Money Ideas

Spring 2022

David K. Lord, P.Eng.
Financial Advisor

Frank Trolio
Certified Financial Planner

ExcelPlan Financial

ExcelPlan Financial
Investia Financial Services Inc.
440 Elizabeth Street, Suite 300
Burlington, ON L7R 2M1

Telephone: (905) 639-8008
Toll-Free: (800) 461-2862
Fax: (905) 639-2268
E-mail: dklord@excelplan.ca
E-mail: ftrolio@excelplan.ca

MUTUAL FUNDS

Does your financial life need a spring cleaning?

It's quite easy to end up with mutual funds in different places. You might have joined a group Registered Retirement Savings Plan (RRSP) through an employer. Or opened a Registered Education Savings Plan (RESP) or Tax-Free Savings Account (TFSA) at your bank. It could be other investments too, whether a Guaranteed Investment Certificate (GIC) or stocks.

This is where spring cleaning enters the picture. It's difficult to make investments work together when they're scattered in different places. You may want to clean up by putting them all under one roof.

The consolidation solution

When you consolidate all your investments with one financial services provider, you benefit in a variety of ways. First, it's often discovered that certain assets are duplicated, which increases investment risk. So changes are implemented to make your portfolio fully diversified – minimizing risk, maximizing potential returns and smoothing out performance.

In making these changes, assets may also be re-allocated among registered and non-registered accounts to make your investments more tax-efficient. Another possible tax advantage is having fewer tax slips to manage when filing your return.

Investments at a glance

With scattered investments, trying to monitor everything is frustrating. But when you have a consolidated statement, viewing your investments is clear and easy – and you save time. It's also a more efficient way for us to help you. We can ensure your investments are aligned with your goals and recommend changes as your needs evolve.

Let us know if you have mutual funds or other investments in different financial institutions. We can tell you about the consolidation process and determine if it makes financial sense for your situation. ◀

Making sure your retirement savings goal meets the new longevity

More Canadians are reaching retirement with a longer life expectancy, thanks to healthier lifestyles and advances in medical tests and treatment. According to Statistics Canada, a woman aged 65 is expected to live to 87 and a man to 85. That's on average, so a retirement savings goal should allow for a longer life span – typically, to at least age 90.

Can you imagine a time when Canadians will need to fund a retirement lasting 30 years or even longer? Well, by the time your retirement rolls around, that could be you.

'How much will I need to retire?'

This may be one of your first questions when you think about funding a 30-year retirement. Fortunately, you only need to provide the input we require – we'll do the math. A key plan to share with us is how you wish to enjoy your retirement years. Do you hope to purchase a villa in Spain and travel through Europe, or downsize to a condo and spend time with your grandchildren? The lifestyle you envision helps us determine the income you'll need, which is instrumental in setting your retirement savings objective.

However, many other factors contribute to projecting your financial goals, such as your marital status, health, tolerance to investment risk, estimated net worth at retirement and estate plans. We also take into account the effects of inflation and the new longevity. Ultimately, we help you arrive at a savings objective and retirement date that enables you to achieve your desired lifestyle without worrying about outliving your savings.

The mutual fund advantage

To fund a long retirement, you want the best possible investment returns for your level of risk. This is achieved through diversification, a hallmark of mutual funds. Your equity investments can be diversified across geographic regions, investment styles, market capitalization and economic sectors. Fixed income funds invest in a wide variety of bonds and other fixed-income securities that's very difficult to duplicate otherwise.

Estate plans and retirement

Living longer may raise an issue regarding naming children as beneficiaries in a will. They could likely receive their inheritance when they're already established – perhaps even retired. Instead, should you name grandchildren as beneficiaries? Or give children an advance on their inheritance when a financial boost can make more of a difference? We can tell you how giving while living may affect your financial health or retirement income.

When it comes to planning retirement income, there's no single formula. Each retiree's personal situation, financial status and investment personality dictate the most effective combination of income sources and strategies. A retiree who needs the utmost security might complement government benefits with an annuity and guaranteed investments to produce a reliable annual income. Someone with a higher risk tolerance may follow a method that draws income from a cash bucket, while a growth-oriented bucket generates potential future returns.

Just know that we choose from a variety of investment and withdrawal strategies so you can feel confident your retirement income will fund your desired lifestyle – to any age.

At every life stage, living longer can affect your financial picture – whether it's the amount to save when you're younger or the way you draw income when retired. Talk to us anytime you want to discuss how your wealth plan is meeting the needs of the new longevity.

Keys to living longer

Healthy living may be practised in many ways, but here are five keys to reducing the risk of developing cancer, heart disease or stroke – the leading causes of death among Canadians.

Eat well. Include plenty of vegetables, fruit, protein and whole grains in your diet. Avoid or consume fewer highly processed foods.

Be active. One goal is to aim for 30 minutes of moderate daily activity that gets your heart going – and walking briskly counts.

Limit alcohol. If you drink alcohol, it's best to only drink in moderation. Should drinking habits become excessive, try setting limits.

Stop smoking. Quitting smoking now can still reduce your health risks in the future. It's worth finding out about proven methods to help you quit.

Maintain a healthy weight. If you want to lose weight, you don't need a crash diet. Watch what you eat, exercise and aim to improve steadily.

Compiled from the Canadian Cancer Society (cancer.ca) and the Heart and Stroke Foundation of Canada (heartandstroke.ca).

Want to increase your mutual fund investments?

You might be saving for a short-term goal, like a vacation, or investing for a long-term goal, like retirement. But you think you should be putting away more. Trouble is, you're not the type who wants to create a budget – watching every dollar and tracking expenses on a spreadsheet.

There's good news. You can save more to achieve your goals without following a traditional budget. Here are three choices to consider.

The 50-30-20 approach

The 50-30-20 budget is a popular approach that's based on splitting monthly take-home income into three categories.

Fifty per cent of your income covers essential needs, including mortgage or rent payments, utilities, groceries and transportation costs. Thirty per cent is for personal wants, such as dining out, travel, entertainment and any luxury items. Twenty per cent is applied to meeting financial goals, which includes savings, investments and paying off debt.

The percentages can be adjusted to suit your situation, provided you stick to the overall objective of meeting your basic needs while saving regularly and enjoying life.

Reverse budgeting

The reverse budget, also known as the pay-yourself-first approach, is about as simple as it gets. You determine a percentage or amount of each paycheque or your monthly income that you'll dedicate to financial objectives. This includes saving for retirement, other investments and paying off debt – and you make this commitment first. There's no tracking of expenses, but you must spend wisely to make sure you cover all your needs and wants.

Budgeting apps

Are you an app person? Many people find that using apps transforms chores from tolerable to enjoyable. If that's you, a budgeting app could be your answer. You can track your spending, all separated into categories – from groceries to entertainment. Some apps also enable you

to set and monitor your spending and saving goals. Just search online for budgeting apps in Canada, and you'll find quite a few to choose from, including highly regarded free apps.

These are just several ideas. Whether you're interested in using an alternative method or following a traditional budget, do let us know. We'll arrive at an approach that meets your needs and appeals to you. ◂

TAX PLANNING

From tax refund to mutual fund boost

Sometimes a tax refund seems like free money from the government. Hello big-screen TV, luxury getaway or latest phone. That refund, however, was your own money all along. You're just getting it back.

By resisting the urge to splurge, you can use that money to enhance your future finances. An effective way is to invest the refund in mutual funds in a registered plan.

Make an RRSP contribution. You can magnify the effect of the refund by contributing the amount to your Registered Retirement Savings Plan (RRSP) because you also receive a tax deduction to lower your taxable income.

Supplement your TFSA. By contributing your refund to your Tax-Free Savings Account (TFSA), you can make a real difference towards achieving either short-term or long-term goals. Even a small contribution can expand significantly over the years, thanks to compound growth in a tax-free environment.

Contribute to an RESP. When you apply the amount to a Registered Education

Savings Plan (RESP) for your children or grandchildren, you also stretch your refund dollars. The first $2,500 of an annual contribution triggers $500 in Canada Education Savings Grant (CESG) funds.

Here are a couple more ideas to benefit financially in a big way.

Pay off debt. If you have any high-interest debt, such as credit card debt, you can use the refund to reduce the balance. You also stretch your tax refund dollars by lowering, or perhaps eliminating, the ongoing interest costs.

Add to an emergency fund. Your tax refund can enhance an existing emergency fund or present a great opportunity to get one started. As a general guideline, this safety net should cover about three to six months of living expenses. ◂

Receive tax savings without the refund?

If you're self-employed, a professional or business owner, your tax break from RRSP contributions may be paying less tax when you file your return. Or if you have tax deductions reduced on your paycheque, your break is freeing up cash throughout the year. While not as obvious as a tax refund, it's still money that would otherwise have been paid as tax to the government. So all these ways to improve your financial life still apply to your tax savings or extra cash.

Making RRIF withdrawals … strategically

When it's time to withdraw funds from your Registered Retirement Income Fund (RRIF), one or more of these strategies may save you tax.

The mini-RRIF. Even if you would normally wait until the latest possible age of 71 to open a RRIF, you may want to open one at 65. But you only transfer enough funds from your Registered Retirement Savings Plan (RRSP) to allow you to make RRIF withdrawals of $2,000 each year, until age 71. That income qualifies for the $2,000 pension income tax credit.

Determining withdrawal amounts. When possible, it's often tax-smart to withdraw only the minimum required annual amount, keeping your tax bill lower and allowing more savings to grow tax-deferred. But sometimes it's wise to withdraw more than the RRIF minimum if that means paying less tax on the withdrawn amount now than what would be paid later, perhaps tax payable by your estate.

Spouse's younger age. If your spouse is younger, you can base your RRIF withdrawal rate on their age, which allows for lower required annual withdrawals and means less tax.

Income splitting. If you're 65 or older and your spouse is in a lower tax bracket, you can save tax as a couple by splitting up to 50% of RRIF income with your spouse.

Several personal and financial factors determine the most effective way to take retirement income, so talk to us about a customized solution. ◀

Where should you keep an emergency fund?

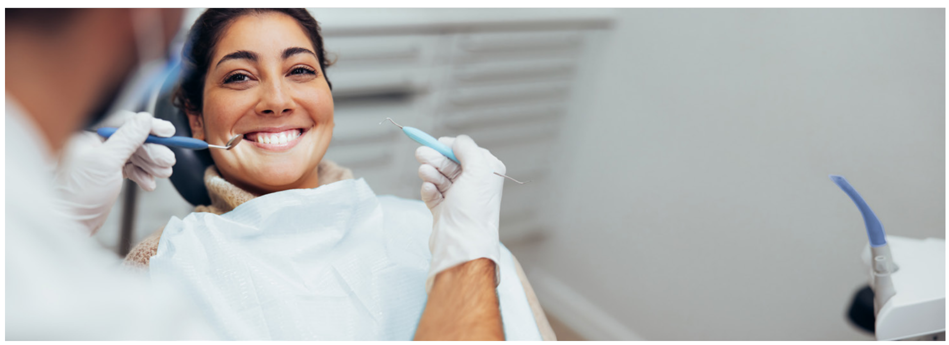
The conventional wisdom is to save enough in an emergency fund to cover three to six months of living expenses. But where should you keep these savings?

Many financial experts recommend a high-interest savings account or a Tax-Free Savings Account (TFSA). Both can meet the objectives of accessing your money quickly enough and not placing your funds at risk. With a TFSA, that means your emergency fund reserve is in high-interest savings or similar safe investments. Other emergency fund vehicles include money market funds in a non-registered account and redeemable Guaranteed Investment Certificates (GICs).

Some people, however, don't like the idea of tying up so much money in low-interest savings. In this case, they can borrow from a line of credit if an emergency arises – but the trade-off is potentially racking up debt.

Feel free to consult with us about any aspect of an emergency fund, from how much you should save to which vehicle suits you best. ◀

One of the most underused tax credits



According to Canadian tax preparation firms, the medical expense tax credit is among the most underused tax credits or deductions. One reason is that many taxpayers aren't aware of what expenses are allowable. For example, you can claim the costs of eyeglasses, contact lenses, laser eye surgery and orthodontics, and fees paid to a physiotherapist, chiropractor or psychologist. If you have a group insurance plan through your employer, your out-of-pocket portion of dental costs is allowable and so is the portion of the premiums you pay for dental, medical and vision benefits. For a complete list of eligible expenses, see the Medical Expenses publication RC4065 at canada.ca or IN-130-V at revenuquebec.ca.

You can combine the expenses for you, your spouse and children for a 12-month period – and either spouse can make the claim. But note that this credit isn't for everyone. Expenses can only be claimed when they exceed either $2,421 (for the 2021 tax year) or 3% of your or your spouse's net income. Usually, the lower-income spouse claims the credit. ◀

iA Investia Financial Services Inc.