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Demystifying wealth management

When people think about “wealth management”, they often think it’s something for the ultra-wealthy. And they’re right – people with a very high net worth usually require more intensive wealth management to help them coordinate their various financial concerns. However, wealth management can also benefit people who may not necessarily think of themselves as “wealthy” but simply as “financially secure”. Following is an introduction to the different components of wealth management, and some of the many strategies that can help you manage your wealth at different life stages.

What is wealth management?

Your first experience with wealth management may have come when you got your first piggybank. Back then, wealth management involved the acquisition of some loose change for deposits – and perhaps a hammer for withdrawals.

At a certain point, things started to get a little more complex. Buying your first home. Investing for your retirement. Making sure you have the what-ifs covered.

Now you’re at a stage where you have above-average financial assets, your retirement plans are maxed out, you’ve built a large investment portfolio, you may own multiple properties and – let’s not forget – you have a much higher tax burden.

To coordinate everything, you may have created a financial plan in the past. In many ways, wealth management is very similar – it’s enhanced financial planning that brings together all your tax, retirement, estate, investment and insurance needs.

The components of wealth management ➡

Wealth management – what it is and what it’s not

Wealth management is a comprehensive approach to managing your financial concerns and achieving your goals in life. It includes advice on your investments and retirement plans – but it extends well beyond that to include advice on protecting your lifestyle, minimizing your tax exposures, maximizing your income and organizing your estate.

It’s an important distinction because some financial advisors will claim to offer “wealth management” but a closer look shows they are mostly limited to selling certain investment products. If your financial situation is more complex, you may need much more than that – you may need real wealth management. In fact, even the very best financial advisor, acting alone, cannot really provide wealth management. It is a multi-disciplinary approach involving experts in different areas, including investment advisors, financial planners, insurance specialists, estate planners, legal advisors and more. In short, while you may have one advisor coordinating things, you actually need a team of experts to truly deliver wealth management.

Please contact us for more information about wealth management and how it can help you achieve your personal and financial goals.

Financial planning: clarifying your overall financial situation

The wealth management process normally starts with a comprehensive, professionally prepared financial plan. With this calibre of financial plan, you can address all aspects of your financial affairs, including cash and debt management, tax and risk exposures, investment management, retirement planning and estate planning. At a minimum, a comprehensive financial plan should include:

- › An in-depth information-gathering session to establish your financial goals
- › Recommendations to improve your current financial strategies
- › Detailed financial projections based on your current and recommended strategies
- › An action plan to implement recommended strategies

Estate planning: leaving your affairs neat and tidy

A major focus of wealth management is on protecting your legacy to your family, while making it easier for them to settle your estate. Working with your tax, legal, insurance and trust experts, you will need to look at:

- › Your overall estate plan, including major documents such as your Will, Powers of Attorney and Trusts
- › Insurance-based strategies to enhance and protect your estate value
- › Estate settlement services, which are especially useful when you have a more complex estate

Insurance: protecting everything you’ve built

Insurance is an indispensable and very flexible wealth-planning tool that not only covers the major “what-ifs” in life but can also help build and protect wealth during your lifetime and when your estate is settled. Together with your insurance experts, look at how you can maximize insurance to:

- › Provide financial security in the event of illness or injury, or if you or a family member need long-term care
- › Shelter your investment assets from taxes to provide tax-free retirement income and tax-free death benefits
- › Protect your estate assets from taxes, including taxes on RRSP/RRIF balances, capital gains and vacation property

Credit and lending: using debt wisely

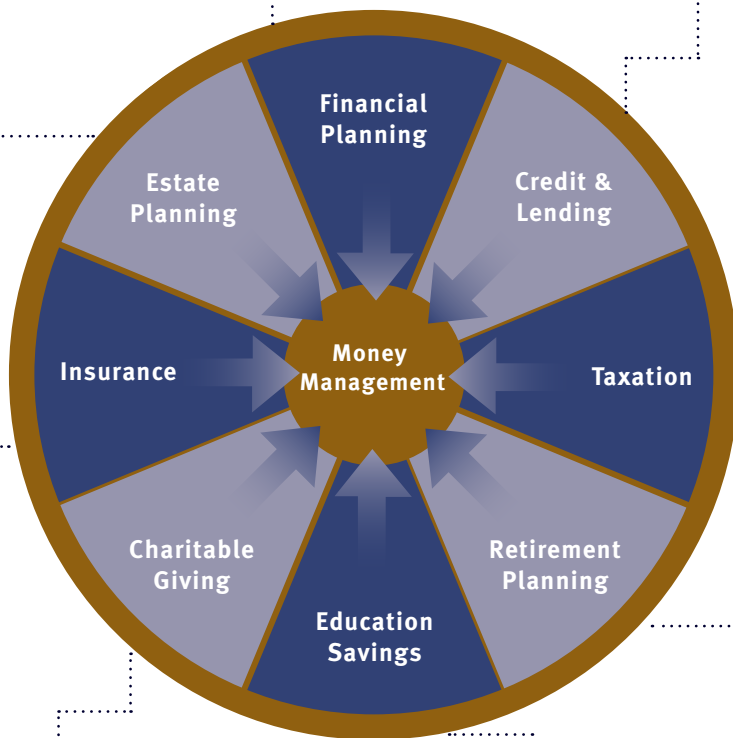
Working with a credit specialist from Royal Bank of Canada, assess your credit and lending needs:

- › Reduce or eliminate any unnecessary debt
- › Restructure your existing debt so that the interest is tax-deductible wherever possible
- › Consider the use of “good debt” such as a spousal loan strategy or non-recourse mortgage to potentially reduce taxation

Taxation: minimizing your tax exposures

In consultation with your tax, legal and investment advisors, consider strategies to manage or reduce your tax liabilities:

- › Structuring your personal and business assets optimally to minimize taxes, considering legal ownership, holding companies, trusts and other strategies
- › Implementing income-splitting strategies to reduce your family’s overall taxes, including family trusts and spousal loan arrangements
- › Reducing investment taxes through tax-loss harvesting, tax-efficient asset allocation and tax-exempt investment vehicles
- › Covering taxes arising on death through insurance-based strategies



Retirement planning: ensuring your retirement lifestyle

Look at strategies above and beyond maximizing your RRSP/RRIF, including:

- › Enhanced retirement plans such as Individual Pension Plans (IPPs) and Retirement Compensation Arrangements (RCAs)
- › Other tax-advantaged investment vehicles, including Tax-Free Savings Accounts (TFSA's)
- › Insurance-based strategies utilizing tax-exempt life insurance, insured annuities, and segregated funds offering income guarantees
- › Structuring your retirement income to enhance your after-tax retirement income

Charitable giving: giving back and creating a legacy

Make the most of your charitable gifts through tax-effective giving strategies such as donating stocks in-kind and establishing family foundations.

Education savings: helping children and grandchildren fulfill their potential

Look at the most effective ways to set aside education funding, including family trusts and Registered Education Savings Plans (RESPs).



Strategies to build and protect wealth

Wealth management goes beyond investing to look at all aspects of your financial situation, encompassing a wide range of retirement, tax and estate planning strategies.

Enhanced retirement planning strategies

Maximizing your RRSP/RRIF is just a starting point when it comes to retirement planning, especially when you have above-average financial resources. You may also benefit from more advanced retirement planning solutions, such as:

- › An “insured retirement” strategy, which utilizes the special tax advantages offered by tax-exempt life insurance policies. You make additional deposits to a tax-exempt policy, and invest them. Then, when you need retirement income, you arrange tax-free bank loans using the policy as collateral. When your estate is settled, the policy proceeds pay off the loans, and any remainder goes to your beneficiaries as a tax-free death benefit.
- › Individual Pension Plans (IPPs), which are designed for incorporated business owners and professionals. An IPP enables you to create a greater retirement benefit compared to a regular RRSP, and your contributions are tax-deductible to your corporation.
- › Retirement Compensation Arrangements (RCAs), which are ideal for senior executives of large corporations. An RCA is

established by your corporation and augments your regular pension or RRSP, providing you with a greater retirement benefit.

Advanced tax planning strategies

Through the wealth planning process, you should also consider various strategies to reduce your family’s tax burden. Here are a few:

- › Tax-efficient investment allocation, which can reduce taxes on your investment income. For example, interest income from GICs and bonds is fully taxable at your marginal rate in a regular, non-registered account. As a result, it can make sense to allocate more of your interest-bearing investments to your registered accounts, where the income can accumulate free of annual taxes.
- › Insurance-based strategies, such as investing through a tax-exempt life insurance policy. You can earn tax-free investment income and pass on a tax-free estate benefit.
- › Income-splitting to transfer income that would otherwise be exposed to your higher tax rate to family members with a lower tax rate. For instance, you can transfer money to a family trust for the benefit of your children or grandchildren, who can earn tax-free investment income (up to their basic personal tax exemption amount).

Insurance-based estate planning strategies

Planning your estate goes beyond keeping your Will, Powers of Attorney, Trusts and other important estate documents up to date. Especially if you are concerned about preserving wealth from one generation to the next, insurance-based strategies can be indispensable. For example, insurance may be a cost-effective solution to cover the tax liabilities arising for your estate on your remaining RRSP/RRIF balances, the capital gains automatically triggered on death, as well as any U.S. estate tax exposure. You can also use insurance to create an estate benefit, as discussed above, by investing through a tax-exempt life insurance policy.

Please contact us to learn about strategies to help build and protect your family’s wealth.



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