FAMILY WEALTH ADVISORY BY WELCH LLP

BUILDING WEALTH ACROSS THE DECADES

THE AUTHOR

Hello. My name is Micheal Burch, and I am a Senior Advisor to Welch LLP's Family Wealth Advisory Group.

My career initially began with a concentration in all areas of taxation – corporate and personal. This expertise was subsequently augmented with my extensive exposure to financial and estate planning, as well as cross-border consulting.

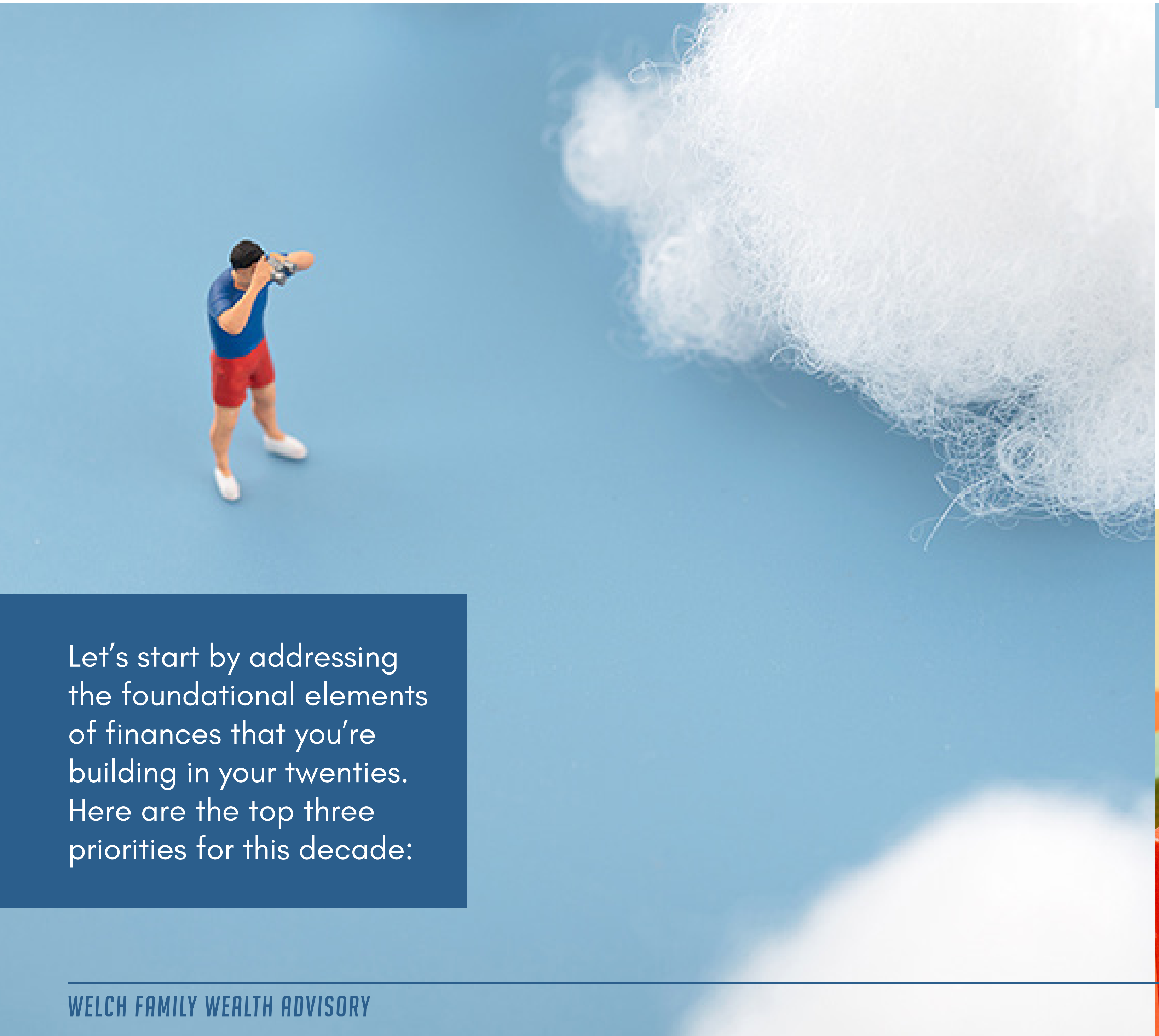
In my current role, I am often asked questions relating to aspects of personal financial planning. These questions are varied, covering a broad range of topics such as tax planning, investment strategy, retirement planning, risk assessment, among others.

These questions prompted me to create this guide.

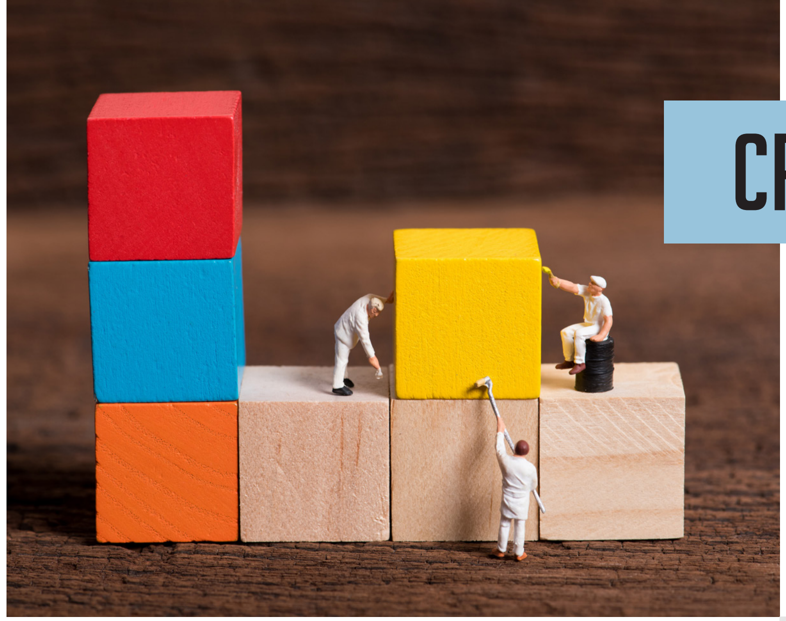
Its purpose is to tackle the most common issues as they present themselves at specific stages throughout our lives.

BUILDING WEALTH IN YOUR 20s

Your twenties are a time in life when you are building your career, establishing your financial independence, and creating the habits for long-term financial stability.



Let's start by addressing the foundational elements of finances that you're building in your twenties. Here are the top three priorities for this decade:



CREATE A BUDGET

A budget is a plan for how you'll allocate your income to cover your expenses, save for the future, and pay off any debts you may have. Creating a budget helps you keep track of your spending and ensures that you're living within your means. It's important to be honest with yourself about your income and expenses and to adjust your spending as needed.

SET KEY FINANCIAL GOALS

In the absence of a full-blown budget, it is important to concentrate on two key areas:

1. Pay down debt as quickly as possible (not to mention avoid unnecessary debt); and
2. Save 5-10% of each of your pay cheques before it becomes part of your general cash flow.

These savings serve two purposes: they can start your nest egg for retirement and act as your emergency fund if something unexpected arises. The earlier savings begin, the more time your money will grow through compound interest.

UNDERSTAND YOUR RISK

If you have started a family at this stage, you must ensure that they will be well taken care of if you or your spouse are unable to work for any reason. You should undertake an insurance/risk assessment.

This assessment will take a close look at your current and long term cash flow needs in the event of a life changing event. It should provide a framework for you to ensure you and your family will have the funds necessary to see you through your down time. It will likely include a combination of Life Insurance, Disability Insurance, and perhaps Critical Illness Insurance.

BUILDING WEALTH IN YOUR 30s

Personal financial planning is important at every stage of life, but it may be more critical in your 30s. At this stage, you might have a growing family, a house, a mortgage, and various other financial obligations and responsibilities.

A big question I hear from people in their thirties is: "should I invest in my Tax-Free Savings Account (TFSA) or should I pay down my mortgage?"

WHAT IS A TFSA?

By way of background, a TFSA is a tax-sheltered account that allows you to save and invest money without paying taxes on any investment gains.

It is worth noting that unlike a Registered Retirement Savings Plan (RRSP), your TFSA contributions are not tax deductible.

In 2023, the annual contribution limit for a TFSA is $6,500 (previously $6,000), and any unused contribution room can be carried forward to future years.

INVESTING IN YOUR TFSA

Investing in your TFSA should be a great way to grow your savings and earn tax-free investment income. Once you have contributed funds to your TFSA it is important to effectively invest these funds. By investing in a diversified portfolio of stocks, bonds, and other securities, you may earn a higher rate of return.

This tax-free rate of return can be compared to the interest saved from paying down your mortgage. Historically the spread has been significant. This was especially true if you have a mid to long-term horizon for your investments. The benefit of this strategy must be looked at within the current interest rate environment.

PAYING DOWN YOUR MORTGAGE

Paying down your mortgage is also a smart financial move in your 30s and beyond. By making extra payments towards your mortgage principal, you can reduce the amount of interest you'll pay over the life of your mortgage and potentially pay off your mortgage sooner.

CONSIDER THIS: if you have high-interest debt or other financial obligations, it may be wise to pay down your debt before investing in your TFSA. On the other hand, if you have a low-interest mortgage and a long-time horizon for your investments, investing in your TFSA may offer higher returns.

It's important to consider your risk tolerance, investment objectives, and overall financial plan when making this decision. It is always beneficial to speak with a financial advisor who can provide personalized advice based on your unique situation.

It should be pointed out that the same analysis can be undertaken when it comes to a decision between your mortgage and your RRSP.

In conclusion, both investing in your TFSA and paying down your mortgage can be smart financial moves for Canadians in their 30s. By weighing the pros and cons of each option and considering your personal financial situation, your risk tolerance level, the current rate of your mortgage, and the returns you can expect from your investments, you can make an informed decision that aligns with your financial goals.

BUILDING WEALTH IN YOUR 40s

In your 20s, it's important to prioritize building an emergency fund and paying off any high-interest debt. In your 30s, many Canadians shift their focus to building their savings, buying a home, and paying down their mortgage. In your 40s, priorities may shift again towards saving for your children's education and maximizing your retirement savings.

EDUCATION SAVINGS

If you have, or plan on having children, it is advisable to start saving for your children's education as early as possible. The Registered Education Savings Plan is a wonderful tool to facilitate this saving.

At this stage, you should be doing everything you can to maximize this account. I find the best approach is determine the amount you can afford each month and simply start an automatic withdrawal program for this amount. You can re-evaluate your amount annually. The key is to start young and be consistent.

RETIREMENT INVESTMENTS

Start taking steps to maximize your retirement savings once you are in your 40s. This should include contributing the maximum you can afford to a Registered Retirement Savings Plan (RRSP) or an employer-sponsored pension plan.

The funds and time horizon you have available will dictate the level of risk you may need to take to generate the pool of retirement funds you require. Your rate of return requirement will depend on your situation, and when you started saving for your retirement. If you were to begin saving in your 40s instead of your 20s, you have a shorter time horizon for your retirement savings to grow. As such, you may want to consider investing in medium or higher risk plans to build enough funds to reach your retirement goals.

MANAGING DEBT

Striking a balance between saving for retirement and managing debt is crucial in your 40s. While it's essential to save for your retirement and the education of your children, it's also crucial to pay down high-interest debt, such as credit card debt or personal loans.

This can be a real balancing act that is often dependent on the tax situation you are in and the related interest costs associated with the debt and the rate of return on your savings. The current spike in interest rates provides a good reminder to review these components as part of your plan.

ESTATE PLANNING

At each stage it is important to have a valid and up-to-date will. Creating a bona fide estate plan becomes more important in your 40s, especially if you have children.

You should consider updating your will, naming a power of attorney, and establishing a process to protect your assets and your future earning capacity. This will ensure that your family is provided for in the event of your death.

As you enter your 40s, you face a unique set of financial challenges and priorities. While the focus on retirement savings remains, this must be balanced with paying for your children's education and managing your debt. Additionally, estate planning also becomes increasingly important at this stage of life. By creating a personalized financial plan and seeking advice from a financial advisor, you can ensure you are on track to achieve your financial goals.

BUILDING WEALTH IN YOUR 50s

ESTATE PLANNING DOCUMENTS

Finally, it is critical to have another look at your Will and other "estate planning" documents you have in place. This will ensure that your assets are distributed according to your wishes. Proper estate planning is essential when it comes to tax minimization and other costs associated with transferring your assets to your heirs. As we age, it is important to review our wills more often and to adjust accordingly.

Over the course of your fifties, continue to build on the financial planning activities you started in your earlier years.

As you enter this decade, your main attention should shift to retirement planning.

As retirement approaches, it is crucial to ensure you have enough savings to maintain your desired lifestyle. This includes assessing your pension, investments, and other retirement income sources to determine if they will provide enough funds for your retirement needs.

BUDGETING FOR FUTURE EXPENSES

As you budget for your future expenditures, keep in mind potential long-term care expenses. Long-term care expenses can be substantial, particularly as you age. This might include, but is not limited to, the cost of house renovations to accommodate loss of mobility, the cost of in-home medical and/or personal care assistance, the potential cost of a retirement home that can accommodate future health and mobility issues. Many people do not consider these costs until they are needed, at which point it is too late to save money to afford them. It's important to plan for potential costs associated with long-term care and other related expenditures so that you are prepared for anything that comes your way in the later stages of your life.

CONSIDER COSTS

This is also an ideal time to consider any additional costs that may not be a necessity but instead represent amounts that are important to you. For instance, assisting your children with their wedding expenses, assisting your children with a home purchase, or assisting your parents with the costs of their long-term care if they are not adequately prepared. These are all items you should try to factor into your long-term cash flow planning.

OUTSTANDING DEBT

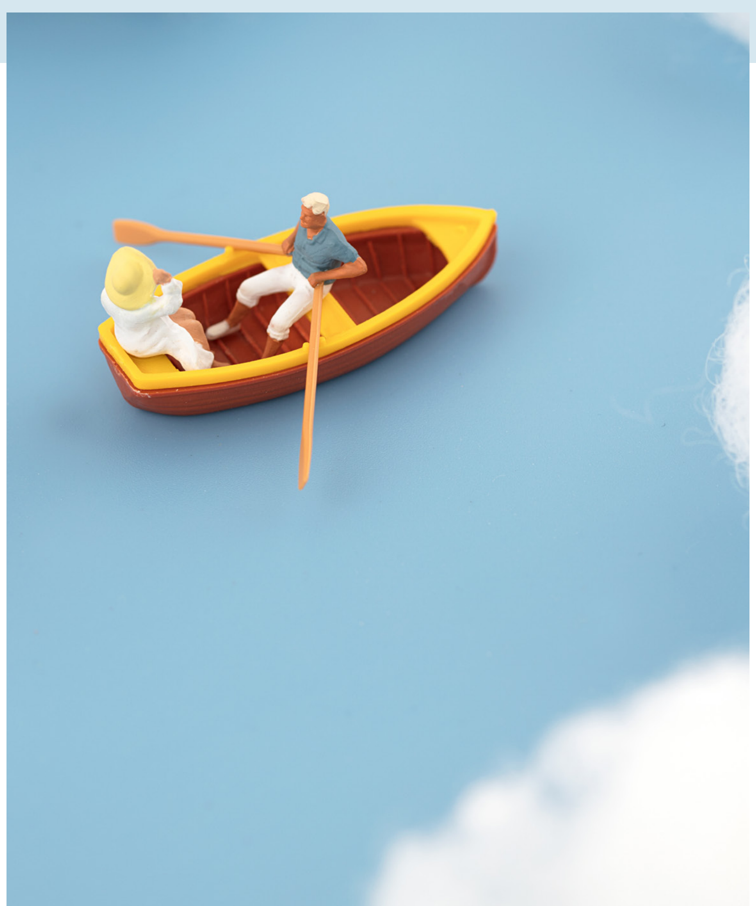
At this stage, hopefully you have figured out how to manage your debt. In your 50s, it becomes more important to pay off any outstanding debts, such as a mortgage or credit card debt. Reducing your debt burden as soon as you are able will help you build a more secure financial future. One of the keys to managing debt is budgeting and tracking your expenditures.

ACCESSING YOUR RETIREMENT INCOME

A subset of this planning is the tax considerations associated with your various sources of retirement income and the best way to draw them down. This is a cornerstone of effective personal financial planning. It is important to understand your post-retirement financial goals, such as purchasing a second home or leaving a legacy for your children, grandchildren, or charity of choice. Proper planning can help guide your financial decisions and ensure that you are on track to achieve your post-retirement goals.

BUILDING WEALTH IN YOUR 60s & BEYOND

As you enter your sixties and beyond, it is essential to stay the course on the financial planning strategies you put in place in earlier years. At this stage, your main attention should shift toward retirement spending and cash flow management. It is crucial to review your savings and investments to ensure you can maintain your desired lifestyle during retirement. This involves a careful assessment of your pension, investments, and other retirement income sources to determine how they can support your retirement needs.



When transitioning into retirement, or if you are already there, evaluating your sources of income is crucial. This may include government benefits, employer pension, registered retirement income funds (RRIFs), or annuities and your Tax-Free Savings Account (TFSA). If you have been managing your financial affairs on your own, it is an excellent time to engage a professional to assess your retirement readiness independently. This review can also help you identify the most tax effective strategies to access your various sources of cash.

1. HEALTH CARE COSTS

As you age, your health care needs may increase, so it is important to regularly review your health insurance coverage. Consider supplemental health care plans, travel insurance, and long-term care insurance to protect yourself against unexpected health care expenses. This will help ensure that you will continue to have the coverage you need.

2. ESTATE PLANNING

It is important to review and update your estate plan regularly. This includes updating your will, setting up trusts, and designating beneficiaries on your retirement and investment accounts. By taking these steps, you can ensure that your loved ones are cared for, and any assets are distributed according to your wishes.

3. TAX PLANNING

As noted previously, you may have multiple sources of income during retirement, which will impact your tax situation. As a result, tax planning becomes crucial to take advantage of tax credits, deductions, and allowances. Additionally, tax planning is critical for estate planning to determine the most tax efficient means of transferring your assets to your beneficiaries.

4. ASSET ALLOCATION

As you progress through retirement, it is necessary to adjust your portfolio and consider investing in more conservative assets such as fixed-income investments or annuities to ensure financial stability in retirement. By adjusting your asset allocation, you can manage risk and ensure that your portfolio aligns with your retirement goals and risk tolerance.

5. SPENDING HABITS

Managing your spending habits is an essential aspect of retirement planning. It is important to regularly assess your expenses and make necessary adjustments to avoid overspending. By living within your means, creating a budget, and managing expenses, you can effectively manage your retirement savings and maintain financial stability throughout retirement.

Overall, building and managing wealth during your sixties and beyond requires careful planning and attention to various financial priorities. By focusing on the key fundamentals of retirement income, health care costs, estate planning, tax planning, asset allocation, and spending habits, you can achieve financial security in retirement.