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FINANCIAL ADVISORY SUPPORT

## Your Financial To-Do List for 2011

**New Year's Resolution: Check off all ten items on this financial to-do list**

*A new year is once again upon us and many of us are going through the annual ritual of setting New Year's resolutions. Improving health is usually high on many people's lists — lose weight, exercise and eat healthier. However, in addition to improving your physical health, you can resolve to make 2011 your healthiest financial year ever by focusing on the fundamentals. This article will provide you with a list of 10 financial to-do's for 2011. If, during 2011, with the help of your advisor, you can check off all 10 items on the list, then your financial life should be in good shape.*

*If you have investable assets of at least one million, ask your advisor for a copy of the publication titled "Family Wealth Management — Ten Strategies to Build and Protect Your Family's Wealth." This publication builds upon the to-do list in this article and provides strategies for families who face unique financial considerations due to having more financial resources than the average Canadian family.*

## Your Financial To-Do List for 2011

The following is a list of 10 financial to-do's for 2011 (in no particular order) that you should discuss with your advisor. If you cannot confidently check off an item on this list, then your advisor can put you on a plan to complete that item.

1. Make sure your Will and Power of Attorney are up-to-date.
2. Save taxes by putting family income-splitting structures in place.
3. Ensure you have adequate life and living benefits insurance.
4. Ensure your asset allocation is up-to-date and tax-efficient.
5. Make sure your account structures and beneficiary designations are up-to-date and appropriate.
6. Use credit effectively.

7. Give back — donate your money and time.
8. Ask your advisor to prepare a Family Snapshot for you.
9. Ask your advisor to prepare a financial plan or retirement projection for you.
10. Simplify your financial life.

## **1. Make sure your Will and Power of Attorney are up-to-date**

Did you know that a large majority of Canadians do not have a Will? Furthermore, of those who do, many have one that is out of date and does not reflect their current wishes or family situation.

Furthermore, if you do have a Will, do you have a “simple” Will? A simple Will is one that states something to the effect of “If I die first, everything goes to my spouse directly. If my spouse dies first, everything comes to me directly. And after we both die, everything goes to our children equally.” This type of Will may result in higher taxes for your survivors and potential disharmony among family members.

Give your family and yourself peace of mind by booking an appointment with a legal advisor who specializes in Will and estate planning to get a thorough and up-to-date Will. If you qualify, speak to your advisor about first meeting with our in-house Will and Estate Consultant for a personal consultation.

Also, don't forget the importance of having a Power of Attorney (POA), or Mandate in Quebec, for both medical and financial affairs. Since the odds of suffering a disability are much greater than the odds of dying prematurely, having a POA is critical.

Consider storing a copy of your Will and POA in a fireproof safe (where your executor and power of attorney knows the combo) or with your legal advisor.

## **2. Save taxes by putting family income-splitting structures in place**

Family income splitting is the bread and butter of tax planning in Canada, but many Canadians are not taking advantage of simple income-splitting opportunities blessed by the Canada Revenue Agency (CRA).

If you have a low-income spouse or low-income children or grandchildren, then early 2011 is a great time to consider setting up a prescribed rate loan for income splitting. The CRA prescribed rate at the time of writing continues to be at a historic low of 1%.

Also, consider setting up a Tax-Free Savings Account (TFSA) for those family members who are at least 18 years of age (or at least 19 if you live in a province or territory where 19 is the age of majority to enter into a legal contract). Since all the investment income in the TFSA grows tax-free, there will be no income attribution, regardless of who funded the account.

Do you personally own individual stocks or equity mutual funds in a non-registered account? Do you have children or grandchildren with little or no income? If the answer is yes to both of these questions, did you know that our tax rules allow each person in Canada, regardless of age, to earn about \$15,000 to \$20,000 of tax-free capital gains every year (varies by province) if they had no other income in the year. So take advantage of this annual tax-free opportunity and shift some of your future capital gains to your children or grandchildren. Speak to your advisor about setting up a family trust for income splitting. The tax-free income earned in the family trust can also be used to pay for your child's expenses (private school fees, lessons, gifts, etc.), which you have been paying all these years with after-tax dollars.

If you are a business owner, you may be splitting income by paying reasonable salaries for work performed by lower-income family members. However, many business owners own 100% of their corporation. There may be a future tax benefit of adding your spouse and children as shareholders of your business, either directly or through a family trust. By restructuring the ownership of the business today, you can still maintain control, but now you have set up your affairs to save considerable taxes by paying dividends to lower-income adult family members and potentially multiplying the \$750,000 capital gains exemption if you or other family members sell shares of the business.

For additional wealth management strategies and solutions for business owners, ask your advisor for a copy of the publication titled "The Business Owner's Guide to Wealth Management."

### **3. Ensure you have adequate life and living benefits insurance**

Ask yourself the following question: "Am I confident that if I died or became disabled, my family or I would have adequate assets and income to maintain our standard of living?" It's a very important question. If the answer is "No" or "I don't know," then speak to your advisor about getting a personal insurance analysis to determine if you are underinsured, and if so, by how much. Give yourself and your family the peace of mind by taking immediate action today to secure your family's financial future in the event of an unforeseen occurrence.

Alternatively, if the answer is yes, then consider the fact that one of the last few remaining tax shelters in Canada is the ability to earn tax-free investment income within a whole life or universal life insurance policy. Why pay tax to the CRA during your lifetime when it can be paid to your beneficiaries as a tax-free death benefit or used by you to supplement your retirement income? Ask your licensed insurance advisor to show you a comparison between a tax-exempt insurance policy and a policy that invests an amount equal to the premiums in a non-registered investment account.

If you are a business owner, the importance of reviewing your life or disability insurance needs may be greater due to a higher likelihood of inadequate coverage. It depends on whether or not you are a member of a group insurance plan. If not, this could mean disastrous financial implications for your business and family should you die or become disabled. In addition to other 2011 business goals, you may have plans to expand your business or reduce your business expenses, so be sure to include a personal insurance analysis from your advisor in your plans as well. Insurance can also serve many other purposes for business owners, such as paying for large taxes at death on the business shares, funding buy-sell agreements, equalizing assets for children not in the business and transferring surplus cash into a holding company for the next generation on a tax-free basis.

Disability insurance is a type of living benefits insurance. Two other innovative solutions of living benefits insurance that have gained popularity in Canada are critical illness insurance and long term care insurance. With today's medical advances, many people are surviving illnesses and living longer, which could mean that their regular income sources and savings may not be adequate. To ensure that your savings are not depleted and your standard of living is not dramatically reduced by a short- or long-term illness, speak to your advisor about living benefits insurance.

## **4. Ensure your asset allocation is up-to-date and tax-efficient**

The continued market volatility has potentially taken your asset allocation off-track. Now is a good time to review the asset allocation of your investments (cash, fixed income and equities) as well as their currency and geographic split (Canada, U.S., international). Is your asset allocation appropriate based on your risk tolerance, and your financial and retirement goals? Studies have shown that asset allocation is a key factor in determining your investment performance and variability of returns. Speak to your advisor about getting an asset allocation analysis to see where you stand today and if any changes need to be made.

In addition to reviewing your asset allocation, consider the tax efficiency of your investments. Remember the saying, "It's not what you make. It's what you keep." To maximize your after-tax returns, here are some general investment guidelines that you may want to incorporate into your overall asset allocation strategy:

- Emphasize interest-bearing investments in your RRSP/RRIF;
- Hold capital gain and Canadian dividend paying investments primarily outside your RRSP/RRIF to take advantage of their preferential tax treatment;
- Hold Canadian dividend paying investments in an individual non-registered account instead of a holding company (Holdco). Alternatively, if the Canadian dividend is earned in a Holdco, then it's generally good practice to pay the dividends out of the Holdco in the same year they are earned to avoid the higher tax rate of Canadian dividends in a Holdco;
- Hold U.S. stocks in a Canadian Holdco or invest in U.S. equities through Canadian mutual funds, if your goal is to minimize your U.S. estate tax exposure due to your substantial net worth and considerable U.S. equity investments. Consult your advisor for more information;
- Incorporate whole or universal life insurance into your overall financial plan to take advantage of earning tax-free investment income while also protecting your family in the event of your death;
- Contribute to your TFSA and earn tax-free income and capital gains. Since the TFSA is flexible and can be used for many different purposes, the asset allocation decision for your TFSA will really depend on your goal for the TFSA (e.g., short-term savings, supplement to retirement savings, speculative, etc.).

## **5. Make sure your account structures and beneficiary designations are up-to-date and appropriate.**

First, make a list of all your accounts, including any employer accounts such as an employer pension plan, group RRSP or stock savings plan. Next, for each account in the list you created, ask yourself the following two questions:

## 1. How is this account legally and beneficially owned? (not applicable in the case of Quebec residents)

When it comes to determining legal and beneficial ownership, you may want to ask, “Is it owned solely by me, jointly between me and my spouse/child or through a trust or corporation?” For example, many people own non-registered assets jointly with their spouse only for convenience or possible probate tax avoidance. However, owning assets jointly may not always be appropriate, such as when the joint asset is required to fund a spousal testamentary trust, which your lawyer may recommend when reviewing your Will, or if you are in a second marriage and have children from a first marriage whom you would like to provide for in the event of your death. Therefore, it is important to review your accounts and assess whether joint ownership is appropriate based on your estate distribution intentions.

If creditor protection is important to you, then maybe some of your assets should be owned by your spouse or through a properly structured trust rather than directly by you.

## 2. Who is the beneficiary?

Next, look at any accounts where you are permitted to designate a beneficiary, such as pension plans, RRSPs/RRIFs and insurance policies. Are the beneficiary designations current? Rather than having your assets go directly to a family member after your death, it may be more appropriate, in certain situations, to have them go through your estate even though probate tax will be owed. In Quebec, RRSP and RRIF beneficiary designations are generally not allowed to be made directly in the plan documentation. Therefore, for RRSP and RRIF plans opened in Quebec, you will be required to make your beneficiary designation in your Will.

The appropriateness of your account structures and beneficiary designations will depend largely on how you intend to have your estate distributed and how your Will is structured, so speak to your legal advisor for advice on this matter when you get your Will updated.

## 6. Use credit effectively

Are you maximizing opportunities on both sides of your balance sheet? That is, have you considered strategies to increase your wealth and pay less tax using conservative credit strategies? Improper use of credit or not taking advantage of credit opportunities can result in not reaching your financial goals or taking much longer to achieve them.

First, if you have debt, is the interest on the debt tax-deductible? If not, then speak to your advisor as there may be a way you can restructure your loan and your assets to reduce your interest costs, or make the interest on the loan tax-deductible to save you taxes.

Second, if you do not have any debt and you already maximized your annual TFSA and registered plan contributions (e.g., RRSPs, RESP, RDSP), then you may want to consider strategies to accelerate your wealth by taking out an investment loan. Interest rates are still relatively low, and if you are in a higher tax bracket (taxable income over approximately \$83,000), then your after-tax interest cost may be relatively low. Speak to your advisor to determine if this strategy is appropriate for you based on your risk tolerance, investment time horizon, tax rate and financial goals.



However, keep in mind that, even if you are a good candidate for taking out an investment loan, carrying debt may not allow you to sleep at night. If you think this might be the case, don't do it.

## 7. Give back — donate your money and time

Let's face it, we are lucky to be living in Canada. Most of you reading this article are likely in the top 20% in terms of income or net worth of all Canadians and in the top 1% of all people in the world. Striving to reach your personal goals related to money, career, family and health is, of course, important. You may also want to give back to those less fortunate than you by donating your money and time through volunteer work. You may already be making some cash donations, but let's make 2011 a year in which you give your money and your time more effectively to causes you are passionate about.

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 a charitable foundation 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 your advisor if you want more information on setting up your own foundation, or on how to donate your money more tax effectively, such as with stock or insurance instead of cash.

**Here's a health tip:** This year, consider participating in one of those runs or rides (confirm with your doctor) organized for a worthwhile cause and combine it with a donation to the charity supporting the event, either directly or through your own foundation. This is a great way to take a small step towards fulfilling two New Year's resolutions (improving your physical health and improving your financial health) in one day!

## 8. Ask your advisor to prepare a Family Snapshot for you

In today's world of information overload, it's refreshing to get information in an easy-to-read and simple format. Would you be interested in receiving a snapshot of your financial life on one letter-size page? A Family Snapshot covers the following three areas:

1. Your family tree (name, age, occupation, residence, citizenship)
2. Your top three financial goals
3. Your net worth, cash flow, estate, insurance, retirement and other pertinent financial information

Speak to your advisor about producing a Family Snapshot for you during your next meeting. This summary puts your financial life on a single sheet of paper, making it simple for you to quickly identify where you stand today and, with annual updates, how you are progressing from year to year. It would take you and your advisor about 20 to 30 minutes to complete.

Once the Family Snapshot has been completed by your advisor, along with the one-page summary of pertinent financial information, it can instantaneously (with a click of a button) produce a Wealth Management Opportunities Report of some of the top tax, estate and retirement planning strategies that are specifically applicable to your family situation. This report can ensure you have considered strategies to minimize tax, maximize your estate, plan for retirement and create a legacy. If you own a business, your advisor can also produce two in-depth Business Succession Planning reports that will help you identify key planning strategies for a time when you will transition away from your business.

## **9. Ask your advisor to prepare a retirement projection or comprehensive financial plan for you**

The million-dollar question that everyone asks is, “Will I have enough income and savings when I retire so I can live comfortably?” You may have savings through an RRSP and/or a company pension plan, but are you on track to meeting your retirement age and income goals? If you are a business owner, how will you use the equity in your business to create retirement income, and will it be enough? As life expectancies get longer, maintaining a comfortable standard of living throughout your retirement may become more challenging. Give yourself peace of mind and speak to your advisor about preparing a simple retirement projection in 2011 so you can see on paper where you stand today and what changes, if any, need to be made to reach your retirement income goals.

Note that once your personal information has been inputted into the Family Snapshot (To-do #8), with a click of a button it can then produce a quick retirement projection, insurance needs analysis and taxes-at-death projection.

If you have a higher net worth and your situation is more complicated or you are going to go through a major life event like leaving your employer or selling your business, then you may want to speak to your advisor about having a Compass comprehensive financial plan prepared. 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. Simplify your financial life**

Although the tips and strategies in this article may require additional time, meetings and administration that could be particularly challenging if you have a busy lifestyle, it is important to not lose sight of the benefits of getting your financial life in order, chief among which is preserving and maximizing your wealth. Nevertheless, keeping things simple is always welcome by most. Here are a few tips to keep your financial life simple and save time and money:

- **Consolidate accounts.** Many people have, over time, opened many accounts at various financial institutions in order to chase the highest interest rates or to diversify. In most cases, however, this has likely led to additional administration arising from multiple statements, meetings with different advisors, duplication of fees and possibly even of investments.

Consider the benefits of consolidating your accounts with a trusted advisor who works for a solid financial institution that can offer you a wide array of solutions at a competitive fee structure and who can offer you personalized expert advice and planning to meet your financial and life goals.

- **Bank online.** Banking online allows you to view your financial accounts, transfer funds and pay bills at your fingertips.
- **Have your income deposited directly into your account.** Certain cheques (e.g., employer paycheques and monthly government cheques) can often be transferred directly into your bank account instead of being issued in a cheque format, which has to be manually deposited by you.
- **Pre-authorize your bill payments.** Although not everyone is a fan of this tip, it can save you considerable time.
- **Get a pre-authorized contribution (PAC) plan.** One of the best ways to create wealth is to “pay yourself first.” Setting up a PAC plan is good for annual RRSP and RESP contributions, stock savings plan contributions, etc.
- **Consider e-statements.** When offered or available, you may want to consider moving from paper statements to electronic statements to reduce paperwork. Some financial institutions, utilities, and phone and cable companies offer this feature.
- **Get a Family Snapshot prepared.** As discussed in To-do #8.
- **Keep a binder with all your financial documents.** This would include things like financial statements, tax slips, your Family Snapshot summary and opportunities report, retirement projection, Will and POA. Keep these in a safe place.

Successful people tend to work off to-do lists with a strong determination to complete each item on the list. Do yourself a favour and sit down with your advisor to go through this list with a commitment to completing all 10 items by the end of 2011.



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