RBC Dominion Securities

THE ADVISOR

January 15, 2009

Your Financial To-Do List for 2009

New Year's Resolution: Check off all ten items on this financial to-do list

Prashant Patel, ASA, CFP, TEP, Wealth Management Services

A New Year is once again upon us and many of us go through the annual ritual of setting New Year's resolutions. Improving health is usually high on many people's list of New Year's resolutions - lose weight, exercise, eat healthier, etc. Unfortunately, this article does not provide you with tips on improving your physical health (other than one small tip) so you will have to speak to your doctor and a personal trainer about that!

However, in addition to improving your physical health, resolve to make 2009 your healthiest financial year ever. How? Focus on the fundamentals. Although lately the focus has been on the volatile financial markets, it is important to not lose sight of all the other areas in your financial life and opportunities to improve. Let's make sure that you have left no stone unturned in 2009 when it comes to managing your overall wealth..

This article will provide you with a list of 10 financial to-do's for 2009. If during 2009, with the help of your advisor, you can check off all ten items on the list, then your financial life should be in good shape and you can focus on improving the other important areas of your life – health, relationships, career, etc.

If you have investable assets of at least $1 million, you should also speak to your advisor about getting a copy of the publication titled "Family Wealth Management – Ten Strategies to Build and Protect Your Family's Wealth." The Family Wealth Management publication builds upon the to-do list in this article and provides strategies for families who face unique financial challenges due to having more financial resources than the average Canadian family.

Your Financial To-Do List for 2009

The following is a list of ten financial to-dos for 2009 (in no particular order) that you should discuss with your advisor. If you cannot confidently check off an item on this list then your advisor can put you on a plan to complete that item.

1. Make sure your Will and Power of Attorney are up-to-date.
2. Save taxes by putting family income splitting structures in place.
3. Ensure you have adequate life and living benefits insurance.
4. Ensure your asset allocation is up-to-date and tax-efficient.
5. Make sure your account structures and beneficiary designations are up-to-date and appropriate.
6. Use credit effectively.
7. Give back – donate money and your time.
8. Get a "Family Snapshot" prepared by your advisor.
9. Get a financial plan or retirement projection prepared by your advisor.
10. Simplify your financial life.

1. MAKE SURE YOUR WILL AND POWER OF ATTORNEY ARE UP-TO-DATE

This is a no-brainer but did you know that a recent survey indicates that 46% of Canadians do not have a Will? Furthermore, many of those Canadians who do have a Will have Wills which are out-of-date and do not reflect their current wishes or family situation.

Furthermore, if you do have a Will, do you have a "simple" Will? A simple Will is one which states something to the effect of "If I die first, everything goes to my spouse directly. If my spouse dies first, everything comes to me directly. And after we both die everything goes to our children equally." This type of Will, in some cases, will result in higher taxes for your survivors and potential disharmony among family members.

Give your family and yourself peace of mind by booking an appointment with a legal advisor who specializes in Will and estate planning to get an up-to-date tax-efficient Will. If you qualify, speak to your advisor about first meeting with our in-house Will and Estate Consultant for a personal consultation.

Also don't forget the importance of having a Power of Attorney (POA) or Mandate in Quebec for both medical and financial affairs. There is a higher probability of becoming disabled than dying so having a POA is critical.

Consider having a copy of your Will and POA in a fire proof safe (where the executor knows the combo) or with your legal advisor.

2. SAVE TAXES BY PUTTING FAMILY INCOME-SPLITTING STRUCTURES IN PLACE

Family income splitting is the bread and butter of tax planning in Canada but many Canadians are not taking advantage of simple income-splitting opportunities blessed by the Canada Revenue Agency (CRA).

If you have a low-income spouse or low-income children or grandchildren, then early 2009 is a great time to consider setting up a prescribed rate loan for income splitting. The CRA prescribed rate at the time of writing is at a historic low of 2%.

Also consider setting up a Tax-Free Savings Account (TFSA) for those family members that are at least age 18. Since all the investment income in the TFSA grows tax-free, there will be no income attribution regardless of who funded the account.

Do you personally own individual stocks or equity mutual funds in a non-registered account? Do you have children or grandchildren with little or no income? If the answer is yes to both of these questions, did you know that our tax rules allow each person in Canada, regardless of age to earn about $15,000 - $20,000 of tax-free capital gains every year (varies by province) if they had no other income. So take advantage of this annual tax-free opportunity and shift some of your future capital gains to your children or grandchildren. Speak to your advisor about setting up a family trust in 2009 for income splitting. The tax-free income earned in the family trust can also be used to pay for your child's expenses that you have been paying all these years with after-tax dollars such as private school fees, lessons, gifts, etc.

If you are a business owner then you may be splitting income by paying reasonable salaries for work performed by lower-income family members. However, many business owners own 100% of their corporation. There can be a future tax benefit of adding your spouse and children as shareholders of your business today either directly or through a family trust. By restructuring the ownership of the business today, you can still maintain control, but you have now set up your affairs to save considerable taxes in the future by paying dividends to lower-income adult family members and multiplying the $750,000 capital gains exemption if the business is ever sold.

For additional wealth management strategies and solutions for business owners, ask your advisor for a copy of the publication titled "*The Business Owner's Guide to Wealth Management*".

3. ENSURE YOU HAVE ADEQUATE LIFE AND LIVING BENEFITS INSURANCE

While this is a no-brainer for some of you, To-Do #3 can be something which has literally not crossed the mind for others. Ask yourself the following question, "Am I confident that if I died or became disabled, would I or my family have adequate assets and income to maintain our standard of living?" It's a very important question. And if you asked it, would you answer, "Of course!" Or would it be. "I don't know"? If the answer is "No" or "I don't know," then speak to your advisor about getting a personal insurance analysis, to determine if you are under insured and if so by how much. Procrastination with this one To-Do item could result in a catastrophic situation for your family so take immediate action today.

If the answer is "Yes" to the above question then consider the fact that one of the last few remaining tax shelters in Canada is the ability to earn tax-free investment income within a Whole Life or Universal Life insurance policy. Why pay tax to the CRA during your lifetime when it can be paid to your beneficiaries as a tax-free death benefit or used by you to supplement your retirement income? Speak to your advisor about showing you a comparison of a tax-exempt insurance policy vs. investing an amount equal to the premiums in a non-registered investment account.

Many business owners don't have adequate life or disability insurance since they are not part of a group insurance plan. This fact could mean disastrous results for your business and family should you die or become disabled. In addition to other 2009 business goals you may have such plans as expanding your business or reducing business expenses, so include a personal insurance analysis from your advisor as part of your 2009 business plan. Insurance can also serve many other purposes for business owners such as paying for large taxes at death on the business shares, funding buy sell agreements, equalizing children not in the business, transferring surplus cash in a holding company to the next generation on a tax-free basis, etc.

Disability insurance is part of "Living Benefits" insurance. The two other innovative solutions of Living Benefits insurance, which are gaining popularity in Canada, are Critical Illness Insurance and Long-Term Care Insurance. With today's medical advances many people are surviving illnesses and living longer which could mean that their regular income sources and savings may not be adequate. To ensure that your savings are not depleted and your standard of living is not dramatically reduced by a short-term or long-term illness, speak to your advisor about Living Benefits insurance. All three solutions come with a Return of Premium feature so you can recoup some of your costs if you do not make a claim.

4. ENSURE YOUR ASSET ALLOCATION IS UP-TO-DATE AND TAX-EFFICIENT

The unprecedented market volatility has potentially taken your asset allocation off track. Now is a good time to review the asset allocation of your investments between cash, fixed income and equities as well as currency and geographic split (Canada, US, International)? Is your asset allocation today appropriate based on your risk tolerance and your financial and retirement goals? Studies have shown that asset allocation is a key factor in determining your investment performance and variability of returns. Speak to your advisor about getting an asset allocation analysis to see where you stand today and if any changes need to be made.

Furthermore, when assessing your annual investment return, remember the saying – "It's not what you make. It's what you keep." With this point in mind, and thinking beyond the portfolio earnings, we can't forget the impact of taxes on your investment return. The following are some rules of thumb to discuss with your advisor on maximizing your after-tax investment return.

- Interest-bearing investments in your RSP/RIF
- Capital gain and Canadian dividend paying investments, primarily outside your RSP/RIF.
- Canadian dividend paying investments in an individual non-registered account instead of a holding company (Holdco). Alternatively, if the Cdn dividend is earned in a Holdco then it's generally good practice to pay the dividends out of the Holdco in the same year it is earned to avoid the higher tax rate of Canadian dividends in a Holdco.
- If your net worth is over $3.5 million US and you have considerable U.S. equity investments, then for U.S. estate tax protection consider holding any individual U.S. stocks in a Cdn Holdco or investing in U.S. equities through Canadian mutual funds.
- As mentioned previously, consider the power of earning tax-free investment income through a Whole Life or Universal Life insurance policy.

- TFSA – since the TFSA is flexible and can be used for many different purposes, the asset allocation decision for your TFSA will really depend on your goal for the TFSA monies (i.e. short term savings, supplement to retirement savings, speculative, etc).

5. MAKE SURE YOUR ACCOUNT STRUCTURES AND BENEFICIARY DESIGNATIONS ARE UP-TO-DATE AND APPROPRIATE

List every one of your accounts including any accounts through your employer (employer pension, stock savings plan, etc.) and ask yourself these two questions:

1. How is this account legally owned?
2. Who is the beneficiary?

When it comes to measuring "legal ownership", you're wanting to ask: "Is it owned solely by myself, jointly with my spouse and child, or through a trust or corporation?" Many people will own non-registered assets jointly with their spouse for convenience or possible probate tax avoidance in some provinces. In some cases, this is not appropriate. When you update your Will, your lawyer may recommend a spousal testamentary trust. In this case, having all your assets in joint accounts with your spouse may not be appropriate. Furthermore, if you are in a second marriage with children from a first marriage, having joint accounts with your current spouse may not be wise.

Based on recent Supreme Court cases, review any joint accounts with adult children and whether this form of ownership is appropriate based on your estate distribution intentions. Speak to your advisor if you would like an article that provides more information on these court cases and the impact of them on joint accounts with adult children.

If creditor protection is important to you, then maybe some of your assets should be owned by your spouse or through a properly structured trust rather than directly by you.

Next, look at any accounts where you are permitted to designate a beneficiary on the account such as pension plans, RSPs/RIFs, insurance policies. Are these beneficiary designations current? Rather than having your assets go directly to a family member after your death it may be more appropriate to have it go through your estate in certain situations even though probate tax is payable.

The appropriateness of your account structures and beneficiary designations will depend largely on how you intend to have your estate distributed and how your Will is structured, so speak to your legal advisor for advice on this matter as you are getting your Will updated.

6. USE CREDIT EFFECTIVELY

Are you maximizing opportunities on both sides of your balance sheet? That is, have you considered strategies to increase your wealth and pay less tax using conservative credit strategies? Improper use of credit or not taking advantage of credit opportunities can result in not reaching your financial goals or taking much longer to achieve your goals.

Firstly, if you have debt, is the interest on the debt tax-deductible or not? If it is not, then speak to your advisor as there may be a way you can restructure your loan and your assets to reduce your interest costs or make the interest on the loan tax-deductible to save you taxes.

If you do not have any debt and you already maximize your annual RSPs and/or RESP contributions then have you considered strategies to increase your wealth faster using conservative credit strategies? Interest rates are still historically low and if you are in a higher tax bracket (taxable income over $77,000), then your after-tax interest cost will be very low. As a result, it will be more feasible to increase your net worth over the long term by taking out an investment loan and investing in a conservative balanced portfolio. Speak to your advisor to determine if this strategy is appropriate for you based on your risk tolerance, investment time horizon, tax rate, and your financial goals.

Having said this, even though you may be a good candidate for taking out an investment loan, if carrying debt does not allow you to sleep at night, don't do it.

7. GIVE BACK – DONATE MONEY AND YOUR TIME

Let's face it, we are lucky to live in Canada. Most of you reading this article are likely in the top 20% in terms of income or net worth of all Canadians and top 1% of all people in the world. Striving to reach your personal goals related to money, career, family and health are, of course, important. But you don't have to be Bill Gates or Warren Buffett to make a difference and give back to those less fortunate than you by donating money and your time through volunteer work.

You are likely already making some cash donations, here and there, but let's make 2009 a year in which you look at how you can give back more effectively with your money and your time to causes you are passionate about. A great way to take your charitable giving to the next level and get your entire family involved in philanthropy is by creating a charitable foundation. The days when only the ultra-wealthy were able to set up charitable foundations are gone. You can start your own family charitable foundation for as little as $25,000 which after the tax credits will actually only cost you about $14,000 (varies by province). You can name your own foundation after your family surname or a friend or family member who has recently passed away. Speak to your advisor if you want more information on setting up your own foundation or how to donate your money more tax effectively such as with stock or insurance instead of cash.

Here's the one health tip: This year, consider participating in one of those runs or rides (confirm with your doctor) organized for a worthwhile cause and combine it with a donation to the charity supporting the event either directly or through your own foundation. A great idea to make a small step towards fulfilling two New Year's Resolutions (improve physical health and improve financial health) on one day!

8. GET A "FAMILY SNAPSHOT" PREPARED BY YOUR ADVISOR

In today's world of information overload, it's refreshing to get information in an easy-to-read and simple format. Would you be interested in getting a "snapshot" of your personal and financial life on <u>one</u> 8 ½ x 11 page? A Family Snapshot covers the following three areas:

1. Your family tree (name, age, occupation, residence, citizenship)
2. Your top three financial goals
3. Your net worth, cash flow, estate, insurance, retirement and other pertinent financial information

Speak to your advisor about producing a "Family Snapshot" for you during your next meeting. This summary gets your financial life on one sheet of paper making it simple for you to understand where you stand now and, with annual updates, how you are progressing from year to year. It will probably take you and your advisor about 20-30 minutes to complete – pretty simple.

Once the Family Snapshot is completed by your advisor, in addition to the one-page summary of pertinent financial information, it can also instantaneously produce a Wealth Management Opportunities Report (with a click of a button) of some of the top tax, estate and retirement planning strategies which are specifically applicable to your family, based on the personal and financial data that was inputted into the one-page Family Snapshot. This report can ensure you have considered strategies to minimize tax, maximize your estate, plan for retirement and create a legacy.

9. GET A RETIREMENT PROJECTION OR FINANCIAL PLAN PREPARED BY YOUR ADVISOR

The million dollar question that everyone asks is: "Will I have enough income and savings at age X, so I can retire and live comfortably?" Most of you have savings through an RSP and/or a company pension plan but are you on track to meet your retirement age and income goals? If you are a business owner, how will you use the equity in your business to create retirement income and will it be enough? With people living longer, maintaining your standard of living throughout retirement could become more challenging. Give yourself peace of mind and speak to your advisor about preparing a quick retirement projection for you in 2009 to see on paper where you stand today and what changes, if any, need to be made to reach your retirement income goals. Note that once your personal information is inputted into the Family Snapshot (Tip #8), with a click of a button it can then produce a quick retirement projection, insurance needs analysis and taxes at death projection.

If you have a higher net worth and your situation is more complicated or you are going to go through a major life event like leaving your employer or selling your business, then you may want to speak to your advisor about getting a COMPASS comprehensive financial plan. A COMPASS comprehensive financial plan addresses all aspects of your financial affairs, including cash and debt management, tax and investment planning, risk management and retirement and estate planning.

10. SIMPLIFY YOUR FINANCIAL LIFE

Some of the tips and strategies in this article will involve additional time, meetings, and administration on your part. Not an exciting proposition due to your busy life, but remember these changes will get your financial life in order and increase your wealth so you can meet your financial goals and get on with other important things in your life. Having said this, there is a lot to say about the KISS principle – Keep It Simple, followed by some word other than smarty. Here are a few tips to keep your financial life simple to save time and money.

- *Consolidate accounts* - Many people have, over time, opened many accounts at many different financial institutions in order to chase the highest interest rates and/or to "diversify". However, what has resulted in most cases are additional administration, multiple monthly statements, multiple meetings with different advisors, duplication of fees and duplication of investments.

  Consider the benefits of consolidating your accounts with a trusted advisor who works for a solid financial institution which can offer you a wide array of solutions at a competitive fee structure combined with expert advice and planning to meet your financial and life goals.

- *Online banking* – allows you to view your financial accounts online, transfer funds and pay bills online. Fairly easy to do even for those technologically challenged.
- *Direct deposit your income* – Employer paycheques, monthly government cheques, etc., can usually all be put directly into your bank account instead of being issued a cheque which has to be manually deposited by you.
- *Pre-authorized bill payments* - Not everyone is a fan of this tip , but this can save you considerable time.
- *Pre-authorized contribution (PAC) plan* – One of the best financial tips of all time to create wealth is "pay yourself first". Setting up a PAC plan is good for annual RSP & RESP contributions, stock savings plan contributions, etc.
- *Consider e-statements* – When offered or available, you may want to consider moving from paper statements to electronic statements to reduce paperwork. Some financial institutions, utilities, and phone and cable companies offer this feature.
- *Get a Family Snapshot prepared* – as discussed in Tip #8.
- *Keep a binder with all your financial documents* – This would include things like financial statements, tax slips, Family Snapshot outputs, retirement projection, Will and POA, etc. Keep in a safe place.

So there you have it. Your financial to-do list for 2009. Successful people tend to work off to-do lists that are prioritized in importance of task and then have a strong determination to complete each item on the list. Do yourself a favour and sit down with your advisor to go through this list with a commitment to complete all ten items by the end of 2009.