

# Catch up on your financial to-do's this summer

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## Investment solutions for your life stage

At each stage of your life, your investment goals change. Is your investment portfolio keeping up with your changing needs? Find out with a complimentary portfolio review.



Summer is the perfect time to catch up on all those financial to-do's that you have been too busy to do. Here are 10 things you can do to simplify your finances, reduce your taxes and protect your family's financial security.

### 1 SIMPLIFY YOUR FINANCIAL LIFE

#### Switch to eStatements.

Many financial institutions, utilities, phone and cable companies offer eStatements to reduce the paperwork you receive in the mail. What's more, you never have to worry about mail strikes. Just call us to switch your RBC Dominion Securities personal accounts to eStatements – we can handle everything over the phone.

#### Consolidate accounts.

Some people, over time, open many accounts at several different financial institutions, resulting in additional administration, multiple monthly

statements, multiple meetings with different advisors, duplication of fees and duplication of investments. Consider the benefits of consolidating your accounts at a single financial institution that can offer the full range of services you require.

#### Bank online.

View your financial accounts online, transfer funds and pay bills from the convenience of your computer.

#### Pre-authorize bill payments.

Save time and shorten your to-do list by setting up automatic bill payments online.

#### Pay yourself first.

One of the best financial tips of all is to save through a Pre-Authorized Contribution (PAC) plan. You can set up a PAC plan for RRSP, TFSA, RESP and stock savings plan contributions.

#### Keep a binder with all your financial documents.

This could include things like financial statements, tax slips, Family Snapshot® outputs, retirement projection, Will, Power of Attorney and so on. Keep it in a safe place like a fireproof lockbox. ►

## 2 SAVE TAXES WITH FAMILY INCOME-SPLITTING STRATEGIES

With Canada's graduated tax rates, the more you earn, the higher your tax rate. If you're a high-income earner, you may be able to reduce your family's overall taxes by transferring some of your income to lower-income family members, so funds are taxed at a lower rate. Here are some key income-splitting strategies:

### **Prescribed rate loan strategy.**

With this strategy, you loan money to a low-income family member, who uses the money to invest. So long as the family member pays you annual interest, the investment income is taxable to them, not you, at their lower rate. With the Canada Revenue Agency-prescribed rate on such loans sitting at a generational low of 1%, (until September 30, 2011) now is an excellent time to consider this strategy.

### **Tax-Free Savings Account (TFSA).**

You can essentially gift money that otherwise may have been taxable at your high rate to family members (over the age of 18) to contribute to their own TFSAs. All the investment income earned in your family's TFSAs grows tax-free. It is not taxed back to you, even though you contributed the money.

### **Family Trust.**

When properly structured, the income earned on assets held in a Family Trust is taxable to your children or grandchildren at their lower tax rate, when used for their benefit. Each child can potentially earn up to \$10,000 interest income, \$20,000 capital gains or \$30,000+ of Canadian dividend income tax-free annually from the trust (varies by province).

### **Business restructuring.**

By adding your lower-income adult family members as shareholders of your business (directly or through a Family Trust), you can pay them dividends that are taxable at their lower rates. In addition, your family members could potentially each use the \$750,000 capital gains exemption should you sell the business.



## 3 REDUCE RISK AND TAXES BY REVIEWING THE ASSET MIX IN YOUR INVESTMENT PORTFOLIO

How you allocate your portfolio assets among the different asset classes (stocks, bonds and cash) is a key factor in determining your investment returns and level of risk. Everyone has an ideal asset mix based on factors such as return objectives, income needs and risk tolerance. However, with the unprecedented market volatility since the financial crisis, your portfolio's asset mix can easily swing off track. If you haven't already done so, now is an excellent time to review your asset mix with us.

Furthermore, when reviewing your portfolio's asset mix, remember the saying: "It's not what you make. It's what you keep." Following are some concepts to discuss with us on maximizing your after-tax investment return:

- ▶ Because interest is fully taxable, hold interest-bearing investments in your RRSP/RRIF, where they are sheltered from taxes.
- ▶ Because capital gains and Canadian dividends receive preferential tax treatment, hold equity investments

primarily outside your RRSP/RRIF.

- ▶ Hold Canadian dividend-paying investments in an individual non-registered account instead of a holdco, where dividends are taxed higher. Alternatively, pay out dividends earned within a holdco.
- ▶ Shelter surplus assets that would otherwise be exposed to your high tax rate by investing in a tax-exempt life insurance policy.
- ▶ If your net worth is over US \$3.5 million and you have considerable U.S. equity investments, hold any individual U.S. stocks in a Canadian holdco to minimize U.S. Estate Tax.

## 4 BUILD WEALTH BY USING CREDIT WISELY

Firstly, if you already have debt, consider whether the interest is tax-deductible. If it is not, then speak to your banker or financial planner as there may be a way you can restructure your loan and your assets to reduce your interest costs or make the interest tax-deductible. ▶

## 5 PROTECT YOUR FAMILY'S FINANCIAL FUTURE WITH ADEQUATE INSURANCE

We've all heard the horror stories about people who didn't have adequate insurance when tragedy struck. But we still tend to procrastinate when it comes to insurance. We can help you make sure you have adequate life, disability, critical illness, long-term care and business insurance.

### Life insurance.

Are you really confident that if you passed away, your family would have adequate financial resources to maintain their standard of living? If the answer is "No" or "I don't know" or even "I think so", then give us a call.

### Living benefits.

The chances are that, at some point in your life, you will face a serious illness or disability (yourself or of a family member) that causes financial strain. To reduce this strain, you can purchase living benefits insurance including disability, critical illness and long-term care insurance.

### Business insurance.

If you are a business owner, you may not be part of a group insurance plan, so make sure you have adequate personal insurance as discussed above. In addition, insurance can serve many other purposes for business owners such as paying for large taxes at death on business shares, funding buy/sell agreements, equalizing children not in the business, transferring surplus cash in a holding company to the next generation on a tax-free basis and more.

## 6 ENSURE YOUR WISHES ARE FOLLOWED WITH AN UP-TO-DATE WILL AND POWER OF ATTORNEY (POA)

A recent study by the Canadian Federation of Independent Business (CFIB) revealed that 46% of Canadians do not have a Will. Even among those that do, many have out-of-date Wills that do not reflect their current wishes or family situation. What's more, many have "simple" Wills that can result in higher taxes and family disharmony.

- ▶ Give your family and yourself peace of mind by booking an appointment with a legal advisor who specializes in estate planning to get an up-to-date, tax-efficient Will.
- ▶ For clients with more complex estates, we offer complimentary consultations with our own Will and Estate Consultant, who can draft an action plan that you can take to your legal advisor to implement. Please ask us if this service is appropriate for you.
- ▶ Also don't forget the importance of having a POA (or Mandate in Quebec) for both medical and financial affairs. There is a higher probability of becoming disabled than dying before age 65, so having a POA is critical.
- ▶ Consider having a copy of your Will and

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POA in a fireproof safe that your executor would be able to access or with your legal advisor.

## 7 ENSURE YOUR WISHES ARE FOLLOWED WITH APPROPRIATE ACCOUNT STRUCTURES AND BENEFICIARY DESIGNATIONS

List every one of your accounts including any accounts through your employer (employer pension, stock savings plan, etc.) and ask yourself these two questions: "How is this account legally owned?" and "Who is the beneficiary?"

When considering the legal ownership of an account, bear in mind that joint ownership with your spouse or adult children can provide potential creditor protection and probate tax avoidance in some provinces. However, joint ownership may not always be appropriate. For example, if you are in second marriage and have children from a first marriage, you may not want joint ownership with your second spouse as they would be under no obligation to provide your children with an inheritance. In addition, joint ownership with adult children should be consistent with your estate distribution intentions; otherwise it can be successfully challenged in court.

Next, look at any accounts that permit beneficiary designations such as pension plans, RRSPs/RRIFs, TFSAs and insurance policies. Are these beneficiary designations current? Should you even name a beneficiary? Rather than having your assets go directly to a family member after your death, it may be more appropriate to have them go through your estate in certain situations, even though probate tax is payable.

The appropriateness of your account structures and beneficiary designations will depend largely on how you intend to have your estate distributed, so speak to your legal advisor for advice as you are getting your Will updated. ►





## 8 HELP IMPORTANT CHARITABLE CAUSES ACHIEVE BETTER FINANCIAL HEALTH

A great way to take your charitable giving to the next level and get your entire family involved in philanthropy is by creating a charitable foundation. The days when only the ultra-wealthy were able to set up charitable foundations are gone. You can start your own family charitable foundation for as little as \$25,000, which, after the tax credits, will actually only cost you about \$14,000 (varies by province). You can name your own foundation after your family surname or a friend or family member who has recently passed away. Speak to us if you want more information on how to set up your own foundation or donate your money more tax effectively such as with stock or insurance instead of cash.

## 9 GET A FAMILY SNAPSHOT® OR FINANCIAL PLAN PREPARED

It's the million-dollar question: "Will I have enough to retire comfortably?" You may already have significant savings through an RRSP and/or a company pension plan and seem on track to your retirement goals. But with today's longer lifespans, inflation, taxes, health-care costs and lifestyle expectations, you may need more than you think. And if you're a business owner, you may have other considerations like converting the equity in your business into a satisfactory retirement income.

We can provide you with a Family Snapshot® which summarizes your financial life on one sheet of paper,

A Family Snapshot® summarizes your financial life on one sheet of paper, making it simple for you to understand where you stand now and, with annual updates, how you are progressing from year to year.



making it simple for you to understand where you stand now and, with annual updates, how you are progressing from year to year. It provides a quick retirement and insurance projection, as well as a Wealth Management Opportunities Report of some of the top tax, estate and retirement planning strategies specifically applicable to your family.

If your financial situation is more complicated, then speak to us about getting a COMPASS comprehensive financial plan. A COMPASS comprehensive financial plan addresses all aspects of your financial affairs, including cash and debt management, tax and investment planning, risk

management and retirement and estate planning.

## 10 GET EDUCATED ABOUT SPECIAL STRATEGIES FOR HIGH-NET-WORTH FAMILIES THAT YOU MAY NOT KNOW ABOUT

If you have investable assets of at least \$1 million, you should also speak to us about getting a copy of the publication titled *Family Wealth Management — Ten Strategies to Build and Protect Your Family's Wealth*. This guide highlights strategies for families who face unique financial challenges due to having more financial resources than the average Canadian family.

► We can help you check off your financial to-do's this summer. Please contact us for more information.



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