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Your Guide to Tax-Saving Strategies

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FINANCIAL PLANNING

To help our clients properly, we must ask the right questions and get the ...

Whole picture

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Most readers of *The TaxLetter* are painfully aware that Canada's annual tax season for personal returns is well underway.

In addition to the taxpayers who want to pay no more tax than legally required, subscribers to this publication include many leading financial professionals, from accountants and lawyers to bankers, financial planners, insurance brokers and investment advisors.

Review your client's total financial picture

This is the time of year when professionals meet with their clients to review how their strategies have benefited their

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total financial picture and reflect on how they might improve financial outcomes for clients in the years ahead.

I recently had breakfast with an accountant who works at a mid-sized firm. We met to discuss a client we share in common. The accountant already provides his clients with excellent service when it comes to taxes, but he confided that he really wants to give them comfort and security by ensuring that all of their financial needs are acknowledged and addressed.

A checklist for the client's full range of needs

The accountant asked me for a fact-finding checklist to make it easier for him to help his clients by determining what they have and might need. He wanted to share the document with his partners for their use during annual reviews with their clients.

His challenge, I explained, is by no means unique to accountants.

Most financial professionals are kept very busy in their own practices providing the specialized services they do best. Truth is, most want to help their clients by asking the right questions and directing them to a trusted and experienced professional to look after their comprehensive financial needs. The problem lies in the fact that they don't invest the time required in the execution of this strategy or they lack the confidence in other professional relationships so they are reluctant to refer their clients.

The client needs range from having a solid financial plan to begin with (not just an investment plan), analysis to confirm the right insurance products in sufficient amounts are in place, having an orderly succession plan for their business, and certainty that their families are financially looked after in case of an accident, illness and so on; in other words: no matter what happens.

Ask good questions and listen well

Many people mistakenly believe their professionals know more about them than they really do. I'd venture to say that most tax professionals cannot state with confidence that their top 20 clients have up-to-date primary and secondary wills and powers of attorney. The fact is: you don't know what you don't know. And if you don't ask, you

will never know.

Responsible financial advice begins with holistic planning ...

In my view, responsible financial advice begins with holistic planning—a comprehensive 360-degree review of financial needs, including retirement income planning, business and personal insurance, tax-saving strategies, Registered Retirement Savings Plans (or RRSPs), Individual Pension Plans (IPPs), Registered Education Savings Plans (RESPs) and other products customized to our clients' unique needs.

... asking the right questions, and making appropriate referrals

As financial professionals, we are gatekeepers for our client's wealth and we all share a fiduciary obligation to ask the necessary questions and refer them to appropriate knowledgeable experts. In the worst case scenario, the simple act of not sending someone to a person with the right expertise can be deemed as negligent and lead to potential professional liability issues.

Clients' four most common questions

We can fulfill our obligations by asking our clients some pertinent questions. Here is a primary list, based on almost 25 years of professional practice: the four most common questions our clients have on their minds. The answers form the basis of the tax, retirement, insurance and estate strategies we develop for them.

1. When will I be able to stop working if I don't want to work anymore?

2. Will my family be looked after financially if I get sick, injured or need long-term care?

3. Will my family be looked after financially when I die?

4. Will I owe a lot of tax to the government, and do I have options to pay less—or no—tax?

More questions for a checklist for meeting with clients

To determine the answers—and refer them to the appropriate professional for the help they need—here are some more detailed questions that can be incorporated into your client meeting “checklist.”

- Do you have a will? Is it current? Was it prepared by a generalist or a specialist? Are any family members U.S. citizens? Do you have a primary and secondary will for probate and creditor protection planning?

Unfortunately, most people don't have a will and those who do often have wills that were executed with too little thought. They may be done, for example, in the week before clients head off on vacation—with little or no attention paid to important issues such as tax, probate and estate planning.

- Do you have two powers of attorney: one for personal health care, and one for personal property?

Yes, this is a legal issue, but it also has financial repercussions during your lifetime.

- Are beneficiaries up to date on your RRSP/RRIF?

Funds in these registered products bypass a will, but proceeds after the death of the second spouse are fully taxable. Many people have someone other than their spouse listed as a beneficiary, such as parents or

children from earlier marriages, which can trigger a tax event. Instead, make the new spouse the beneficiary and develop estate planning and equalization strategies with other assets, such as insurance.

- Do you have life insurance? Is it held personally or in your company?

Buying life insurance is one of the most selfless acts you can do for your family and business. There are many different considerations to take into account. For example, there are several ways to pay premiums with lower-taxed dollars through your company.

Also, if your client owns a permanent life insurance personally, it can be valued by an actuary and transferred to their company, allowing a potentially large tax-free sum to be withdrawn from the company. I recently introduced this concept to a client who later shared it with his accountant. The accountant told him he had already done this strategy for himself. When informed of that, the client was upset that his accountant didn't tell him about it himself—especially when he sees his financial statements every year.

- Do you have income protection if you get sick, can't work or need long-term care assistance?

This is particularly important if you are the sole breadwinner in the family. There are many varieties of disability, critical illness and long-term care insurance that can all be customized to your specific needs. For example, are your clients considering a wage-loss replacement program that allows a company to deduct disability premiums paid on employees, and

where the premium paid by the company is not a taxable benefit to the employees?

Another option for owners of a corporation is the Shared Ownership Strategy (or SOS) with critical illness insurance. It allows the company to pay premiums and for the shareholder to extract the return of premium tax-free out of his company.

- Do you have an estate directory?

This is an essential listing of all your important financial information, including the location of key documents. This includes wills, powers of attorney, a list of bank and investment accounts, digital passwords, the names and contact info of your financial advisor, your lawyer, your accountant. An example of how I put together an estate directory is available through our website, noted at the bottom of this article. Professionals may want to use this as a

springboard for their own list.

That's lots to consider —but it's just the start

While this may sound like a lengthy list, due to space limitations here, it's only the beginning. Feel free to contact me to receive a more comprehensive "checklist" to help your clients.

Many of these topics involve professional help from lawyers and accountants and inevitably a knowledgeable and experienced financial and estate planner will require your help in putting together the necessary documents.

It's 'big picture season' 365 days a year

While the tax season and its needs may seem to take precedence at this time of the year, sitting down with clients at any time to help them fulfil their needs, dreams and aspirations is always a good time.

There are two options: integrate this approach into your own practice, or refer this part of the business to other professionals. One thing we can't do is ignore it. Our clients are counting on us and we have not only a responsibility, but a great opportunity to cement relationships for life.

As written in the Ethics of the Fathers: If not now, when?

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