What Will the Advisor Learn by Taking this Financial Planning Course?

**Client centered** means an approach to doing business that focuses on creating a positive experience for the client. **Client centered** businesses ensure that the client is at the center of a business's philosophy, operations or ideas.

“Financial Planning is the process of meeting your life goals through a systematic and disciplined arrangement of your personal finances.”

With the above definition, we realize three main things:

1. Financial Planning is a Process
2. It’s about Your Life Goals and,
3. It’s about disciplined arrangement of your personal finances

Unfortunately, over the years, the topic of financial planning has become over complicated and many clients have come to think that it is better left to a Financial Advisor. Basic financial planning is very simple and easy to understand. It only starts to become more complex when you want to invest or set up an estate. At this point the advisor’s fact finding and recommended solutions becomes critical.

Financial plans don't have a specific template, though most licensed professionals include knowledge and considerations of the client’s future life goals, future wealth transfer plans and future expense levels.

Extrapolated asset values determine whether the client has enough funds to meet future needs from an investment or insurance point of view. A good financial plan can alert an investor to changes that must be made to ensure a smooth transition through life’s financial phases, such as decreasing spending or changing asset allocation. Financial plans should also be fluid, with occasional updates when financial changes occur.

This course will be of value to the Life and A&S Financial Advisor and will cover:

- What the Financial Planning process involves for the advisor.
- The various types of Financial planners & Financial designations.
- Know Your Client Rule
- How to know the client and what they want. The use of an effective Fact Find in the planning process. Various planning factors that the clients and prospects look for.
- An introduction to financial planning & the planning process. Ideas for the client to manage their debts.
- Segmented financial planning & Comprehensive financial planning.
- The 10 basic steps in the planning process covering Net Worth, Assets & Liabilities and Annual Cash Flow Financial Statements.
- Investments used to make your client's money grow. Some Capital dispersal methods.
- Using the Income Tax Act in the client’s best interest.
- RRSPs, RPPs, RESPs, TFSAs, and more.
- Contingency planning by using Insurance. Why and how Life insurance is needed as part of the overall financial planning process?
- A glossary of financial planning terms that will be helpful for the advisor and client.

KNOW YOUR CLIENT RULE (KYC)

Although primarily used for investment clients, experts recommend that advisors should use a form of the KYC for their insurance clients and prospects as well.

Here is what the IFSE, the educational arm of The Investment Funds Institute of Canada (IFIC) has to say about KYC in Canada.

Know your client rules: Protecting investors and advisors

As an advisor, before you can give financial advice or sell financial products, you have to learn several things about your clients. This is called the Know Your Client (KYC) rule, and it protects investors by ensuring any advice they receive or products they invest in are suitable for them. It also protects advisors by giving them a better idea of the advice, products and services they can offer each client.

What advisors need to know

As part of the KYC requirements, advisors must ask clients for some personal information, like their marital status, number of dependents, age and occupation.

Advisors must also ask about each client’s finances, including their annual income and net worth, as well as any investments they already have.

Then advisors will need more specific information about what each client hopes to achieve by working with their advisor. For example, advisors should ask about the client’s:

- investment objectives, or the financial goals they’re trying to reach, such as retirement or home ownership
- investment time horizon, or when they hope to reach each goal
- tolerance for risk, or how comfortable they are with short-term losses if it means the potential for higher long-term gains
- current level of financial knowledge

As an advisor, you’ll write the answers to all of these questions on a form, and then your client will sign the form to confirm the information is correct.
**Changing clients’ information**

Advise your clients to contact you should they experience a significant change in their life, like getting married, buying a house or changing jobs. Even if clients haven’t had any big changes, you may want to ask each client to update their KYC information and sign a new form every year.

It’s important to keep your clients’ KYC information up-to-date so that the advice they receive and the products you recommend are always suitable for each client’s needs.

Looking forward, advisors may have new suitability requirements to meet. They may be subject to greater disclosure requirements while also assuring that all investment recommendations are in their clients’ best interests, based on each client’s financial situation, risk profile and investment objectives.

Sample KYC forms for you to use can be found on pages 97 and 98 of this course.

**INTRODUCTION**

A personal financial plan is best prepared in consultation with a professional who understands a client interests and who also knows the industry, is up on taxation issues, and has access to other professional resources.

Generally, a financial plan begins with these basics:

- Determining where the person currently is financially
- Determining where he wants to be financially
- Focusing on “paying oneself first” – setting aside 10% of income to meet future goals
- Living on the other 90% of income
- Building a “financial” house from the bottom up … on a solid base
- Starting as soon as possible!

A sound plan should also be a flexible plan, one that recognizes an individual’s needs and goals change over time. Reviewing the plan on a regular basis ensures it is always relevant.

**Planning is easier said than done**

When an individual is juggling bills and mortgage payments, and still hoping to have something left over at the end of the month, a financial plan might seem out of reach.
But in fact, a plan could help put the pieces in place - allowing the person involved to maximize RRSP contributions, reduce debts, and reach their goals sooner than they thought possible. Financial Planning involves evaluating the investing and financing options available, attempting to make optimal decisions, and projecting the consequences of these decisions.

**THE PLANNING PROCESS**

**Financial Planning starts out with a client’s basic needs.**

When the immediate needs of the client and his family are looked after, then it is time to move on to wealth creation, reduction of taxes and finally, how to plan adequately for retirement.

The planning process incorporates two distinct planning processes that are intimately linked:

1. Financial planning (wealth creation) and
2. Estate planning (asset dispersal)

**Financial Planning Practitioners**

The role of a Financial Planner is to lead the client through the progressive steps of a financial plan, from Needs to Objectives. Good planning requires many steps. Some are designed to make it easy for the Financial Planner, while many of them are necessary to show the client where they have been, where they are and where they are going.

**What Does A Financial Planner Do?**

A financial planner is someone who uses the financial planning process to help individuals figure out how to meet their life goals. The planner can take a `big picture` view of an individual’s financial situation and make financial planning recommendations that are appropriate under the circumstance. The planner can look at all of an individual’s needs including budgeting and saving, taxes, investments, insurance and retirement planning. Or, the planner may work with a person on a single financial issue but within the context of his or her overall situation. Taking a big picture approach sets a financial planner apart from other financial advisers who may have been trained to focus only on a particular area of a person’s financial life.

A good financial planner works in the best interest of customers. He does not replace other professionals such as lawyers or accountants. A planner is a coordinator who works with others to make the planning process work.
FINANCIAL SERVICES PROFESSIONALS

Various professionals provide Financial Planning Services. They fall into two categories of planning.

1. **Segmented Financial Planning:**

This professional assists in achieving single goals or single purpose planning. The objectives represented here could be:

- Need for life insurance,
- Educational funding,
- Investing in Stocks and Bonds,
- Income Tax Solutions.

2. **Comprehensive Financial Planning**

This professional provides for the complete financial overview. Whereas the segmented Financial Planner seeks solutions to single goals, this professional will work at producing an integrated plan.

Comprehensive Financial Planners offer solutions to individual needs and produce custom – tailored strategies to meet a variety of defined objectives. A number of different professions may be involved.

**Some of these service providers are:**

**Financial Planners** - Provides expertise in assessing client’s overall circumstances. They establish long and short-term goals and the strategies to achieve current and future goals.

**Financial Specialists** - Understand the planning process, but specializes in one of the following areas:

- Taxes
- Investments
- Mutual Funds
- Estate Planning
- Stocks & Bonds
- Insurance
**Generalists** - The Generalists acts as a team leader or coordinator for a group of specialists. They provide for the overview and may offer expertise advice in one area or consult with other specialists.

They will gather necessary information, analyze the current situation, and help establish set priorities in a comprehensive set of financial priorities. They will also coordinate the development, implementation and monitoring of the financial plan so as to achieve the objectives.

**Financial Counselor** - This Professional deals with specific short term and immediate financial problems. They may concentrate on budgeting or money management. A Financial Counselor may look at short-term goals, but also may concentrate on long-term objectives.

**Financial Planning always involves the following:**

- Gathering of personal data and financial information to define needs and uncover problems.
- Establish specific and worthwhile financial goals.
- Develop strategies that will achieve the financial objectives through ongoing monitoring.

**A Financial Planner may offer expertise in the following areas:**

- Manage and organize a client’s bank accounts.
- Develop short-term strategies to provide funds for defined goals.
- Create an asset allocation strategy.
- Consult a client on ways to minimize or defer Income Taxes.
- Prepare Income Taxes
- Assist in choosing an appropriate Education Fund.
- Establish automatic contributions to an RRSP.

Individuals establish financial objectives and when these are qualified they lead to established goals.
SOME PROFESSIONAL FINANCIAL DESIGNATIONS

The Financial Planning discipline encompasses the following Professional Designations, which are acquired by the successful completion of a course and exam.

Certified Financial Planner (CFP)

This designation is conferred by the Financial Planners Standards Council (FPSC).

Helping people plan for their future financially isn't just a way to make a living. It’s a way to make a difference. When you become a CERTIFIED FINANCIAL PLANNER® professional, you have the opportunity to give clients peace of mind. CFP® certification is the most widely recognized financial planning designation in Canada and is considered the standard for the profession, representing the highest level of competence, ethics and practice.

And along with providing your clients peace of mind, there are compensation benefits to certification. CFP professionals often earn more than those who are not certified, and 65% earn more than $100,000 per year.

Financial planners learn the fundamentals of building a comprehensive financial plan and are recognized as dedicated professionals with the know-how to assist clients while adhering to high ethical standards.

The CFP® designation marks financial planners as qualified to practice as professionals.

Registered Financial Planner (R.F.P)

This designation is conferred by The Institute of Advanced Financial Planners™ (IAFP).

The R.F.P.® (Registered Financial Planner™) designation has been the hallmark of the professional financial planner in Canada since 1987. Here’s what it takes to become one:

Knowledge: The “primary vocation” of any R.F.P. must be financial planning. In order gain the designation they have to demonstrate that they are able to prepare a comprehensive plan for complex cases.

Commitment: What sets us apart is that comprehensive financial planning is an everyday commitment. You must show us that you’re primarily engaged in providing comprehensive financial planning to your clients.
Show Your Work: You must submit a high-quality and comprehensive financial plan for peer review - the essential document in personal financial planning.

Testing: You must successfully complete a challenge exam using the expertise you have gained from your financial planning career and guidance from a mentor.

For the purposes of this designation, clients are slotted into different life stage categories:

A. Early Career - Age 20 - 35  
B. Mid-Career - Age 35 - 50  
C. Peak Earning Period - Age 50 - 65)  
D. Retirement - Senior Years

Chartered Professional Accountant, CPA

Advisors with the CPA designation are qualified professionals who demonstrate an ongoing commitment to providing the highest standards of accounting, ethics and best business practices.

Chartered Financial Analyst (CFA)

Advisors with the CFA credential have mastered a broad range of practical portfolio management and advanced investment analysis skills.

Chartered Investment Manager, CIM

Advisors with the CIM designation are trained to offer advice on structuring an investment portfolio. The designation is conferred by the Canadian Securities Institute and indicates successful completion of courses in investment management and portfolio management.

Chartered Life Underwriter, CLU®

The Chartered Life Underwriter (CLU) is a professional financial advisor specializing in developing effective solutions for individuals, business owners and professionals in the areas of income replacement, risk management, estate planning and wealth transfer.

Personal Financial Planner, PFP®

The PFP® is a comprehensive financial advice designation offered by the Canadian Securities Institute. Advisors with the PFP are trained in financial products, estate planning and financial planning.
Trust and Estate Practitioner, T.E.P.

The T.E.P. is a designation granted through the Society of Trust and Estate Practitioners. A financial advisor with the T.E.P designation has expertise in the planning, creation and management of trusts and estates.

Additional Add on Designations to Make the Advisor More Professional & Knowledgeable

Certified Executor Advisor (CEA®) Designation

This designation is provided by The Canadian Institute of Certified Executor Advisors (CICEA). This is the first and only executor-facing designation in Canada. The CEA is an on-line curriculum designed to provide advisors with a practical level of knowledge covering all the issues executors may face in the course of their duties. Advisors learn how to engage with executors; the most trusted and influential people, with legal responsibilities for effective estate settlements.

Elder Planning Counselor (EPC™)

The EPC™ designation is designed to provide education for any professionals working with clients over 55, in many different fields including funeral planning, accounting, social work and nursing.

However, it has been the financial services and Insurance professions who have benefit most from the EPC designation

The Canadian Initiative for Elder Planning Studies believes that working with the maturing client involves a "total needs approach", and that these needs evolve from an individual's early wage-earning years and continue to change as the individual moves through the aging process.

The Elder Planning Counselor EPC curriculum is a comprehensive education program designed to recognize these needs and provide you with the essential knowledge and tools that are necessary to effectively develop a proper rapport and design practical solutions.

For more information on this designation please contact www.cieps.com

Financial Planners need a breadth of expertise to cover all this territory. This also explains why they will involve other professionals as previously mentioned.
KNOW YOUR CLIENTS AND PROSPECTS

Every client is different, but they do tend to fall into one of the following broad categories of personality type:

1. **The Entrepreneur**

   This individual is a risk-taker who has confidence in his or her own decisions and may as a result be somewhat difficult to advise.

2. **The Follower**

   This individual is very impulsive and will often veer off a recommended course to plunge into the latest investment scheme. Quite insecure and any market change elicits concern.

3. **The Achiever**

   This person will make confident decisions only after much deliberation and research. This personality type rarely needs Long Term advice from a planner and is more likely to need the services of a Financial Specialist for investment or taxes only.

4. **Stability Seeker**

   This individual is very careful; worries unnecessarily about investments, but can make a good client, because they rely on respected advice. They prefer assistance in their investment decision-making.

   It is definitely in the professional planner’s interest to be able to distinguish between these different types of individual in order to understand where they are coming from and where they want to go.

PLANNING FACTORS TO CONSIDER

1. **Demographics**

   Demographics look at changes in population. The biggest change since the Second World War is the huge wave of Baby Boomers. This group is getting older.

   In 2011, the Canadian population was composed of many different generations, with the baby boom generation probably the most well-known. Defining a generation can be challenging, as the term can have several different meanings.
In general, a generation is a group of individuals who are about the same age and have experienced, most often as children or young adults, specific historical events, such as an economic crisis, an economic boom, a war, or significant political changes. These events may influence their views of the world.

Generations can vary greatly in size depending on the number of births that occurred during a given period. The size of a generation can have a significant impact on the life course of individuals who belong to it, as well as on those who belong to other generations. Moreover, the size of a generation can affect a country's economy and society as a whole.

The 2016 census from Statistics Canada, released Wednesday, shows the largest increase in the share of seniors since the first census after Confederation. The proportion of those aged 65 and older climbed to 16.9 per cent of Canada's population, exceeding the share of those under 15 years old at 16.6 per cent.

Meantime, the portion of the working-age population – those between the ages of 15 and 64 – declined to 66.5 per cent from 68.5 per cent in the 2011 census.

While the greying of Canada is not new, it's starting to have a bigger and bigger impact on our society. This shift has big implications for businesses, which will have to increasingly focus on "older, empty nester, single-person households.

The 2016 census counted 5.9 million seniors, compared with 5.8 million children who were 14 or younger.

Looking ahead, population projections show the gap between the two age groups will widen. By 2031, almost one-in-four Canadians could be 65 or older, while the share of children would remain similar to 2016 levels, at 16 per cent, the agency said. The share of the working-age population – Canada's tax base – will likely "continue to decrease," according to Statscan.

That rapid aging in the coming decades means the share of seniors could eventually equal the level now seen in Japan.

2. Interest Rates

The Bank of Canada left its benchmark interest rate steady at 1.5 percent on September 5th, 2018, in line with market expectations, following a 25bps hike in the previous meeting.

Policymakers reinforced their vision that higher interest rates will be needed to achieve the inflation target of 2 percent. The Bank Rate is correspondingly 1.75 percent and the deposit rate is 1.25 percent.
Interest Rate in Canada averaged 5.89 percent from 1990 until 2018, reaching an all-time high of 16 percent in February of 1991 and a record low of 0.25 percent in April of 2009.

Interest rates represent the single most important factor when making investment decisions:

- Interest rates affect all major areas of the economy.
- Interest is charged on Loans, Credit Cards and Mortgages.
- Asset growth and income vary according to prevailing interest rates.

3. **Inflation**

Inflation has become a minor irritant, but at one time played an important part in the eroding of the dollar.

Consumer prices in Canada increased 2.3 percent year-on-year in March of 2018, above 2.2 percent in February and compared to market expectations of 2.4 percent. It is the highest inflation rate since October of 2014, as prices in seven of the eight major components rose, mainly gasoline.

4. **Income Tax Laws**

Changes in income Tax laws can make a plan invalid or causes changes in strategy.

These are only some of the factors that need to be considered. Professionals need to keep abreast of these matters in order to be able to provide the best possible service for their clients.

**THE PLANNING PROCESS**

The planning process requires 10 basic steps:

1. **Determine financial goals and Establish objectives**

Objectives need to be realistic and specific. They should challenge the client to provide incentive to change.

Strategies to be effective must do two things. They must move the client towards their goals while at the same time motivating them to achieve them. They must define the goal as well as establish a time frame. If a plan is to be effective, it should define the client’s objectives and relate to their current financial position. If the client feels that these goals relate to their particular situation, they will act on them.
2. **Prepare a net worth Statement**

This step requires some basic research into the client’s financial past and present status.

3. **Prepare a budget**

This is the step where the planner works with the client to determine the amount of discretionary income available, current debt load, determine risk tolerance and lifestyle expectations as well as seeing if the client’s present resources will provide for their stated objectives. The use of a detailed questionnaire is utilized, and one has been provided below. It also may be necessary to review Income Tax Returns, current Policies and Documents such as Wills and Estate Plans.

A careful analysis of Statement of Expenditures, Statement of Cash Flow, and a Balance Sheet will not only show the quantitative amounts, but also reveal the qualitative details.

4. **Show the client how to manage their debts**

In this step, the planner talks to the client about things like:

- Reducing their mortgage
- The proper use of Credit Cards
- Shopping for the best bank loan
- Eliminating non-deductible debt

5. **Making a client’s money grow**

It is crucial that planners show clients how to make their money grow. Some of the vehicles used could be:

- Treasury Bills
- Guaranteed Investment Certificates
- Bonds
- Strip Bonds
- Investing in Common Shares
- Real Estate
- Investing in Mortgages
- Deferred Annuities
- Investing in Preferred Shares, Discount Bonds and Investment Funds
6. Make the income tax act work for the client

Using various tax deferral methods, the client becomes aware of different areas to shelter growth of their money. Among them:

- RRSPs
- Registered Education Savings Plan
- Loans to adult children
- Salary to spouse or children
- Deferred profit sharing plans
- Plan for your client’s Retirement
- This step shows the client the importance of saving for the “after work” years.
- Registered Education Savings Plans
- Registered Pension Plan
- Tax Free Savings Accounts (TFSAs)

7. Document the Plan

To provide the client with timely advice and protecting the planner from future litigation, documentation should include the following:

- Planning Procedure.
- Planning Assumption.
- Recommendations and strategies.
- Clients’ decisions.
- Commitment to future planning.
- Input provided by outside professionals.

8. Implement the plan

The plan is an exercise in futility if it is not carried out. It is the planner’s job to motivate the client to put the plan into action.

9. Monitor the plan for Reassessment

The plan needs monitoring, so timely adjustments can be made to keep the plan on track.

10. Review on a regular basis

All plans should be reviewed at least yearly or when major changes occur in the client’s life.

We will now look at the 10-step process in more detail.
BEGINNING YOUR CLIENT’S PROGRAM

It is easy to put off planning, perhaps until it is too late. It is much harder to take the crucial first step that leads to financial independence. This is the first step. Think of it as a guide for a fascinating and rewarding journey that leads a client from where they are now to where they would like to be.

They will find no secrets here, no magic shortcuts to financial security, but they will learn a number of proven, professional wealth building techniques - the same techniques that have been used for generations by some of Canada’s wealthiest families.

1. DETERMINE FINANCIAL GOALS & ESTABLISH OBJECTIVES

Setting objectives is of paramount importance in the successful undertaking of any project. Their financial objectives should be specific, attainable and shared by all involved parties. It is not sufficient to say that, "I would like to be independently wealthy" or some similar expression. Individuals must be dedicated to achieving specified goals in a certain period.

An example of a goal would be for a person to say, "I want to accumulate $50,000 in investments over the next five years." Once they have defined their goal, they can take the first steps towards reaching it. It is also important to remember that an integral part of a well-rounded financial program is ensuring sufficient funds are being allocated for risk management - the risk of death, disability, and accident or loss of property.

At this point, it is important to remind the clients again that objectives need to be realistic and specific, as mentioned earlier.

Financial Assessment and Control

Where Is the Individual Presently in Their Planning Process?

By the time a client reaches the age when pre-retirement planning becomes important, they will likely have established a pattern or style of living with which they are reasonably comfortable. Certainly, they will be in a position to know whether this is the pattern they would like to continue into retirement, income permitting.

Part of their present lifestyle will revolve around their career work. This part will certainly change with retirement. In fact, the shift from full-time career work to the freedom from this work commitment is the pivotal change most people have to face when they retire.
Other modifications will tend to be conditioned by this major reorganization of time and income patterns.

However, their present lifestyle is still a useful guide for helping to determine what options their retirement years will be able to offer. In practice, lifestyle preferences shape income needs and, in turn, income shapes lifestyle options.

After retirement, most people require less income to maintain a comparable standard of living. It is generally accepted that this figure is about 70 percent of pre-retirement income. A re-refinement suggests a range from 60 percent for those with higher retirement income of, say, $50,000 or more, to 80 percent for those with pre-retirement incomes of $25,000 or under. (Pre-retirement income here is household income from all sources and includes income earned by both spouses.)

A first approximation allows your client to assume that their retirement living costs would be in the range of 60-80 percent of pre-retirement income. If current income were, say, $40,000, using 70 percent, retirement living costs would be around $28,000 for a comparable standard of living.

There are a number of variables involved here. For example, what is their current living cost annually, including taxes? What proportion of current income is being saved for future use? These two elements always make up their total current income.

For the average person, it may be of some comfort to realize that 60-80 percent of pre-retirement income can provide a somewhat similar standard of living after retirement.

However, circumstances vary. To be effective, planning should be done on a more individual basis. Clients have to take into account the living costs that they will expect to encounter, after they retire, in addition to the income they will receive. The costs, at this stage, can only be an estimate.

Nevertheless, doing an estimate now will give them a basis for making estimates that are more accurate each year, as they get closer to retirement. In addition, it will permit them to examine the components and to adjust them as needed to produce the necessary match with actual income.

You cannot set their directions for financial planning without first knowing where they are today, and what will happen in the near future.
Take Stock of The Clients Present Financial Position

To take stock of their present financial position in terms of what they own and what the client owes to others, and to look at the level of annual accumulation of cash savings. You cannot give someone directions to a new place unless they know where they currently are now. In the same way, they cannot plan their financial future without knowing exactly where they stand today.

They need this information to be able to plan their financial affairs, to detect opportunities for improvement, and to measure the improvement as it is realized.

2. PREPARE A NET WORTH STATEMENT

The starting point of any financial plan is to prepare a net worth statement - an accounting of what an individual owns minus what they owe.

The first step is to separate their fixed assets such as a house, car and cottage from their investment assets such as Canada Savings Bonds and cash accounts. Then determine what they owe - these are their liabilities, and then subtract them from their assets. This will provide a snapshot of their financial situation.

It is not important how the picture looks now. The key is what they can do with the assets and liabilities in the future. Prepared annually, the net worth statement will provide an excellent record of the client's progress to financial independence. Calculating their personal net worth can be an intensely educational experience. If they have a lot of fixed assets in relation to their investment assets, it may mean they are living- and spending- too much in the present, without making sufficient provision for the future.

Statement of Assets and Liabilities

Financial planners should prepare a statement of assets and liabilities for clients and their spouses. Asset is the accounting term that refers to things that they own. Liability refers to the things that they owe. Hopefully they own more than they owe, and this excess is called their net worth.

The overall statement is called a balance sheet when drawn up for corporations, and a statement of net worth when drawn up for an individual. We are not interested in the accounting terminology, but we are interested in drawing up a statement of assets and liabilities that will show us what they have available.
How do you Complete the Assets and Liabilities Worksheet?

Included in the worksheets are some additional schedules. They provide space to record details of a client’s bank accounts, stock market investments, insurance policies, real estate holdings, and so on. Planners should take the time to complete the detailed schedules and to prepare a full and complete list of all assets. Add up the estimated values from these schedules and place the total directly onto the Statement of Assets and Liabilities. Although these schedules are to be used as working papers, they also serve a second purpose. They are also extremely useful for the executor of the estate to be able to avoid a long exhaustive search when taking charge of a person’s finances. Completion of the Statement of Assets and Liabilities is relatively simple.

Once you are satisfied that the Statement of Assets and Liabilities is complete and provides a reasonable estimate of a client’s financial position today, proceed to the preparation of the Annual Cash Flow Forecast. Complete all of the accounting work at one time.

Once these accounting exercises are complete, you can review your client’s overall financial position with a view to identify certain immediate planning opportunities.

Guidelines for Preparing the Assets and Liabilities Worksheet

1. The statement should normally be given the date of the most recent month end. For the latest month end, you can normally obtain bank balances from bank statements or passbooks, as well as statements from trust companies and stockbrokers, and from creditors showing balances due on loans and bills outstanding.

2. The form provides columns for a separate recording of the assets and liabilities of both spouses. There are tax and legal reasons for knowing precisely the assets and liabilities of each spouse, as we shall see later. The combined totals should also be available, because financial planning is generally carried on for the family unit.

3. Certain assets and liabilities are grouped under common headings. The statement thus shows a summary, rather than a detailed listing, of all such assets and liabilities. The attached schedule should be completed so that a listing is readily available by category of the details of individual assets and liabilities.
4. The dollar amounts to be used are estimates of the current values and need not be precise. For example, the following would be a useful estimate: for savings and bonds or term deposits with banks, you might use the amount originally deposited, plus an estimate of interest accruing to date but not yet received or recorded. For stocks and bonds, you would use the latest daily quotations from the financial newspapers. You might estimate the value of their home from prices of comparable houses recently sold. Remember to deduct about 10% for the selling expenses.

5. It may be difficult to calculate the cash value of their life insurance, for there are often several policies, and you may be unfamiliar with the detailed rules and regulations concerning each. It is worth the time and trouble, however, to document information about these policies, so that decisions may be made as to whether the policies should be cashed in, borrowed against, converted, or continued as they stand.

If your client’s have had a number of whole-life policies for some years, the cash value may be significant. You should complete the schedules concerning life insurance at this point, and then write to the Customer Service Department of each life insurance company to obtain the relevant values needed to complete the assessment. In the case of marketable securities and mutual funds the detailed schedules suggest that you record the client’s original purchaser cost, including brokerage charges, and valuation day value, if the stock was held at the time. Although these numbers are not needed for completing the statement of assets and liabilities, they will be helpful when the impact of possible future tax liabilities on the current financial position is considered. They will also be helpful in the administration of your client’s financial affairs.

6. Individuals can open several separate plans for Registered Retirement Saving Plans (RRSP) and may have interests in registered pension plans with both present and previous employers. The detailed schedule for registered funds should be completed using estimates of the value of each plan to date, without reference to the possible income tax liabilities, should these funds be cashed in the near future.

7. If the plan is a money purchase type, or if they have been a member for less than 10 years, use the current value of accumulated contributions. Otherwise, multiply the annual pension estimate at retirement by 16 to arrive at the gross payments due. Then divide this amount in half, to approximate today's present value, and record it on the statement of assets and liabilities.
8. Under the heading of liabilities, segregate those on which interest is charged. Such segregation will help you to draw attention to the cost of carrying debts, particularly on personal debts where interest is not tax deductible.

9. Assets that can be liquidated immediately are called "current" and should be segregated from those that are locked into investments for a term of more than one year. Liabilities to be paid within 12 months are also "current" and should be listed separately from those to be repaid over a longer period.

10. Finally, total liabilities should be deducted from total assets to arrive at your client’s net worth. This net value, when compared to those of previous years, is useful when changes in financial status are being monitored.

Net Worth Statement - Assets and Liabilities

<table>
<thead>
<tr>
<th>Liquid and Income Producing Assets</th>
<th>Yourself</th>
<th>Your Spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, bank accounts, term deposits</td>
<td></td>
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<tr>
<td>Guaranteed investment certificates</td>
<td></td>
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<tr>
<td>Quebec Stock Savings Plan</td>
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<tr>
<td>Stocks, Bonds, and Mutual Funds</td>
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<tr>
<td>Life Insurance (Cash Value)</td>
<td></td>
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<tr>
<td>RRSP</td>
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<tr>
<td>TFSA</td>
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<tr>
<td>Pension Benefit</td>
<td></td>
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<tr>
<td>Other Assets</td>
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<tr>
<td>Sub Total</td>
<td></td>
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<td>Non-Income Producing Assets</td>
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<tr>
<td>Principal Residence</td>
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<tr>
<td>Secondary Residence</td>
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<tr>
<td>Personal effects (car, furniture, boat jewelry, etc.)</td>
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<tr>
<td>Other Personal Assets</td>
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<td>Sub Total</td>
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<tr>
<td>Total Assets</td>
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</table>
## Net Worth Statement - Assets and Liabilities (Part Two)

<table>
<thead>
<tr>
<th>Liabilities</th>
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<tbody>
<tr>
<td>Mortgage (Residence)</td>
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</tr>
<tr>
<td>Other Debts</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
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<tr>
<td>Assets minus Liabilities</td>
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<tr>
<td>Net Worth</td>
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</table>

### LIQUID ASSETS - Cash & Chequing Accounts

<table>
<thead>
<tr>
<th>Institution</th>
<th>Owner You/Spouse/ Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
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</table>

TOTAL AMOUNT $___________

### Savings Accounts & Credit Unions

<table>
<thead>
<tr>
<th>Institution</th>
<th>Owner You/Spouse/ Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
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TOTAL AMOUNT $___________

### Short Term Deposits & Savings Bonds

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<th>Owner You/Spouse/ Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
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TOTAL AMOUNT $___________
Life Insurance & Cash Values

<table>
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<th>Institution</th>
<th>Owner You/Spouse/Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
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TOTAL AMOUNT $__________

Government Savings Bonds

<table>
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<th>Institution</th>
<th>Owner You/Spouse/Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
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TOTAL AMOUNT $__________

Other (Cash with Broker, etc.)

<table>
<thead>
<tr>
<th>Institution</th>
<th>Owner You/Spouse/Joint</th>
<th>Account Type</th>
<th>Amount</th>
<th>Interest Rate</th>
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</table>

TOTAL AMOUNT $__________

MARKETABLE SECURITIES

Common Shares

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Owner You/Spouse/Joint</th>
<th>Date of Purchase</th>
<th># of Shares</th>
<th>Cost</th>
<th>Market Value</th>
<th>Annual Dividend</th>
</tr>
</thead>
<tbody>
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</table>

TOTAL AMOUNT $__________
### Preferred Shares

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Owner You/Spouse/ Joint</th>
<th>Date of Purchase</th>
<th># of Shares</th>
<th>Cost</th>
<th>Market Value $</th>
<th>Annual Dividend</th>
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</thead>
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</table>

**TOTAL AMOUNT $___________**

### Bonds & Debentures

<table>
<thead>
<tr>
<th>Issued By</th>
<th>Owner You/Spouse/ Joint</th>
<th>Face / Par Value</th>
<th>Interest Rate</th>
<th>Interest Per Annum</th>
<th>Purchase Date</th>
<th>Cost</th>
<th>Market Value</th>
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</table>

**TOTAL MARKET VALUE $___________**

### Mutual Funds

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Owner You/Spouse/ Joint</th>
<th>Date of Purchase</th>
<th># of Shares</th>
<th>Cost</th>
<th>Market Value $</th>
<th>Annual Dividend</th>
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**TOTAL COST $___________**

### Gold, Other Precious Metals

<table>
<thead>
<tr>
<th>Issued By</th>
<th>Owner You/Spouse/ Joint</th>
<th>Quantity / Weight</th>
<th>Held By</th>
<th>Annual Income</th>
<th>Purchase Date</th>
<th>Cost</th>
<th>Market Value $</th>
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**TOTAL MARKET VALUE $___________**

Client Centered Financial Planning - SSC - # 10  
Pro-Seminars Limited © 10/18
### Options, Warrants, Rights, Other Securities

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Owner You/Spouse/ Joint</th>
<th>Purchase Date</th>
<th># of Shares</th>
<th>Cost</th>
<th>Market Value $</th>
<th>Annual Dividend</th>
</tr>
</thead>
<tbody>
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</table>

**TOTAL MARKET VALUE $ __________**

### One to Five Year Term Deposits / GIC's

<table>
<thead>
<tr>
<th>Company &amp; Cert #</th>
<th>Owner You/Spouse/ Joint</th>
<th>Principal Amount</th>
<th>Issue Date</th>
<th>% Rate</th>
<th>% Payment</th>
<th>Mat. Date</th>
<th>Mat. Value</th>
<th>Mkt. Value</th>
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**TOTAL MARKET VALUE $ __________**

### Options, Warrants, Rights, Other Securities

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Owner You/Spouse/ Joint</th>
<th>Date of Purchase</th>
<th># of Shares</th>
<th>Cost</th>
<th>Mkt. Value</th>
<th>Annual Dividend</th>
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</thead>
<tbody>
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</table>

**TOTAL MARKET VALUE $ __________**

### NON-MARKETABLE SECURITIES

### Business Interests

<table>
<thead>
<tr>
<th>Firm</th>
<th>Owner You/Spouse/ Joint</th>
<th>Type of Business</th>
<th>Interest Held</th>
<th>Book Value of Interest</th>
<th>Mkt. Value of Interest</th>
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</thead>
<tbody>
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</table>

**TOTAL MARKET VALUE OF INTEREST $ __________**
### Investment Real Estate

<table>
<thead>
<tr>
<th>Location</th>
<th>Owner You/Spouse/Joint</th>
<th>Date and Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (or loss)</th>
</tr>
</thead>
<tbody>
<tr>
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TOTAL MARKET VALUE $____________

### Pension Plan Interests

<table>
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<tr>
<th>Company or Sponsor</th>
<th>Owner You/Spouse/Joint</th>
<th>Contributions Plus Interest</th>
<th>Normal Ret. Date</th>
<th>Annual Pension Amount</th>
<th>Life Exp. % Ann. Pens. X 50 %</th>
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</thead>
<tbody>
<tr>
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TOTAL ANNUAL PENSION $____________

### Tax Registered Funds: RRSP / RHOSP / DPST / QSSP

<table>
<thead>
<tr>
<th>Issuer - Type &amp; Description</th>
<th>Owner You/Spouse/Joint</th>
<th># Of Units Share Par Val./ Principal Amount</th>
<th>Maturity Date</th>
<th>Market or Accrual Value $</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
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TOTAL ANNUAL INCOME $____________

### Tax Shelter Investments

<table>
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<tr>
<th>Issuer - Type &amp; Description</th>
<th>Owner You/Spouse/Joint</th>
<th># Of Units Share Par Value/ Principal Amount</th>
<th>Maturity Date</th>
<th>Market or Accrual Value $</th>
<th>Annual Income</th>
</tr>
</thead>
<tbody>
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</table>

TOTAL MARKET VALUE $ ______________
### Real Estate and Other Funds / Syndication’s

<table>
<thead>
<tr>
<th>Type</th>
<th>Location</th>
<th>Owner</th>
<th>Date of Purchase</th>
<th>Cost</th>
<th>Market Value $</th>
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</thead>
<tbody>
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**TOTAL MARKET VALUE $ ____________**

### Loans and Mortgages

<table>
<thead>
<tr>
<th>Debtor and Terms</th>
<th>Owner</th>
<th>Date Issued and Payable</th>
<th>Outstanding Amount</th>
<th>Market Value $</th>
<th>Interest Rate</th>
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**TOTAL MARKET VALUE $ ____________**

### Annuities: Deferred / IAAC’s

<table>
<thead>
<tr>
<th>Company &amp; Policy #</th>
<th>Issue Date</th>
<th>Mat. Date</th>
<th>Owner</th>
<th>Benefit</th>
<th>Annual Increase</th>
<th>Present Value</th>
<th>Mat. Value</th>
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**TOTAL PRESENT VALUE $ ________**

### Other Non-Marketable Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner</th>
<th>Date Acquired</th>
<th>Cost</th>
<th>Market Value $</th>
<th>Annual Income</th>
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<tbody>
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**TOTAL MARKET VALUE $ ____________**
## ASSETS & LIABILITIES

### Personal Real Estate - Residence

<table>
<thead>
<tr>
<th>Location</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
</tr>
</thead>
<tbody>
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</table>

TOTAL MARKET VALUE $ __________

### Seasonal Residence

<table>
<thead>
<tr>
<th>Location</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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TOTAL MARKET VALUE $ __________

### Other Personal Real Estate

<table>
<thead>
<tr>
<th>Location</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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TOTAL MARKET VALUE $ __________

### Automobiles and Boats

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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TOTAL MARKET VALUE $ __________

### Art and Antiques

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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TOTAL MARKET VALUE $ __________
### Furs and Jewelry

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner You/Spouse/Joint</th>
<th>Date &amp; Cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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**TOTAL MARKET VALUE $ __________**

### Collections, Hobbies, Etc.

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner You/Spouse/Joint</th>
<th>Date and cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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**TOTAL MARKET VALUE $ __________**

### Furniture and Household Accessories

<table>
<thead>
<tr>
<th>Description</th>
<th>Owner You/Spouse/Joint</th>
<th>Date and cost of Purchase</th>
<th>Market Value $</th>
<th>Annual Income (Expense)</th>
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**TOTAL MARKET VALUE $ __________**

### LIABILITIES - BALANCE SHEET

#### Bank and Other Short Term Loans

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
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</table>

**TOTAL OWING $ __________**
### Charge Accounts / Credit Cards / Bills payable

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
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TOTAL OWING $ __________

### Installment Credit & Other Consumer Loans

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

TOTAL OWING $ __________

### Tax and Other Liabilities

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
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</table>

TOTAL OWING $ __________

### Mortgages on Personal Assets

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
</tr>
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</tbody>
</table>

TOTAL OWING $ __________
### Mortgages and Loans on Investment Assets

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

TOTAL OWING $ __________

### Other Loans: Bank / Margin / Spousal / Insurance / Etc.

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
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</tbody>
</table>

TOTAL OWING $ __________

### Other Debts and Guarantees

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Date and Purpose of Loan</th>
<th>Original Balance</th>
<th>Current Balance</th>
<th>Payments Due Date Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
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</table>

TOTAL OWING $ __________

3. **PREPARE YOUR CLIENT’S BUDGET STATEMENT**

Most people know their income precisely. It is the dollars going out that baffle them. Where does it all go? How much are they spending and on what?

A budget statement is another important step in the financial planning process. It is designed to eliminate the vagueness and confusion most of us feel about the state of our income and expenditures. The most important thing such a statement can tell you is whether a client is safe … or heading for financial ruin.

The process of establishing a budget statement is relatively simple. You list all of their sources of income by classification such as employment, investment, government benefits, pension, RRSP and others.

From the total income, you subtract their expenditures such as security and health care, shelter, food, transportation, recreation, capital expenditures, along with other classifications.
When you have determined all of your client’s income and all of their expenditures, then their budget is determined by subtracting the expenditures from the income.

There are many different types of budget statements that you could use, some are a little more complicated than others, but they all serve the same purpose: to see where the client is spending their money, and on what.

The following simple example of a budget statement will help you determine where your clients and prospects stand today in relation to any disposable cash needed to help them achieve any of their goals for the future.

<table>
<thead>
<tr>
<th>MONTHLY BUDGET STATEMENT</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HOME</strong></td>
<td><strong>CAR</strong></td>
<td></td>
</tr>
<tr>
<td>Rent or Mortgage Payments</td>
<td>Gas, Oil</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>Tires, battery</td>
<td></td>
</tr>
<tr>
<td>Homeowners Insurance</td>
<td>Insurance, licenses</td>
<td></td>
</tr>
<tr>
<td>Maintenance (lawn, painting, repairs)</td>
<td>Repairs</td>
<td></td>
</tr>
<tr>
<td>Heat</td>
<td>Leasing or loan costs</td>
<td></td>
</tr>
<tr>
<td>Electricity, phone, water</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Cable TV</td>
<td>Total (C)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>DEBTS</td>
<td></td>
</tr>
<tr>
<td>Total (A)</td>
<td>Monthly payments to Retire accounts due (e.g. Charge accounts)</td>
<td></td>
</tr>
<tr>
<td><strong>LIVING EXPENSES</strong></td>
<td>Furniture and appliances</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>Monthly payments to Retire loans (Bank, Finance Co. etc.)</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Laundry and Cleaning</td>
<td>Total (D)</td>
<td></td>
</tr>
<tr>
<td>Babysitting</td>
<td>GENERAL EXPENSES</td>
<td></td>
</tr>
<tr>
<td>Vacation Property Expenses</td>
<td>Life Insurance, annuities</td>
<td></td>
</tr>
<tr>
<td>Special Events and gifts (anniversaries and birthday’s)</td>
<td>Savings</td>
<td></td>
</tr>
<tr>
<td>Entertainment (movies, dinner out, theatre)</td>
<td>RRSP</td>
<td></td>
</tr>
<tr>
<td>Hobbies, books</td>
<td>RESP</td>
<td></td>
</tr>
<tr>
<td>Sports, skiing, etc.</td>
<td>Investment Funds</td>
<td></td>
</tr>
<tr>
<td>Music Lessons</td>
<td>Church, Charities</td>
<td></td>
</tr>
<tr>
<td>Liquor and tobacco</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Children’s Allowance</td>
<td>Total (E)</td>
<td></td>
</tr>
<tr>
<td>Medical Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (B)</td>
<td></td>
<td></td>
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</tbody>
</table>

**Total A, B, C, D, E = TOTAL MONTHLY INCOME REQUIRED - $**
4. SHOW YOUR CLIENT HOW TO MANAGE THEIR DEBTS

What many people discover from their budget statement is that they are borrowing far more than they realize. The next step towards financial independence is to start managing your debts, instead of letting them manage you.

Most of our debts come from three sources; mortgages, bank loans, and credit cards. Managing these three sources can often free up a surprising amount of cash.

Clients Should Reduce Their Mortgage

Your clients should take some time to shop around. They might discover that the next time their mortgage comes up for renewal they might be able to make a better deal. Even a fractional improvement in the interest rate can produce dramatic results. For instance, the difference between 5.5 % and 6.0% on a $50 000, 25-year mortgage is $14.71 per month. That is $176.52 per year, or $4413.00 over the life of the mortgage - enough to reduce the amortization period from 25 to 22 years.

In other words, a mere half a percent point can buy your clients or prospects 3 years of freedom from mortgage payments.

However, it is also important to determine the costs involved in setting up a new mortgage, such as legal fees, costs of discharging the existing mortgage and appraisal fees, to ensure that the saving in interest is justified.

Shop for The Best Bank Loan

Banks sell money the way car dealers sell cars. So, if your clients are borrowing money- or even if they have already borrowed it, advise them to take the time to shop around for a better deal.

Beware of Credit Cards

The best rule is: do not use them, except for record keeping or emergencies. If your clients are the kind of organized people who always pay off their credit card balances before they are charged interest, there is no problem. However, very few of us are that organized. Plastic is dangerously seductive. Simply eliminating those 2 fatal words “Charge It” - might be all it takes to turn their cash flow from negative to positive.

5. ELIMINATE NON-DEDUCTABLE DEBT

The elimination of non-deductible debt is necessary with any well-managed financial program.
If your clients have a mortgage bearing interest at 6% and are in a 40% tax bracket then, they would need to earn up to 10% in an outside investment in order to duplicate the benefit of paying down their mortgage.

6. MAKE YOUR CLIENT’S MONEY GROW

Since one of the keys to a good investment portfolio is diversification, undue emphasis should not be placed on any one type of investment. Your clients should look for a balance in their portfolio of investments, which produce interest, dividends and capital gains. The following briefly outlines some of the forms of investment vehicles available.

Treasury Bills

Among the more important debt instruments are treasury bills, which are short-term borrowings by the Federal Government. They usually mature in 59, 91, or 1120 days, and their price fluctuates daily according to the prevailing level of interest rates.

They are safe, very liquid and usually pay better interest than Canada Savings Bonds.

Guaranteed Investment Certificates

GIC’s are one of the most secure types of intermediate term investments. These are issued by banks and trust companies and carry maturities of up to 5 years. If your clients are looking for a mature investment with a guaranteed rate of return, then GIC’s will be of interest to them. Further, the face amount of their investment is normally protected. The major drawback to these is that it is difficult to cash them in before maturity. In fact, some carriers do not allow redemption before maturity. They do however, make excellent collateral for loans, should your clients or prospects require money before the term of the investment is up.

Bonds Can Fluctuate

Companies and governments issue bonds. When they sell your clients a bond, they are borrowing their money. The prices of most government and corporate bonds fluctuate daily, just as stock prices do, based on the prevailing level of interest rates. When interest rates fall, bond prices rise and vice versa.

The best-known type of government bonds, Canada Savings Bonds, never fluctuates in price.

The client can cash in a CSB at any time, at any bank or trust company for its full interest rate for its full-face value plus accrued interest.
The competitive interest rate, along with the ease of cashing them in, make CBS’s an excellent investment for emergency funds and for funds which would be required on relatively short notice. The government issues CBS’s in denominations as small as $100. They can be bought either for cash in installments, or through payroll deductions.

**Stripped Bonds**

A type of Bond, which has gained in popularity recently, is known as a stripped bond. Stripped bonds are bonds, which sell at a large discount from their face value, because they do not pay any interest. The interest-bearing coupons have been “stripped” from their bond and sold separately. A bond with a face value of $100,000 payable in 22 years from now might sell today for only $20,000 because you can’t collect any interest in the meantime. Stripped bonds are a particularly attractive way of locking in high interest rates for a long period.

They are not particularly liquid so if you need your cash, there could be a problem with a buyer.

**Discount Bonds**

A bond, which sells at less than it is face value, is known as a discount bond and can be an attractive investment to produce a capital gain. Suppose your client could find a bond which paid 2% interest annually but which sold at a substantial discount from the face amount. If the bond had a 10-year maturity and they were to pay $700 for a $1,000 bond, they would collect the interest annually over the 10 years plus, at the end of the 10 years, your client would receive the face amount of $1,000. This would result in a capital gain of $300. This capital gain would be subject to special tax treatment.

**Investing in Mortgages**

Individuals can invest in a mortgage in one of three ways: they could take back a mortgage when they sell their property, they could arrange to lend money through an intermediary such as a real estate agent, or they could purchase an existing mortgage.

For those individuals who are not well versed in real estate appraisal, the mortgage route should be approached with caution.

There are 2 significant factors in undertaking the rating of a mortgage: the credit worthiness of the borrower and the value of the real estate. As long as the mortgage is not in excess of, for example, 75% of the sale price of the property, then your investment will likely be safe.
Credit rating services will provide information on the financial background of the borrower. If someone purchases an existing mortgage, then they should have the property appraised by a professional.

Mortgages often pay a higher rate of interest than other interest-bearing investments. However, your clients should certainly be aware of the risks involved.

**Deferred Annuities**

Deferred annuities are like regular term deposits except that your clients would deposit their money with an insurance company instead of with a bank or a trust company. They are usually sold in terms of 1 to 5 years and the person can choose either a floating interest rate, which changes daily, or a guaranteed fixed rate.

With floating rate annuities, money can be taken at any time. With fixed rate annuities, money must remain on deposit for the entire term. In addition to providing attractive investment opportunities, a deferred annuity, because it has a beneficiary, would flow directly to that person in the event of death and should not be subject to legal or probate fees. This could reduce estate costs considerably.

**Investing in Preferred Shares**

In order to encourage investment in Canadian securities and avoid double taxation, dividends from Canadian controlled corporations are taxed more favorable than interest income. As an example, if an investor is in a 38% tax bracket received $1000 of income he or she would then retain $945 if the income were from dividends and only $620 if the income was from an interest-bearing security. For this reason, preferred shares which give the client a regular return on their money in the form of a quarterly fixed dividend could prove advantageous. The yield on a preferred share is generally higher than that of a common share.

Therefore, for income purpose, preferred shares are generally more desirably than common shares.

Investing in preferred of blue-chip companies will provide your clients with secure investment, along with an attractive after-tax return.

Other types of preferred, such as retractable or convertibles, provide enhanced yield or the ability to take advantage of increases in the price of the common shares of a particular company.
Investing in Common Shares

Common shares are generally purchased for capital gains. They are not generally as secure as preferred shares and may fluctuate in price, depending on various market conditions, including interest rates. If the company undergoes hard times, the board of directors may choose to reduce or eliminate the common share dividend.

Despite these possible disadvantages, carefully selected common shares can increase in value over time and provide an excellent capital gain.

Investment Funds

Investing in stocks, bonds or real estate requires either substantial expertise or the determination to acquire it. Your client may not want the hassle of managing his or her own investments. That is why investment funds were developed and why they have become increasingly popular in Canada.

Investment funds offer some powerful attractions. Perhaps the most important is that they put the high-priced services of professional money managers within the reach of small investors. They effectively address one of the major drawbacks of the investment industry—the fact that sound, independent financial advice is a costly commodity. Investment funds also permit a degree of diversification that small investors could not afford individually.

If your client only has $1000 or so to invest, they simply do not have enough cash to spread their risk by purchasing a wide variety of investment vehicles. Nevertheless, in an investment fund, their $1000 can buy a small piece of a highly diversified basket of assets.

There is another dimension to diversification. Many funds specialize in particular investment areas: precious metals, Asian securities, commodities, currencies, U.S. stocks, high technology stocks, money markets instruments—a vast range of options.

No one person could possibly know enough to operate effectively in so many diverse areas. However, by holding a portfolio of specialized investment funds, even a small investor can command an astonishingly wide range of investment approaches and expertise.

Despite the benefits of diversification and the expertise of skilled financial managers, investment funds are not immune to vagaries of the market. They can, and do, go down as well as up. In general, however, investment funds may be the best answer for people who have money to invest, but not much time to manage those investments.
Real Estate as An Investment

Over the past 30 years, it is safe to say; more Canadians have made money from real estate than from any other form of investment.

The attractions are undeniable. Real estate has consistently outpaced the inflation rate for many years.

In addition, because your clients usually borrow to buy real estate, their investment is leveraged. This has the long effect of magnifying the return on their money - so long as property values continue to rise, as thousands of Canadians discovered during the market downturn in 1989. However, real estate prices do not always go up. Leverage, which magnifies your client’s gains on the way up, can savagely magnify their losses on the way down.

The return on investment in real estate is often hard to measure. You do not really know what the property is worth until it is sold. Besides, depreciation and other running expenses made it harder to calculate the yield on an income property than would be the case on, for example, a bond or a term deposit.

Also, the costs of buying and selling real estate can be substantial: legal fees, appraisal fees, broker’s fees and other charges can amount to as much as 8% of the selling price. However, there are tax advantages associated with investing in real estate.

Depreciation on real property (that is, the allowance allowed to cover wear and tear) can be used to reduce taxable income. In addition, if you make a capital gain selling your principal residence, the gain is tax exempt.

It is still true that an investment in a home or paying down on a mortgage is usually the best personal investment that a person can make.

7. MAKE THE INCOME TAX ACT WORK FOR YOUR CLIENT

There are a number of ways to make the income tax act work for you. Two of the most important are:

- Transferring Income to another person
- Making good use of tax-favoured investment vehicles

INCOME SPLITTING

Transferring income to a spouse, to a child or to parents has been a favoured method of reducing income taxes over the years. The rules to prevent the more obvious ways of splitting income have been in effect for years, and were strongly buttressed by legislative changes introduced in the 1980’s.
In fact, changes that are more recent go beyond the traditional prohibition of splitting income with a spouse or minor children and extend the rules to adult children, parents and any other person with whom the taxpayer does not deal at arm’s-length. In the event of a marriage breakdown where the married parties are living apart, the attribution rules relating to income and capital gains do not apply.

It is worth noting that income splitting, with both a spouse and other family members, continues to be important thanks to the claw back of government benefits such as Old Age Security and the requirement to reduce the non-refundable age credit when certain income thresholds are reached.

Despite current restrictions, there are still some avenues for splitting income. However, professional advice from the client’s accountant or lawyer may be required before proceeding with any but the most basic planning ideas.

**Income Splitting — How the New Rules Will Impact You and Your Family**

On December 13, 2017, the government released new proposals designed to prevent income splitting using private corporations. Originally included as part of the July 18, 2017 private company consultation paper issued by the Department of Finance, the proposed new rules simplify what was initially announced. The new rules were passed into law on June 21, 2018, with only a few minor modifications to the December proposals, and are effective January 1, 2018.

The purpose of this article is to address some questions that have come up since the new rules were released.

**How do the new rules work?**

The government’s objective is to eliminate the tax benefits of income splitting where the recipient of the income (a related family member) has not made a sufficient contribution to the family business. To accomplish this, they are extending the Tax on Split Income (TOSI) rules to apply to certain income received by Canadian resident adult individuals as well.

The TOSI rules previously only applied to individuals who were under the age of 18. Any income taxed under the TOSI rules is subject to tax at the highest personal marginal tax rates, eliminating any advantage achieved from income splitting.

The TOSI rules will potentially apply to essentially any income amounts, dividends and capital gains that are considered “split income.”
This generally includes the following:

- Dividends and shareholder benefits from a private company;
- Income received from a partnership or trust where the income was derived from a related business, or the rental of property in certain cases;
- Income on certain debt obligations (e.g., interest); and
- Income or gains from the disposition of certain property disposed of after 2017.

However, the rules provide a number of exclusions, some of which are “bright-line” tests. If the conditions for one of the exclusions are met, the TOSI rules should not apply. Note that for adult individuals, amounts will generally only be captured in split income if they are derived from a related business.

In this article, we will not go through all of the exclusions — rather, we will focus on three main exclusions and also how the TOSI rules impact the taxation of capital gains. This will provide further insight on how these exclusions are intended to work, as well as highlight some issues and uncertainties. Notable exclusions not addressed in this article include: the ability to split income with a spouse — once a business owner reaches 65 years of age, income and gains on inherited property (where certain conditions are met) and deemed taxable capital gains realized on death.

**Exclusion from TOSI For “Excluded Businesses”**

We have had a number of questions in this area. The exception for excluded businesses focuses on the contribution of an individual to the business. The first thing to keep in mind is that the new rules do not apply to wages paid for work performed. Salaries and wages have always been subject to a reasonableness test — generally, a tax deduction will not be allowed to the business for amounts paid in excess of a reasonable amount as wages, while the recipient is still fully taxable on what they receive. Let’s consider dividends received from the family business by adult family members, which will be subject to the new rules.

The excluded business exception can apply to any family member who is 18 years of age or older. To qualify for this exclusion, the family member must be engaged on a regular, continuous and substantial basis in the business. This can be proven on a factual basis or by meeting a threshold of having worked on average at least 20 hours a week in the business in the current year, during the part of the year in which the business operates. This exclusion will also be met if in a total of 5 previous taxation years of the individual the 20 hour per week test has been satisfied. Note that this is true even if these 5 years occurred any time in the past. The 5 years do not have to be in succession.
Therefore, if the family member has worked at least 20 hours a week on average in 5 years at any time in the past, any dividends they receive now or in the future from the family business will generally not be subject to TOSI.

The question then is how you prove that the business is an excluded business for any individual. To meet this exclusion, likely the best way is to have evidence that the average of 20 hours a week test was met. Time records would be ideal, but this is often not available in a family business context. It has been unclear what type of evidence the Canada Revenue Agency (CRA) will require for past years, where records may be difficult to obtain, if you are relying on the fact that the test was met in 5 previous taxation years. The CRA recently commented that they understand the challenge of providing historical documentation for years prior to 2018. As a result, they have indicated they will consider all information that can be made available about the history of the business and involvement of family members and are generally widening the factors they will consider where pre-2018 historical time records do not exist. If you intend to rely on this exclusion going forward, be prepared to document the hours that family members are spending working in the business.

**Exclusion from TOSI For “Excluded Shares”**

An exclusion from TOSI applies for income from, or capital gains from the disposition of, excluded shares held by individuals who are 25 years of age or older. In order for shares to be considered excluded shares, four conditions must be met. The individual must hold shares that represent at least 10% of the votes and value of the company (these shares can be separate from the excluded shares of the company). In addition to this requirement, the exclusion only applies to shares of corporations where less than 90% of the business income of the corporation is from the provision of services, and where 90% or more of all the income of the corporation is not derived directly or indirectly from one or more other related businesses of the individual (outside of the corporation). Excluded shares also do not include shares of a professional corporation.

Based on the votes and value condition, individuals holding shares through a trust will not be able to rely on this exclusion, as it appears that a direct holding of shares is a requirement. Where planning makes sense and is available, a rollout of shares to trust beneficiaries could allow for directly holding excluded shares to avoid TOSI.

This exclusion will not apply to shares held in service businesses due to the 90% condition requiring a look at business income from services. This 90% condition raises some uncertainties in terms of the breadth of businesses that could be captured as a service business since “the provision of services” is not specifically defined in the tax rules.
This condition will also result in additional compliance for some service businesses which earn business income from sources other than services as well, as tracking of service income will be necessary.

In addition, this exclusion requires a look at whether the corporation is earning income derived from another related business. According to the government papers, this particular condition is meant to prevent splitting a service business into services and non-services parts using holding companies or sister companies (known as “side-car” structures). However, holding companies are often used in family planning structures for other purposes. It may be the case that the 10% votes and value requirement is met in terms of individuals holding shares of a holding company. However, to meet the exclusion, less than 10% of the income of the corporation can be from another related business outside of the corporation. Therefore, for a holding company, it will be necessary to consider all income, including dividend income received by a holding company from an operating company, to determine whether or not the exclusion will apply. The CRA has confirmed that it will be difficult for shares of a holding company to be excluded shares where the income of the holding company is dividend income received from a subsidiary operating company that is a related business.

As a last note, the 10% votes and value requirement of the shareholder generally applies at the time the income is received. However, for 2018 only, a special transitional rule applies for the purposes of this condition. The transitional rule will allow this condition to be applied at the end of the year. For example, if an amount is received in 2018, and at the time of receipt the taxpayer does not own 10% of the votes and value of the company, the amount received could be excluded from split income (so that TOSI doesn’t apply) in 2018 if the taxpayer increases their votes and value ownership to 10% by the end of 2018.

**Exclusion from TOSI For “Reasonable Returns”**

If you don’t meet the excluded business or excluded shares exceptions, there is another exception based on a reasonable return that can apply for adult family members who are 25 years of age and older. For example, a reasonable amount of dividends can be paid to these individuals and not be subject to TOSI if the amount paid represents a reasonable return on their contribution to the business. This reasonable return will take into account a number of factors including the work performed for the business. The other factors include the property contributed by the individual to the business, the risks assumed by the individual in respect of the business, the historical payments that have been made to the person in the past for their contributions, and other relevant factors.
Summary of The Three Previous Exclusions

When considering whether dividends on private company shares are effectively excluded from the TOSI rules, it may be easier to qualify for the excluded business exception as it provides a “bright-line” test. Prove you have worked an average of 20 hours a week in the business in the current year or in 5 previous taxation years and the TOSI rules do not apply. The excluded shares exception has also been provided as a bright-line test for individuals 25 or older. However, with four conditions to meet, it appears limited to non-service businesses earning income from third parties with simple direct shareholding structures. The excluded shares exception will be difficult or impossible to access by individuals in many family business structures that use holding companies and trusts, or that earn service income or income from a related business. If you can’t meet one of these two exceptions and are 25 years of age or older, then your dividends can still be excluded and not subject to the TOSI rules, but it will require you to prove a reasonable return based on the above criteria — a much harder task.

Note that for adult family members aged 18 to 24, there are further restrictions on what exclusions may apply to avoid the TOSI rules. If a family member in this age group doesn’t qualify for the excluded business exception (as discussed above), then it will be necessary to determine if they contributed capital to the business as this may allow for another exclusion to apply. These include an exclusion for a safe harbour capital return or an exclusion for a reasonable return in respect of contributions of arm’s length capital made by the individual in support of the business. These are more limited exclusions, making it more difficult for this age group to avoid TOSI.

What is the impact of the TOSI rules on gains?

Under the new rules, split income has been expanded to capture capital gains (or profits) realized directly, or distributed through a trust, from the disposition after 2017 of certain property. For family businesses, this will include gains on the disposition of private company shares. If such gains are considered split income, an exclusion may be available so that TOSI does not apply.

Most importantly for family businesses, the changes to the TOSI rules will generally not limit access to the lifetime capital gains exemption (LCGE). This is a significant change from the first round of private company tax proposals released in July 2017. Under the changes now passed into law, there is a specific exclusion from the TOSI rules for taxable capital gains from the disposition of qualified farm or fishing property or qualified small business corporation shares. This will enable families to continue to plan to use the LCGE. Although it is necessary for the property to qualify for the LCGE for the exclusion to apply, the LCGE doesn’t need to be claimed, meaning all of these eligible capital gains are not subject to TOSI (with one exception for minors).
In circumstances where a gain is not eligible for the LCGE, it is possible that another one of the exclusions previously discussed may apply to avoid TOSI. Note that if the excluded business conditions are being considered — the individual must satisfy the 5 previous year test to meet that exclusion. This means that the individual needs to make a meaningful contribution to the business either factually, or by meeting the average 20 hour a week test in 5 previous taxation years. You cannot apply the test for just the current year for gains.

For minors, there is another rule to keep in mind when it comes to the LCGE. The pre-2018 TOSI rules re-characterize certain capital gains realized by minors on non-arm’s length transfers into taxable dividends. This rule will continue to apply to minors (only) post-2017, and as a result, the LCGE will not be available in these circumstances, as these gains will instead be treated as ineligible dividends.

**HOW TO KEEP SPLITTING INCOME WITH FAMILY MEMBERS IN 2018 AND BEYOND**

*Update: The prescribed interest rate for family loans, discussed in this article, increased to 2% from 1% in March 2018.)*

The new income sprinkling rules mean it no longer makes sense for incorporated professionals and many business owners to income split with their families. That’s because dividends paid to a spouse or child will now be taxed at the top marginal rate unless the shareholder receiving the dividend can show specific labour or capital contributions to the business’s operations.

Taxpayers will be responsible for demonstrating in their tax returns that a family member meaningfully contributes to the business. It’s up to CRA to decide if the compensation is reasonable.

*If only one shareholder is considered the legitimate owner of the business, he or she is only allowed to income split with:*

- a spouse, once the owner turns 65;
- adults aged 25 or older who hold a 10% voting share in a non-professional corporation that earns less than 90% of its income from services; and
- adults aged 18 or older who have averaged 20 hours of work in the business per week during the year, or any of the five previous years.

Shareholders who do not fit perfectly into one of these categories won’t know whether their 2018 dividend compensation will be taxed at the highest marginal rate (53.53% in Ontario) until mid-2019 when they receive their Notices of Assessment.

This is an unacceptable risk for most small business owners.
Maybe Consider A Prescribed Rate Loan

An alternative to paying dividends is to lend tax-paid personal capital to a spouse, child, or trust using a prescribed rate loan. This allows the passive income earned on the assets to provide an income for the borrower that avoids the tax on split income (TOSI) and kiddie tax rules that result in dividends being taxed at the top marginal rate.

For example, a $1.5-million loan to a trust at the current prescribed rate of 1% could earn a 4% cash yield after fees, equaling $60,000 of income. Out of that income, $15,000 would have to be paid back to the lender and would need to be declared as interest income. The remaining $45,000, however, could be distributed to the trust’s beneficiaries at the trustees’ discretion.

The loan option is attractive because, assuming interest is paid 30 days after year’s end, the interest rate will always be the prescribed rate in effect when the loan was made, which is currently only 1%. This rate is set quarterly and will be announced again on March 15. Based on our analysis, the rate is likely to increase. Here’s why.

*The Income Tax Act contains a formula for determining the prescribed rate, which can be summarized as:*

- The average 90 Day T-Bill rate in the first 30 days of a quarter rounded up to the next whole percent and applicable the next quarter

In Q4 2017, the rate was 93 basis points, keeping the rate at 1% in Q1 2018. However, the T-Bill rate is already 1.17% as of January 15, 2018. If it stays there, the Q2 rate will be 2%, or double the current rate.

Such a doubling would decrease the income-splitting potential of our above example by $15,000 (or 33%). Further, the 2018 federal budget will be released in March along with new passive investment rules for CCPCs. These new rules could easily limit trust loans or change the prescribed rate model.

**Some Benefits of Prescribed Loans**

Individuals can loan tax-paid capital to a trust at the prescribed rate. The trust can then distribute taxable income earned above that rate to the beneficiaries of the trust including a spouse, children or grandchildren.

Business owners can withdraw that tax-paid capital from their corporations (e.g., from their Capital Dividend Account or using shareholder loans) to achieve the above-noted strategy.
The most obvious reason is to allow business owners to continue income splitting with their spouse before age 65 (the age at which income splitting is allowed).

Trust loans could also work for business owners who have been saving for their children’s post-secondary education in their private corporations and were planning to pay their children dividends when they turned 18, but after these proposals are unable to do so. The disbursements that result from loaning money to a trust also avoid the kiddie tax, so the income could also be used to pay expenses for children and grandchildren under 18.

Ultimately, one family could use the trust for several purposes over time, as a trust is fully discretionary and has the longevity benefit of not requiring to be wound up upon the lender’s death (note that unrealized gains on trust assets are subject to capital gains tax unless distributed every 21 years).

**What Are the Next Steps?**

Advisors should review if this type of planning might apply to their clients and ensure they have discussed the options with them. The client must have tax-paid capital via shareholder loans, the Capital Dividend Account or personal non-registered assets in order for this strategy to work. There are also other factors to consider, including a person’s comfort level with making loans and any family law implications. It is important that wealth management advisors work closely with their client’s accountant and lawyer on implementation to consider details such as the trust structure, promissory note, and ongoing administration.

**LOANS AT INTEREST TO ADULT CHILDREN OR OTHER FAMILY MEMBERS**

**Gifting Family Members Money: Dos and Don’ts**

A loan or a gift of money to a family member can truly provide a helping hand. But caution is required if you want to avoid unpleasant surprises or misunderstandings. Here are a few valuable tips to simplify the transfer of money or assets to a loved one.

**Before Making A Loan or Gifting Money**

Many people would like to help their loved ones financially during their lifetime rather than wait until after they’ve passed. And wanting to help is a good thing, but you need the means to do so. This is where a retirement-income projection can serve to evaluate your financial independence. It provides calculations that take into account several factors, including life expectancy and cost-of-living increases. Because such considerations can be quite complex, don’t hesitate to seek help from your financial advisor.
Once you’ve made sure you’re able to give without jeopardizing your retirement, the next step is to decide between a gift and a loan. Each has specific legal and tax implications.

**Taxable and non-taxable gifts**

When it comes to gifts, the tax implications vary according to whether you are giving money, financial products or a cottage, etc. To avoid unpleasant surprises, get all the information you need before proceeding. Here are some examples of different gifts and their impact on your tax return.

**Non-taxable gifts**

**Money**

There is no tax to pay on a gift of money to a family member, neither for the donor nor the recipient.

**Taxable gifts**

**Investment or Asset**

If you transfer an investment or a revenue-generating asset to a spouse or a child who is a minor, the attribution rules may apply. This means that you will be taxed on any income earned.

**From An RRSP**

Want to make a withdrawal from your Registered Retirement Savings Plan (RRSP)? Keep in mind that all such withdrawals are taxable.

**Non-Registered Investment**

Have you decided to sell non-registered investments in order to make a cash gift to a family member? If so, you are required to pay capital-gains tax. The capital gain is the difference between the purchase price and the sale price of the financial product.

**Real Estate**

If you choose to give the family cottage to a child, remember that the capital gain is taxable. In the case of a cottage, it often makes more sense to sell it at its current market value. Otherwise, when it’s resold, tax on the capital gain will be calculated based on the purchase price paid by the parent, unless the cottage becomes the child’s principal residence.
Farm

In the case of a farm that you want to give to your children, the situation is a little different. Capital-gains tax must be paid, but specific rules allow for deferred payment.

In all cases, a tax specialist can help you to fully understand and navigate the tax laws. Along with you, he or she can map out a strategy that best responds to your situation.

Avoid Misunderstandings

After a person’s death, it’s not uncommon to see disputes arise among the heirs. And gifts that have been made can often cause tension among family members, especially in the absence of documents outlining the parent’s intentions. It’s easy to imagine the confusion that ensues when documents are either unclear or are open to different interpretations. That’s why when it comes to planning your estate, it’s extremely important to protect your beneficiaries by formalizing the gift with help from a legal professional.

In Quebec, this involves publishing a notarized act in the Register of Personal Rights, where, for example, you could insert an exemption-from-seizure clause that would protect an asset from falling into the hands of potential creditors.

The notarized act also offers increased protection in the case of separation or divorce. It establishes the source of the asset, the date of transfer and its exclusion from the conjugal assets. Since this applies to capital as well as income, it will not be part of the division of the family patrimony or matrimonial regime.

If you live in Ontario, the best way to formalize a significant gift is in your Will. This can be achieved in one of three ways: First, you can outright forgive the gift, meaning it disappears without affecting your estate. Second, you can demand repayment; for instance, in cases where the funds are needed to provide inheritance to other beneficiaries. And finally, in order to be fair to those who may not have received a gift, you can require the amount to be deducted from the beneficiary’s share of your estate. In this case, the gift would be deemed an advance on the beneficiary’s future inheritance, and therefore forgiven.

A well-advised Will, or a notarized act in Quebec, will clearly formalize your intention when it comes to gift-giving. By carefully planning your legacy now, you can rest assured life will be easier for your heirs when you’re no longer around.
Granting A Loan

Instead of an outright gift, perhaps you want to make a loan in order to eventually get your money back? In this case, to ensure repayment of the loan it’s advisable to include guarantees in the event of insolvency. You can consult a notary to have the necessary contract drawn up. Also remember to provide statements to help track the repayment of the loan. In the event of death, this can help prevent misunderstandings among the heirs. Don’t forget that you must also report any interest you may have earned in your tax return.

If you wish, you can also waive any interest payments or repayment of the capital. And you can do so without incurring tax implications.

There are special rules, though, for certain types of loans.

Demand-Note Loan

Also known as a demand loan, this type of loan offers great flexibility for repayment. Another notable feature is that such loans are subject to prescription three years after the date of signing, meaning that the right to demand repayment expires if no payment has been made during this period. To ensure that the demand-note loan remains valid, make sure to have it renewed in a timely fashion by signing a new note or an acknowledgement of debt. You can also demand a payment. This can help to avoid many difficulties in the event of the death of a creditor who has not been fully repaid.

Mortgage

An interest-free mortgage is often used as a way to help a child become a homeowner. It has the advantage of offering security to the lender, because the house is under guarantee and there are no tax implications.

Income-Splitting Loan

You can sometimes use a loan to a minor child or a spouse to reduce your income tax. As with gifts, the attribution rules may apply to loans used for investments. This means that you can be taxed on the income generated. To avoid this scenario, it’s recommended to stipulate an interest rate equal to the one prescribed by the Canada Revenue Agency.

This can also apply to a loan made to an adult child, depending on the intent of the loan. The attribution rules do not apply for a loan for the purchase of a car, but if the goal is to reduce your income tax, you must comply with the rules. Need help to make sense of all this? Simply talk to a financial planner.
Estate Freeze

Are you a parent and entrepreneur who wants to make sure your business is successfully handed down? If so, you need to avoid confusing the notion of “estate freeze” with gift-giving. Estate freeze is designed to freeze the value of an enterprise on a precise date. The surplus value is then transferred to the next generation.

But be aware that this does not constitute a gift. It’s more of a financing method offered to the child who is taking over the business. To make sure everything goes as planned, make sure to review the shareholders’ agreement with your notary.

SPOUSAL RRSP

Significant advantages can be achieved through the use of a spousal RRSP. The taxpayer receives an immediate deduction for tax purposes in the year of contribution. Where the spouse is younger, significant advantages may be obtained as a result of the longer accumulation period. In addition, this strategy provides for creditor proofing of assets for those individuals who operate businesses through a sole proprietorship or partnership.

Do Spousal RRSPs still make sense?

The Canadian government offers plenty of incentives for long-term savers, including couples saving for retirement. Sure, both of you can still open your own individual Registered Retirement Savings Plans (RRSP).

But if you are looking for a way to manage your tax bill as a couple, as well as build a bigger nest egg for your partner, spousal RRSPs can make a lot of sense. Here’s what you need to know about using this tool.

What is a spousal RRSP?

A spousal RRSP is a qualified retirement savings plan that you set up for your partner. You are able to make contributions to the RRSP; however, your spouse is the actual owner. The point of the spousal RRSP is to help you even out any gap in income between the two of you during retirement, while allowing you a tax break right now.

So, you can contribute to the RRSP and receive the tax deduction today. During retirement, your partner withdraws the money and pays the income tax that results from the withdrawal.
Who would benefit from a spousal RRSP? Who wouldn't?

You’ll likely get the best results from a spousal RRSP if there is a large disparity in income between you and your partner. For example, a spousal RRSP can make sense if you work full-time, and your partner doesn’t or just works part-time. If you and your spouse have similar incomes, the spousal RRSP might not be as effective.

In an individual RRSP, this accumulates to a much smaller nest egg for your spouse overtime. It also leads to more taxes on your account down the road. As you begin to withdraw later, you will likely have to pay hefty taxes on those withdrawals, since you’ve invested so much.

On the other hand, what if you divert some of that money into a spousal RRSP? It doesn’t change your contribution room – you can still only contribute a max of 18 per cent. However, it re-allocates some of that to your spouse. It equalizes your income in retirement, your partner gets a bigger nest egg, and you’ll be saving on tax when making withdrawals, since your spouse will be the one claiming that income from the spousal RRSP, putting you in a lower tax bracket.

Things to know about the spousal RRSP

Before you decide to spread the love and wealth with a spousal RRSP, you should note a few things first:

- Remember that your spouse owns the RRSP. While you are making contributions, they become his or hers once in the account. Your partner makes the investment decisions related to the account and decides when to withdraw.
- You can open a spousal RRSP for your common law partner, the same way you would for your husband or wife.
- Spousal RRSPs have a three-year attribution rule. If your spouse withdraws money from the RRSP within three calendar years of the last contribution, you will be taxed for it. It’s important that you and your spouse are on the same page and discuss the repercussions before any withdrawals are made.
- If your spouse is younger than you, the spousal RRSP can be a great tool since you can make contributions until the end of the year in which he or she turns 71. So, even if you are over 71, you can still contribute to a spousal RRSP.

Carefully consider your options before moving forward with a spousal RRSP. It could possibly save you a lot, but as with all things investing and personal finance, the best tools for you depend on your individual situation.
Of course, one great option is to consult with a retirement specialist and put together a plan that allows you to maximize your joint income in retirement while minimizing your taxes.

**TAX-FREE SAVINGS ACCOUNTS (TFSA)**

Tax-Free Savings Accounts (TFSAs) were first introduced in Canada in 2009. Most Canadian financial institutions now offer them. A TFSA allows any Canadian over the age of 18 to save or invest money in a tax-free account. “Tax free” means that you don’t pay taxes on the money you make inside your TFSA.

Any Canadian resident aged 18 or older with a social insurance number may open a TFSA.

*The flexibility of the TFSA may meet your client or prospects requirements for various reasons, for example, if:*

- **They want to save money for a specific purchase or to prepare for the unexpected**, the TFSA is an ideal, multi-purpose savings tool offering all the flexibility you need to save for a range of reasons in a single account (for example, toward a down payment on a major purchase such as a house, car or cottage). You can withdraw your money whenever you need it knowing that income on your investment grows tax-free in the meantime.

- **You are a high-income earner**: the TFSA is ideal if you seek to build up additional income in a tax-free environment ahead of retirement. It enables you to convert your taxable income into non-taxable revenue for life while establishing an investment portfolio subject to preferential tax treatment. This helps you to maximize the growth of your investments.

- **They are retired**: the TFSA is an ideal vehicle to keep your investments growing tax-free. Since TFSA withdrawals are not considered as income, they won’t affect Old Age Security nor Guaranteed Income Supplement benefits.

Investment income generated by this account accumulates tax-free on a lifelong basis! This applies regardless of whether the income comes from interest, dividends, capital gains or income trust distributions.

Neither income nor withdrawals from a TFSA affect your eligibility for other benefits based on your income level such as the Canadian Child Tax Benefit or the Guaranteed Income Supplement.

Investments in a TFSA can contain GICs and segregated funds.
Contributions to a TFSA

TFSA limits will remain indexed to inflation for future years.

There is a maximum amount of money you can deposit into your TFSA each year. Currently, this annual maximum is $5,500. Luckily, your total contribution is cumulative, so you can roll over this contribution room year to year. So, the amount you can save will go up each year, whether you deposit money or not.

It doesn’t matter how much the savings or investments in your TFSA are worth; the only thing the government limits is how much you can put in.

If you don’t have a TFSA in 2018, then you could open one and contribute a maximum of $57,500.

The TFSA limit determines how much you can deposit in your Tax-Free Savings Account each year.

The TFSA Contribution Limits Since Inception (2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>TFSA Annual Limit</th>
<th>TFSA Cumulative Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>$5,000</td>
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<tr>
<td>2017</td>
<td>$5,500</td>
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</tr>
<tr>
<td>2018</td>
<td><strong>$5,500</strong></td>
<td><strong>$57,500</strong></td>
</tr>
</tbody>
</table>

TFSA withdrawals

You can make withdrawals from your TFSA at any time. In addition, the funds withdrawn (capital and interest) are not taxable! However, the usual restrictions apply to certain products (for example, maturity dates for a GIA).

You can then re-contribute the funds to your TFSA as soon as the next calendar year without affecting your contribution room.

For clients who have withdrawn from TFSAs, their crystallized gains and losses from withdrawals are factored in to their TFSA room.
Here’s the withdrawal formula:

Unused TFSA contribution room to date + Total withdrawal made in this year + next year’s TFSA dollar limit = TFSA contribution room at the beginning of next year

**TFSA vs RRSP**

Perhaps the most stunning trend is that the TFSA is catching up to the RRSP as the tax-sheltered investment of choice.

An RRSP gives a person an up-front tax deduction that they don’t get with a TFSA. But the federal government then snags its share in income tax assessed on the back-end cash withdrawals, typically after the taxpayer retires.

As a result, it's not uncommon for financial advisers to recommend TFSAs over, or in equal partnership with, RRSPs as a savings vehicle for taxpayers.

For someone's in a low tax bracket now — say under $50,000 a year — with the effect from income taxes and the claw back of government benefits they could find themselves in a higher effective tax bracket when they take the money out.”

That means both the principal and the return could end up taking a big tax hit when the investment is taken out of an RRSP.

When you withdraw the money, you lose some government benefits, which causes your effective tax rate to be higher. For very low-income people, it’s the GIS [guaranteed income supplement].

For middle-income people, it's the age credit and the GST/HST credit. So, it may make sense for those people to maximize a TFSA before looking at an RRSP.

TFSAs give people more options for what to do with their money, in part because they can withdraw it and put it back the following year — something you can’t do with an RRSP.

That’s useful for people with lower and middle incomes, who are more likely to need access to their long-term savings if they hit fiscal adversity, or just need cash for pricey outlays like a new car or home renovations.
REGISTERED EDUCATION SAVING PLAN (RESP)

An RESP allows individuals to contribute to a trusteed plan to finance the cost of post-secondary studies for themselves or a child.

Although these contributions are not deductible, they may be remitted to the contributor at maturity with no tax consequences. The income accumulates in the plan tax-free until it is paid to the student as an Education Assistance Payment.

An RESP, which has a maximum life of 35 years, may be an individual (family or otherwise) or group plan. Except for a family plan, there is no restriction as to the age of or relationship of the contributor with the beneficiary. The maximum contribution period is 31 years.

A Registered Education Savings Plan is a type of savings account that grows tax free until a child is ready for post-secondary education. RESPs are a good way to save for a number of reasons:

- the money grows tax free until the child needs it for tuition, residence and other educational expenses;
- an RESP allows you to apply for the Canada Education Savings Grant (CESG) on your child's behalf.

Disabled Beneficiaries

When an RESP beneficiary is eligible for disability tax credit, the maximum life of an RESP is 40 years and the contribution period is 35 years. These rules apply only to single beneficiary RESPs.

Therefore, if the disabled person is a beneficiary of a family plan, he/she can transfer his/her share to a single beneficiary plan to take advantage of these measures.

Contributions

There is no annual contribution limit (for 2007 & later years) and the cumulative ceiling is $50,000 for each beneficiary, regardless of the number of subscribers.

Overcontributions are computed at the end of each month and are subject to a special 1% monthly tax. It is possible to reduce overcontributions by withdrawing funds from an RESP.

Interest and similar expenses relating to a loan for contributions to an RESP are not deductible.
Eligible Investments

Eligible RESP investments are generally the same as for an RRSP. As is the case with RRSPs, RESPs are subject to rules regarding prohibited investment rules and advantages granted under the registered plan for any transaction carried out or investment acquired as of March 23, 2017.

Basic RESP Contribution Rules and Numbers to Know:

- **$2,500** – Amount of annual grant-eligible contribution room accrued each year starting in 2007 or the year the child was born (whichever is later). The contribution room continues accruing up to and including the year when the child turns 17 years old. This amount is based on the calendar year and not the birth date.

- **$2,000** – Amount of annual grant-eligible contribution room accrued each year starting from the year the child was born or 1998 (whichever is later) up to and including 2006.

- **20%** – Amount of grant earned on an eligible contribution. For example: a $1,000 contribution would earn a grant of $200, if that contribution is eligible for a grant. There are additional grants available for lower income families.

- **$500** – Maximum amount of grant a beneficiary is eligible to receive for each calendar year from the year they were born or 1998 ( whichever is later) to the year they turn 17 years old. This amount was only $400 for years prior to 2007.

- **$7,200** – Lifetime grant limit per beneficiary. If you contribute $2,500 every year, you will hit the maximum grant level in the fifteenth year, and no more grants will be paid to the beneficiary. This limit includes additional grants available to lower income families.

- **$50,000** – Lifetime contribution limit per beneficiary. Because there is no annual limit, you could potentially make one single contribution of $50,000 to an RESP if you choose.

- **Contribution room carry over.** One of the great things about the RESP is that you can carry over unused contribution room into future years. However, there is a catch: only one previous year’s worth of contributions can be used each year.

- **Contributions are not tax-deductible.** You won’t get a tax slip, and you can’t deduct RESP contributions from your taxable income.
REGISTERED RETIREMENT SAVINGS PLANS

RRSPs are the most widely known and utilized tax shelter. An RRSP allows the client to set aside funds for their retirement. Contributions to the plan are deductible if made within the calendar year or 60 days thereafter. Thus, immediate income tax savings result, meaning that the after-tax cost to your client is less than for a similar investment made outside an RRSP. As an example, if they are at a 40% marginal tax rate and make a $5,000 contribution to their RRSP, the result is an income tax saving (refund) of $2,000.

By the same token, if they wish to invest the $5,000 in a non-registered investment, a pre-tax income of $8,333 would be required to have $5,000 available after-tax for investment. All these factors make an RRSP an important part of a wealth-building program.

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<th>Year</th>
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<td>$147,222</td>
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<tr>
<td>2020</td>
<td>TBD</td>
<td>TBD</td>
</tr>
</tbody>
</table>

DEFERRED PROFIT-SHARING PLANS

These plans are less well known than Registered Retirement Savings Plans and Registered Pension Plans, but they are available to employees of some companies. If you are a member of DPSP, you can make voluntary contributions to the plan. While your personal contributions are not tax-deductible, the income earned by these contributions will be tax-sheltered until you receive it.

REGISTERED PENSION PLANS

If your clients are an employee, they may be a member of a registered pension plan, which is designed to provide them with a pension, when they retire. Some plans allow members to make past service contributions in addition to current service contributions.

A Registered Pension Plan is an arrangement by an employer or a union that provides pensions to retired employees through periodic payments.
Essentially, RPPs are the standard pension fund that many employees receive as part of their job. It is a group plan where your employee contributions are withheld at source from your pay and often matched — in whole or in part — by your employer. The plan is managed by a financial institution chosen by the employer, the union or both.

If you are a participant in an RPP, you can deduct your employee contributions from your income on line 207 of your return. The income earned by the plan is not taxable and you are not required to report it.

However, when you retire and begin to receive benefits from the plan, you will then need to include these payments in your income for the year when they are received. Declare this income on line 130 of your tax return.

A registered pension plan (RPP) is a pension plan that has been set up by your employer, and registered by us, to provide you with a pension when you retire.

RPP amounts can include:

- contributions for current service
- contributions for past service for 1990 or later years
- contributions for past service for 1989 or earlier years while a contributor
- contributions for past service for 1989 or earlier years while not a contributor

You can deduct the total of your RPP contributions for current service, or for past service for 1990 or later years, on your 2017 income tax and benefit return. However, you cannot carry forward the amount not deducted to 2018 or later years.

In some cases, you may be able to deduct for 2017 only part of the past service contributions you made for 1989 or earlier years. If this applies, you can carry forward the amount not deducted to 2018 or later years.

Pension benefits you earn on a past-service basis for 1990 or later years may cause a past-service pension adjustment (PSPA).

**DEFINED BENEFIT PLANS**

A plan that provides a pension that is generally calculated based on final average or best average earnings and years of service. The amount of defined benefit pension that can be provided under a plan registered under the Income Tax Act is limited, in general terms, to the lesser of 2 per cent of the employee's best average earnings and $2000 (indexed) per year of service.
To meet this obligation, the company must invest wisely so that it has the funds to pay the promised benefits. The company bears the investment risk because it has promised to pay employees a fixed benefit and must make up for any investment losses.

For these reasons, defined benefit plans have been the choice of most workers, especially union members.

More recently, along with some of the other potential challenges that come with mergers and amalgamations, many employers are attacking defined benefit plans, and proposing less secure, inferior alternatives in the form of money purchase plans (or worse yet, group RRSPs or nothing at all!). In money purchase plans, employers and employees contribute at a certain level (a percentage of earnings); with these contributions to be invested during an employee’s work life.

The total amount of money accumulated in an individual’s account will be used to "purchase" a monthly retirement income (e.g. an annuity). No one knows what this monthly income will be, and in fact, the cost of annuities fluctuates dramatically each year with changes in interest rates, inflation rates, etc. In other words, with a money purchase plan, the employer is only committed to a predetermined contribution level and will not guarantee any level of retirement wage.

An Easy Way to Remember Defined Benefit Plans

A defined benefit RPP is like going into the gas station for gas. You tell the attendant that you want $20.00 worth, so therefore you are going to know how much gas you are going to get.

These types of plans provide for a Guaranteed Retirement Benefit. A defined benefit RPP provides for a specified pension benefit unrelated to market or economic contributions.

Advantages of Defined Benefit Plans

- Guaranteed retirement income security for workers
- No investment risk to participants
- Cost of living adjustments
- Not dependent on the participant’s ability to save
- Tax deferred retirement savings medium

Disadvantages of Defined Benefit Plans

- Difficult to understand by participant
- Not beneficial to employees who leave before retirement
DEFINED CONTRIBUTION (MONEY PURCHASE PLANS) - DCRPP

DC plans are often called money purchase plans, since the money in the account will often be used to purchase an income option at retirement.

Under a Defined Contribution Registered Pension Plan (DCRPP), the contributions to the plan are pre-determined, whereas the benefits are not.

Employer contributions are mandatory; a DCRPP can be set up with the employee either contributing or not contributing.

DCRPPs are formal plans that must abide by pension legislation. They are creditor proof, create a pension adjustment, and are designed to provide monthly retirement income for the employee.

The pension benefits from a DCRPP depend on several factors, like contribution amounts, number of years enrolled in the plan and the performance of the fund investments.

DCRPPs are surpassing the Defined Benefits Plan in popularity since they provide the employer with more flexibility and certainty in terms of planning and sustaining the pension costs.

Defined Benefit Plans require the employer to fund any shortcomings in the plan, but with Defined Contribution Plans, you are only responsible for making the pre-determined contribution.

Since payments to DCRPPs are fixed, your monthly expenses are easier to calculate. You always know how much you will need to make your contributions.

In 1996, a change in legislation provided additional deductions under certain circumstances for contributions with respect to service before 1990. Members of RPP’s should be able to obtain details of their deductible contributions from their employer or pension administrator.

Depending on the type of RPP, member contributions will be used directly or indirectly by the employer in computing the individual’s “pension adjustment”. This pension adjustment is a limiting factor in determining an individual’s maximum RRSP deductible contribution for the next calendar year.
### A comparison of Defined Benefit (DB) Plans vs. Defined Contribution (DC) Plans at a glance

<table>
<thead>
<tr>
<th></th>
<th>Defined Benefit (DB)</th>
<th>Defined Contribution (DC)</th>
<th>The DB Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Philosophy</strong></td>
<td>To provide members with lifetime retirement income.</td>
<td>To help individuals accumulate retirement savings during their active career.</td>
<td>The security of regular monthly income rather than savings.</td>
</tr>
<tr>
<td><strong>Contributions</strong></td>
<td>Typically, members and employers contribute a set percentage of the member's salary.</td>
<td>Typically, individuals and employers contribute a set percentage of the individual's salary.</td>
<td>In most DB plans, employers shoulder the investment risk. Under a DC plan, the individual takes on all the investment risk.</td>
</tr>
<tr>
<td></td>
<td>Member and employer contributions are invested in a pension fund and used to pay the member's lifetime pensions.</td>
<td>Monies are deposited in a personal account set up in the individual's name.</td>
<td></td>
</tr>
<tr>
<td><strong>Investment Decisions</strong></td>
<td>Professionals manage all investments based on strict guidelines established to protect plan members.</td>
<td>Individuals decide how their money is invested, usually based on a range of available investment options.</td>
<td>With a DB plan, members don't have to worry about making investment decisions or tracking investments because a highly qualified investment professional is doing it for them.</td>
</tr>
<tr>
<td><strong>Income at retirement</strong></td>
<td>Pension income is based on earnings and service in the plan — the more service, the bigger the pension will be. Once member start receiving their pension, they receive it for life.</td>
<td>The money in the individual's account is used to buy an annuity or transfer to a RRIF (a monthly income stream). The size and length of this income will depend on various factors such as total contributions, investment returns, and interest rates. It is not certain the income will last for life.</td>
<td>With a DB plan, members can estimate, in advance, what their pension will be. Benefits are pre-defined - members know what they are going to receive.</td>
</tr>
<tr>
<td><strong>Ancillary benefits</strong></td>
<td>Many DB plans offer additional benefits such as: inflation protection early retirement benefits survivor benefits disability benefits</td>
<td>At retirement, individuals may be able to buy a lifetime annuity that includes some additional benefits such as inflation protection — but these extras tend to be expensive, which reduces the amount they'll have available to provide an income stream.</td>
<td>With a DB plan, the additional benefits are built in and members don't have to worry about the additional cost of shopping around or an annuity that includes them.</td>
</tr>
</tbody>
</table>
SOME VARIOUS OTHER TAX SAVING TECHNIQUES

Some other taxes saving areas to be considered are:

- Spousal Dividend Swap
- Transfer of Capital Losses
- Asset Swaps
- Family Trusts/Partnerships
- Child Tax Benefit Payments
- Small Business Corporations
- Investment Holding Companies

HELP YOUR CLIENT PLAN FOR RETIREMENT

Estimated Retirement Living Costs

By the time your client reaches the age when pre-retirement planning becomes important, they will likely have established a pattern or style of living with which they are reasonably comfortable. Certainly, the client will be familiar with the lifestyle that they have developed and will be in a position to know whether this is the pattern they would like to continue into retirement if income allows.

Part of your client’s present lifestyle will revolve around their career work. This part will certainly change with retirement. In fact, the shift from full-time career work to the freedom from this work commitment is the pivotal change most people have to face when they retire. Other modifications will tend to be conditioned by this major reorganization of time and income pattern.

However, their present lifestyle is still a useful guide for helping to determine what options their retirement years will be able to offer. In practice, lifestyle preferences shape income needs and in turn, income shapes lifestyles options.

After retirement, most people require less income to maintain a comparable standard of living. It is generally accepted that this figure is about 70 percent of pre-retirement income.

A first approximation allows your client to assume their retirement living costs would be in the range of 60-80 percent of pre-retirement income. If current income was $40,000, using 70 percent, retirement living costs would be around $28,000 for a comparable standard of living.

There are a number of variables involved here. For example, what are their current annual living costs, including taxes?
What proportion of current income is being saved for future use? These two elements always make up their total current income.

For the average person, it may be of some comfort to realize that 60-80 percent of pre-retirement income can provide a somewhat similar standard of living after retirement. However, circumstances vary. To be effective, planning should be done on a more individual basis. You have to take into account the living costs that your client may expect to encounter, after they retire, in addition to the income they will receive.

The costs, at this stage, can only be an estimate. Nevertheless, doing an estimate now will give them a basis for making estimates that are more accurate each year as they get closer to retirement. In addition, it will permit them to examine the components and to adjust them as needed to produce the necessary match with actual income.

**Preparing an Annual Cash Flow Forecast Worksheet**

**Begin by Keeping Receipts and Disbursement Records**

Individuals do no normally complete accounting books and records, nor do they prepare financial statements on a monthly or annual basis, as do corporations and businesses. Individuals, however, do summarize their incomes on an annual basis for income tax purposes.

By recording the amounts of cheques and deposits and by knowing their bank balance, they keep track of their current position. Some actually keep a cashbook showing their cash receipts and disbursements.

A growing number are using home computers to maintain these kinds of records. The forecasting of income—next week, next month, and next year— is of particular value, for it helps people to plan for the future and make the most of their money.

Using the cash flow data of past months, we can quite easily prepare the cash flow forecast. Naturally, we must assume that most items will reoccur; we should also consider whether the amounts would increase or decrease during the coming year.

By way of demonstration let us decide how you might help the client best prepare a forecast of their annual cash flow, we will assume that your clients is not a copious record keeper. Your goal is no to carry out detailed accounting procedures and arrive at precise balanced information. You are simply trying to prepare a forecast of all income and expense items using reasonable estimates.
This can be done using the accompanying Cash Flow Forecasting Package to list all the usual cash receipt and cash disbursement items applicable in your client’s circumstances.

Two separate sections make up the forecasting package-- one for cash receipts, the other for cash disbursements. Each section has two checklists: one for assumptions and one for a recording of the details of annual estimates.

The assumption list is used to estimate recurring and special items; both the amounts and dates of receipts and payments are shown. To record the estimated amounts, it may be necessary to do some digging in your client’s old financial records or to make some phone calls. It is very important however that the cash flow forecast be complete.

**Let’s Get Started with The Cash Flow Forecast Worksheets**

You should review the list of items carefully to ensure that none of the applicable items have been neglected.

Normally, the forecast cash flow statement covers a 12-month period, starting from the date of the statement of assets and liabilities. Although any 12-month period can be used, it is more practical to use a calendar year period.

For example, if your client is now in the first half of the year, start the forecast from January 1 past. If you are in the last half of the year, the year should begin as of January 1 of next year. If this is, in fact their year period, using the post-retirement income and expenses as opposed to the pre-retirement level.

Regardless of when your client plans to retire, it will be helpful to prepare two cash flow forecasts, one based on their current income and expense estimates on a pre-retirement basis, and a second based on estimates of income and expenses in their retirement years. If retirement is imminent, the pre-retirement forecast will help you to make a more accurate estimate of their first year of retirement. If retirement is some years away, the pre-retirement forecast is necessary for their current financial planning. The post-retirement forecast is also important because it forces them to consider the adequacy of their retirement income while motivating them to start serious financial planning at an early stage.

The Annual Cash Flow Forecast, together with the statement of assets and liabilities, provides the information required to make a realistic assessment of their present financial position. This information, together with their goals and objectives, will help them to identify immediate planning opportunities and will establish a base for more detailed and longer-term planning.
Some Guidelines for Preparing the Cash Flow Forecast Worksheets

The following worksheets allow you to prepare two cash flow forecasts for the client: one for a year proceeding, and a second for the retirement year. Both should be completed to allow them to compare the differences, and to use the results for their financial plan.

Complete the cash receipts section first, and then turn to the cash disbursements forecast. Receipts are not too hard to predict with some accuracy, by reference to tax returns, current pay slips, pension income calculations, and investment records.

The estimating of current receipts is straightforward. If you look ahead to retirement income, you can obtain a good idea of your client's pension income and make estimates of their continuing income from other sources (investments, rentals, and businesses).

However, you will have to make some assumptions concerning income from any new sources such as part-time employment, hobby businesses, and investment of proceeds from house sales. Do not forget that their spouse will not necessarily retire at the same time your client does, and that he or she may have additional income from employment sources for a period.

Certain cash flow forecast estimates would be available from the statement of assets and liabilities that you prepared previously. For example, when summarizing their marketable securities, you will already have estimated the dividend and interest income expected annually, as well as the anticipated dates of receipt. Similarly, the life insurance analyses should have a record of the amounts and dates of life insurance premium payments. As well, the records of bank loans and mortgages should indicate amounts and dates of loan payments. For the daily or monthly bank balances - because these amounts will fluctuate in relation to the monthly cash flow forecast, interest on these amounts is best calculated later.

In the cash disbursement section, the forecasting of pre-retirement expenses is, again, not too difficult; one can assume that spending patterns will continue unchanged. More thought, however, is needed to estimate post-retirement cash expenditures. Many of the expense items may change considerably from previous years and you will have to make reasonable assumptions about these changes. One assumption is that the cost of getting to and from work on a daily basis will be eliminated. This may mean a reduction in auto expenses or in commuter charges.

Due thought should also be given to their mobile “free-time” plans. There may be reasons as well for increasing their auto or travel costs. Another cost reduction might be identified in the area of lunches and dry cleaning of suits or uniforms.
Repairs and maintenance for the house or car may be reduced as well, perhaps because they intend to perform these tasks themselves.

On the other hand, you may increase the amounts they will spend on these items, because your client might intend to carry out certain special work on the car, house, or cottage. Perhaps they are contemplating a major change, such as selling their present home and either buying a smaller one or renting. If this is the case, their cash flow statement should allow for the estimated net proceeds of the sale and show the alternative residential cost. On the other hand, they may also plan to travel after retirement, thereby incurring additional vacation expenses. These considerations will have bearing on any new expense levels. Upon completion of the cash flow assumptions, receipts and disbursements can be totaled for the year and entered on the annual summary. The summary brings together receipts on one page and disbursements on another, for both your client and their spouse.

The forecast annual cash flow statement is a summary document indicating cash flow before interest and income taxes. You should estimate interest income expected from balances that they would have in daily interest or savings accounts throughout the forecast period, taking into account any large monthly cash inflows or outflows. Interest can be calculated using the current rates payable on daily interest savings accounts. If their forecast cash flow is negative, perhaps you should allow for interest expense, or a loss of investment income as a result of funds needed for the cash shortage.

The final cash flow item to be estimated is income taxes. For the most part, this estimate can be arrived at by referring to current Income Tax tables, which give an approximation of the levels of income tax payable during the current tax year depending on our income level. No tax is withheld from government pension unless requested by your client, nor is tax withheld on the payment of Canadian investment income to them. If these and other amounts are significant, they may be required to pay quarterly installments of income taxes.

This requirement may not, however, come into effect in their year of retirement. If they have had a significant sum of income from non-salary sources in prior years, they are likely already paying on the quarterly installment basis; you should provide for these quarterly payments in the cash flow forecast.

Complete the forecast by adding interest income to cash available and then deducting interest expense and income taxes.

You should now have an idea of the cash excess or cash shortage arising in both pre-retirement and post retirement years. Once you have reached the point at which you can estimate cash excess or shortages in your client’s pre-retirement and post-retirement years, you should review the forecast to see whether they are reasonable.
They should then be compared with cash records for prior years, if available. These forecasts should not be thought of as being static or unchangeable. They are merely a series of estimates that can serve as a guideline for the management of your client’s cash resources. One of the main results of financial planning is to have sufficient income available at retirement to give you the type of lifestyle you desire. While government benefits such as the Canada Pension Plan, Quebec Pension Plan and Old Age Security provide an income base in retirement, a secure retirement income will be dependent on how effectively you use the retirement savings vehicles available to you.

Examples of Cash Flow Forecast worksheets can be found on the next few pages.
**CASH FLOW FORECAST**

**Page 1**

**Pre-Retirement**

**FORECAST CASH RECEIPTS:**

Name: ___________________________ Year Ending: __________________

<table>
<thead>
<tr>
<th>A. Gross Income from Employment</th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Bonuses</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Profit Sharing Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>TOTAL EMPLOYMENT INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| B. Pensions                     |     |        |       |       |
| Company (gross)                 |     |        |       |       |
| Federal Old Age Security        |     |        |       |       |
| Canada / Quebec Pension         |     |        |       |       |
| Annuities / RRIF                |     |        |       |       |
| Other (Specify)                 |     |        |       |       |
| **TOTAL PENSION INCOME**        |     |        |       |       |

| C. Business / Practice (net of expense) |     |        |       |       |
|                                      |     |        |       |       |
|                                      |     |        |       |       |
| **TOTAL BUSINESS INCOME**           |     |        |       |       |
CASH FLOW FORECAST

Pre-Retirement

FORECAST CASH RECEIPTS:

Name: ________________________________ Year Ending: ____________________

<table>
<thead>
<tr>
<th></th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>D. Investment Income</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends - Canadian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Foreign</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate (net of expenses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>TOTAL INVESTMENT INCOME</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>E. OTHER RECEIPTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuities / RRIF</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL OTHER RECEIPTS</td>
<td></td>
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</tr>
</tbody>
</table>

TOTAL CASH RECEIPTS

|     |     |     |     |

Notes:

__________________________________________________________________________________________________
__________________________________________________________________________________________________
__________________________________________________________________________________________________

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CASH FLOW FORECAST
Pre-Retirement

FORECAST CASH DISBURSEMENTS:

Name: ________________________________ Year Ending: ____________________

<table>
<thead>
<tr>
<th>A. Living Expenses</th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage payments or rent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food – household</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Lunches</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance &amp; repairs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appliance replacement /decorating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heating</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone &amp; Miscellaneous</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL LIVING EXPENSES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Investments</th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registered funds / QSSP's</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RRSP’s, RHOSP’s, DPDP’s</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FORECAST CASH DISBURSEMENTS:

Name: ________________________________ Year Ending: ____________________

<table>
<thead>
<tr>
<th>C. Personal Expenses</th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Auto - Gas &amp; Oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Repairs, maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Registration / Ins.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments: own or lease</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Premiums – Life/Health</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Club Fees and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dental, drugs, glasses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing, credit card purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel, vacation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations and gifts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birthdays, Christmas etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dining out and entertainment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL PERSONAL EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| D. Other Payments                     |     |        |       |       |
| Allimony/maintenance                  |     |        |       |       |
| Repayment of loans (bank etc.)        |     |        |       |       |
| Tax deductions & installments         |     |        |       |       |
| Other (Specify)                       |     |        |       |       |
| **TOTAL OTHER PAYMENTS**              |     |        |       |       |

**TOTAL CASH DISBURSEMENTS**

_______   _______   _______   _______   _______
### CASH FLOW FORECAST

**Pre-Retirement**

**SUMMARY SHEET**

<table>
<thead>
<tr>
<th>FORECAST ANNUAL CASH FLOW:</th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
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#### CASH RECEIPTS

- Employment Income  
- Pension Income  
- Business Income  
- Investment Income  
- Other Receipts  

**TOTAL CASH RECEIPTS**

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#### CASH DISBURSEMENTS

- Living Expenses  
- Personal Expenses  
- Investments  
- Other Payments  

**TOTAL CASH DISBURSEMENTS**

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#### CASH AVAILABLE (SHORT)

- Investment Income  
- (Interest Expense on)  
- Cash Available (short)  

**NET CASH FLOW**

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## CASH FLOW FORECAST

**Post-Retirement**

**FORECAST CASH RECEIPTS:**
Name: ____________________________  Year Ending: __________________

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<tr>
<td><strong>A. Gross Income from Employment</strong></td>
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<td>Bonuses</td>
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<tr>
<td>Profit Sharing Plan</td>
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<tr>
<td>Other (Specify)</td>
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<tr>
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<tr>
<td><strong>B. Pensions</strong></td>
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<tr>
<td>Company (gross)</td>
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<tr>
<td>Federal Old Age Security</td>
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<tr>
<td>Canada / Quebec Pension</td>
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<tr>
<td>Annuities / RRIF</td>
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<tr>
<td>Other (Specify)</td>
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<td><strong>TOTAL PENSION INCOME</strong></td>
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<tr>
<td><strong>C. Business / Practice (net of expense)</strong></td>
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<tr>
<td><strong>TOTAL BUSINESS INCOME</strong></td>
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### CASH FLOW FORECAST

**Page 2**

#### Post-Retirement

**FORECAST CASH RECEIPTS:**

Name: ________________________________ Year Ending: ____________________

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<thead>
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<td><strong>D. Investment Income</strong></td>
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<tr>
<td>- Foreign</td>
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<tr>
<td>Real Estate (net of expenses)</td>
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<td>Other (Specify)</td>
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<td><strong>E. OTHER RECEIPTS</strong></td>
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<tr>
<td>Sales of Securities</td>
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<tr>
<td>Bank Loans</td>
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<tr>
<td>Receivables</td>
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<tr>
<td>Annuities / RRIF</td>
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<td>Other (Specify)</td>
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<td><strong>TOTAL OTHER RECEIPTS</strong></td>
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<td><strong>TOTAL CASH RECEIPTS</strong></td>
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Notes: _____________________________________________________________________________________________

___________________________________________________________________________________________
CASH FLOW FORECAST

Post-Retirement

FORECAST CASH DISBURSEMENTS:

Name: ________________________________ Year Ending: ____________________

<table>
<thead>
<tr>
<th></th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
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<tbody>
<tr>
<td><strong>A. Living Expenses</strong></td>
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<tr>
<td>Mortgage payments or rent</td>
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<tr>
<td>Food – household</td>
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<tr>
<td>- Lunches</td>
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<tr>
<td>Maintenance &amp; repairs</td>
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<tr>
<td>Appliance replacement /decorating</td>
<td></td>
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<tr>
<td>Property Taxes</td>
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<tr>
<td>Property Insurance</td>
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</tr>
<tr>
<td>Heating</td>
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<tr>
<td>Electricity</td>
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<tr>
<td>Telephone &amp; Miscellaneous</td>
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<tr>
<td>Other (Specify)</td>
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<tr>
<td><strong>TOTAL LIVING EXPENSES</strong></td>
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</tbody>
</table>

| **B. Investments**             |     |        |       |       |
| Purchase of Securities         |     |        |       |       |
| Registered funds / QSSP’s      |     |        |       |       |
| RRSP’s, RHOSP’s, DPDP’s        |     |        |       |       |
| Other (Specify)                |     |        |       |       |
| **TOTAL INVESTMENTS**          |     |        |       |       |
CASH FLOW FORECAST

Page 2

Post-Retirement

FORECAST CASH DISBURSEMENTS:

Name: ________________________________ Year Ending: ____________________

<table>
<thead>
<tr>
<th></th>
<th>You</th>
<th>Spouse</th>
<th>Joint</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>C. Personal Expenses</td>
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<tr>
<td>Auto - Gas &amp; Oil</td>
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<tr>
<td>Repairs, maintenance</td>
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<tr>
<td>Registration / Ins.</td>
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<tr>
<td>Payments: own or lease</td>
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<tr>
<td>Insurance Premiums – Life/Health</td>
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<tr>
<td>Club Fees and expenses</td>
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<tr>
<td>Dental, drugs, glasses</td>
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<tr>
<td>Clothing, credit card purchases</td>
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<tr>
<td>Travel, vacation</td>
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<tr>
<td>Donations and gifts</td>
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<tr>
<td>Birthdays, Christmas etc.</td>
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<tr>
<td>Dining out and entertainment</td>
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<tr>
<td>TOTAL PERSONAL EXPENSES</td>
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<tr>
<td>D. Other Payments</td>
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<tr>
<td>Alimony/maintenance</td>
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<tr>
<td>Repayment of loans (bank etc.)</td>
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<tr>
<td>Tax deductions &amp; installments</td>
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<tr>
<td>Other (Specify)</td>
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<td>TOTAL OTHER PAYMENTS</td>
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<tr>
<td>TOTAL CASH DISBURSEMENTS</td>
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</table>
### CASH FLOW FORECAST

**SUMMARY SHEET**

**FORECAST ANNUAL CASH FLOW:**

<table>
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<tr>
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<th>You</th>
<th>Spouse</th>
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<th>Total</th>
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<tr>
<td><strong>CASH RECEIPTS</strong></td>
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<td></td>
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<tr>
<td>Employment Income</td>
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</tr>
<tr>
<td>Pension Income</td>
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<tr>
<td>Business Income</td>
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<tr>
<td>Investment Income</td>
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<tr>
<td>Other Receipts</td>
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<td><strong>TOTAL CASH RECEIPTS</strong></td>
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<tr>
<td><strong>CASH DISBURSEMENTS</strong></td>
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<tr>
<td>Living Expenses</td>
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<td>Personal Expenses</td>
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<tr>
<td>Investments</td>
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<tr>
<td><strong>CASH AVAILABLE (SHORT)</strong></td>
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<tr>
<td>Investment Income (Interest Expense on)</td>
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<tr>
<td>Cash Available (short)</td>
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<tr>
<td><strong>NET CASH FLOW</strong></td>
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8. DOCUMENT THE PLAN

In order for any plan to be successful, it has to be written down, so that the client can refer to it from time to time, in order to make any changes or to bring the progress up to date. It is important that the client’s wishes be taken into consideration when making any recommendations.

9. IMPLEMENT THE PLAN

The plan would certainly be an exercise in futility if it were not put into action. If the agent/broker has done their job properly, and with the client’s best interest at heart, then clients will have no problem with taking action right away.

10. MONITOR THE PLAN FOR REASSESSMENT

All plans need to be monitored on a regular basis. People change their directions in life on many occasions. Timely adjustment should be made on an ongoing basis to keep the plan on track. Human nature dictates that we all have a tendency to fall off the track once in awhile. Knowing how and when to get back on the rails is the key to successful planning.

In order to do a proper job, it is necessary to follow these steps. However, some clients may not want to take the time to do the above steps. If this is the case, then you have to make a decision as to whether or not you want to do business with these people.

CONTINGENCY PLANNING AND INSURANCE

All planning starts with providing for the needs of the family. We have various terms for this process, but Family Security Planning or Total Needs Planning is generally used. The complete process can be broken down into three main periods and the needs attached to them. Some financial needs will be evident in all three areas, while some will fit more logically into one or two.

For simplicity, we will assume the following:

<table>
<thead>
<tr>
<th>Type</th>
<th>Time Period</th>
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<tbody>
<tr>
<td>Short Term</td>
<td>1 – 5 Years</td>
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<tr>
<td>Medium Term</td>
<td>5 – 20 Years</td>
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<tr>
<td>Long Term</td>
<td>20 + Years</td>
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</table>
The objective of successful financial planning and estate conservation start with the very early planning stages, but the strategies and products used change as the client progresses from providing for the basic necessities to the use of excess funds. The following is a review of the cash needs area and includes all three references from short to long-term periods.

Money is needed in four key areas that are similar to each client or prospect. The products that we market must meet at least one of these areas in order to be competitive and marketable.

1. Money for opportunities

A planned opportunity might be the saving for the purchase of a franchise or starting a new business of some description.

While the client may know what they want, they may not know when they want it, or when it will happen. For example, the planning for buying a business would be known, but how long it will take to accumulate the desired money would not be known.

Some people have opportunities that come their way on many occasions. They will tend to accumulate money for that “once in a lifetime” opportunity.

2. Money for Emergencies

Emergencies happen, and money is usually required to solve the problem or help with the solution. If money were available, many emergencies would simply be small hurdles as opposed to a roadblock that we cannot maneuver around.

3. Money for Retirement

Government benefits provide a foundation, on which all retirement resources will be built. Our emphasis is on corporate and individual planning.

People who are healthier and living longer, many people are retiring earlier than the typical stereotype “age 65.”

When a person is looking down the road to retirement, they ask themselves three questions:

1. How much income will I need?
2. How long will it last?
3. Where will it come from?
4. Money at Death

Money to finance dependents is the benefit that Life Insurance was originally designed to provide. Any survivor requires two things:

1. Cash Needs
2. Income Needs

Life Insurance offers several distinct advantages that are not available anywhere else. Insurance is best used when cash from other sources are not available or not accessible.

WHERE DOES THE ADVISOR START THE PROCESS TO DETERMINE INSURANCE NEEDS?

A method called “Total Needs Selling” allows the advisor/agent or broker to provide the solutions to all of a family’s financial needs should the income earner(s), at the times of death or retirement not be able to continue to provide for the family.

It is important to note that the cause for the process, death or retirement will require two completely different solutions. There can be some similarities, such as a need to clean up final expenses whether they arise suddenly as in a premature death or after a long retirement.

CASH FLOW REQUIREMENTS

An additional amount of funds will be required to generate monthly income during:

1. Readjustment period – this could be for up to two years of post-death family income.

2. Family Dependence period – usually until the children are through school and on own.

3. Middle Years Income – monthly income required for spouse’s needs or salary top off.

4. Life Income for Retirement years – income for the survivor.

If premature death has not occurred, a great continuing need will be for family retirement income. This provides a compromise that fulfills the needs created by death and provides a start on the retirement assets required.
The last step in the process is to reach an agreement with the prospect/client on how often a systematic review is to be carried out to complete the plan and keep it current.

Most agents/brokers develop a checklist in their mind that involves not only the income earner(s) but also all members of the family so that many sales will result from subsequent interviews.

THE PROCESS

It really does not matter which of the previous two methods are used for the solutions, information still has to be collected in order to provide one coordinated plan.

The advisor/agent/broker should:

- Determine all cash and income needs of the family
- Identify the current assets and other sources of income that can be applied against the cash and income needs.
- Determine any shortfall and provide suitable recommendations.

From an analysis such as this, we can now present a proper solution involving life insurance that will provide for the shortfalls that are revealed. The solution can make use of various types of insurance depending on the client’s ability to pay and desire to solve the problem now.

Some sample recommendations & solutions for any shortfalls could be:

1. Any variety of term products could be used to fulfil the requirements if death occurs but will not meet any retirement needs.

2. A reduction for insurance could be purchased to cover all of the immediate needs or provide a practical solution to the complete plan. This method is not as satisfactory as covering all the established needs, but it will definitely set up your next sale.

3. A combination of term and a permanent cash value plan could be used.
FACT FINDING

To develop the total needs concept approach, a fact-finding review of the family status needs to be completed.

Two general types of facts needs to be established:

1. **Hard facts** – The information in this area is made up of dates of Birth, present assets, previous insurance.

2. **Soft Facts** – Attitudes, goals, desires and wishes would make up the information in this area.

The purpose of the fact-finding interview and documentation is to provide for a logical order of events that leads to a sale:

1. To record any important data.
2. To guide the client to realistic financial goals.
3. To obtain a definite commitment.

In addition to the previous reasons, some other significant objectives will be obtained:

1. The process – creates client motivation.
2. Brings out hidden objectives.
3. Builds a client-advisor relationship that will be enhanced by subsequent interviews.

INDIVIDUAL LIFE INSURANCE NEEDS AT DEATH

1. **Clean Up Fund** - An insured’s debts must be paid shortly after death occurs. Many of these debts occur just because of living and working. Some of these debts can result from illness and death.

2. **Last Illness and Death** - These are any costs associated with terminal illness as well as any funeral costs.

3. **Mortgages** - A family’s lifestyle can be guaranteed by the payment of any balance of the current mortgage. By paying this off, a considerable asset will be free and clear.

4. **Children’s Education** - Education costs are increasing, and the bulk of the support is shifting from the government to the family in need of future education.
5. **Miscellaneous** - Any credit card and personal debts should be eliminated at death.

The amount of new insurance will be determined by your analysis of the fact-finding interview and may or may not include some adjustment due to inflation. Inflation has varied widely in the past and you can compensate by building it into your plans or factoring it into your periodic reviews.

Now all that needs to be done is to recommend a couple of insurance solutions to fit the client’s needs.

**Flexibility of An Insurance Contract**

- Flexibility is guaranteed by built in options
- Insurance proceeds are tax-free
- Proceeds for both the insured and for the beneficiary may be "creditor proofed"
- Probate is not required if a preferred beneficiary is named
- Minimum returns are guaranteed
- The policy contract can offer inflation provisions with current returns for annuity options and dividend payments.

As we get older, there are two guarantees in life. They are retirement and death. In either case, Life Insurance can play a major role in the planning process.

**Some General Life Insurance Advantages**

- Planning
- Products are very easily fitted to needs
- Specific amounts can be purchased for specific needs
- Can offer a cash option or an income option
- Can be designed to fit many planning methods
- Can provide double duty dollars.
- Accumulation of built in cash
- Goals are immediately reached at death
- The plans are immediately self-completing without any more payments
- Any mortality gain is tax-free
- Goals are guaranteed by contract
- Premiums may be waived at disability
- Premiums are guaranteed by contract
Planning Advantages of Life Insurance

- Many types of policies to fit the many various needs.
- You can plan because you know the death benefits and the cash values.
- There are guaranteed conversion rights, so one could plan for liquidation and future income.

Growth Advantages

- Contractual Accumulation Guarantees – C.S.V.
- Guaranteed Investment Return.
- Provision for Waiving of the Premium if disability were to happen.
- Instant estate provides for future plan fulfillment.

Pay-out Advantages

- You decide the starting date.
- Choice of annuity options.
- Life Annuity with Lifetime Guarantees.
- Inflation and Deflation guarantee – provided with guaranteed amount in contract.
- Only the interest is taxable if the annuity option is elected.
- Capital Utilization or Capital Retention. Two methods for payout.

The family market makes up the largest number of prospects and a system called programming determines their needs and will help create the best solution.

INSURANCE CAPITAL DISPERSAL METHODS UPON PAYOUT

The two methods we will examine are quite similar up to the point of dispersal of the monthly income required. The cash needs are paid out as required: i.e. mortgage redemption. The plans differ in the way the monthly incomes are determined and paid out.

1. Capital Utilization

In capital utilization, the monthly income requirements use a blended payment of both principal and interest. These payments are guaranteed to last as long as required and are found in the settlement options of the policies.

Before death the proceeds of the policy, which become the capital sum are surrendered to provide these monthly incomes. The only exception is if the interest option is chosen.
The settlement options use present values and an assumed rate of interest that is conservative by nature to provide the desired monthly income. If death occurs, the income is provided from the proceeds.

2. Capital Retention

Capital retention, on the other hand, simply takes the total monthly income required and obtains it in the form of an interest payment earned from the investment of the capital sum (CSV or Death Benefit). The client needs only to determine which rate of interest is most likely to be obtained in the future. This requires a “conservative estimate” state of mind. This method has the advantage of being the most versatile and provides for inheritance and retirement needs of the dependents.

WHAT WILL THE FINANCIAL ADVISOR OF THE FUTURE LOOKS LIKE?

Technology advancements, stricter regulations, current market volatility, and savvier consumers are all forcing financial advisors to adapt their business practices…fast.

The successful financial advisor of the future will be a whole new breed with a better understanding and more complete view of you, the client, your financial risks and goals.

Often accustomed to working independently, the new advisor will need to be more of a team player that is integrally connected with more aspects of your financial life. Your future advisor will leverage technology to work flexibly and have systems and processes in place to ensure that your interests are always paramount.

Many of these trends are already appearing in the market. Here are four characteristics that are starting to differentiate the successful advisory practices from the less so.

1. Less Transactional Agent and More Holistic Service Provider

As digital technology increasingly automates financial transactions, the role of the advisor is changing. Instead of brokering transactions (such as making investments, purchasing insurance, etc.), advisors of the future are leveraging their relationships in order to provide a broader range of services and a richer experience to their clients, while keeping you focused on your financial goals and objectives throughout your life.

For younger millennial clients who are often less experienced financially, the advisor of the future will provide basic financial help, be responsive to questions, and offer quick and immediate attention (via online/digital communications), all the while providing full transparency with respect to access to information and fees.
The nature of the advice will also expand -- you might even seek out your trusted advisor in the future for help with a salary negotiation or a new property purchase.

For older affluent clients, a higher level of personal service will be expected. Future-looking advisors should be taking the time to get to know you better, as well as your spouse and children -- all of whom play a role in the household financial planning process. The advisor of the future will make the transition of wealth to the next generation an easier, more streamlined process, and one in which they hope will continue to play a useful and valuable advisory role.

2. Build A Professional Dream Team

More and more, financial firms and advisors are expanding their services to include planning and support for a wider range of their clients' needs. Smart advisors surround themselves with competent professionals specializing in investment, wealth management, insurance or debt management -- as well as business law and accounting -- in order to ensure you get access to the knowledge you need to choose the best-suited products and services.

A team-based approach will ensure the advisor has a better understanding of the interdependencies between all of the different financial products and services you have, closing any gaps and avoiding any unnecessary overlaps in your financial plan.

The advisor of the future will be more like a financial concierge -- someone whose advice and experience you trust in order to guide you to the right lawyer, accountant, planner, real estate professional and any other business professional that you need to realize your financial goals.

3. Maintain A More Virtual Office

The advisor of the future will rely less on a traditional office and instead will leverage digital technology to virtualize their workspace. They will serve you wherever you prefer: at home or the office, via video conferencing or even at a coffee shop.

Some advisors are already recognizing the role that digital technology can play in their business.

A few are embracing online social networks to help them engage with clients and professional peers and nurture their most valuable relationships.

Others are looking at new self-serve tools, such as automated portfolio management or "robo-advisors", as a complement to their practice.
Unfortunately, many advisory organizations are still operating based on technology and thinking that is decades old. Increasingly, core financial systems will reside in the Internet cloud and be accessed securely by mobile apps, tablets and notebook computers, so that advisors AND their clients can have access to the data they need whenever and wherever they need it.

The future advisor will provide a single online point of access to all of their products and services, including full-serve and self-serve options based on your preference.

4. Embrace Regulatory Compliance and Fiduciary Advice as A Core Value

Financial advisors of the future will differentiate themselves by prioritizing your financial planning needs over selling commissioned products that you may or may not need.

They will achieve this by having technology systems and business processes in place that ensure regulatory compliance. This will serve to clarify the value they offer acting as your fiduciary agent, where all the recommendations they make are demonstrably in the financial interest of you, their client.

With so much changing in how financial services are delivered to the marketplace, coupled with current market volatility, many Canadians may be re-thinking their relationship with their advisor. However, there is one thing that will remain constant: when people need help with money, they will always seek out someone whose knowledge and character they trust.

The financial advisor of the future will strive to be that person.

SO, ARE YOU CLIENT CENTRED?

It is easy to misunderstand what it means to be "client-centric".

An excellent place to start is to think about where your Financial organization currently sits with regards to the idea.

*Here’s a quick cheat sheet — see which one best describes you.*:

- **I know I HAVE customers.** Yay, you. You’ve poked your head up out of the weeds of your organization and realized there are people out there who buy things from you;

- **I think ABOUT my customers.** And you’re on the right track. Thinking about what the people who buy things from you might want and need is the “jump to the left” you need; or
• **I think LIKE my customers.** Give yourself a star. You’ve arrived at the promised land and are now happily channeling your customer’s inner-most desires.

Note the “buy” isn’t literal. A customer can be anyone who gets a product or service from you in exchange for something. So yes, that includes businesses, not-for-profits, government agencies, social services — the list is all-encompassing.

**The 7 Pillars of Customer Centricity**

Businesses across many industries are embracing the concept of customer centricity by forgoing traditional business-driven strategies and adopting a more customer-driven strategy. Customer centricity is sometimes used as a catchall term for talking about customer feedback or customer satisfaction results but making people happy is only one part of the equation. To have sustained success, companies and advisors must understand current customer needs and wants and ensure that there are the right internal and customer-facing strategies, processes and marketing initiatives to satisfy them.

That is where a new structure, born of data-driven customer science, comes in. The seven pillars of customer centricity provide a framework for action, giving companies the insights needed to track, measure and improve in seven core areas. By analyzing customers’ perceptions against these pillars, marketers have a blueprint for customer-centric activation to drive customer loyalty. Here are the seven core pillars and how they help boost customer loyalty:

1. **Experience:** Make the customer experience easy, enjoyable and convenient. Companies that excel in customer experience make their customers so happy that they want to share their positive interactions with your brand.

2. **Loyalty:** Reward and recognize customers in a consistent way that is relevant to how they want to be rewarded. Loyal companies reward shoppers in ways that are meaningful to customers.

3. **Communications:** Personalize the message to customers, based upon what they buy, and in a way, they like. Highly communicative companies provide tailored, relevant communications based on customer preferences.

4. **Assortment:** Have the right products and a strong variety to meet customers’ needs. Companies shouldn’t necessarily have the widest selection of products, but they should stock the ones their customers want.
5. **Promotions:** Leverage promotions on the items that are most appealing and often purchased by current customers. Companies with successful promotions programs promote the products that matter the most to customers.

6. **Price:** Provide prices that are perceived to be in line with what the customer is looking for on the products they purchase most often. Brands don't have to be the price leaders, but they do need to have pricing that customers perceive as fair.

7. **Feedback:** Hear and recognize customer concerns. Companies that rank high in customer feedback have a two-way conversation and emotional connection with their customers.

Global beauty retailer Sephora has focused on the pillar of experience by using interactive products, self-serve counters and soft-sell sales tactics. Since then, Sephora has grown to more than 1,400 stores in 30 countries with annual sales of about $4.4 billion.

How can Financial Advisors help foster that kind of growth for their own businesses? It’s crucial to focus strategies, operations and activities on the people who are ultimately responsible for a company’s success: loyal customers.

True growth—and the customer centricity that drives it—is not accomplished by a strong rallying cry or a catchy slogan. A company must understand its customers’ behaviors and attitudes and have the internal processes in place to create a cultural change within the organization.

By aligning deep customer insights with communications and operational processes and identifying gaps in performance among the seven pillars of customer centricity, a company can drive sustainable results.

**CONCLUSION**

Making a financial plan is a way to take charge of your clients and prospects financial future. A financial plan helps them understand their choices and reach their life goals.

Financial planning is for everyone and as they get older and face changes such as retirement, it is important for them to have as much information as they can about their financial future. Even if they are starting late, planning will help them get their financial affairs in order and let them know where you stand.

We are all guilty of putting off making time to plan our financial future. It’s hard, that’s why, particularly finding the discipline to do it in today’s consumer culture.
However, your prospects and clients can’t underestimate the importance of financial planning. Everyone retires eventually, and there’s also retrenchment, redundancy, and accidents happen. Planning their finances now means less stress later.

Taxation complicates matters, particularly under an income-tax system such as Canada’s, which incorporates a progressive rate schedule with rules that allow or disallow specific transactions and courses of action.

Furthermore, new Federal and Provincial laws and policies are constantly being introduced, and these can often have a direct effect on specific tax strategies, because new opportunities may arise, and old approaches may no longer be appropriate or valid as a result. It is, therefore, important to be aware of contemporary tax rules that are applicable to specific actions being contemplated.

As a financial planner / advisor, your clients rely on you to do the best job for them that you can possibly do. Sometimes, this is not an easy job. They may want results yesterday; they may be evasive and not open with you. Remember, in order to do the job properly, you have to gather copious amounts of information.

This is not an easy task, especially if you do not have the right material and process to do the job the right way. We have included some samples of fact-finding sheets, tracking pages and literature that you may find helpful in your quest to do the best job for your client that you can possibly do.

*Remember: Do it right the first time, and you will receive many referrals for your efforts.*
GLOSSARY OF FINANCIAL PLANNING TERMS

Asset

Anything of value owned by an individual including real property, financial assets and other financial resources.

Assuris (formerly CompCorp)

CompCorp, the organization that protects Canadian policyholders in the event their life insurance company becomes insolvent, changed its name to Assuris on December 1, 2005. Assuris provides Canadian life insurance policyholders with specified levels of protection against loss of benefits due to the financial failure of a Company who is a Member Company.

Your deposit type products will also be transferred to a solvent company. For these products, Assuris guarantees that you will retain 100% of your Accumulated Value up to $100,000.

Annuity

A series of payments of a fixed amount for a specified period. A life annuity will continue for the lifetime of the recipient.

Asset Mix

The allocation of your money among the different investment options.

Bear Market

A market with usually declining prices. This can bring out the advantages of Dollar Cost Averaging.

Bull Market

A market with generally rising prices.

Blue Chip

A leading, highly regarded equity issue. The company is generally known and is recognized for its ability to make money and pay dividends and is financially sound and secure.

Bonds

Debt issued by a corporation, government or government agency on which interest is paid in a specific period. The value of a bond is guaranteed at its stated maturity date, before then, it may trade above or below its “book value”.
**Book Value**

The value today of contributions and interest accrued to date, assuming the certificate is held to maturity.

**Cash Inflow**

Money received from employment, investment income and other sources of income.

**Cash Outflow**

Money paid out to meet current expenses and lifestyle expenditures.

**Compound Interest**

Same interest rate paid on both the original investment as well as the interest it accumulates.

**Comprehensive Financial Plan**

Considers all aspects of a client's financial position, needs, objectives and possible planning strategies in an integrated, coordinated approach.

**Creditor-Proof**

Creditors in the event of financial problems cannot seize the money held in one’s account.

**Deferred Profit-Sharing Plan (DPSP)**

A tax-favoured arrangement whereby an employer distributes a portion of their pre-tax profits or a percentage of income to designated employees. Employers do not contribute their own funds, but money is accumulated in a tax-sheltered account for them.

**Demographics**

The characteristics of a human population such as age, sex and income used for market research, sociological analysis and other such purposes.
Diversified Funds

Also known as Balanced Funds, this type of fund invests in a mix of stock, bonds, and short-term investments and it adjusts the percentage held in each area depending on current market conditions.

Equity Funds

Invests in the stocks of companies traded on the stock markets.

Financial Planner

A professional advisor who defines a client's objective and develops strategies to achieve them.

Financial Specialist

A professional planner who specializes in a single area of personal financial planning, such as investment planning, tax planning or retirement planning.

Growth Funds

 Allows investors to participate in stock market-oriented investments, which have shown, over long periods, to outperform other types of investments.

Guaranteed Investment Certificate (GIC)

A certificate or term deposit, which fully guarantees the interest and the return of capital at maturity.

Income Funds

For security-oriented investors, these funds provide good interest returns with lower risk or volatility than most growth funds.

Income Splitting

By contributing on behalf of your spouse, you can reduce your combined taxes even after retirement. If your spouse is in a lower income tax bracket, the retirement income received in your spouse’s name will be taxed at your spouse’s lower tax rate.

Inflation

The term is used to describe rising prices of goods and services within an economy, usually measured in the Consumer Price Index. (CPI)
Investment Mix

Allocating deposits to different investment options.

Liabilities

A financial obligation of debt.

Life Income Fund (LIF)

An account set up to hold pension plan monies while allowing added flexibility over an annuity (similar to a RRIF).

Liquidity

The ease by which an asset can be quickly bought or sold without adversely affecting its price.

Market Value

The value at a particular date, assuming the certificate is liquidated before maturity.

Money Market Funds

Invests in short term investments and is generally the least risky of the market-related funds and offers the lowest positive returns.

Mortgage Funds

Invests in commercial and industrial mortgages, diversified by type and location.

Non-Registered Funds

Money that is deposited with after-tax dollars and is not invested in registered tax-sheltered vehicles such as RRSP’s. Income earned by the funds is taxed annually – even if the Investment earnings are not actually withdrawn.

Objective

A financial position or state with financial implications that a client would like to achieve to satisfy individual needs.
Personal Financial Planning

A process that involves examining a client's financial and personal circumstances, defining realistic objectives and developing and implementing strategies for achieving those objectives.

Portfolio
The holdings of securities by an individual or an institution.

Qualitative Information

Represents the data that describe a client's financial position including information on assets, liabilities and income.

Registered Pension Plan (RPP)

A formal arrangement where an employer provides retirement income to employees.

Registered Retirement Income Fund (RRIF)

Money that is accumulated in an RRSP that is used to purchase a RRIF that allows flexibility for money being paid out as retirement income.

Registered Retirement Savings Plan (RRSP)

A registered vehicle that allows investors to defer current income taxes while saving for retirement.

Segmented Plan

Designed to help clients achieve determined objectives in a single area of their financial situation, or to solve a specific problem (also referred to as a single-purpose plan).

Simple Interest

The amount of interest paid out on a certificate at the end of the term.

Spousal RRSP

An RRSP that is owned by one spouse, but with contributions as well as tax deductions linked to the other spouse.
Stocks

An equity or a share in a corporation. When one invests in a stock, one is buying a piece of a company.

TSE 300

The Toronto Stock Exchange 300 Composite Index represents the value of the top 300 Companies traded at the exchange, selected based on the total value of outstanding stocks.
SAMPLE KNOW YOUR CLIENT INVESTMENT PROFILE

Name _____________________________________ Age ___ SIN # ______________________
Profession ___________________________________________
Employer / How Long _______________________________________
Last financial planning date ________________________________
Last will planning date ____________

Source of client: Advertising { Recommended { Contacted { Other } (___________)

The purpose of this section is to determine your investment profile. (Info. required for sale of funds)
Please answer the following questions by circling the answer that best corresponds to you.

Points

How worried would you be if there were a temporary drop in the value of your investments?

Very worried = 1  Somewhat worried = 2  Slightly worried = 3  Not worried = 4  _______

How much do you know about how investment funds work?

Nothing = 1  Very little = 2  Some = 3  A lot = 4  _______

In how much time do you expect to need your investments?

0 to 5 years = 1; 6 to 10 years = 21; 11 to 15 years = 31; 16 to 20 years = 41; 21 or more = 5  _______

What is your approximate annual income?  ($000) (Salary + investment income) 25 and less = 1
26 to 50 = 2  51 to 85 = 3  86 and over = 4  _______

What is your approximate net worth?  ($000) (Assets minus liabilities)
Less than 15 = 1  15 to 25 = 2  26 to 50 = 3  51 to 75 = 4  Over 75 = 5  _______

What levels of risk are you willing to take with your investment funds to obtain better returns?

Low = 1  Moderate = 2  High = 3  Very high = 4  _______

TOTAL POINTS _______

According to the number of points you obtain, see the investment strategy to determine the portfolio that best
meets your investment profile.

Your investment fund choice or choices: ________________________________________________

Does the choice correspond to your investment profile?  Yes _____ No _____
INVESTMENT STRATEGIES ADAPTED TO YOUR NEEDS WILL PROVIDE YOU WITH BETTER RESULTS

We suggest the following to help you select the Investment Funds that best meet your needs.

6 to 10 POINTS
- Portfolio based on investment security.
- You are nearing retirement or perhaps you prefer safer investments.
- You favour regular investment income and the security of your capital.

70% Income 30% Moderate growth

11 to 15 POINTS
- Portfolio based on a balance between security and growth of your investments.
- You would like a safe portfolio but you are willing to take a few risks to obtain better results.

50% Income 35% Moderate growth 15% Dynamic growth

16 to 20 POINTS
- Portfolio based on moderate investment growth.
- You want your portfolio to provide you with interesting returns and you are ready to take a little more risk to reach this objective.
- A temporary drop in the value of your investments does not worry you very much.

30% Income 50% Moderate growth 20% Dynamic growth

21 to 26 POINTS
- Portfolio based on dynamic investment growth.
- Your portfolio must provide you with higher returns and you invest over a long-term horizon.
- A temporary drop in the value of your investments does not bother you.

20% Income 30% Moderate growth 50% Dynamic growth