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Money Ideas

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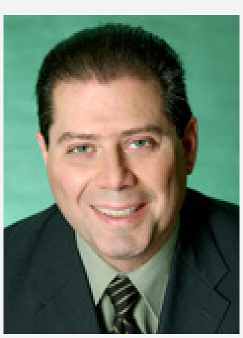
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5 signs it may be time for a financial review

To keep your financial affairs in order, you need to review them anytime there's a significant change in your life. Any of these developments should trigger a review.

1. Job changes

A new job with higher pay may mean you should review your insurance coverage for income replacement and the contributions you're able to make to your investment portfolio. A decrease in pay, or losing your job, may require some short-term planning and budgeting.

2. Changes in marital status

When you get married, you'll probably want to review your will, as well as your insurance policies, pension plan, and Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). The same applies if your marriage ends because of separation, divorce, or death. Getting married also means there may be spousal tax-saving strategies you can now use.

3. Major life events

Having a child means new responsibilities and new expenses — definite signals that you need to review your whole financial set-up, especially your insurance needs. Other major life changes include buying a home, starting your own business, retiring, or becoming disabled.

4. Economic changes

If the economy is heading for a shift, for example, a recession, you need to be prepared. A review is in order, including your investment and retirement plans.

5. A shift in your investor profile

As you get older, you may need to take a more conservative approach to investing. It's important to review your investment plan regularly to make sure it's appropriate for the type of investor you are today, not the investor you were five years ago. ◂

A complete picture helps you make better choices

Your investment plan is an important part of your plan for financial success and well-being. It's not the only element, however, and by making sure that all the parts of your personal financial situation work together, you can enhance the value and power of each.

Here's a look at the potential benefits of a "big-picture" approach.

Minimize tax. Are you holding your investments in the most tax-efficient manner? For example, the interest income generated by investments held outside a registered plan is fully taxable at your marginal rate. Inside a registered plan, it's tax-deferred. Repositioning your holdings may save you hundreds or even thousands of dollars in tax every year.

Tax rules can be complex, of course. Professional assistance can help you explore the possibilities and avoid the potential tax traps.

Optimize RRSPs. People often have more than one Registered Retirement Savings Plan (RRSP). Perhaps they've dealt with several companies in the past, or have forgotten about small plans opened long ago. Others may have opened separate RRSPs to access different kinds of investment offerings.

Maintaining separate accounts can result in investment gaps and duplication. Consolidating your RRSPs may make them easier to manage and improve your asset allocation. You might also save money on administration fees.

Coordinate pensions, RRSPs, and TFSAs. People often make RRSP investments without considering their employer-sponsored pension plans. Yet when RRSPs and pensions work together, the result can be a larger nest egg to meet your retirement needs. If you are using your Tax-Free Savings Account (TFSA) to save for retirement as well, then consider coordinating all three for maximum benefit.

Also factor all your plans into your personal asset allocation. A defined contribution plan in which you make investment choices can be fully coordinated with your RRSP and TFSA. A defined benefit plan with a guaranteed payout can be considered in a similar way to a fixed income asset, so your other investment plans could be more aggressive than they might otherwise.

Consider your mortgage. Finding the best rates and features when taking out or renewing a mortgage can reduce your long-term interest costs substantially and cut years off your mortgage. Paying down your mortgage early frees up additional cash for investment elsewhere.

Consider automatic investing. "Pay yourself first" is a key principle of long-term financial success, but finding the money to invest can be hard. You can set up regular monthly or quarterly contributions to your RRSP, TFSA or non-registered accounts. Even a small amount each month can make a big difference over time and chances are you'll hardly miss the money.

Professional advice can help you on the way to financial success, but get the full benefit from examining your full financial picture. ◂

A checklist to optimize your finances

Here are seven reminders to help you stay up to date:

1. **Check your estate plan.** Ensure that you have an up-to-date will, power of attorney, and living will.
2. **Review unused contributions for registered plans.** If you haven't contributed the maximum amount to your RRSP or TFSA in past years, the unused amount can be carried forward.
3. **Examine your debts.** Paying down debt is a great way to improve your finances. Are you prioritizing high-interest debts like credit cards?
4. **Revisit your investment plan.** Are you on track to meet your goals? Are you comfortable taking on more risk to achieve greater returns? If you are more conservative, you may need to boost your contributions.
5. **Review your pension and insurance benefits at work.** Look for overlaps with personal plans and your spouse's employment benefits.
6. **Pay down debts that are not tax-deductible.** Make the most of this strategy by investing the interest you save.
7. **Pay yourself first** — particularly if you're behind in your investment plan. One of the best ways to pay yourself first is to have investment contributions automatically withdrawn from your bank account at regular intervals.

This year's higher limit just one great reason to revisit TFSAs

Canadians love Tax-Free Savings Accounts (TFSAs). And no wonder — with tax-free earnings and tax-free withdrawals, what's not to like? And this year, there's even more to like: the annual contribution limit for 2019 rises to $6,000, up from $5,500 last year.

So, if you've never contributed, haven't contributed in a while, or if you have contribution room to spare, now is a great time to reacquaint yourself with this flexible savings and investment vehicle.

Despite its name, a TFSA is not actually a savings account — it is an investment account, with restrictions on how much money you can put in and take out. The account can hold a wide variety of investments, including all types of mutual funds.

The big attraction of TFSAs as a savings tool is that money placed in a TFSA will never be taxed, regardless of how much of a return it earns, making it a powerful way to meet financial goals, be they short-term ones like saving for a vacation or a down payment on a home, or long-term ones like saving for your retirement.

However, unlike Registered Retirement Savings Plans (RRSPs), contributions to a TFSA are not tax-deductible.

There are limits on annual contributions and these have fluctuated over the years (see chart this page). The good news here is that contribution limits "roll over" or accumulate, meaning that if you never contributed before (and were at least 18 years of age in 2009), you could put up to $63,500 in right now. There are penalties for over-contributions, so it's worthwhile to keep track of your totals.

There are also rules regarding withdrawals: you can withdraw any amount at any time — and with no tax implications. You can even re-contribute the amount you withdrew, but you must wait at least until the following calendar year. If making a re-contribution, make sure you're following this rule or you may face penalties.

Which funds are right?

How do you use TFSAs effectively to meeting your financial and savings goals? That really depends on your personal goals and time horizon.

For instance, if saving for a short-term goal, you may want to choose funds like cash-equivalent or income funds that are highly liquid and have low volatility so you can get your money when you need it. You may also want investments focussed on capital preservation, as you may not have time to recover from any downturn in the markets. Balanced funds may offer a little extra growth potential while minimizing risk.

If using a TFSA as part of your retirement savings regime, it's beneficial to coordinate your investments across both your TFSA and RRSP (and potentially any pensions) to maximize the tax planning available. Remember that while the investments returns in both accounts grow free of tax while in the account, a withdrawal from an RRSP will be treated as income for tax purposes.

If you are a long way from retirement, your longer time horizon could favour growth-oriented funds like equity funds that offer greater potential and will grow tax free inside your TFSA.

Clearly, TFSAs are a simple and powerful way to make the most of your savings. With some professional advice and investment planning, they can also be an important part of building your financial success over the short and long term. ◂

Got TFSA room? This chart could show you how much

Do you remember how much you have contributed to your TFSA in past years? Or, how much contribution room you still have? It may be more than you think. This chart will help, as it shows the contribution limits since the account's introduction in 2009. Keep in mind that if you have withdrawn from your TFSA and/or recontributed, your calculation may be more complex.

Tax-Free Savings Account Annual and Cumulative Limits, 2009-2019

Year	Annual Limit	Cumulative Limit
2009	$5,000	$5,000
2010	$5,000	$10,000
2011	$5,000	$15,000
2012	$5,000	$20,000
2013	$5,500	$25,500
2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500
2017	$5,500	$52,000
2018	$5,500	$57,500
2019	$6,000	$63,500

Source: Government of Canada, 2019.

Tailor a retirement savings plan for each stage of life

In a study last year[1], over half of Canadians (53%) aren't sure they are saving enough for retirement. Among those on the cusp of retirement (aged 55+) only 14% had a formal retirement plan and were saving regularly to meet their retirement goals.[1]

Perhaps it's something you've worried about, too. Or if you're younger, perhaps you're wondering if you should be worrying.

What's the best way to feel confident about achieving your retirement goals? Whether you're 30 years from retirement or three, a diversified, well-managed portfolio of funds can help provide the mix of savings, income, and growth you need, as these examples show.

The building years

"Go for growth" is likely to be your investing mantra at this stage of life. Thanks to kids, mortgages, and a propensity for accumulation, these years tend to be typified more by spending than saving. However, time is totally on your side. With a long investment horizon, you can focus on growth-oriented equity mutual funds, knowing that you'll have plenty of time to ride out any temporary market downturns. You'll also benefit the most from compound investment growth.

Whatever else is going on at this busy stage of life, consider beefing up your holdings with funds that have the best potential for long-term capital appreciation. Because building your nest egg is your primary objective, you'll need to ensure that you have an optimal cross-section of domestic and international equity funds. We might also want to investigate country- and sector-specific funds to enhance diversification and to capitalize on specific opportunities, currencies, or economies.

Peak earning years

At this stage in your life, you may be mortgage-free (or close to it) and be earning the highest salary of your career. Your children have left home and are independent. With more income and fewer expenses, these are typically your biggest earning years and (not coincidentally) your biggest tax-paying years.

For most people at this stage, there is still lots of time for the growth potential of equity funds. That said, it's a good idea to investigate funds that can also minimize your tax bill. Corporate class mutual funds, for example, offer all the investment choices you want with the added benefits of tax-efficient distributions and easy, tax-smart asset re-allocation within the fund family.

It goes without saying that this is also the time for us to make doubly sure you're taking full advantage of tax-advantaged accounts, including Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).

Pre-retirement years

With retirement on the horizon, this is the stage when we want to start gradually shifting your fund portfolio away from capital appreciation and towards capital preservation and income generation. In the same way that dollar-cost-averaging (buying in small increments on a regular basis over time) is a smart way to acquire mutual funds, it's an equally smart way to transition out of them.

Now may be the time to use this approach to start moving into the funds that will provide your retirement income stream. This doesn't mean selling off all your growth-oriented funds. But by starting well in advance, you can enjoy the luxury of slowly rebalancing. Even if your anticipated retirement is 10 years away (or more), let's talk about what's next and set up the steps we'll need to implement your plans.

Tailored for you

Whatever life stage you're in, it's important to ensure that your portfolio is within your own tolerance for risk so you can sleep at night. Remember that we're here to help. Professional advice can help you clarify your short-, medium- and long-term goals and craft a mutual fund portfolio to help you reach your financial objectives. Over time, as your life evolves, we can make sure your portfolio stays aligned to your changing needs and objectives.

Sources: [1] The 2018 Retirement Savings Poll, Angus Reid Forum, January 2018.

A Portfolio for a Lifetime of Investing

Building Years	Peak Earning Years	Pre-Retirement Years
GROWTH	GROWTH	BALANCE
Consider: Regular Investment Plan	Consider: Tax-Smart Investing	Consider: Income Planning

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