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BY DEANNE N. GAGE ILLUSTRATIONS BY ISABELLE ARSENAULT

Plan Your Life & Live Your Plan

Getting to where you want to be in life can be greatly facilitated by a financial plan of action that is reasonable and still allows you to have a life.

THERE was a time when Nanci Harris couldn't get any shut-eye. Her husband lost his job and needed extensive shoulder surgery. They had little savings — and debt load and financial obligations were formidable. She doubted they could manage solely on her salary. Would they have to sacrifice their east Toronto home to make ends meet?

She also watched her sister-in-law and two friends die prematurely. She found herself thinking, "This could happen to Rob and me. Who will look after our two-year-old daughter, Madison?"

Rather than wallow in self-pity, Harris experienced a pivotal moment. She sought help from a financial advisor. Now, nearly a decade later, Harris' financial house is humming. Thanks to her advisor, the 42-year-old community development director reduced her debt and is saving for her retirement and Madison's post secondary education.

If the thought of balancing a chequebook let alone boning up on the latest investments makes you want to run for cover, you're not alone. Many people avoid thinking about their finances until they've been affected by one or more of the "D" factors. Debt. Downsizing. Death. Divorce. Disability. (Harris is no exception.) But "finances" and "crisis" don't have to go hand in hand. Learning more about money issues will ultimately help you to achieve true independence. "Before, everything I thought was certain went out the window," says Harris, now separated from her husband. "Now I have the security in knowing I can take care of myself no matter what the situation."

Ever wonder how the well-off got that way? In addition to having more money, as Ernest Hemingway put it, the wealthy are also big on planning. "The rich haven't become rich simply because they were born rich," explains Scott Plaskett, a Certified Financial Planner, senior financial planner and CEO of Ironshield Financial Planning Inc. in Toronto. "They've often had a good plan established to help them along the way."

Inspired to become money-savvy but not sure where to start? First of all, think about your dreams. Financial planning is all about fulfilling them. Everyone has dreams, be it renovating a house, going back to school or achieving early retirement. But few people put pen to paper to formulate a plan to make those dreams become reality. "People are more aware of their goals when they take the time to write them down," explains Diane McCurdy, a Vancouver-based financial planner and author of *How Much is Enough?* "Doing this stops them looking at everyone else's goals. They look at what they want to do."

Take Sylvia Gaidauskas. For years, the 38-year-old business development manager wanted to buy a house in Dundas, ON. Left to her own devices Gaidauskas hadn't stashed her cash effectively. Since working with a financial advisor, though, she devised a written plan and saved more than $50,000 towards a down payment.

An advisor can also confirm if you're on the right track. Anne Budgell, a journalist for CBC Radio in St. John's, NL, always maximizes her RRSP contributions and will receive a public-sector pension plan. But flipping through her last pension statement, she agonized whether she could live on that amount.

With retirement less than four years away, Budgell took no chances. She called in the experts for a financial checkup. "I just wanted to make sure I wasn't making any foolish mistakes," she said. "I didn't want to retire and be saying, 'I wish I had known about this.' "

Financial planner Carolyn Williams set 53-year-old Budgell's mind at ease. Not only will Budgell have enough to retire, Williams pointed out some strategies to help her pay off her mortgage more quickly, so she could retire even sooner.

Once you clarify your present situation and goals, the best financial plans encompass all aspects of your financial affairs. Components of Ironshield's financial planning process include:

Tax planning

The goal here is simple: keep more money in your pocket, not the taxman's. Advisors, working with accountants, can help reduce the amount of tax you pay on income and the growth of assets.

Estate planning

Having a will ensures your assets go to the people you want them to should something happen to you. While you can certainly write a will on your own, it's best to work with a lawyer who will ensure your wishes are clearly articulated.

Not having a will may mean that provincial legislation will govern the distribution of assets notes Jean Blacklock, a vice-president and managing director of personal trust services with BMO Harris Private Banking in Toronto.

A good advisor will also recommend you draft a power of attorney, which designates someone you trust to pay your bills and handle your finances should you no longer have the ability.

Retirement planning

Will you have enough money to live a comfortable retirement? Will you be able to retire at your desired age? If your wishes aren't realistic, your advisor will likely discuss various changes to better meet your goals. "You may have to change the age you want to retire, lower your after-retirement income expectations or work part-time," says Plaskett.

Education

If you have children, do you want to pay for part or all of their post-secondary education? Advisors will determine what it's going to cost and introduce monthly, quarterly or annually strategies for meeting these goals. A popular savings vehicle is the Registered Education Savings Plan, which allows you to put away up to $4,000 a year tax-free. The government will contribute up to 20%.

Insurance

Insurance is put into place to protect against an unplanned death or disability. Do you want your family to maintain their standard of living if something happens to you? (SEE SIDEBAR, AVOIDING ICEBERGS)

Investment

Plaskett calls investments the "engine" of a financial plan since "you have to know your goals before you decide which products will get you there." What type of investment portfolio will best achieve your financial goals? Some investments are riskier than others, so how much risk can you handle?

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The work is not over yet. There is still the matter of following and revisiting your plan on a regular basis. As you evolve, your plan needs to reflect those life-changing moments. Getting married or having a baby? Saving for a new house or child's education might now take precedence over your goal of travelling around the world for a year.

Wondering where you'll find the money to save for big-picture items, not to mention your retirement? Perhaps after the mortgage and car payments (and having a life!), there's not a lot of room for extras. McCurdy recommends taking 10% off each paycheque and automatically allocating it to savings. Some employers may have retirement savings plans that deduct your contributions each month. "You won't miss the money after a while. The amount should be treated like another bill in your monthly budget," she says.

Try some clever bookkeeping. Say, for example, you pay $100 every month on your 7% mortgage ... when your mortgage comes up for renewal, negotiate a lower mortgage rate and put the difference in payments towards your RRSP or child's education fund.

For her part, Harris cut back on incidentals and impulse buys at the grocery store and other retail shops. It doesn't take long for spur-of-the-moment purchases to add up over a given year. "It really is about scaling back your discretionary spending and prioritizing your needs," she explains. "So instead of getting a new car, for example, you'll get a used car or push the car you have for another year so you can save towards other things."

You won't hear Melanie Antifave and her husband, Kevin, both 33, talking about some annual exotic vacation or new, flashy sports car. But thanks to their careful budgeting, the Antifaves, who reside in White Rock, BC, save 25% of their income and are well on track to retiring early, at age 50.

They brown-bag their lunch, a $200 monthly savings, Melanie estimates. They host friends at their home for dinner instead of hitting the latest bistro. They vacation every other year. They enjoy hitting the slopes regularly with their snowboards. But rather than forking over $4,000 to ski at Whistler every year, they'll spend $500 to snowboard at Cypress, a local mountain.

"You'd be amazed how much money you spend going to the movies and eating out all the time," notes Melanie, an associate product manager for a software company. "Those things are not important to us. Quite frankly, we'd rather have early retirement."

Melanie's advice to other women? Record your incidental spending and decide if those items have value to you. If they don't, take steps to reduce spending on those particulars.

After a while, financial planning gets to be a no-brainer. You plan for your career and family, so why not also better plan your finances? It's the best strategy to make your money work for you.

AVOIDING ICEBERGS

FOUR years ago, her arms full of tax returns, Janet Freedman missed a step outside her front door and fell. She landed head first, trapped between her and her neighbour's front steps.

Luckily, another neighbour noticed her and called 911. Even more lucky, Freedman had disability insurance.

Disability insurance (DI) replaces income in the event of a disability from an accident or injury.

You never had to preach to Freedman about the merits of insurance. As a seasoned financial planner, she's always stressing the importance to her clients.

Women are more likely to suffer a disability than die at a younger-than-expected age. "What happens if you lose your ability to earn an income?" asks Freedman, co-author of *Hit by an Iceberg: Coping with Disability in Mid-Career* (www.hitbyaniceberg.ca), a book about her experiences. In two words: debt and bankruptcy. After paying for a wheelchair and a ramp to replace your front stairs, it doesn't take long for costs to increase, forcing you into the red.

While you may have group disability coverage from your employer, this may only cover you for two to three years at most. Freedman, who is still collecting on her disability policy, recommends seeing an insurance agent who will top up your group coverage. DI could pay you monthly until the age of 65, if necessary.

Being diagnosed with cancer also affects your ability to work. Enter critical illness insurance (CI), a relatively new product mainly for cancer, heart attacks and strokes but can cover up to 27 other conditions depending on the plan. CI, unlike DI, pays one lump sum upon diagnosis, to be used however you wish. But there are pitfalls to this. "Let's say you get $75,000. Depending on the severity of the cancer, that will not last you very long," notes Freedman.

And as the name implies, CI has to be just that — critical. "It doesn't consider breast cancer critical, unless it spreads," she notes.

Both products are worth considering. Better to have it and not need it than desperately needing it and not having it.