LIFE EVENTS

EMPTY NEST

PAVAN THOMPSON STEVENSON
WEALTH MANAGEMENT

Leroy Pavan
Investment Advisor & VP
403-317-4330
leroy.pavan@rbc.com

Bob Thompson
Investment Advisor & VP
403-317-4334
bob.thompson@rbc.com

Daryll Stevenson
Investment Advisor
403-317-4318
daryll.stevenson@rbc.com

Lorrie Wyton
Associate
403-317-4324
lorrie.wyton@rbc.com

Aric Pavan
Assistant
403-317-4348
aric.pavan@rbc.com

FINANCIAL CHECKLIST

When your children leave home, making you an 'empty nester', it will cause changes in your life. It will probably be a sad occasion in many ways but it will also provide opportunities. This is a good time for you (or you and your spouse) to step back and think about how you want to spend your time in the future, and the impact of this life change on your circumstances and objectives. Some questions that you should consider asking your Advisor are:

- What will be the impact on the family budget with the children gone?
- What sort of financial support might the children still need?
- Should I consider selling or renovating the home?
- Will there be more time for other activities and what would be the cost?
- Should I update my estate/retirement plans?
- What sort of adjustments to my current retirement portfolios should be made?
- Are there any tax implications by becoming an empty nester?

Now that the children have 'left the nest', it is a good time to step back and take stock of your financial situation. Being on your own will probably cut household costs to some extent but there may be other outlays as well depending on activities planned and ongoing financial support for children at college/university.

Budget

Setting up a new budget that reflects the new situation is a very good idea. Updating your budget will help give you an idea of where you stand.

Reboot your savings efforts

Now that the kids are out of the house and the biggest child-rearing expenses are behind you it may be time to reboot your savings efforts if you had put them on hold. Although there are countless ways to save and many investment options – non-registered and registered – we focus on RRSPs in the following simply because it affords the greatest opportunity to accelerate your saving. Here are four ways to make up for lost time.

Reinvest your tax refund—Sound simple? It is. But simple doesn't mean easy. That's why 80% of Canadians spend the refund. That's a shame. With tax rates anywhere between 20% and 46%, reinvesting your refund into your RRSP is an easy boost to your retirement savings.

Gross-up strategy—Another way to make up for lost ground in your RRSP is to take advantage of a gross-up loan which works as follows. In a 40% tax bracket, someone with $3,000 to invest could borrow an extra $2,000 and contribute $5,000. The 40% refund of $2,000 almost completely and immediately repays the loan resulting in the $3,000 after-tax amount to be 'grossed-up' to the equivalent, before tax amount of $5,000. Depending on your tax bracket, using the 'gross-up' refund strategy will increase your RRSP retirement income by 25% to 85% compared with the majority who spend their refunds.

Top-up loan—The top-up loan strategy is another way to make use of unused contribution room. The top-up strategy requires you to borrow an amount of money that is small enough to pay off within a year. The strategy does, as a result, necessitate a level of discipline in terms of repayment and you must be comfortable with the notion of a market drop while you're repaying the loan. As unpleasant as that may be, it's tough to discount the long-term benefit of having more invested for retirement at the expense of a little non-deductible interest. The strategy works as follows: Say you have $10,000 of RRSP room in a 40% tax bracket but have only $4,000 to invest. Wanting to contribute the maximum, you borrow $6,000 to 'top up' your contribution to $10,000. The 40% refund of $4,000 quickly reduces the loan to $2,000 which you pay off before next year's deadline.

Regular contributions—If the thought of acquiring and paying off loans to invest leaves you uncomfortable, there is little to no pain involved when it comes to a regular investment plan. By choosing a pre-determined time to invest – weekly, bi-weekly or monthly – you not only take the guesswork out of when to invest but you 'pay yourself first' as well. This may be the most effective way to save over the long term. If you haven't set up a regular investment plan it makes sense to do it sooner rather than later. Time matters. And if you already have a regular contribution plan, consider increasing the amount you contribute or the frequency to maximize your retirement savings efforts.

Investment Portfolio—Although your investment portfolio as part of your financial plan may be suitably positioned, this is probably a good time to meet with your Advisor to ensure that it properly reflects your current circumstances and objectives. As a general rule, your asset mix should become somewhat more conservative as you get older. As well, if you are planning to support or at least subsidize your children's post-secondary education, some thought needs to be given to which investments should be liquidated and when. If you have RESPs in place, they should be reviewed to ensure that the investments are appropriate and decide on the most efficient approach to liquidation. Read more about Pre-Retirement Consolidation.

Assisting Grandchildren and Registered Education Savings Plans (RESPs)

You may be in the position where your children have children of their own and you want to provide them with financial support for the future. We all appreciate the importance as well as the costs of post-secondary education. One of the most effective ways to finance post-secondary education is through RESPs. As grandparents you are able to contribute money to an RESP for a grandchild that will grow tax-free until the child attends college/university. There are numerous rules and regulations concerning RESPs but by discussing this with your children and Advisor you should be able to create an education savings plan that will provide substantial assistance to your grandchildren. Your Advisor will have all the necessary details about the nature of RESPs and how they can be established.