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Ten resolutions to improve your finances in 2018

Making smarter financial decisions is one of the most popular resolutions we make at the New Year. Here are 10 things you can do to help build and protect your family's financial security in 2018.

1. Simplify your financial life

Consolidate accounts

Some people, over time, open many accounts at several different financial institutions, often 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

Make arrangements to view your financial accounts online, transfer funds and pay bills from the convenience of your computer.

Pre-authorize bill payments and electronic fund transfers

Save time and shorten your to-do list by setting up automatic bill payments online. You can also save time by setting up regular transfers from your investment account into your bank account. This saves you the extra step of cashing a cheque, and reduces worry about lost cheques or mail service delays.

Pay yourself first

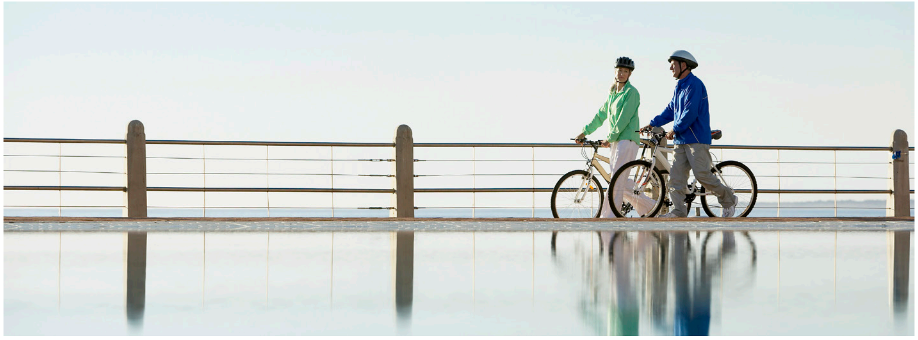
One of the best financial tips of all is to save through a Pre-Authorized Contribution (PAC) plan. You can set up a PAC plan for contributing to your Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), Registered Education Savings Plan (RESP) or stock savings plan.

Switch to eDocuments

Many financial institutions, utilities, and phone and cable companies offer this feature to reduce your paperwork and help the environment. Ask your advisor about switching to eDocuments for your RBC® accounts.

Keep a binder with all of your financial documents

This could include things like financial statements, tax slips, MyGPS™ financial planning reports, retirement projection, your Will, Power of Attorney and so on. Keep it in a safe place like a fireproof lockbox.



Consider reducing your family's overall taxes with income-splitting strategies that utilize family trusts, prescribed rate loans and Tax-Free Savings Accounts.

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, who 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. Generally, as long as the family member pays you at least the Canada Revenue Agency (CRA) prescribed rate of interest on the loan amount no later than 30 days after year-end, the investment income is taxable to them, not you, at their lower rate.

Tax-Free Savings Account

You may essentially transfer income that otherwise may have been taxable at your higher rate by gifting money to family members aged 18+ to contribute to their TFSAs. All the investment income earned in your family's TFSAs grows tax-free.

Family trust

You may be able to provide for children under the age of 18 tax-efficiently through a properly structured family trust. The capital gains earned on assets held in a family trust may be taxable to your children or grandchildren at their lower tax rate, when used for their benefit. If you loan money to the family trust at the CRA's prescribed rate, each child may potentially earn up to $10,000 interest income, $20,000 capital gains or $30,000+ of eligible Canadian dividend income tax-free annually from the trust (varies by province). Speak to a tax and/or legal advisor to determine if this strategy makes sense for you.

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 after-tax investment returns and level of risk. Everyone has an ideal asset mix based on factors such as return objectives, income needs and risk tolerance. Make sure you review your asset mix with us regularly to address changing market conditions and whenever there's a significant change in your personal situation.

- Because interest is fully taxable, consider holding more of your interest-bearing investments in your RRSP or Registered Retirement Income Fund (RRIF), where the taxes are deferred.
- Because capital gains and Canadian dividends receive preferential tax treatment, you can hold more of your equity investments outside your RRSP/RRIF.
- Hold Canadian dividend-paying investments in an individual non-registered account instead of a Canadian corporation, where dividends are generally subject to prepayment of taxes (please note that the net corporate tax rate on Canadian dividend is zero).
- Speak to an insurance advisor about sheltering surplus assets that would otherwise be exposed to your high tax rate in a tax-exempt life insurance policy.
- If you are a Canadian resident, not a U.S. citizen, green card holder, or U.S. resident, have a net worth over US US $10 million (subject to a 2018 inflation adjustment) and have considerable U.S. equity investments, speak to a cross-border tax advisor about holding individual U.S. stocks in a Canadian corporation to potentially minimize U.S. Estate Tax.

4. Use credit wisely

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 also tend to think we're better covered than we actually are. Resolve this year to make sure you are adequately covered to protect yourself and family. Speak to an insurance advisor about the type of protection that's right for your family.

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 don't procrastinate. Speak to an insurance advisor about getting a personal insurance analysis right away. It doesn't take long and you will feel peace of mind knowing that your family is protected.

Living benefits

There is a strong chance that, at some point in your life, you or a family member will face a serious illness or disability that causes financial strain. To help 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 inheritances for 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 study by LAWPRO revealed that 56% of Canadians do not have a signed Will.[1] 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.
- Don't forget the importance of having a Power of Attorney (POA, or Mandate in Quebec) for both personal care and financial affairs. For most people there is a higher probability of becoming disabled than dying before age 65[2], so having a POA is critical.
- Consider having a copy of your Will and POA in a fireproof safe, 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 may reduce the amount of probate tax payable on death in some provinces. However, joint ownership may not always be appropriate. For example, if you are in a 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 may be 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.

MyGPS™
summarizes your financial life in one document, making it simple to understand where you stand now and how you are progressing from year to year.

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 to create a charitable gift fund, also known as a "donor-advised" fund. You can start your own family charitable gift fund with an irrevocable donation of as little as $25,000, which, after the tax credits, might only cost you about $14,000 (varies by province and income). You can name your own gift fund, for example, after your family surname or a friend or family member who has passed away.

Speak to us if you want more information on how to set up your own gift fund or donate your money more tax-effectively (for instance, with stocks or gifts of insurance instead of cash).

9. Get a snapshot of your financial future with MyGPS™

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 satisfying retirement income.

MyGPS™ summarizes your financial life in one document, 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 tax, estate and retirement planning strategies specifically applicable to your family.

If you have a higher net worth and your 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 your advisor 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.

1 "Survey: More than half of Canadians do not have a signed will." Lawyers' Professional Indemnity Company. May 7, 2012. 2. Source: insureright.ca "What's the risk?".