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FINANCIALPLANNING

The Power of Planning

While the sun still shines

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"How long must I continue to work before I can retire comfortably?" That simple question is one of the most frequently asked by clients in the past 25+ years of helping people with financial, tax and estate planning,

That very question was posed recently by a husband and wife, both TaxLetter® readers, who sought our advice. They are in their early 50s, operate a successful business and consider themselves the stewards for future generations.

Their savings are invested in three places: at their bank with the private wealth division; with a respected investment management company, and with a hedge fund company in some risky equity investments, in the hope of catching upward swings.

But now they felt stuck. With all of their money invested, they still didn't know how to ensure that they can both retire when they want.

Their dilemma is by no means unique. It is one faced by most Canadians every time thoughts turn to retirement and related financial instruments like RRSPs, Personal Pension Plans, TFSAs or unregistered investments. They needed a plan and a reliable guide for the path to retirement. Getting there won't be a problem, but it's up to them to figure out when they want to get there and what they want to do when they arrive.

The path to retirement

Our first order of business was picking a date when they would like to retire. Based on their current assets, we calculated how much money, on an after-tax basis, they expect to add between now and when they retire. They also needed to anticipate major expenses, including family vacations, renovating their home, buying a cottage, helping out their children and grandchildren with education costs, and acquiring their own homes. Once they get there, how and where do they want to spend their retirement years? Do they want to travel, do they prefer a condo in Florida or Arizona, or perhaps start a new business?

Of course, no two people are alike, and that's why there are no cookie-cutter retirement plans. In the end, it's a matter of what you want to do with your money and your time in retirement. With people living longer than ever, many retirees can enjoy several decades of healthy retirement. If your goals, assets and timelines don't match up, you may have to adjust your expectations, obtain a better return on your investments, work longer or scale down your aspirations.

When you calculate your holdings, it's important to use an after-tax perspective. If you live in Ontario and make more than $220,000 a year, you will pay combined federal and provincial taxes at the marginal rate of 53.53 per cent on anything beyond that threshold. You are also subject to taxes on your investment gains - including

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everything from GICs to bonds and real estate income.

On the corporate side, once you take money out of the company, you have to pay a taxable dividend. Should it be an eligible tax dividend, the tax is 39.34 per cent; if it's an ineligible tax dividend, the government will collect 45.3 per cent.

Effective January 1, 2017, every business owner will pay higher taxes on the sale of their business if goodwill and trademarks are involved. Those intangible assets are now fully taxable as investment income.

The Canada Revenue Agency is your eternal partner - while you are alive and after you die.

It pays to be married

A long-divorced and currently unmarried client was shocked to learn what would happen to the $2.1 million accumulated in his RRIF when he passes on.

I explained that our tax rules favour married people, because funds from an RRSP or RRIF transfer tax-free to a spouse. When those retirement funds are held by divorced, widowed or single individuals, they get taxed at the highest rate at death. As an Ontario resident, his RRIF beneficiaries would have seen the $2.1 million diminished by over $1 million of taxes. The family would have received just about the same amount as the tax department.

With the benefit of that knowledge and the opportunity to do proper planning while he is healthy and insurable, we structured a life insurance policy that eliminated the tax that would otherwise have been due and created a large charitable gift. His family will receive a lot more money and he will be remembered for his philanthropy, not for leaving a large sum to the tax department.

Married couples should consider buying inexpensive joint-and-last-to-die life insurance to fund the taxes that will be due on the second death. It is a cost-effective and tax-effective strategy to ensure you leave a bigger legacy to your children and/or your favourite charities.

These experiences underscore the need for thoughtful planning now, while the sun is shining and options are available. Get help from an experienced financial planner and prioritize what's important to you along the way. Don't ignore it.

Preparing for surprises

On your way to a healthy and happy retirement, you must also consider some unpleasant what-ifs. What if you get sick and become unable to work before your planned retirement date? What if your spouse or kids get sick and you are forced to take time away from your work to deal with medical matters? What if you need long-term care when you get older? What if you have to support financially dependent aging parents?

The current cost of long-term care ranges from $4,000 to $10,000 per month. The demand is growing quickly now that baby boomers have grey hair, and that continually rising costs could easily double in the next decade.

Long Term Disability Insurance with high limits is now available to protect you from the possible loss or reduction of income because of not being able to work due to a sickness, injury or disability. High-income earners can now get coverage of up to $75,000 per month and sometimes more in disability benefits.

You can also protect your nest egg from a serious illness. Think about buying a Critical Illness Insurance (CI) policy that would pay up to $2 million in a tax-free lump sum 30 days following the diagnosis of heart attack, stroke, cancer, or any one of more than two dozen conditions. Policies with the Return of Premium option will refund every dollar to you if you don't make a claim. If you own a business, use the Shared Ownership Strategy (the subject of an earlier TaxLetter®) to have the premiums paid by your business, with the entire premium returned to you, personally and tax-free.

If you are currently healthy and contributing $1,000 a month to your RRSP, consider putting $800 a month into your RRSP and using the remaining $200 for a CI policy. It's a defensive retirement strategy that won't create a big hole in your ultimate retirement goals and will make a huge difference if you get sick.

Protect your estate

You may be fortunate enough to have 'never-spend money' that you know won't be spent during your lifetime. You are a custodian of those funds for future generations. Without impacting your lifestyle, use some of that money to deal with the issues outlined above and leave more for your children, grandchildren and future generations.

Can you name your grandparents? What about your great-grandparents? Your future descendants will certainly know your name if you make plans now that will benefit them in the future.

There are so many ways to protect your estate while helping your family. Begin with the very basics: be sure to have a current and up-to-date will and two powers of attorney prepared by an experienced lawyer. Use the free, 4-part estate planning toolkit available on our website (details are contained at the end of this article).

On a personal note, I am a first generation Canadian, the son of a Polish immigrant who was welcomed to this wonderful country. Most of my late father's family died in the Holocaust. I treasure Canada as my home, where I gratefully practise my religion freely, send my children to good schools and know that excellent hospitals are available should one of us need them.

As we celebrate the 150th birthday of our beautiful country, we should realize that our taxes pay for the healthcare, infrastructure and education systems we enjoy. It is our responsibility and obligation to pay our taxes, but no more than our legally required fair share.

This year also marks the 60th anniversary of RRSPs in Canada. As you read this, we are in the thick of RRSP season. I encourage you to make the maximum $25,370 contribution for the 2016 tax year and get a jump on the 2017 contribution to maximize your savings. If you own a corporation, discover the advantages of a Personal Pension Plan (the subject of an earlier TaxLetter®), advantages that far outweigh the benefits of conventional RRSPs.

You can't plan every aspect of your life nor would you want to. It would be a boring and tedious existence without nice surprises. But when it comes to planning your financial future, get organized to help yourself, your family, and your business. You have the power to impact generations to come. ❐

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