

## Understanding and Managing Your Finances

**Presented to:**

Vancouver Coastal Health Authority Employees

**Presented by:**

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Financial Literacy Counsel Inc.

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LohnCaulder Chartered Accountants



## About Us

We began as a university student club in 1999.

Today, we serve over 700 clients providing financial education, counseling, and family office solutions.

### VISION

“Building financially literate generations.”

### MISSION

“Serving you so you can serve others.”

## FINANCIAL LITERACY COUNSEL TIMELINE



## Our **goal** today is to help you answer the following:

- How do I manage my monthly income?
- How do I reduce debt and personal taxes?
- What are my savings and investment options?
- How much do I need to retire?

The **DECISIONS** you make today affect you, your loved ones and the generations after you.

However, the **transactional** nature of the financial industry is stacked against us...



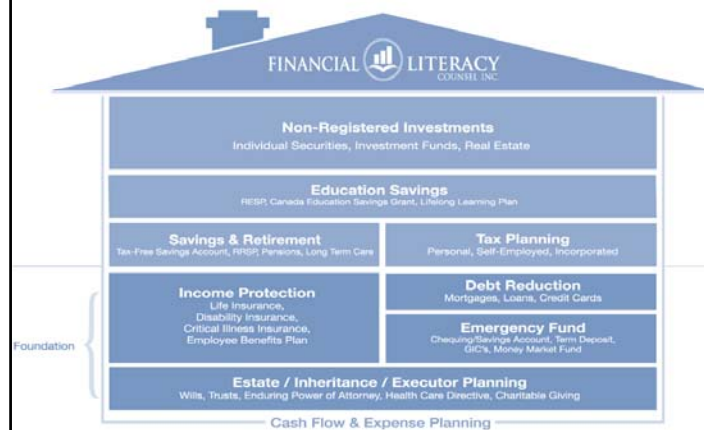
## The Reality + The Result

**The Reality: Transactional Financial Industry**  
In a transactional, piecemeal, and fee driven financial world, consumers are left defenseless.

**The Result: Financial Illiteracy**  
You and I end up buying financial furniture without a **“blueprint”** of where it all appropriately fits.



## The Financial House Blueprint



### Case Study 1: Sophie

Alphil, how much do I take home + how much tax will I pay?



**Sophie:**  
**\$80,000 Gross**  
**32.50% Tax Bracket**


**\$18,093.33 tax**

**Net to Sophie after tax:**  
**\$61,907 per/yr**

**\$5,158.92 per month**



### Tax and budgeting basics



**Suggested Ratios**

Income	100%
Savings	10%
Shelter	25-36%
Insurance	1-3%
Food	8-12%
Transport	3-12%
Debt	0-10%
Healthcare	1-3%
Clothing	1-3%
Misc.	0-12%


**Personal Tax Rates 2010/2011**

0 – 10,382	NIL
10,383 – 35,859	0 + 20.06
35,860 – 40,970	\$5,110 + 22.70%
40,971 – 71,719	\$6,270 + 29.70%
<b>71,720 – 81,941</b>	<b>\$15,402 + 32.50%</b>
81,942 – 82,342	\$18,724 + 36.50%
82,343 – 99,987	\$18,870 + 38.29%
99,988 – 127,021	\$25,626 + 40.70%
over 127,021	\$36,628 + 43.70%

### Living on Income vs. “IF-come” Suggested Budget

**Sophie:**  
**\$80,000 Gross**  
**32.50% Tax Bracket**  
**\$18,093.33 tax**  
**Net to Sophie after tax:**  
**\$61,907 per year**  
**\$5,158.92 per month**

Net Income	100%	5,158.92
Savings	10%	\$515.89
Shelter	25-36%	\$1289.73-1857.21
Insurance	1-3%	\$51.59-\$154.77
Food	8-12%	\$412.71-\$619.07
Transport	3-12%	\$154.77-\$619.07
Debt	0-10%	\$0-\$515.89
Healthcare	1-3%	\$51.59-\$154.77
Clothing	1-3%	\$51.59-\$154.77
Additional \$ to pay off loans	0-11%	\$0-567.48



**Our goal today is to help you answer the following:**

- How do I manage my monthly income?
- How do I reduce personal taxes and debt?**
- What are my savings and investment options?
- How much do I need to retire?

### Reducing taxes in 2011

#### Tax deductions vs. personal tax credits

- Tax deductions save you tax based on the income tax bracket you are in
  - Deductions are better than personal tax credits
  - Minimum 20% to a maximum of 43%
- Tax credits save you 15%
  - up to 20% if there is a matching provincial credit
- Common tax credits
  - Basic personal amount, age amount, pension, tuition, medical, donations

## Reducing taxes in 2011

- **Additional tax credits that can be claimed**

- Caregiver - \$4,223 (income must be under \$18,645)
- Child - \$2,101 (child under 18 at any time in the year)
- Child fitness amount - \$500 for children 16 and under
- Equivalent to spouse - \$10,382 for child 18 or under

## Reducing taxes in 2011

- **Additional tax credits that can be claimed**

- Disability - \$7,239
  - Requires T2201 to be certified by a medical practitioner
  - Requires severe and prolonged mental or physical impairment
    - Prolonged = it must be expected to last for 12 months or longer
  - **Marked restriction in a basic daily activity**
    - Memory, dressing, feeding, speaking, hearing, walking

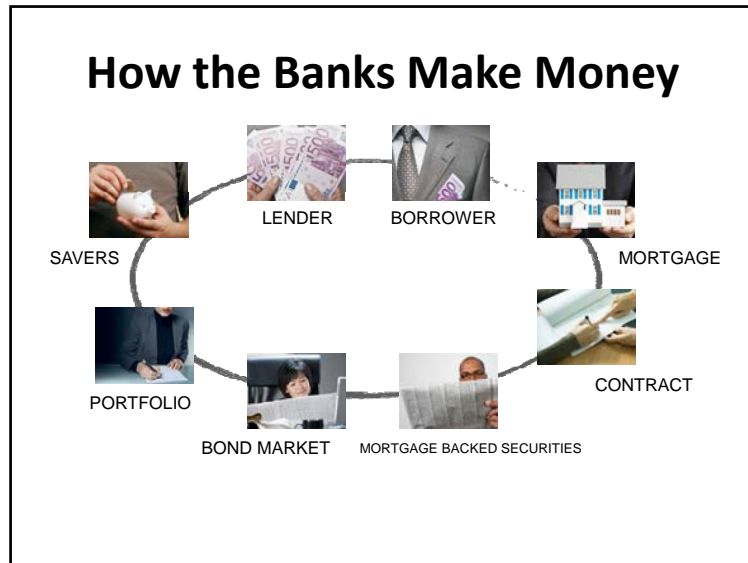
## Reducing taxes in 2011


### Commonly missed or misunderstood tax slips

- Universal child care benefit (slip RC62)
  - \$100 per month for kids under 6
  - Must be claimed by the lower income spouse
- Donations
  - Can be carried forward for 5 years
  - Amounts can be claimed by either spouse
- Joint tax slips
  - If in joint names for estate purposes, beneficial owner reports
  - If really joint, both parties must pick up their proportionate share

## Reducing taxes in 2011

- RRSP admin fees
  - Are not deductible
- T5008's
  - Received for stock sales or bond purchases
- T3's – Return of capital
  - Not taxable
- Child care
  - Claimed by lower income spouse
  - If spouse has no income “earned income” deduction is lost
- Child tax benefits
  - Are not taxable





**Our goal today is to help you answer the following:**

How do I manage my monthly income?

How do I reduce debt and personal taxes?

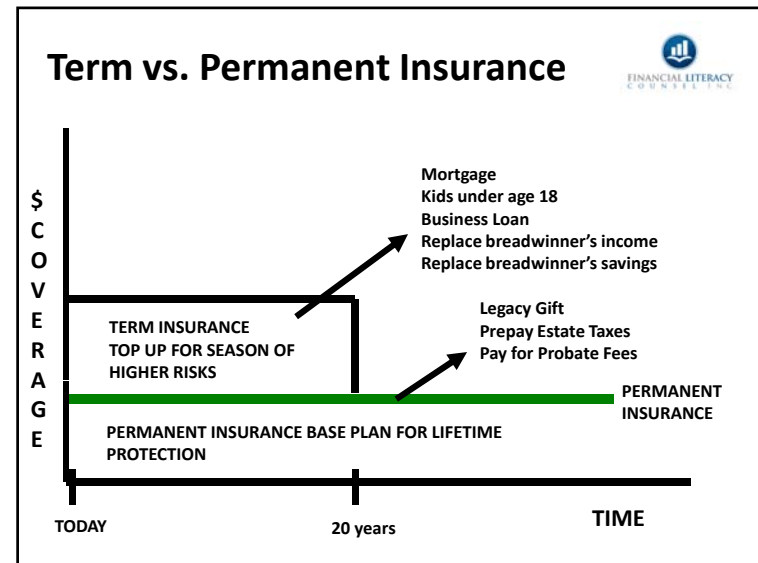
**What are my savings and investment options?**

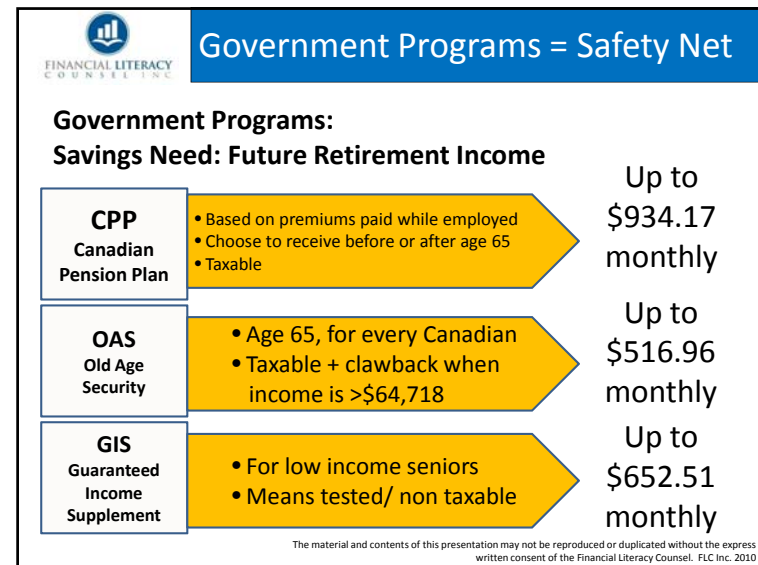
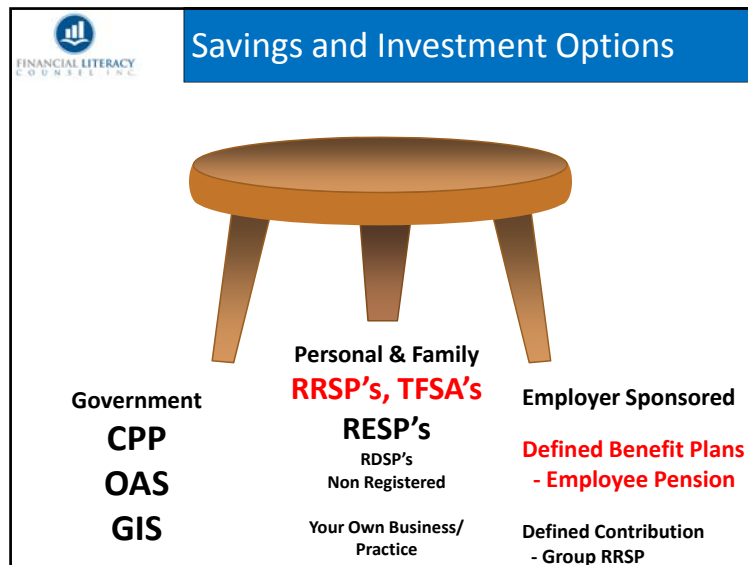
How much do I need to retire?

### Protecting Your Ability to Earn and Save

Income Protection and Employee Benefits

Critical Illness Insurance	Disability Insurance	Life Insurance
LUMP SUM AMOUNT upon diagnosis.	PERCENTAGE of income only. Approx 70%	FOR SOMEONE ELSE.
30 day waiting period.	30, 60, 90, 120 day waiting period. Check contract.	Beneficiary receives cheque in 2 weeks. Bypass will.
Upon diagnosis from a doctor.	Definition Based (Own, Reg, or Any)	Proof of death.
Full return of premium available.	Partial return of premium available.	Term VS Permanent
Figure out what your next steps are.	Take care of monthly expenses.	Help others pick up where you left off.





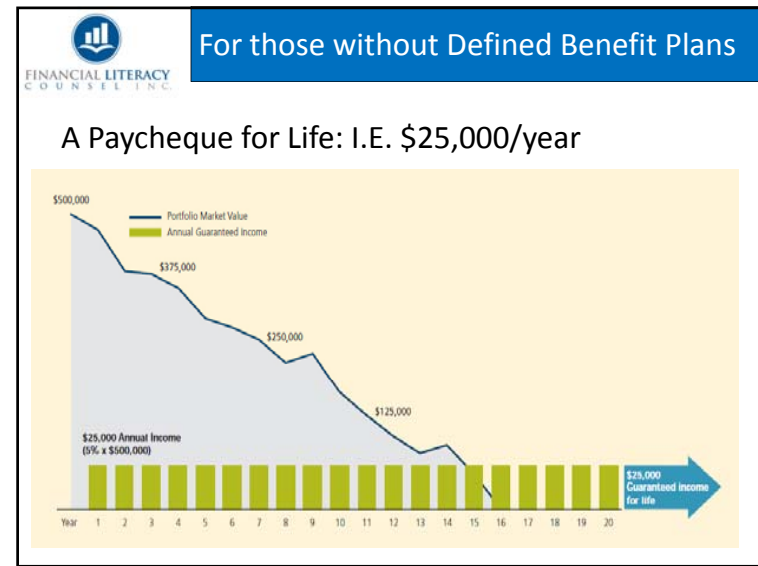
**Employer Sponsored**

**Defined Benefit Plan (DB Plans)**

- YOU KNOW THE AMOUNT AT RETIREMENT.**
- The majority of the risk falls on your employer.
- IE: Teacher's Pension, Union Pension, Government Pension

**Defined Contribution Plan (DC Plans)**

- YOU DO NOT KNOW THE AMOUNT AT RETIREMENT.**
- You know what's going in.
- The risk falls on you.
- The overall trend in the economy is a move towards DC Plans.
- Planning opportunity: Guaranteed Minimum Withdrawal Benefit Plan
- IE: GROUP RRSP Plans**



**Where do RRSP's fit in?**

Personal & Family  
**RRSP's**, TFSA's  
 RESP's, RDSP's  
 Non Registered  
 Your Own Business/ Practice

**Personal & Family Savings: RRSP**

**Government Sponsored: VOLUNTARY**

Savings Need 1: Future Retirement Income  
 Savings Need 2: Home Down Payment up to \$25,000

Throughout working years  
**RRSP**  
 Registered Retirement SAVINGS PLAN  
 Lesser of:  
 18% of gross earnings  
 up to specified limit

Age 72+  
**RRIF**  
 Registered Retirement INCOME FUND  
 Begin to withdraw money accumulated

Season of VOLUNTARY CONTRIBUTIONS  
 Bonus:  
 TAX DEDUCTION FOR EVERY CONTRIBUTION  
 TAX DEFERRED GROWTH UNTIL AGE 72

Season of FORCED WITHDRAWALS  
 Reality:  
 You have to pay tax on the withdrawals  
 Withdrawals are added to other income during your retirement years

**RRIF Forced Withdrawal Table**

Age	%	Age	%	Age	%
69	4.76	78	8.33	87	11.33
70	5.00	79	8.53	88	11.96
71	7.38	80	8.75	89	12.71
72	7.48	81	8.99	90	13.62
73	7.59	82	9.27	91	14.73
74	7.71	83	9.58	92	16.12
75	7.85	84	9.93	93	17.92
76	7.99	85	10.33	94	20
77	8.15	86	10.79	100	20

**Case Study 2: Nolan's RRSP Gameplan**

Nolan age 28 contributes to RRSP until age 71 = 43 years

**RRSP**  
 $\$50K \times 18\% = \$9,000$


**DEDUCTION**  
 - Direct reduction of taxable income  
 - Reduction based on your tax rate

$\$9,000 \times 43 \text{ years @ } 5\%$


**TAX DEFERRAL**  
 - Pay NO tax on yearly growth until age 72.

**"TO DO OR NOT TO DO"**  
**AN RRSP CONTRIBUTION**  
**THAT IS THE QUESTION?**

### Tax Rates



0 – 10,382	NIL
10,383 – 35,859	0 + 20.06
35,860 – 40,970	\$5,110 + 22.70%
<b>40,971 – 71,719</b>	<b>\$6,270 + 29.70%</b>
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over 127,021	\$36,628 + 43.70%




### Case Study 2: Nolan's RRSP Gameplan

**IF Nolan contributes \$9,000 before March 1, 2011.**


RRSP contribution	NO RRSP contribution
\$50,000 Gross Income	\$50,000
- 9,000 RRSP Contribution	- 0
\$41,000 Taxable Income	\$50,000
\$ <b>5,632</b> Tax Payable	\$ <b>8,305</b> Tax Payable

**\$2,673 TAX SAVINGS**



### Case Study 3: Nolan fast forward AGE 72

Nolan age 28 contributes to RRSP until age 71 = 43 years



**RRSP**

\$50K X 18% = \$9,000

\$9,000 X 43 years @ 5%

→

**RRIF**

\$1.351 million @ age 72


7.48%

**FORCED Withdrawals**

**RESULT**

\$1.351 million x 7.48% = \$101,055  
 + \$10,615 (CPP Benefits)  
 + \$0 (OAS Benefits)  
**\$111,670** is in the 40.7% tax bracket


**Tax Payable = \$30,152**  
**Net to Nolan = \$81,518**



### Case Study 3: Income Splitting using RRSP's

Nolan is **SHOCKED** by the amount of taxes he will be paying and not too happy he will lose his OAS income.


Question: How do I reduce taxes at retirement?  
 Answer: Income Splitting using SPOUSAL RRSP



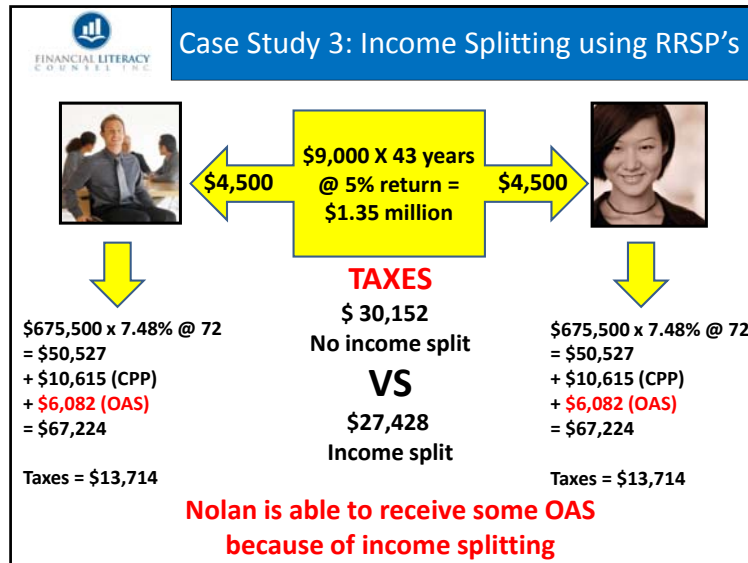
← \$4,500

**\$9,000**  
2010 RRSP Contribution

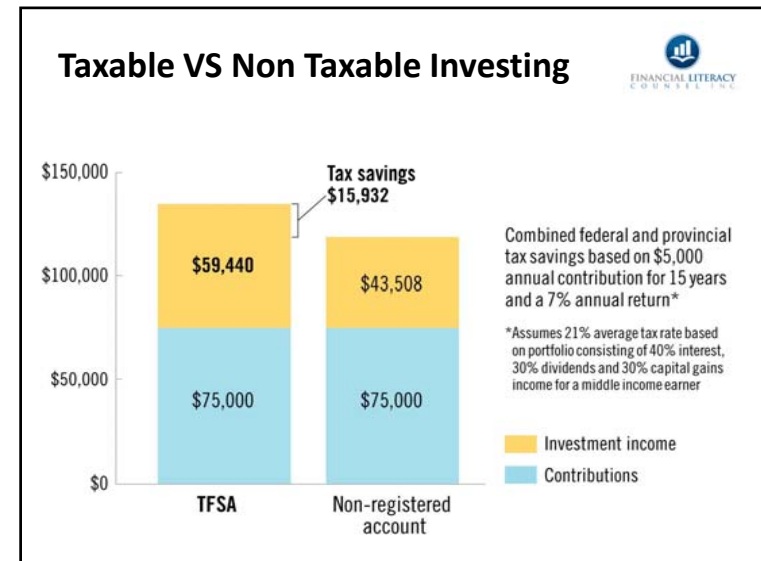
→ \$4,500







- 
- TAX FREE SAVINGS ACCOUNTS**
- 18 years old + and a Social Insurance Number
  - \$5,000 limit adjusted to inflation
  - Investments grow tax free while inside the account
  - Withdraw anytime + for anything + no tax
  - Withdrawals can be re-contributed in the future
  - Withdrawals not considered income = not increase your taxable income or affect means tested government benefits or credits including OAS and GIS
  - Unused room can be carried forward indefinitely

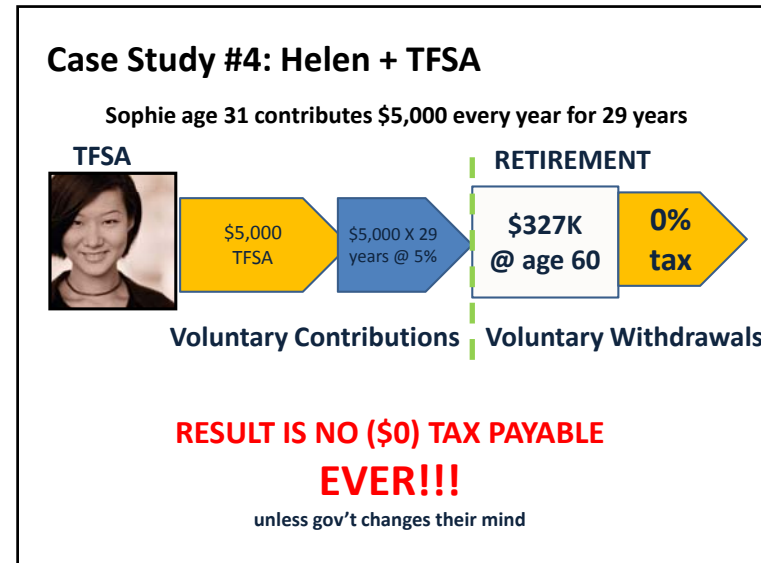


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## How do TFSA's Work?

### TFSA VS Non Registered Investments

	TFSA	Interest 100% taxable	Dividend 45% Gross Up	Capital Gain 50% Taxable
Amount Invested	\$5,000	\$5,000	\$5,000	\$5,000
Return	\$250	\$250	\$250	\$250
Tax Payable	<b>\$0</b>	(\$74.25)	(\$34.89)	(\$37.13)
Net After Tax	\$250	\$175.75	\$215.11	\$212.87



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## RESP's + RDSP's for Nolan and Baby Lily

Meet Nolan and Helen's first child: **"Baby Lily"**

**Registered Education Savings Plan**

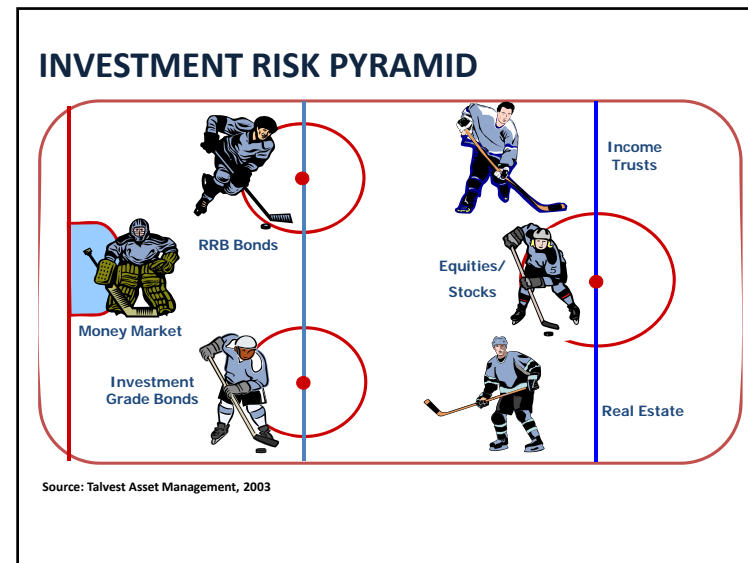
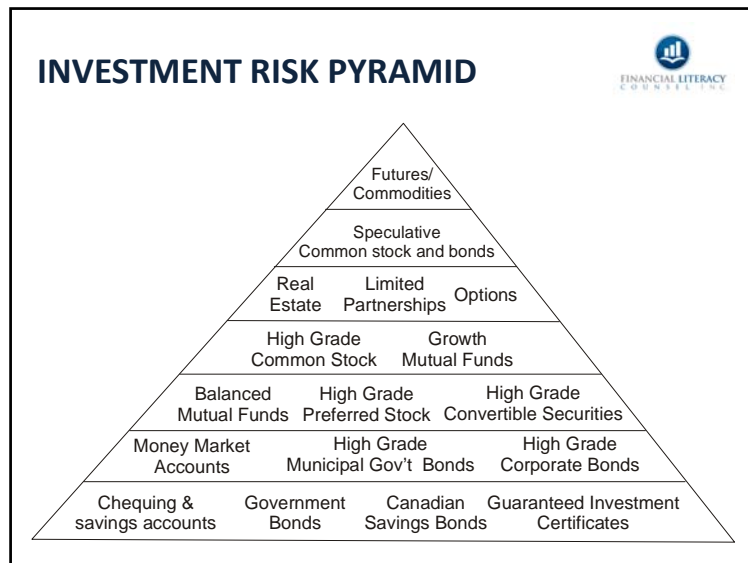
- 20% CESG Grant up to \$2,500 = \$500 per child
- up to age 21, Individual or Family Plan

Nolan has an additional option:

**Registered Disability Savings Plans**

- \$200,000 lifetime contribution limit
- Tax free growth. Grants available from 1 to 3X match from federal government

- FINANCIAL LITERACY COUNSEL INC.**
- ## Eligible for RRSP's, TFSA's, RESP's
- ### What can I put into my RRSP or TFSA or RESP?
- |                          |   |
|--------------------------|---|
| • Savings accounts       | • Shares of Canadian Public Companies           |
| • GIC's                  | • Mutual Funds                                  |
| • Bonds                  | • Segregated Funds                              |
| • Canadian Savings Bonds | • Certain Foreign Assets                        |
|                          | • Certain Real Estate Investment Trusts (REITS) |



### Mutual Funds VS Segregated Funds

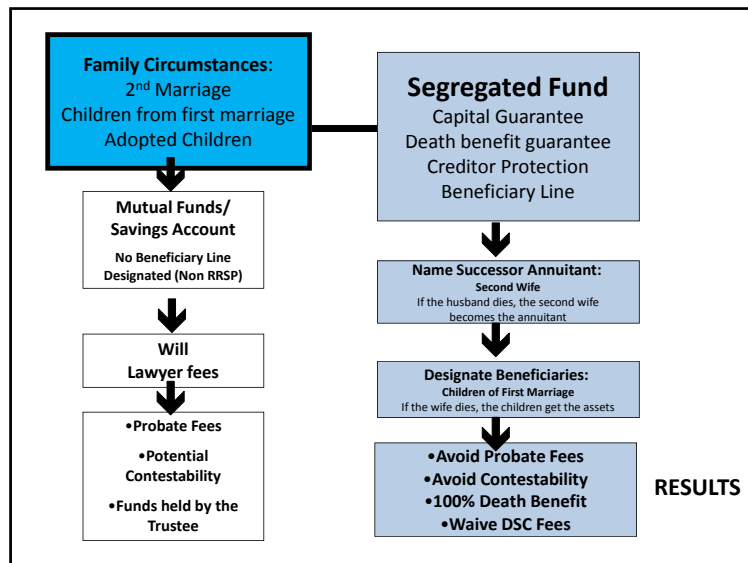
Features	Mutual Funds	Segregated Funds
Professional Portfolio Management	YES	YES
Diversification among asset classes and management styles	YES	YES
Liquidity: easy access to your money through daily valuations	YES	YES
Guarantee of principal (or specified percentage) at maturity	NO	YES
Guarantee of principal (or specified percentage) at death	NO	YES
Ability to bypass probate and keep financial affairs private	NO	YES
Potential to benefit from market gains using resets	NO	YES
<b>Potential creditor protection in case of bankruptcy</b>	<b>NO</b>	<b>YES</b>
Consumer protection through Assuris	NO	YES

### Segregated Funds

- Governed under Insurance Act Legislation
- 75 or 100% protection of principal guarantee
- Creditor proofing
- Estate By-pass = Increased confidentiality/ privacy
- Some companies offer a “spike guarantee”

IDEAL FOR BUSINESS OWNERS + ESTATE PLANNING

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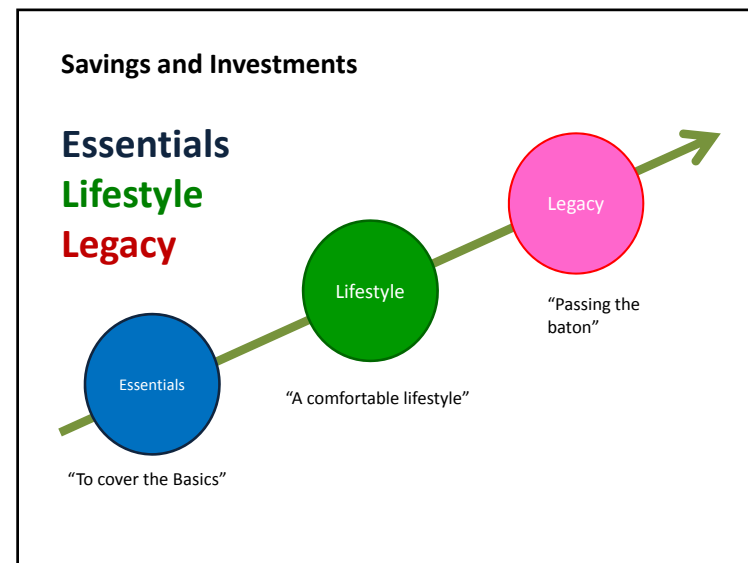


**What about my Non-Registered Canadian Accounts**  
**Open Funds VS Segregated Funds for Estate Planning**  
(Non-Registered Savings)

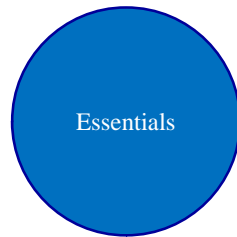
Issue	Open Funds	Costs	Segregated Funds
Savings Balance	<b>\$100,000</b>		<b>\$100,000</b>
DSC Penalties	0-5%	0 to \$5,000	0
Probate	1.4%	\$1,400	0
Executor	3-5%	\$3,000-\$5,000	0
Acct./ Legal Fees	3-5%	\$3,000-\$5,000	0
Settlement	6-18 months	?	2 weeks
Risk	Market risk	?	Benefit Guarantee
Confidentiality	PUBLIC	?	Private
<b>TOTAL</b>	<b>\$58,600-\$92,600</b>		<b>\$100,000</b>

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**How much do I need to retire?**



## Essentials: To Cover the Basics



### Savings Vehicle

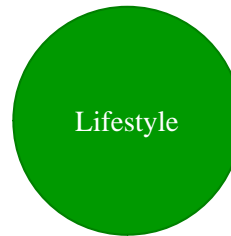
- CPP (\$934.17 max)
- OAS (\$516.96 max)
- GIS
- Pension
- Group RRSP
- TFSA

### Needs

- Food
- Clothing
- Shelter



## “A Comfortable Lifestyle”



Non  
Registered  
RRSP  
TFSA  
Pension(s)

- ### Discretionary
- Entertainment
  - Travel
  - Club memberships
  - holiday



## Passing the Baton



- Insurance policy premiums
- Real estate
- Segregated Fund
- Charities
- Inheritance
- Non-registered investments



## Statistics: Retirement Readiness in Canada

- Nearly 60% of potential retirees 10+ years away from retirement have longevity risk as a concern related to retirement
- 88% of Canadians are unaware that 60% of their investment income during retirement can come from growth that takes place after they retire.
- For the broad population of fully retired households in the 65-74 age group, a little over 50% of their income will come by way of government transfers

## The Retirement Rule of \$20

(source: Russell Investments)

- “Rule of \$20”: **every \$20 of retirement savings can generate \$1 of retirement income per year, adjusted for inflation**
  - Projects funds to last approx. 30 years
  - Assumptions of the rule
    - Annual payout is indexed to inflation of 3%
    - Asset allocation post retirement is 35% equities, 65% fixed income (return assumed as 9% for equities, 6% for fixed income)
    - Money is within a registered account

## Looking at current data...

(Stats Canada & Russell Research)

Cost of **essential** expenditures: \$27,100/yr

Government transfers: \$18,300/yr

Difference: **\$8,800**

➔  $\$8,800 \times 20$  (applying retirement rule\*)  
**= \$176,000**

Thus, **\$176,000 will be needed in addition to government transfer** at the start of retirement (based on essentials ONLY)

\*(annual essential expenditures – annual government transfers + annual lifestyle expenditures) X \$20 = assets approximated to fund retirement

## The lifestyle category...

- Research indicates an average figure of \$7,000/yr for all households.

Applying the retirement rule:

$\$7,000 \times \$20 =$  **\$146,000** (just to cover the lifestyle portion)

**Combining essentials + lifestyle**

**\$146,000 + \$176,000 (essentials)=**

**\$322,000**

needed at retirement



## ONCE EVERY YEAR REVIEW...

### Risk Tolerance Test & Investment Policy Statement

- Written Documents
- Time Horizon/ Investor Type
- Asset Allocation/ Diversification
- KYC = Know your client updates

## Available Help After Workshop

A private 45 minute consultation.

**Step 1:** Sign up for a private consult.

**Step 2:** Attend appointment to deal with top 3 financial concerns.

**Step 3:** Receive a financial prescription.

**Registration required, please hand in your feedback forms.**



## Thank you for letting us serve you today.

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