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ESTATEPLANNING

Investing and Planning

Keep Your Money

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When you decided to start your business or launch your career, you probably focussed on making money, growing revenues, expanding your customer base, and investing wisely on your road to success.

Along the way, you dealt with countless hiccups and bumps in the road that you hadn't anticipated. As your business or career progressed, and with the benefit of experience, you became acutely aware of taxes and their painful impact on your income.

Most people who are very successful in their profession or business, focussed on "offense" to accumulate their fortunes. Offense includes investing – in bonds, stocks, real estate, GICs, precious metals, mortgages and so on.

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Despite their financial success, very few people develop a "defensive" financial plan along the way to protect and preserve their hard-earned money.

And that, in a nutshell, is the difference between investing and planning.

Preserve your wealth

Investing makes money, planning preserves it.

Investments that were appropriate when you are starting out, may not be a good idea as you approach retirement. Your investment and protection portfolios, no matter what they are comprised of, should not be neglected and should be reviewed periodically.

A properly developed financial plan involves more than just investing. It takes into consideration your goals, objectives and risk tolerance. It is forward looking allocation and diversification, budgeting and looking to the future with products like insurance and the many different ways it can help you protect your family.

Planning also helps you set and meet long- and short-term financial goals, despite unpredictable turns in the road.

Financial planning is not an event or a static exercise; it's an ongoing process. What's good for you now with a new business and the beginnings of a new family will change as you mature and your needs change.

When people get older, they begin to think about protecting what they've got (that's rarely the case with younger people). Approaching retirement, they want to maximize their income and create a solid, tax-efficient income stream. Given the option of leaving a large sum to the tax department or a favourite cause, no one chooses the former. Upon realizing that taxes are optional, they seek ways to create a legacy and be remembered for their generosity.

Retirement can mean unemployment

Now that people are living longer, there's a realistic concern about running out of money. Retirement can last 20 or 30 years, a long time to be unemployed.

According to Statistics Canada, people aged 100 and older were the fastest-growing age group between 2011 and 2016. Now that the first wave of baby boomers are retiring, more people than ever will to need help either in their own homes or at assisted-living venues.

At one time, not too long ago, many baby boomers had hopes of inheriting an estimated $1 trillion worth of wealth from their elderly parents. But now their parents are living longer, and spending the 'inheritance'. The reality is that these adult children may well spend more time looking after their parents than their parents did taking care of them as children.

In Ontario, costs for assisted living homes start from $2,400-$3,565 a month depending on where you live. Nursing home costs are regulated in the province, starting from almost $1,700 for a basic room and up to $2,300 for a private room. And that's if you don't need any extra personal care.

A report by the National Institute on Ageing suggests that between 2019 and 2050 the cost of public care in nursing homes and private homes will more than triple. The country is also facing lower fertility rates that will decrease the availability of support from family members acting as unpaid caregivers.

The report calls on baby boomers to take a long, hard look at their own personal circumstances and plan ahead because at the public level there are many gaps in long-term care.

Long-term care

As part of your financial plan, you should consider purchasing long-term care insurance that will give both you and your adult children financial peace of mind and reduce some of the financial stress that comes with living a long life.

Long-term care isn't just for the elderly. If you become unable to care for yourself for 90 days or more any point in your life, the insurance can cover some of the costs of a care facility or a caregiver in your own home following an accident or illness.

Buying long-term care insurance is a defensive strategy that won't create a big hole in your ultimate retirement goals and will make a major difference if you get sick.

Comprehensive planning also means getting organized and only you can look after this. Be sure to have a current and up to date will and two powers of attorney – one for your financial needs and one for your physical needs. Remember that when assets are held jointly with right of survivorship to the spouse, your provincial government will decide what happens to your assets if you don't have a will.

Be certain that your list of beneficiaries is current and up to date and ensure your money goes to whom you want it to go.

What if something happens to you? Will your spouse and children find every important document easily? Examples: wills, powers of attorney, bank accounts, investments, property deeds, life insurance, etc. What if something happens to both you and your spouse? How will your children find everything?

Complete the Estate Directory. It's a writeable PDF available free at our website. Details are noted at the end of this article. It's an important exercise that will pay big dividends (non-taxable) and can make the difference between an orderly settlement of your estate and a bureaucratic disaster complicated by unexpected legal fees.

Your completed Estate Directory will include details of your accountant, lawyer, banker, financial advisors, stockbrokers, and the passwords for all your online accounts (everything from banks to insurance companies to the bills you pay automatically online every month.)

Taxes come in all shapes and sizes, and they all have one thing in common -- they will reduce your estate. If you don't prepare ahead of time, money or property that you had earmarked for your children or a charity can get an eager partner in Revenue Canada instead.

Donating to charity personally gives you about a 50 per cent tax savings, but donating funds corporately means a 100 per cent deduction. A corporation using marketable securities for a donation doesn't have to pay any capital gains tax either. Instead, the gains on the donated funds are credited to the company's Capital Dividend Account and can be removed tax-free.

Taxpayers in Ontario who earn more than $220,000 annually pay combined federal and provincial taxes at the highest rate. Upon your death, from the government's perspective, you have 'disposed' of all your assets. Remember that registered funds like your RRSP or RRIF pass tax-free to your spouse. But upon the death of your spouse, that money will be taxed at up to 54 percent (in Ontario). The same draconian treatment applies to people who are single, widowed or divorced. Clearly, our government discriminates against them.

Capital gains will be taxed at 25 per cent and the money in your corporation will be taxed at 45 per cent. You need to plan for this ahead of time, while the sun is shining. Many strategies are available to ensure that you don't a dollar more in taxes than legally required.

A worthwhile strategy

Many fortunate people are sitting on what we call "never spend" money – that's money they don't need to pay bills or intend to spend. Truth is, they are custodians of those funds for future generations. That money can grow tax-free, protected from taxation, and passed along to family tax-free if set up properly.

Using our CPP Philanthropy™ strategy, the subject of my October 2017 TaxLetter®, a married couple collecting CPP benefits (approximately $26,000.year) and who don't need the money to pay their bills, can use those government supplied funds to create significant gifts of more than $1 million for charity or their family, and enjoy very significant savings on their final tax bills. CPP Philanthropy™ has raised millions for charity while preserving client estates. Contact us to learn how your CPP benefits can do the same for you.

Another way to donate to a registered charity is through a charitable gift annuity, especially if you are 65 and over and want a secure income during your lifetime. As an example, you can use a portion of a donation of $100,000 to buy a life annuity which will provide you with the lifetime payments, with the balance of the $100,000 going to a charity. You will receive a charitable receipt for the entire amount. You should know however that a portion of the annuity is considered taxable.

One of the most versatile products you can buy is cash-value life insurance. It is one of the few remaining assets that doesn't get taxed, in addition to your personal residence, lottery winnings and Tax Free Savings Accounts). It's the most cost-effective and tax-friendly way to pay some or all of the final tax bill on your estate.

There are many good investments out there, but if you are looking for certainty and unique tax-exempt treatment under Canada's Income Tax Act, there is no financial product today that compares to a cash-value life insurance policy that delivers reliable, tax-free returns for your estate.

It's never a bad idea to seek a second opinion on your estate plan, investment plan and financial plan. A small defect in planning can result in an unexpected calamity.

We are often asked by accountants and lawyers to review the planning and protection portfolios of their clients.

The financial planning process is not a do-it-yourself project. Engage appropriate professionals to help you get organized tax-efficiently. Your planning team should include a certified financial planner, accountant and lawyer working in unison for your benefit.

The benefit of good advice can help you to live a long and healthy life in the lifestyle and manner you worked hard to achieve, while paying no more taxes than required and protected from the uncertainties of currencies, interest rates and the stock market. ❑

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.
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