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Life events: Growing family

Financial checklist

Estate planning, life insurance and taxes

The birth of your baby is the ideal time to review your insurance policies, your Will and Power of Attorney and how your tax situation will change. It is now even more important to ensure your loved ones are well looked after if anything should happen to you. Here are a few topics to consider helping you prepare for some of the unexpected events that can happen in life.

Life insurance

If something happened to you tomorrow, how much financial assistance would your family need to manage everyday living expenses – and for how long? Your financial advisor can help you plan out how much coverage you need and what type of coverage is best as well as recommend ways to save on your insurance costs. For example, if you and your spouse purchase policies together you can save significantly, and some plans will discount your costs by up to 15% if you pay annually instead of monthly. Remember that your premiums are lower when you're younger as statistically you're generally healthier and will likely live a long time. If you are a non-smoker you can also ask for 'preferred' rates, which may also reduce your premiums.

Disability insurance

An employer often offers about two thirds of your pre-tax employment income as part of a basic disability insurance package. In fact, according to Today's Parent magazine, a 35-year-old woman is seven times more likely to suffer long-term disability than die before she turns 65. The last thing you want to worry about if you are sick is your finances. If you do not have disability insurance through your employer it's worth asking your advisor for a recommendation.

Critical illness insurance

This is a type of insurance protection that pays you a lump sum if you are diagnosed with a serious disease like cancer, or have a stroke or heart attack. This lump sum can help cover costs of treatment or child care or household costs as you look after your health.

Update your Wills and Powers of Attorney

It is always important to keep your Will and Power of Attorney up-to-date with changes in your life – especially the birth of a new baby. When you have a legal Will, you control who receives your assets and money. Without a Will, the government decides who gets what. It's also important to name a guardian for your child in your Will. When choosing a guardian consider these issues:

- Will they be comfortable with the emotional and financial responsibilities of raising your children?
- What are their attitudes on how to bring up children – and are they very different from yours?
- How do they get along with the rest of your family, who will likely want to remain involved with your children and continue spending time with them?
- If you are thinking of a married couple, how old are they? If something happens to them, who will be the backup guardians for your children? What will happen if they divorce? It may be better to appoint one as the primary guardian.

A lawyer should be consulted when a Will is being considered. There are legal and family issues that need to be addressed if this route is taken.

RESP

One of the best ways to save for your child's future education is through a Registered Education Savings Plan (RESP). While you save, the government will kick in up to \$7,200 through the Canada Education Savings Grant (CESG). Taking advantage of this free money can go a long way to finance your child's education down the road. Putting aside even small amounts each month will translate into substantial savings later on. When your child does attend a post-secondary institute, all your contributions are passed on to them tax-free and taxes are only paid on the investment growth and grants (usually at a much lower tax rate).

Filing your tax return

According to a recent study, having kids in Canada doesn't save you much money in taxes. In 2004 couples with family incomes of \$40,000 and two kids, saved 9% in taxes because of tax implications of supporting children. However, if your income was over \$80,000 the difference was only 1% and if your family income was over \$120,000 there is no tax break for having a child.

However, there are some ways that your tax returns will change. Be sure to ask your financial advisor which tax breaks you can benefit from.

Family income splitting

On October 14, 2014 the Federal Government announced measures that would allow parents with children to spread and lessen the tax burden between them. "The Family Tax Cut Credit" provides tax relief for families that meet the following criteria:

- There is a spouse (including common-law)
- There is a child of less than 18 who resides with the taxpayer or his or her spouse
- Separated families with joint custody of a child under 18 will be able to seek tax relief after meeting specific criteria