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Scott Plaskett, CEO of Ironshield Financial Planning, says long-term goals can often be sidetracked by unexpected emergencies, such as a job loss.

Colin McConnell/Toronto Star

While financial advisors hammer away at the idea that financial planning is a gradual, decades-long process, one of the country's big banks is promoting the idea of short-term planning for those who have trouble thinking about the far-off future.

"What we are encouraging people to do is, not change the way they do financial planning, but to think about it in short-term increments," says Rob McGavin, director of product development for GICs with the Bank of Nova Scotia.

Financial advisors for the bank will be talking a lot more about planning in five-year increments, rather than looking to 2030 and beyond.

"It is not a fear of investing, but inertia," he explains. "It's human nature. It is easy to procrastinate when you don't realize the benefits until 20 or 30 years down the road."

Reducing the timeframe to just five years means going through many of the same steps you would cover if you were planning for retirement well into the future.

McGavin's to-do list: First, get some professional advice from a financial expert to identify your goals over the short term, mid-term and long term.

Determining your objectives and your investment time horizon will help you gauge your risk tolerance and, ultimately, your investment asset mix.

From there, you and your advisor can work out a financial plan to achieve those more-immediate five-year goals, as well as larger, distant targets and achievements.

He also advises people to set up pre-authorized deductions, which will pile up money for objectives that can range from long-term retirement goals to a short-term emergency fund for major purchases such as a car, wedding or dream vacation.

“A pre-authorized contribution can meet any of those objectives; it is just a question of how much you set aside and into which (investment) vehicle.”

Adopting a five-year focus, he argues, is more a mindset change for investors than any major change to the basics of good financial planning.

“Step one might be setting up a regular contribution, steps two and three might be based on events that you know are going to unfold, bonuses you are going to get at work, a promotion. Five years really is just a great way to keep people motivated to take action and take control.”

Although McGavin says a positive outlook works best, planning for the worst is a critical goal for everyone. Setting aside six months of gross salary for emergencies takes time, he acknowledges, and has to be balanced with competing demands for that money. If you have expensive credit card debt, for example, it probably makes sense to pay that off first before socking money away for investments.

Scott Plaskett, chief executive of Ironshield Financial Planning, says his firm prefers using long-term investment horizons when working with clients, but often must deal with short-term issues such as major purchases or unexpected events such as career changes.

“The most common one is probably being laid off,” he says. “Suddenly, they are being forced to make decisions on what to do with their pensions, where to send it and all that. That can expand into long-term planning but it doesn’t need to.”

Plaskett is working on just such a plan for a client. “He called me out of the blue and says, ‘I just got let go, what do I do?’

In this case, the planner says he would likely contact a labor lawyer to assess if the client is getting a good severance package, and then decide how to structure the payout.

“If we are close to the end of the year, oftentimes we will try and negotiate a situation where we have salary continuance until the end of the new year, and then get the lump sum. That way, we are not adding to a tax problem in the current year.”

Toronto financial planner Frank Wiginton, of TriDelta Financial, also prefers to sit down with clients and work out long-term financial plans. But he does acknowledge that, with some people, a five-year horizon is all they are willing to contemplate.

He is currently working with a mid-30s couple who are dying to move out of their rented space. The issue, however, is that one wants to buy a condo in a couple of years and then buy a dream house in five or six years, while the other wants to skip the intermediate step.

“Why are you making two big moves, with the land-transfer taxes and soft costs involved with doing that, rather than waiting another year,” he asked. “I think she wants to make the move and he doesn’t.”

They earn a combined income of about $145,000, which sounds great, but they are hoping to buy a home in the $700,000 range.

Wiginton estimates that moving to a condo for a couple of years would cost them an extra $25,000 in taxes, real estate fees and moving costs over just waiting to buy their dream home.

“I think that the more they sit down with the numbers, the more they will realize that if they really do want to move into a house in the Toronto area, you really do need that extra money,” he says.

The Road to happiness?

The Financial Planning Standards Council of Canada commissioned a study to find out if Canadians who engage in comprehensive financial planning are better off than those who don't.

The study discovered that less than 20 per cent of Canadians engage in comprehensive financial planning.

But this group showed significantly greater levels of emotional and financial well-being as a result.

The study also revealed that:

83 per cent of those with plans feel in control of their finances, while 57 per cent of those who do not have a plan said they barely get by every month.

70 per cent of those with plans feel closer to achieving their goals as a result.

Only 13 per cent of those without a plan felt they would be able to retire in the lifestyle they wanted.

Source: Ironshield Financial Planning (ironshield.ca)