The 5 Point Agenda for Financial Planning Reviews

By Corry Collins CLU CHFC CHS

True financial planning actually covers hundreds of aspects of your life. It is rare that you and a financial planner will sit down and cover everything all at once. This is why financial planning can be referred to as a process rather than an event.

It's the Swiss cheese approach that often works well. You know that the entire block of cheese is going to be eaten, however we tend to nibble away at the block until the entire block is consumed, and hence it looks like a block of Swiss cheese.

Once a basic plan is put in place we later review the plan with a client (6 months to 1 year later) to see what has changed. We modify where needed and update if required. Many changes are needed based on the fluid nature of the client's financial position in life. There is also the need to review because of outside factors. The 5 point agenda refers to outside changes that may cause influence. In my 2014 reviews the five points to add to the conversation are the following…

1. Revenue Canada is making changes to the rules on the Maximum Tax Accumulation Reserve (MTAR) line inside cash value life insurance policies. Revenue Canada insists that now people are living longer it is reasonable to change the life expectancy table on which life premiums are based. Since individuals are living longer, the reserves in a policy when combined with the new life expectancy tables will no longer be the same as in the past. The change is not expected to affect new policies until January 2015. It should also be noted that the life insurance industry does not know exactly what will happen, however when Revenue Canada says they are going to change something, they keep their promises. Old polices are generally "grandfathered" and if so, will not be effected by the new rules. The opportunity is to buy a whole life policy prior to the change to capture the current structure. Life policies will still be investment grade and tax sheltering of dollars advantage. Suffice to say pre 2015 polices will have a greater advantage.

2. A tax Free Savings Account is a savings account where ALL growth and earnings will grow without tax. If you look at your income tax return and see that you have received a T5 slip that shows growth, this is a sign that you could have taken advantage of a TFSA. No tax is free money in today's world. You can still be as risky or as safe as you wish to be. Paying no tax just increases your return. The advantage can be long term or short term, depending on your objective for the savings. Those looking for a augment to retirement can benefit from a TFSA. Those who might be looking to save money for a down payment for a home might also be wise to use a TFSA. The longer the time horizon, the greater the advantage, and the broader the investment choice.

3. The amount of disability insurance you own should be based on your income earned. The amount of coverage is limited to what is referred to as a "participation and Limits" chart. Generally the higher the income, the lower % of your income is covered. This creates a gap between pre-disability income and the disability benefit. For example if your net income was $52,000 your disability income would be $3,050 or as a percentage, 70% of your income.

Corry Collins, CLU CHFC CHS, is a financial planner and Partner with Maritime Wealth Management based in Halifax NS, Canada. Collins is also a life and qualifying member of the Million Dollar Round Table.

2579 Windsor St. Halifax NS B3K 5C4
902-444-7000
corry@maritimewealth.com

If your income were $150,000 your disability income would be $6,775 or as a percentage, 54%. And finally, if your income were $300,000, your disability income would be $10,675 or 42.7% of your income. The Gap gets larger as your income increases. Since your life style is generally based on your entire income, this gap creates a problem. There are several solutions depending on your financial picture. Adding a lump sum critical illness plan would be helpful. Adding business overhead is advisable if applicable to your business.

4. You most likely have a beneficiary listed on your RRSP. Yet do you know where your RRSP money goes in the event you die before age 72? Even with a named beneficiary, if you own a mutual fund, your RRSP proceeds are paid into your estate first. In Canada we do not have estate tax however we do have fees for probate, lawyers and executors at death. If your RRSP is in a segregated fund, the beneficiary receives the money directly from the insurance company. Therefor the potential problems can be avoided by using segregated funds for this purpose. There is a cost involved in the management of the funds, however the benefit can be worth it.

5. The cost of a long term care facility is often considered to be a problem for seniors. Look in any newspaper and you will find articles written on the very same problem. Cost! This is not just a seinor problem either. The development of an unexpected debilitating illness or an accident could result in the need for around-the-clock care for a person of any age. If you require care, an income test is applied. Payments for LTC will reduce your spouse's income. This should be considered in financial planning.

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