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No bad news – if you plan properly

The stock markets are doing well today – but what happens if there is a crash worse than 2008? We are living longer– but will we have enough money to live on? We live in beautiful homes – but will a real estate bubble wipe out millions of dollars in hoped-for retirement savings? Young people are better educated than previous generations – but will they find a job, have the means to buy a house, raise their kids and take the odd vacation?

Mark Halpern

Do you remember the promise of "Freedom 55"? As it turns out, that occurs when your youngest child turns 55!

Despite legitimate concerns about an uncertain future, there is no need to panic. With proper financial planning in place, unfolding events are not bad news. They're just news.

Canadians face harsh new realities. Long gone are the quaint olden days of counting on a defined benefit retirement package after 40 years of service. Decent-paying jobs are now difficult to come by for many recent (and not-so-recent) graduates with multiple university degrees and considerable debt.

Developed countries around the world are experiencing major demographic shifts as the numbers of seniors swell. There is no doubt that we are aging. The population in Canada is growing older, and by 2031 every baby boomer will have reached age 65.

The number of people aged 65 years and over will soon exceed the number of children aged less than 14. This historic shift is expected to occur by 2021.

Aside from growing older, we are living longer. It's not as big a deal anymore for Canadians to reach the age of 90 or even 100. In fact, centenarians were the second-fastest growing age group according to the 2011 census. But instead of passing on their much-storied $1 trillion worth of wealth to their children, they are using up those funds to pay for their own living expenses. Estate values reduce rapidly with ongoing expenses of personal caregivers, or moving into long-term care facilities, where costs range from $4,000 to $12,000 a month.

We left the Industrial Age for the Information Age - or as I call it the "Misinformation" Age. Do you remember going to the public library as a student to research your next essay in the reference section? Today the world is available at our fingertips, on our smartphones. The sheer volume can be overwhelming, and content reliability varies from one source to the next. When it comes to financial matters, people need trustworthy information to make the best decisions for themselves and their families.

We are often asked:

1. When can I retire?
2. Will I outlive my money?
3. How much tax will I owe?
4. How do I preserve capital for my children and grandchildren?
5. Will my healthcare costs increase as I age?
6. Can I provide an estate for my family?
7. Can I leave charitable gifts?

People need to know that experienced tax and estate planning professionals are available to provide the advice, strategies and products required to preserve what they have worked so hard for.

Accredited planning professionals have annual requirements for continuing education to maintain their professional designations and stay up to date on the latest changes and best practices.

Presented below are cost effective and tax-efficient ideas to help you grow older.

Six planning thought-starters

Segregated funds: These funds have been around for a long time. Basically, a segregated fund is a mutual fund wrapped in a life insurance policy that offers various guarantees to the policy holder, including reimbursement of capital on death. Like other life insurance products, segregated funds have certain guarantees that safeguard their original benefit, and beneficiaries receive either the investment's market value or the guaranteed amount, whichever is higher. Segregated funds are creditor-proof, bypass the estate process and save on professional fees. They also let you name a beneficiary.

Of particular interest to seniors is a new product designed specifically for people aged 80 to 90 years old. This unique segregated fund includes upside growth opportunities and a guarantee that you won't lose money when you pass away. This will appeal to those who want to leave a meaningful legacy and pay less tax.

Annuities: A life annuity can act like a kind of pension plan between you and an insurance company. It provides a guaranteed periodic income for the rest of your life with payments based on your age and the interest rates at time of purchase.

Annuities pool investment and survival experience across a large group of people. You can get annuities that only pay income for a fixed period or a life annuity with payments that continue to you for as long as you live (and your spouse), usually including a guaranteed income payment period which can be as short as five years or can run to age 90.

The only downside to annuities is that income ends when an annuitant dies or at the end of the guaranteed term period. If structured properly as part of a comprehensive plan, this should not pose a problem.

Insured annuities: Insured annuities (also known as back-to-back annuities) comprise the best parts of two products: a life annuity and a permanent life insurance policy. The annuity guarantees an income for life and the insurance policy guarantees that all the money invested in the annuity will be paid back to family members, tax-free, while also eliminating probate and other costly expenses.

They offer a higher rate of return than most traditional fixed-income investments (more than six per cent guaranteed based on your tax rate) and you won't have to worry about renewing at a new rate.

An insured annuity is a budget for life like a pension plan and therefore cannot be "cashed in", providing even more reason to seek professional help to structure properly.

Corporate insured annuities: These are the same as insured annuities but are purchased with funds in a corporation or investment company. This will guarantee a cash flow and leave money to your heirs.

Unlike some traditional corporate investments which will be taxed on selling the shares and the assets, the corporate insured annuity has no taxable value to the company on your death and therefore will save your heirs up to 45 per cent in taxes.

Long-term care insurance: We are all very fortunate to live in Canada with access to universal health care. The problem is that long-term care is not included. Buying long-term care insurance will give you, your spouse and your children the peace of mind that comes from knowing family financial resources will not be stretched, or exhausted, if you become ill.

There are many options for long-term care insurance including self-funding, traditional long-term care policies through an insurance company or some unique new plans where you purchase a sum of long-term care money for your lifetime. These plans are very inexpensive and require very easy underwriting to qualify. It's worth looking into.

Life insurance: Life insurance provides important protection for people with a young family and a mortgage, but it's equally important, if not more so, for those who want to ensure that as much money as possible stays with their family or charitable organization after they die.

There are very few tax-free strategies left in Canada. After your principal residence, TFSAs and lottery winnings, life insurance still provides tax-free money to beneficiaries or favourite charities when needed most, which allows people to keep businesses, cottages and other investments with family as opposed to the tax department.

I often visit the offices of highly successful clients. Their desks are usually adorned by endearing pictures of spouses and family. There's never a picture of Justin Trudeau, so I ask them why? When they express surprise at the question I explain that while they may want to leave the bulk of their money to their family and/or charity, they forget the Canada Revenue Agency - a.k.a. the tax department - is waiting in the wings for its share.

If you live in Ontario, 54 per cent of your retirement savings (in RRSPs & RRIFs) will be taxed on the second to die of two spouses, as will 25 per cent of the growth in any non-registered investments including growth investment property (other than your home) and up to 45 per cent of funds held in a company will go to federal and provincial taxes.

Remember too there is no tax incurred when a spouse passes away and leaves their money to the second spouse. But when the second spouse dies, everything is considered to be sold at market value and all the taxes kick in. In the case of unmarried singles, divorcees, widows or widowers, the money gets scooped upon death.

The proceeds of inexpensive life insurance can help pay for some or all those costs, leaving more tax-free money to your beneficiaries and the causes you care about.

The time is now to carefully consider health and tax-planning strategies to meet the challenges ahead. Don't do it alone. Get help from experienced professionals to deal with tax matters, insurance issues and legal issues. With proper planning in place, your lifestyle can be maintained, your ultimate tax liability minimized, and the unfortunate bumps along the way won't derail your plans.

Get the peace of mind that comes from knowing you have planned properly for whatever news lies ahead. Our team of experienced advisors is available across Canada. Call us for a consultation, we'd love to help.

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