem to indicate that having a plan in place to manage your money will help you feel better about your financial situation and worry less. Who wouldn't want that?

Increase your wealth

An important element of the financial plan is your cash flow picture. The plan will illustrate whether you spend more than you make, and determine your capacity for saving. It will also provide solutions for increasing your cash flow by paying down debt, reducing unnecessary expenditures, and taking advantage of potential tax-saving opportunities. An increase in cash flow will lead to an increase in savings, which in turn builds wealth.

According to the CFP Board in the U.S., 57% of planners are able to save 10% or more of their income, compared to only 39% for non-planners. Also, 48% of planners described themselves as living comfortably compared to only 22% of non-planners. Interestingly, the same study found that planners making between $50,000 and $99,999 are more likely to live comfortably compared to non-planners making over $100,000 (50% vs. 46%).[1,4] Another global study done by HSBC found that planners have accumulated nearly two and a half times (245%) more capital in their retirement accounts than non-planners![5]

Once you've identified how to increase your cash flow, the next step is to put strategies in place to preserve this wealth, such as setting up automated contributions to your savings accounts, having an investment plan that is appropriate for your circumstances, and understanding how to make withdrawals without impacting your retirement goals.

> **"57% of planners are able to save 10% or more of their income, compared to only 39% for non-planners."**

Identify opportunities and mistakes

A good financial plan will typically outline what you're currently doing, provide some possible alternatives, and then suggest a recommended course of action. If you're not financially savvy, it's a great way to become more educated and identify potential opportunities. If you are on top of your finances, it can be a good reminder of strategies that you may have considered but have not yet executed.

Either way, having an expert look at your financial picture could reveal opportunities that you hadn't previously considered. For instance, you may discover that the fees you are paying on your mutual funds are above the Canadian average, or that you can avoid OAS clawback by deferring OAS if you are still working past age 65. Since everyone's financial situation is different, it's important to have a financial plan that is customized to your unique circumstances.

Prepare for unexpected events

Do you have a will? Do you have enough insurance to protect your loved ones in case you die or become disabled? Do you have an emergency fund in case you lose your job? These areas of estate and insurance planning are important components of any financial plan, yet they are often overlooked.

There are three standard estate planning documents that should be covered under your plan: a will, Power of Attorney, and a Power of Attorney for Personal Care or a Personal Directive (this is known as a Health Care Representation Agreement in BC and a Mandate in Quebec). These documents will help protect you in case of incapacity, or help with estate administration in case of death.

It's also important to review how much insurance coverage you have so that you won't have to deplete your savings. There are many types of insurance options to consider such as life, disability, critical illness, and long-term care insurance. A financial plan should be able to analyze your current situation and determine which types of insurance may be appropriate for you.

Stay the course

When you have a financial plan, it's important to implement the recommendations and monitor your progress. Review your plan at least once a year to ensure any action items have been properly carried out, or to make adjustments due to life changes, such as changes in relationship status, health or career. You should also be flexible if the plan just isn't working for you, and try out other options.

If you're still not convinced of the importance of having a written financial plan, at the very least, you should have a discussion with a financial planner about what you're currently doing to see whether you have any potential opportunities for improvement. Because you could get to your destination eventually without a roadmap, but wouldn't you rather turn on your GPS and enjoy the ride?

Wesley Fong, T.E. Wealth, Vancouver

[1] https://goo.gl/HhbWkQ

[2] https://goo.gl/EXCUCX

[3] https://goo.gl/cTgb9j

[4] https://goo.gl/myzPwJ

[5] https://goo.gl/M7gMKK

How much do I need to retire?

How much do you need to have saved in order to retire? That seems to be the quintessential question facing most individuals nearing retirement. The answer to this question is different for everyone, because it depends on how you want to live.

'How you want to live' of course comes down to your lifestyle choice, as it relates to dollars and cents. Some people want a lavish retirement. They want to travel, eat out more than they eat in, help their family financially, or perhaps even buy that sports car they've always wanted.

Others are content to live more modestly. To some, perhaps the freedom that retirement affords them is rewarding enough. You'd be surprised at how modestly you can live.[1] In my experience, many retirees are surprised at how little they actually need in order to simply maintain their lifestyle. Many people underestimate how much we all spend on work. Anything and everything from work clothing, to commuting costs, to payroll deductions (CPP/QPP and EI), to last-minute take-out lunches all add up. When you retire, these types of expenses largely disappear.

Considering the retirement lifestyle that you want, in terms of how much your living expenses will be month to month, is the first step in figuring out how much you need to retire – your way. You can do this by listing all of your anticipated expenses on a monthly or annual basis.

The next step in figuring out how much you need is to forecast your retirement income - from all sources. Here are a few sources to consider:

1. **Canada Pension Plan or Quebec Pension Plan (CPP/QPP)**
   If you are 60 or older, you can first consider CPP/QPP. Every individual has a different level of entitlement, which depends on how much you've contributed over the course of your career. Individuals can contact Service Canada (or Retraite Québec) to request their own entitlement. For a full career's worth of contributions, the current maximum CPP (if taken at age 65) is $1,114.17 per month. You can also choose to defer your CPP.
2. **Old Age Security (OAS)**
   If you are 65 or older, you can also consider OAS. OAS is a little different than CPP. It is based on the number of years that you were a resident in Canada. For individuals who have lived in Canada their whole lives, the OAS entitlement is $585.49 per month. One other thing to note regarding OAS is that if your income is too high (specifically, more than $74,788 in 2017), then your OAS will be clawed back $0.15 for every dollar that your income exceeds the clawback threshold. Once your income reaches the highest threshold ($121,314 in 2017) your entire OAS entitlement will be clawed back. You can also choose to defer your OAS.

3. **Company pensions**
   Your entitlement here depends on whether your pension is a defined benefit one (where your payouts are predictable, and noted on your statements) or a defined contribution one (where your payouts are not predictable, and are dependent largely on the investment performance of the plan contents).
4. **Your assets**
   Herein lies the uncertain part of retirement planning. People often ask how much income they can safely withdraw from their nest egg without depleting it. The answer to this question depends on your intentions for the asset pool. If you never want to touch the principal, you can likely expect 'income' of about 4% per year. In other words, if you have $500,000 saved up, you could expect to withdraw $20,000 per year (4% x $500,000), and you will in all likeliness maintain that $500,000.

   If you withdraw more than 4%, say, 8% per year (or $40,000 from savings of $500,000), then you should expect to slowly deplete the $500,000.

   How quickly you will deplete your nest egg of course depends on a number of things, such as how much you withdraw, market conditions, how long you live, etc. The message here is that a saved amount can provide a stable source of income, but there is the conceptual difference of a 'safe' withdrawal rate, as opposed to an 'unsustainable' withdrawal rate to consider.

Once you know how much income you can expect from all the sources noted above, the final thing you should consider is income tax. CPP/QPP, OAS, company pensions, and RRSP withdrawals are all fully taxable so you can expect the CRA to take some of each payment you receive. The average and marginal tax rates in Canada can be found on the CRA's website.

The income you generate from your non-registered investments is also taxed; however, the rate is a little better than the average tax rates applicable on the above noted income sources. Your investment income will likely consist of a combination of interest, dividends, and capital gains – all of which are taxed, but at different (and sometimes preferred) rates.

Once you have a sense of your total anticipated income, level of income tax, and anticipated expenses, you should know whether or not your retirement is affordable. Breaking things down in this manner is methodical, and can very much be personalized – that personalization is where the value of a financial planner comes in. They can help you assess these facets, and help develop a strategy that is ideal for you.

Brent Soucie, T.E. Wealth, Toronto

[1] I recently watched a Netflix documentary called "Living on One Dollar" where four friends travel to Guatemala and attempt to live on a dollar a day for two months.

Do you need to review your financial plan?

Financial planning is an ongoing process. Your plan should be considered a "living document," which means you need to continually edit and update it to reflect life changes and your standard of living. Even a minor change in cash flow, investment returns, risk management, retirement age, or government regulations can impact your ability to meet your financial planning goals.

So, how often should you review your plan? Generally speaking, once a year is ideal or when a significant life event occurs. It makes sense to do your annual review around tax time, when you're already going over your finances.

Here's a checklist of the major planning issues you should keep on your radar.

PLANNING ISSUE	YES	NO
1) Estate Planning		
Have I appointed an individual for my Personal Care and Property Mandates? (Also know as Powers of Attorney.)		
Do I have a will?		
If yes…		
Have I reviewed my will during the last 2 years?		
Do I need to make any changes to my current will?		
2) Risk Management		
Do I have current life insurance coverage?		
Does my spouse or partner have current life insurance coverage?		
Do I know if all coverage is adequate?		
Do I know if any of the coverage is excessive?		
Have I reviewed my residential insurance policy in the last 12 months?		
Have I reviewed my automobile insurance policy in the last 12 months?		
Do I know the difference between critical care insurance and long-term disability insurance?		
3) Tax Planning		
Do I prepare my personal tax return?		
Do I know the benefit of donating stocks or mutual funds to a charitable organization?		
Have I ever been in an over-contribution position within my RRSP?		

PLANNING ISSUE	YES	NO
4) Cash Management		
Do I know what my/our monthly expenses are?		
Do we have a family budget?		
Do I have an emergency fund?		
Do I know what the recommended amount is for an emergency fund?		
5) Retirement Planning		
Do I have a retirement plan?		
Do I know at what age I expect to retire?		
Do I know what level of income I will require in retirement?		
Do I know about pension splitting rules?		
Do I have a defined benefit pension plan?		
Do I know what percentage of my retirement income will have to come from my personal investments?		
6) Investment Planning		
Do I manage my own investments?		
Do I know the annual cost incurred in the management of my portfolio?		
Do I know what MER refers to?		
Do I understand the term asset allocation?		
Do I understand the term diversification?		
Do I know the difference between value and growth management styles?		
Is my personal portfolio diversified using asset allocation?		
Do I know what DSC represents on my investment statement?		

If you answered YES to all of the above, congratulations! You seem to be on track with achieving your financial goals.

If you answered NO to any of these questions, you should review your current financial and investment plan to make sure you're not missing any opportunities, or putting your goals at risk.

Need a financial plan or want a second opinion on your existing one? Contact us at **info@tewealth.com** to request a complimentary financial mapping session, and to determine which areas you should focus on to reach your financial goals.

The Benjamin Cole Brown Memorial Award

Do you know a budding young photographer between the ages of 16 and 24, who craves adventure and wants to make a difference?

The Benjamin Cole Brown Memorial Award was created in honour of one of Live Different's most memorable humanitarians. Benjamin Cole used photography to create an awareness of the stories of the people he encountered in the Dominican Republic and Haiti, where he lived and worked.

While returning from an aid run to Haiti following Hurricane Matthew, the plane carrying Benjamin Cole and two other humanitarian workers encountered stormy weather and tragically crashed just off the coast of Puerto Plata.

In honour of his life and what he stood for, Live Different is providing two awards each summer to give photography enthusiasts the opportunity to participate in, and capture, a Live Different Build.

T.E. Wealth is a dedicated supporter of Live Different's initiatives. Our staff participated in a 2016 build trip to the Dominican Republic, and plans to assist with future builds. We have also made a five-year commitment to sponsor Live Different's Youth Empowerment Ice Road Tours, which bring hope and inspiration to struggling students in Canada's Indigenous communities.

If you know someone who is interested in this life-changing opportunity, please forward this message. Apply online at https://goo.gl/ybfA5h. The deadline is January 31, 2018. Best of luck!

T · E · WEALTH
SUCCESSFUL WEALTH STRATEGIES SINCE 1972

Vancouver · Calgary · Oakville · Toronto · Montreal · Quebec City · St. John's

1-888-505-8608 www.tewealth.com info@tewealth.com Twitter : @TE_Wealth