

# Ten things to consider when planning your financial future





## 1 Embrace the three P's of financial planning.

Talk to a **Professional.**

Be **Prepared.**

Stop **Procrastinating.**

### Take two aspirin and call me in the morning.

Sometimes you need to seek out the advice of a professional. For your health...for legal issues...and when it comes to your financial well-being. It just makes good sense.

A professional advisor can help sort through all of the options available to you and put together a plan that will help you achieve your short-term, and long-term financial goals. And as your life evolves and your priorities change, your advisor will continue to work with you, re-evaluating and adjusting your plan along the way.

This brochure will help you prepare to meet with your advisor by introducing you to some of the concepts you will likely discuss. This brochure is not meant to be a comprehensive guide; please consult an advisor before making any decisions.

### Prepare to enjoy your future.

A sound financial plan is the best way to help ensure a comfortable retirement. Whether you dream about spending your retirement years in the sunny south, having a summer home up north or just relaxing and enjoying a well-earned rest with family and friends, knowing you have the freedom to realize your retirement dreams is what financial planning is all about.

### Be prepared for the unexpected.

It may sound impossible, but you can plan for the unexpected. The ten strategies found in this guide can help you be financially prepared for most situations. A strong and sound financial plan will help ensure you are ready for any emergency and give you peace of mind that if something should happen to you, your family would be well cared for.

### The best time to start is...now!

It doesn't matter how old you are or how much money you have; the best time to start planning your financial future is right now.

Remember, the financial plan you put in place today will be the foundation for the financial security you, and your family, enjoy tomorrow.

## 2 Take a look at your situation today.

### Are we there yet?

As the saying goes, if you don't know where you are, how can you know where you're going? The first step in planning for your financial future is to assess where your finances are today.

To prepare for your meeting with your advisor, review your current financial situation, including your expenses and your savings.

**Didn't see that coming!**

Unexpected situations often leave us scrambling for documents and information. The best way to prepare yourself to handle unforeseen situations is to prepare in advance, when things are calm and you have time to think.

**Emergency? What emergency?****a) Financial**

If a financial emergency strikes, you'll be glad you took the time to put an emergency financial plan in place.

Your emergency financial plan should include the following considerations:

- Three to six months' total living expenses set aside in a place that is readily accessible, such as a savings account. Be sure to account for all expenses like mortgages, loan repayments, rent, hydro, food, etc.
- Keep this money separate from your other money. This will help you avoid the temptation of dipping into it for other expenses.

**b) Medical**

In the case of a medical emergency, other people may need to access your personal information in order to deal with the situation. To accommodate this, take the time to complete the emergency checklist and make sure trusted individuals such as family, friends and neighbours know where to find it. One list should be completed for each family member:

- physician names, addresses and phone numbers
- blood type
- allergies
- medication, including dosage
- brief family medical history
- insurance ID numbers, contact information and coverage terms

**c) Personal**

If something were to delay you in your daily routine, such as a late-running meeting or traffic, who would pick up your child from daycare? Is there a neighbour's house where an older child could go until you arrive home? How would your family get in touch with your children's teachers, if they had to do so?

Be prepared for personal emergencies by having the following list readily available, with copies at the homes of trusted friends and family members:

- school name/daycare, address and phone number for each child
- for daycare-aged children, a list of authorized adults, including phone numbers, who may pick up your child if you are not available
- each child's teacher's full name
- helpful neighbour's names, addresses and phone numbers (including cell phones)

**Update regularly.**

The information on these sheets is only useful if it is up-to-date. Set aside one day a year to review and update these lists, or update them whenever important information changes.

Documenting all of this information may sound complicated, but we have a tool that makes it easy. Ask your advisor about the *ivari* Personal and Financial Information System.

## 4

## Insure your family's future.

If something were to happen to you...a critical illness...or worse, would your family have the financial protection they need for their future?

One of the best ways to ensure your family's needs are met if an unfortunate event should occur is to have adequate insurance protection. Adequate protection includes both the right type of insurance and the right amount of insurance.

### Life insurance

You should have life insurance if you are responsible for the financial well-being or contribute to the standard of living of your family. Life insurance would allow your family to maintain their standard of living if you were no longer there to provide an income.

There are many things to consider when purchasing life insurance, and the most important one is that as your life evolves, your need for protection evolves too. In other words, the insurance protection you need today may not be the same protection you will need in, say, 15 years when your mortgage is paid off and your children are grown. Evaluating your protection needs in terms of short term need and longer term needs can help you decide which products will work for you. For example, if you think that a specific need like a mortgage will be gone in, say, 10 years, then you may want to consider a term insurance product. If your need has a longer time frame and includes estate planning or helping

to fund your retirement, then a permanent life insurance product is probably a better choice.

### My Insurance View

Deciding how much insurance you need, and when you need it, can be complicated, especially since your needs may change throughout your life. My Insurance View from *ivari* is an easy-to-use interactive tool that will provide you with a personalized insurance solution that clearly addresses your needs at every stage of life.

### Disability insurance (DI)

In the event of an accident or illness, disability insurance could mean the difference between having an income and not having an income, if your disability prevents you from working. This form of insurance is particularly important if you are the sole or primary wage earner in the family, or if you are a key person in the operation of your business.



## Critical Illness insurance (CI)

If you were diagnosed with a critical illness, such as cancer or heart disease, would you have the funds available to cover medical expenses and lost income? Although specific coverage varies from policy to policy, CI insurance, as a rider or on its own, will help cover these costs if you are diagnosed with a critical illness, survive the 30-day survival period, and require funds for your continuing care.

## Long-Term Care insurance (LTC)

Similar to critical illness insurance, long-term care insurance is an insurance policy that provides the funding for the care or treatment required for injuries, illnesses and loss of functional abilities. Although age is not a determining factor in needing long-term care, this type of insurance is usually sold to cover these risks at older ages. Because there are often substantial costs associated with long-term care such as nursing homes or private rehabilitation facilities, this type of insurance can save you hundreds of thousands of dollars in medical care costs.

## Self-funding for DI, CI and LTC

While purchasing a fully underwritten critical illness policy may be your most cost efficient option, there are ways to self-fund for your disability, critical illness or long-term care, if you prefer to take that route. Do it yourself (DIY) funding for CI or DI through a key feature that's offered in a life insurance product may make sense for post-retirement coverage if you find the cost of permanent CI or DI to be prohibitive.

If you need life insurance and are considering purchasing universal life, one of the key features of a universal life policy is its Living Benefits feature. To help ensure that you have the funding you need to cover the costs associated with an occupational disability or a disability caused by a critical illness, you can regularly deposit funds into the flexible savings amount of your universal life policy.

What are the benefits of "DIY" CI and DI self-funding?

- Your savings frequency is up to you, as well as the amount that you want to pay, within certain limits.
- Permanent CI and DI plans may be costly and hard to qualify for.
- You don't pay for any features that you don't need or want.
- Tax-free<sup>†</sup> and surrender charge-free disability benefits funded through the policy's flexible savings amount.<sup>††</sup>

## "DIY" CI and DI self-funding risks:

"DIY" CI and DI self-funding, which is referred to in the universal life policy contract as Living Benefits, is not an additional product that is purchased but rather a built-in, tax-free<sup>†</sup> disability benefit funded by your flexible savings amount.\* This benefit is available if you were to incur an occupational disability or a disability caused by a comprehensive list of 26 critical illnesses.\*\*

Remember, using universal life insurance will not provide sufficient funding to cover immediate or short-term critical illness or disability needs. You should consider purchasing short-term critical illness protection to cover your needs up until retirement or until such a time that you have self-funded a sufficient amount.

<sup>†</sup> The benefit is referred to in your policy as Living Benefits. Under the Income Tax Act (Canada) and at the date of publication of this document, the receipt of Living Benefits is not currently taxable. ivari does not guarantee nor is it responsible for the tax treatment applicable to this policy feature. Please consult your legal or tax advisor for an opinion on this matter in relation to your particular circumstances.

<sup>††</sup> Flexible savings amount is referred to in your policy as the "net fund value."

\* Please note that accessing your flexible savings amount will have a direct impact on your death benefit. Your advisor would be happy to explain this impact in more detail.

\*\* For information on what qualifies as a disability and for the determination of the benefit amount available to you, please refer to the contract provisions. Disabilities caused by pre-existing conditions do not qualify.

## What WILL happen after you're gone?

What is the one thing that every living adult should have? That's right...a will. If you don't have one, and the majority of adults don't, it's time to remember that third "P" and stop procrastinating! A will is important even if you don't think you have anything of value to pass along. Here's why.

If you die without a will, the laws of the province in which you live will determine the division of your property and assets without any consideration to your wishes, or the wishes of your family members. This could result in significant conflict within your family when it comes to items of sentimental or monetary value. Other matters that will be decided without your input if no will exists include guardianship of minor children and the executor of your estate. There are a lot of things to consider when creating a will, so it is strongly recommended that you seek professional advice.

### Estate planning

Along with a will, you should also consider estate planning as a way of protecting your assets during your lifetime, while ensuring that they are distributed according to your wishes after your death. Some common estate planning tools include wills, trusts, life and long-term care insurance.

Due to the complex nature of tax and estate laws, it is strongly recommended that you obtain professional legal and tax advice when doing your estate planning. And remember to update your estate plan whenever you have a major life change such as a marriage, divorce, birth or death in the family.



The fastest way to feel more secure about your financial situation is to reduce, or completely eliminate, your debt. But this isn't the case for most Canadians. In fact, consumer debt is on the rise, with debt-to-income levels at an all-time high. And if that isn't frightening enough, two-thirds of Canadians 18–34 years would find themselves in trouble if their paycheque was delayed by only one week, according to a September 2009 survey by the Canadian Payroll Association.<sup>1</sup>

<sup>1</sup> Source: <http://canada.creditcards.com/credit-card-news/canada-credit-card-debit-card-stats-international.php>

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## Did you know...?

- There were an estimated 37 million debit cards and 72 million credit cards in circulation in Canada in 2009. (Source: Euromonitor International, January 2010)
- Total outstanding credit card debt hit \$78 billion in September 2009, up from \$76 billion in September 2008, according to Equifax Canada. (Source: Toronto Star, December 2009)
- 90-day credit card delinquencies jumped 53% between September 2008 and September 2009, hitting \$3.6 billion. Among major cities, Toronto had the nation's highest delinquency rate (2.14%) in October 2009. The average national rate is 1.67%. (Source: Toronto Star, December 2009)
- Canadians spent almost \$267 billion on their credit cards in 2008. (Source: Toronto Star, December 2009)





# Let's stop the insanity!

It's time to take a hard look at where your debt lies and see what you can do to reduce or eliminate it.

## Credit cards

If you have credit card debt, the first thing to do is get it under control. Once you have it under control, it's time to look at ways to pay it down. There are some options available.

Often it's the interest rate credit cards charge, not the actual charges you put on the card, which will cause you to go into debt. If you are a good customer, with a good repayment record, you can call your credit card company and request a lower interest rate be applied to your balance. There are no guarantees that they will offer you a lower rate, but it never hurts to ask.

## Mortgages

Did you know that some debt can be good debt? Good debt is debt that allows you to benefit from ownership or equity. For example, a mortgage would be good debt, as you have the chance to build up equity in the value of your property as home prices increase over the long term. If you have mortgage debt, it is always good to pay it down, but it does not necessarily have to be your first priority in decreasing your debt load.

## Home equity

As you acquire equity in your home, you may want to access that equity for a variety of reasons. If you access the equity in the form of "good debt," that is for the purposes of increasing the value of your home through upgrades or an addition, then it may be a good idea. It is always smart to talk to a financial professional before tapping into the equity in your home to ensure that it is a good financial decision.

## Term vs. mortgage

When it comes to protecting their home, many Canadians aren't aware that their lending institution's mortgage insurance isn't the only option. Term insurance offers a more versatile alternative to traditional mortgage insurance – often at a better price. With more protection, more flexibility and more value than traditional mortgage insurance, term insurance protects your family's future as well as your home.



## 7 Pay yourself first.

### Little by little you'll end up with a lot.

Paying yourself, as if you were as important as the cable company or your car loan, is an easy-to-implement strategy that anyone can put into practice.

After working through your monthly budget, determine how much money you can realistically save every month. If you are disciplined, you can transfer the funds from your “working” account into a separate savings or investment account. If you think you may be tempted to “cheat,” arrange with your bank to automatically transfer funds from one account into the other. Then, with the help of an advisor, use this money for long-term investing.

### The long and short of dollar-cost averaging

Investing can be managed on either a long-term or short-term basis – or both. If you have concerns about short-term prospects and have long-term goals, you may want to discuss a dollar-cost averaging strategy with your advisor. Investing smaller amounts at regular intervals, sometimes buying a little when the market is up...sometimes buying a little when the market is down... can alleviate the anxiety of putting everything at risk all at once.

## 8 Asset allocation

Have you ever heard the saying, “Don’t put all of your eggs in one basket”? This is the basic thinking behind a strategy called asset allocation.

Asset allocation shouldn’t be a guessing game; you can control your risk and help build a more solid financial future by investing in a combination of assets that will provide the highest expected rate of return possible at a desired level of risk. Your advisor can help you determine your personal risk/return profile and help you identify the asset mix that is most likely to achieve your personal objectives, while fitting with your specific risk tolerance.

### Why long-term investing works

When it comes to investing, it's often best to take a long-term, disciplined approach. In the short term, markets can be volatile, and it is often tempting to switch strategies and investments as a knee-jerk reaction to the latest catastrophic news story. This is not a good approach to investing, and it has been shown that investors who remain fully invested over the long-term average better than those who do not.

A disciplined strategy for investing relies on the historical fact that equity markets are cyclical and will experience peaks and troughs on the way to long-term gains. Investing based on short-term performance can be very tempting, but making decisions based on this can have an adverse impact on future investment returns. In fact, investors who switch to the best-performing asset class of the previous year are often worse off than investors who maintain their investments in a balanced portfolio.

Your advisor can help you structure a long-term approach to your investments, which includes a balanced portfolio that takes into account your personal investment style, your financial goals and your tolerance to risk.



Wouldn't it be great to look forward to your retirement rather than worry about how you are going to manage financially when you are no longer working? The key to this security is having a well-planned retirement strategy, reviewing it annually, at a minimum, and sticking to it.

The first step in retirement planning is to determine how much income you will need on a monthly or annual basis to maintain the lifestyle you desire in retirement. Your advisor can help you through this process.

Once you determine how much money you need, you will have to find sources for that money. There are many different sources, but three are most common.

### Show me the money

In retirement, most Canadians will have three potential sources of income to draw upon for living expenses. We call these the three pillars.

#### The three pillars of retirement income

- 1) Employer-sponsored pension plans
  - DBPP
  - DCP
- 2) Public pensions
  - Canada/Quebec Pension Plan (CPP/QPP)
  - Old Age Security (OAS)
- 3) Personal retirement savings
  - RRSP/ TFSA
  - Non-registered investments

### Employer-sponsored pension plans

There are two types of Employer-sponsored pension plans:

#### 1) Defined Benefit (DB) pension plan

With this type of plan the amount of retirement income you will receive is known. The calculation is typically based on years of service and annual salary. While different plans will have different ways of calculating the plan members' future income, the common denominator is that the employer takes all the investment risk. If the plan's investments don't perform as expected, the employer has to make up any shortfalls to ensure that the plan members receive their full entitlement. Because of that, all of the investment risk is on the employer, and for this reason many employers have turned to Defined Contribution plans.

#### 2) Defined Contribution (DC) pension plan

While both employer and employees contribute to these plans, the amount of income is largely dependent on how the plan member invests his or her contributions. In this type of plan, the investment risk is with the plan member.

For this reason, DC plan members need to put in extra time with their advisor to ensure their funds are invested appropriately.

In the private sector between 1991 and 2006, DC plan coverage jumped from 14% to 27%,\* demonstrating that employers are less willing to take the investment risk associated with guaranteeing a future income.

\* Source: CGA of Canada study "Gauging the Path of Private Canadian Pensions: 2010 Update on the State of Defined Benefit and Defined Contribution Pension Plans," 2010.

## Canadian Pension Plan (CPP/QPP) and Old Age Security (OAS)

Let's start with the centre pillar, since this is the one that most Canadians will receive. CPP/QPP is funded by your contributions and was designed to replace up to 25% of income in retirement. OAS is funded by government revenues and is distributed based on age, legal status and number of years resident in Canada. The average Canadian will earn less than \$18k per year in public pensions. Clearly, you will need alternate sources of income during your retirement years.

## Personal retirement savings

This is the one pillar of retirement funding which rests entirely on your shoulders. Personal retirement savings include your Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), and non-registered investments. The earlier you start to contribute, even if you start with a small monthly contribution, the more money you will accumulate to help fund your retirement. Of course, there is only so much money to go around, so talk to your advisor about what combination is best for your situation.

## All together now...

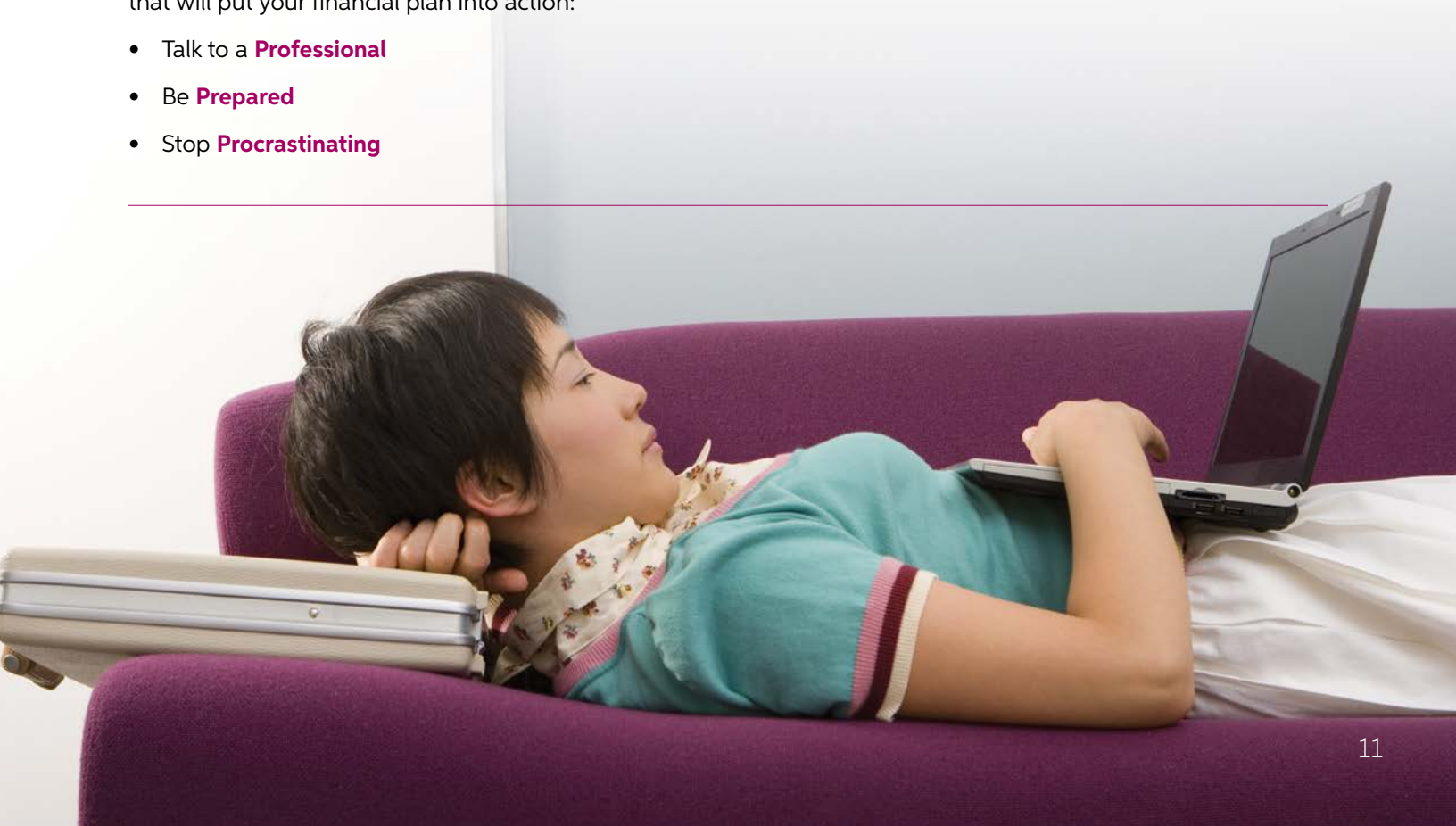
Individually, none of these three pillars may be enough to adequately fund your retirement years, so it is important to start as early as possible and put away as much as possible, to provide a comfortable, financially secure retirement.

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## A final word to the wise

Now that you know the ten proven strategies for achieving financial security, it's time to recall the three P's that will put your financial plan into action:

- Talk to a **Professional**
- Be **Prepared**
- Stop **Procrastinating**



# NOTES



With a national network of thousands of independent advisors, *ivari* provides a full range of insurance products designed to help Canadians make the right choice for their protection needs. The people, products and service that make up *ivari* have stood the test of time and have been around for over 80 years in the Canadian marketplace. Through our commitment to always being approachable and transparent in everything we do, we are dedicated to starting a fresh, new conversation about insurance. And we will stand by our word. Visit us at [www.ivari.ca](http://www.ivari.ca).



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