Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Your financial to-do list

Many of us go through an annual ritual of setting 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 this year your healthiest financial year ever by focusing on the fundamentals. This article will provide you with a list of 10 financial to-do's. With the help of your RBC advisor, you can start to check off all 10 items on the list and improve your financial health.

Please contact us for more information about the topics discussed in this article.

Your financial to-do list

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

1. Make sure your Will and Power of Attorney are up-to-date.
2. Put family income-splitting structures in place to help minimize taxes.
3. Ensure you have adequate life and living benefits insurance coverage.
4. Check to see that your asset allocation is up-to-date and works to meet your investment objectives and goals.
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 RBC advisor to prepare a personalized financial review for you.
9. Ask your RBC 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 and that in some provinces marriage voids your will? For those of you with a Will, is it up to date? Does it reflect your wishes given your current family situation?

If you do have a Will, does it not only follow your wishes but also include estate and tax planning strategies which may help to minimize taxes and disharmony among family members upon death?

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. Prior

Don't forget, whenever you have a change in circumstances or wishes it is always a good idea to revisit your both your Will and POA.

to setting up this appointment it may be helpful to pull together a list of your assets including any current beneficiary designations on registered assets. For clients with more complex estates, we offer complimentary consultations with our own Will and Estate Consultants, 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 underestimate the importance of having a Power of Attorney (POA), or Mandate in Quebec, for both medical and financial affairs. These documents are crucial in the event you become incapacitated and require the help of another to manage your affairs.

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

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2. Help minimize taxes by putting family income-splitting structures in place

Family income splitting is a fundamental principle of tax planning in Canada, but many Canadians are not taking advantage of simple income-splitting opportunities that are acknowledged by the Canada Revenue Agency (CRA) and available to them.

If you have a low-income spouse or low-income children or grandchildren, then now is a great time to consider setting up a prescribed rate loan for income splitting. Currently, the CRA prescribed rate is at an all-time low which increases the tax efficiency of either a spousal loan strategy or a prescribed rate loan family trust strategy. Implementing one of these strategies successfully may shift the taxation of investment income from high-income earners to lower-income earners.

Consider setting up Tax-Free Savings Accounts (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). You can essentially gift money that otherwise may have been taxable at your high rate to a family member to contribute to their own TFSA account. Since all the investment income in the TFSA grows tax-free, there will be no income attribution, regardless of who funded the account.

3. Ensure you have adequate life and living benefits insurance coverage

"Are you confident that if you died, became ill or disabled, you or your family would have adequate assets and income to maintain your standard of living?" If the answer is "No" or "I don't know," speak to your life-insurance licensed representative about obtaining an insurance analysis to determine if your current insurance is adequate or if you require additional / new coverage. Give yourself and your family the peace of mind by taking immediate action today to help secure your family's financial future in the event of an unforeseen occurrence.

Traditionally, we view life and living benefits insurance as a means to replace lost income or to provide money for final expenses like a funeral. If you answered "yes" to the question above, have you considered that permanent life insurance may be valuable as a financial planning tool in other ways? This is especially true for families with more complex financial needs as life insurance may also be used to protect the value of your estate from taxes.

At death, your assets often trigger significant tax obligations, which are frequently met by liquidating the assets of your estate. A life insurance benefit can help cover your tax obligations and leave your estate intact. If you own substantial assets that you want to protect from taxes, tax-exempt permanent insurance can help preserve the value for your beneficiaries. Under the federal Income Tax Act, assets accumulate within a tax-exempt life insurance contract free of annual accrual taxation. When you pass away, any proceeds of the policy are distributed to your beneficiaries on a tax-free basis outside the scope of your estate, bypassing its associated costs. Speak to your life-insurance licensed representative about how a tax-exempt permanent life insurance policy may help you.

At death, your assets often trigger significant tax obligations, which are frequently met by liquidating the assets of your estate. A life insurance benefit can help cover your tax obligations and leave your estate intact.

Insurance can also serve many other purposes for business owners, such as helping to pay for a potentially significant tax liability related to the deemed disposition of business shares at death without having the estate liquidate other assets, 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.

Many understand the value of life insurance yet very few people consider the financial repercussions of recovering from a serious accident, illness or requiring long term care. You may be left without regular income and your savings can be depleted. The good news is that, more so than ever, advances in medical science make it possible to survive an injury or illness and resume a meaningful lifestyle. Living benefits provide you with a benefit if you are unable to work, have to pay additional recuperative costs due to your medical condition or are unable to care for yourself.

We all have insurance coverage to protect our most valued assets from fire and theft. And yet if you were to add up the value of everything you have insured, the figure would likely pale in comparison to the value of your single biggest asset – your ability to earn an income. Disability insurance replaces a portion of your income if sickness or injury keeps you at home for a sustained period of time and you are unable to work at your occupation. Critical illness insurance provides a lump sum of money once an individual has been diagnosed with and survived one of a predetermined number of illnesses. Long term care insurance provides the necessary funds to pay for additional health care once you are no longer able to care for yourself.

Living benefits provide you the security of knowing your portfolio will stay intact, and that, no matter your physical condition, you will be comfortable in your retirement years. To ensure that you, your family and your savings are financially protected against disability or illness, speak to your life-insurance licensed representative about these types of insurance.

4. Ensure your asset allocation is up-to-date and works to meet your investment objectives and goals

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 RBC advisor about getting an asset allocation analysis to see where you stand today and if any changes need to be made.

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In addition to reviewing your asset allocation, to the extent tax efficiency is an objective review the tax efficiency of your investments and their place within your registered and non-registered accounts. Remember the saying, "It's not what you make. It's what you keep." To help 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; these types of investment are taxed at higher rates than dividends or capital gains.
- Hold capital gains and Canadian dividend paying investments primarily outside your RRSP/RRIF to take advantage of their preferential tax treatment;
- 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 RBC advisor for more information;
- Incorporating permanent life insurance such as whole life or universal life into your overall wealth management plan may allow you to use insurance as a tax-exempt investment vehicle while also providing the financial protection your family may need 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.).
- When investing in international equities determine if it makes sense to allocate them efficiently within your registered accounts. For example, U.S. equities are not subject to withholding tax when held in an RRSP, but are when held in a TFSA. As you cannot claim a foreign tax credit for withholding tax paid in your TFSA this may erode your return over time.

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

List all your accounts, including any employer accounts such as an employer pension plan, group RRSP or stock savings plan. For each account, ask yourself 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 minimization. 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. It is important to review your accounts and assess whether joint ownership is appropriate based on your estate distribution intentions. Also, this strategy may be undesirable as the joint owner has the ability to potentially deal with the assets without your knowledge.

The appropriateness of your account structures and beneficiary designations depends on how you intend to have your estate distributed and how your Will is structured.

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? Have you designated any minor beneficiaries? 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 incurred. In Quebec, RRSP, RRIF & TFSA beneficiary designations are generally not allowed to be made directly in the plan documentation and must be made through the will. When naming minor beneficiaries there are numerous issues to be considered if they inherit the assets prior to reaching the age of majority. Generally, funds left outright to a minor cannot be paid directly to the minor child as they don't have the legal capacity to receive the funds and discharge the executor of their responsibilities.

The appropriateness of your account structures and beneficiary designations depends 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.

If you have debt, is the interest on the debt tax-deductible? If not, then speak to your RBC 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.

7. Give back — donate your money and time

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. Depending on your goals, you may also want to give back to those less fortunate than you by donating your money and/or time through volunteer work if you are not already doing so.

An opportunity to take your charitable giving to the next level and get your entire family involved in philanthropy could be by creating a charitable foundation. You can start your own family charitable foundation for as little as $25,000 by way of an irrevocable donation, which, after the tax credits, will actually only cost you about $13,000 (varies by province). You can name your own foundation something that is important to you. Speak to your RBC advisor if you want more information on setting up a foundation, or on how to donate your money more tax effectively, such as with stock or insurance instead of cash.

8. Ask your RBC advisor to prepare a personalized financial review

In today's world of information overload, it's refreshing to get information in an easy-to-read and simple format. A personalized financial review can help you to see the big picture and outline your family tree, financial goals, net worth, cash flow needs, estate,

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

insurance, retirement and other pertinent information.

Speak to your RBC advisor about producing a review for you during your next meeting. This summary puts your financial life on paper, making it simple for you to quickly identify where you stand today. This can be combined with annual updates, to determine how you are progressing from year to year.

Once the review has been completed by your RBC advisor, it can also provide some tax, estate and retirement planning strategies specifically applicable to your family situation. It will work to ensure you have considered strategies which minimize tax, maximize your estate, provide for retirement and create a legacy. Should you own a business, your RBC advisor can also work with you on Business Succession planning which will aide you in identifying key planning strategies for a time when you will transition away from your business.

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

"Will I have enough income and savings when I retire so I can live comfortably?" This question keeps many Canadians awake at night. 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 RBC advisor about preparing a simple retirement projection 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.

If your situation is relatively 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 RBC 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, it is important to not lose sight of the benefits. By getting your financial life in order, you give yourself the opportunity to help preserve and maximize your wealth. In, keeping your finances simple you could save both time and money.

- **Consolidate your finances**. Many people have, over time, opened several accounts at various financial institutions to chase the highest interest rates or to diversify. 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 reputable financial institution. Ensure this advisor can offer you a wide array of solutions at a competitive fee structure and who offers you personalized expert advice and planning to meet your financial and life goals.

- **Bank online.** Banking online allows you to view your financial accounts, Successful people tend to work off to-do lists with a strong determination to complete each item on the list.

transfer funds, add to savings and pay bills at your fingertips.

- **Pre-authorize your bill payments.** Although not everyone is a fan of this tip, it can save you considerable time and will ensure that your bills are paid when due helping to maintain and strengthen your credit score.
- **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. It is also a great way to control your lifestyle spending and ensure that you are setting aside funds for the future.
- **Get a Personalized Financial Review prepared.** As discussed in To-do #8.
- **Keep a binder with all your financial documents & relevant contact people.** This would include things like financial statements, tax slips, your Financial Assessment report, retirement projection, insurance policies, Will and POA. Keep these in a safe place. This will help you to stay organized and your family members should they need information in the event of emergency.

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 RBC advisor to go through this list with a commitment to completing all 10 items by the end of the year.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

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