Planning for a lifetime

Financial planning begins with the setting of personal goals

BY MAUREEN HALUSHAK

Six years ago, Rob Hunt's approach to financial planning was, quite literally, laughable. "With the strategies I was using back then, I was aiming to retire at 110," says the 49-year-old plant control and automation equipment technician from Halifax. "My backup plan was called Lotto 6/49."

This isn't to say Hunt had his head in the sand when it came to his finances; for more than a decade he and his wife, Sharon, had diligently made RRSP contributions through their bank. "We thought we had a financial plan," he says. "But it really wasn't much of anything."

Hunt isn't alone in the mistaken assumption that regular RRSP contributions are the sole component of financial planning. "Most people are under the impression that if they have RRSPs, they're on track to achieving their goals," says Noel Tilley, a consultant with Investors Group Inc. in Halifax. "But investing money is only one small component of what planning is all about."

Although a comfortable retirement may be life's ultimate financial objective, true planning takes into account the full gamut of personal goals and financial obligations, such as becoming a stay-at-home mom, travelling the globe, going back to school or taking care of elderly parents. For this reason, a genuine financial plan encompasses not only investment strategies but cash-flow management, estate planning, tax planning and insurance.

"Financial planning is about the proper management of your financial affairs — a lifelong process consisting of the relevant components you need to enjoy the lifestyle you want to live," explains Ann Bowman, vice president of communications and corporate relations for Toronto-based Financial Planners Standards Council, the guardian of the certified financial planner (CFP) designation in Canada. "It begins with the setting of personal goals."

It's no wonder so many Canadians — such as the Hunts — are confused by what financial planning really means, says Bowman: "[Outside Quebec], 'financial planning' and 'financial planner' aren't regulated terms."

Nonetheless, there are professional qualifications that can point you toward a person with the skills and experience to put together a comprehensive financial plan. For example, the CFP is one of the most popular planning designations in Canada and is held by 17,000 advisors across the country. In order to obtain the designation, advisors must have at least two years' experience in the business and complete approved courses and the CFP exam. (For more on useful designations and how to choose the right financial planner, see page 13.)

So, what should you expect from a financial planner? Your initial contact with a planner should be a complimentary, kick-the-tires type of meeting — no financial paperwork required.

"During your first face-to-face, a good planner will spend at least twice as much time listening as talking," says Jim Rogers, a CFP and founder of The Rogers Group Financial Advisors Ltd. in Vancouver. "I ask countless questions, so that after 45 minutes I can tell whether I can help you or not."

The first meeting is also one of personality. "It's really no different from choosing a family doctor," says Rogers. "If you don't feel comfortable with the planner, you should move on."

Despite mild apprehension about using a financial planner, after growing frustrated with his existing investment tactics, Hunt decided to seek counsel from Tilley.

"I'm very private and not entirely comfortable sharing the details of my financial situation," Hunt admits. But he left his first meeting with Tilley with a good gut feeling: "I knew that Noel was, above all, honest. I figured, 'What do we have to lose?'"

After you've decided on a planner, the financial planning process begins. Although specific details vary from planner to planner, creating a comprehensive financial plan is a six-step procedure that can take several meetings to complete.

1 Step one: Agreeing on your relationship

As with any service, never hire a financial planner without knowing what you're getting and how much you're paying for it. Whether through discussion or via an engagement letter (a written disclosure of the terms of the client/planner relationship), here's what you need to establish:

- your planner's credentials and related experience;
- the services he or she will provide;
- how often you'll see your planner;
- any possible conflicts of interest he or she might have, such as affiliations with mutual fund or investment companies that pay commissions for the sale of their products;
- how much your advisor will charge and how he or she will be compensated.

Planners typically are compensated in three ways: by charging an hourly rate or flat fee; by commissions on products sold; or by an annual fee based on the dollar value of assets being managing for you.

2 Step two: Collecting information and determining goals

At this point, it's time to break out the paperwork. Your advisor needs to see: copies of your tax returns, notices of assessment, benefits, mortgage and bank statements; and your will. He or she will also want to determine your financial goals, spending habits and attitude toward risk through either conversation or a questionnaire.

"I prefer collecting this information face to face, so I can gauge clients' reactions to my questions," says Kurt Rosentreter, CFP and senior advisor at Berkshire Securities Inc. in Toronto. He has clients list their financial goals, requiring separate lists from couples. That sets the benchmark against which the progress of their plans can be measured.

Rogers, too, uses lists to determine financial goals. He asks first-time clients to bring in three lists: one citing their top three financial concerns, another detailing assets and debts, and the third outlining sources of income. "Right there, their financial life is laid bare," he says. He prefers to ask about financial concerns vs objectives. "I need to find out what is worrying them," he adds.

Cathie Hurlburt, a CFP at Integrated Financial Planning Group in Vancouver, agrees that clients are likely to have concerns more often than objectives. "People never come to me and say they want to invest their money or buy life insurance," she says. "Instead, they want to know if they can afford to retire, or send their kid to medical school."

Before Hurlburt meets new clients, she asks them to complete an 18-page questionnaire that covers details of their financial life. "It's often the first time that a husband and wife have the same information about their spending habits," she says. She also asks one succinct question to help separate monetary needs from wants: "If they had to give up everything in their life but two things, what would they be?"

Hurlburt cites the example of a couple whose extreme spending habits were causing trouble in their relationship. In their case, the answer was simple: their marriage and their children. From there, Hurlburt was able to help the couple rein in their somewhat extravagant lifestyle.

Determining your attitude toward risk can also be gauged in one simple

YOU THINK YOU DON'T NEED A PLAN?

Rob Hunt knew advisor Noel Tilley long before Hunt became Tilley's client at Investors Group Inc. in Halifax.

"He tried to offer me advice years ago," says Hunt, a 49-year-old plant control and automation equipment technician from Halifax. "But my wife and I felt we really couldn't afford financial planning at that time."

The Hunts aren't the only ones to fall prey to this false belief. Read on for the five most common — and often most costly — misconceptions about financial planning.

"I need to be rich to have a financial plan"

In fact, it's quite the opposite. "People in debt with few assets need a financial plan more than anyone," says certified financial planner Jim Rogers, founder of The Rogers Group Financial Advisors Ltd. in Vancouver. He notes that low-income individuals may be best served by seeking help at their banks.

Kurt Rosentreter, a CFP and senior advisor at Berkshire Securities Inc. in Toronto, also warns against ruling out financial planning as a result of your income: "It's hard to know what's possible and what's not without having a professional take a look at your financial picture."

"I can manage my finances just fine on my own"

"Working on your own is a dangerous game," says Rosentreter, who adds that many people may mistakenly assume that working with a financial planner means relinquishing all control. Instead, he likens the relationship between client and planner to that which exists among team members: "You'll work together to take a co-ordinated approach to your finances."

"I'll visit a financial planner eventually"

It took Hunt more than a decade of mediocre investment returns before he picked up the phone and called Tilley. "I thought we had lots of time," Hunt says. "Had we started when we should have, we would be much further ahead."

"I just can't admit I know nothing about money"

"People are embarrassed to tell me they don't know how to balance their chequebook. But I tell them that most people don't," says Rosentreter. "This is my job, just as their job is their job."

"I'm too young (or too old) to have a plan"

"From 22 to 62, there are always things that can be done," says Tilley. Hunt is living proof: the 49-year-old says his investments have performed "like wildfire" since he started shifting them to Tilley in 2000. Says Hunt: "It's a huge relief."

question: "I ask clients how they would feel if they had $100,000 at the beginning of the year, but only $85,000 at the end," says Larry Jacobson, principal of planning firm Macdonald Shymko & Co. Ltd. in Vancouver and president of the Institute of Advanced Financial Planners, which administers the registered financial planner designation. "Some say they might faint. And that's how I see how they would react to a loss."

Rosentreter likes to ask established investors how they dealt with the tech boom and bust. "This gives me insight into how they think about their money and how they want to see it invested," he says.

Honesty is key throughout this information-gathering process. "If you go to the doctor for your annual exam but refuse to take your clothes off, your doctor is not going to be able to help you," Hurlburt says.

3 Step three:

Clarifying financial status and identifying problem areas

This is the part of the process in which you may discover that you're better off than you think.

"Some people come through this and find they're not so badly off," says Rosentreter.

However, it's just as likely that your investment strategies need a radical rethink. That turned out to be the case for

NANCY ACKERMAN/KLIXPIX

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people. Your incorporation should be visible because, going forward, your company must offer the services you may have been offering personally to your clients. That means that, at a minimum, your letterhead must change, outgoing cheques to suppliers must be drawn from your corporate bank account, and incoming cheques must be payable to your corporation. Cestnick suggests you also check to see if any formal agreements and contracts you've made with clients or business partners need to be re-signed.

HOW DO I MAXIMIZE THE BENEFITS OF INCORPORATION?

"Most people underutilize their corporate strategies," says Jacks. "We're all so busy trying to make money and to hit our revenue targets that we don't always give a lot of thought to diversification of our own income and the value of the equity that we're building. And within a corporate structure we have so many more opportunities on both of those fronts."

"It made me look at things as a business. It wasn't just me; it was bigger than me."
—SCOTT PLASKETT

Some of the simple strategies she suggests advisors consider to maximize the benefits of incorporation include setting a fiscal year-end in the second half of the year, so that bonuses can be deducted by your company in one tax year and taxed in your personal hands 180 days later in the next tax year. She says it's also very important to establish the most advantageous mix of salary, dividends and bonuses in any given year.

In addition, Jacks points out corporations provide valuable income-splitting opportunities. Your company can pay family members reasonable salaries for the work they do. Beyond that, depending on your share structure, you may be able to pay dividends to your spouse and adult children. If they have no other income, significant amounts of these dividends may be tax-free. Jacks advises against paying dividends to minor children because this will attract the "kiddie tax."

Shares of your corporation can be held by a family trust, which may be important to protect your business from your children's marriage breakup and bankruptcies. Meanwhile, investments can be kept within a holding company inside your corporation—and this, says Cestnick, is very important to keep active business income and investment assets separate within the company.

Golombek says it's best to set up mechanisms such as a family trust or holding company at the outset so you don't have to revisit the corporation's structure five or 10 years later. He adds advisors may be able to save taxes on an absolute basis by having the corporation pay for non-deductible and partially deductible business expenses, because you don't have to earn as many pre-tax dollars within the corporation (with its favourable tax rate) to pay for any given expense.

Looking toward the future, Jacks says that as an employee of your own corporation you may be able to set up an individual pension plan to enjoy higher contribution limits than an RRSP. And when the time comes to transfer your business to a new owner, each shareholder within your family (including a family trust) may be entitled to the $500,000 capital-gain deduction on the sale of your qualified Canadian-controlled private corporation.

In other words, if you, your spouse and two adult children are shareholders, a potential $2 million gain could be tax-exempt if your corporation qualifies for the deduction.

Finally, keep in mind that the benefits of incorporation aren't all financial. As Plaskett puts it, "It made me look at things as a business. It wasn't just me; it was bigger than me. A lot of times people are not able to separate the personal from business activities, and that whole process of incorporating really gives you a sense of confidence. Now you have this other entity that you're in charge of."

"Being able to tell other business owners that you are incorporated, that you are an established entity, that you aren't an individual—I think that's very important," adds Ernst. "It demonstrates to clients and the business world that you're in business for the long term, not the short term." AE

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