HollisWealth®

WealthBUILDER

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5 signs it may be time for a financial review

To keep your financial affairs in order, you need to review them anytime there's a significant change in your life. Any of these developments should trigger a review.

1. Job changes

A new job with higher pay may mean you should review your insurance coverage for income replacement and the contributions you're able to make to your investment portfolio. A decrease in pay, or losing your job, may require some short-term planning and budgeting.

2. Changes in marital status

When you get married, you'll probably want to review your will, as well as your insurance policies, pension plan, and Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). The same applies if your marriage ends because of separation, divorce, or death. Getting married also means there may be spousal tax-saving strategies you can now use.

3. Major life events

Having a child means new responsibilities and new expenses — definite signals that you need to review your whole financial set-up, especially your insurance needs. Other major life changes include buying a home, starting your own business, retiring, or becoming disabled.

4. Economic changes

If the economy is heading for a shift, for example, a recession, you need to be prepared. A review is in order, including your investment and retirement plans.

5. A shift in your investor profile

As you get older, you may need to take a more conservative approach to investing. It's important to review your investment plan regularly to make sure it's appropriate for the type of investor you are today, not the investor you were five years ago. ◂

A complete picture helps you make better choices

Your investment plan is an important part of your plan for financial success and well-being. It's not the only element, however, and by making sure that all the parts of your personal financial situation work together, you can enhance the value and power of each.

Here's a look at the potential benefits of a "big-picture" approach.

Minimize tax. Are you holding your investments in the most tax-efficient manner? For example, the interest income generated by investments held outside a registered plan is fully taxable at your marginal rate. Inside a registered plan, it's tax-deferred. Repositioning your holdings may save you hundreds or even thousands of dollars in tax every year.

Tax rules can be complex, of course. Professional assistance can help you explore the possibilities and avoid the potential tax traps.

Optimize RRSPs. People often have more than one Registered Retirement Savings Plan (RRSP). Perhaps they've dealt with several companies in the past, or have forgotten about small plans opened long ago. Others may have opened separate RRSPs to access different kinds of investment offerings.

Maintaining separate accounts can result in investment gaps and duplication. Consolidating your RRSPs may make them easier to manage and improve your asset allocation. You might also save money on administration fees.

Coordinate pensions, RRSPs, and TFSAs. People often make RRSP investments without considering their employer-sponsored pension plans. Yet when RRSPs and pensions work together, the result can be a larger nest egg to meet your retirement needs. If you are using your Tax-Free Savings Account (TFSA) to save for retirement as well, then consider coordinating all three for maximum benefit.

Also factor all your plans into your personal asset allocation. A defined contribution plan in which you make investment choices can be fully coordinated with your RRSP and TFSA. A defined benefit plan with a guaranteed payout can be considered in a similar way to a fixed income asset, so your other investment plans could be more aggressive than they might otherwise.

Consider your mortgage. Finding the best rates and features when taking out or renewing a mortgage can reduce your long-term interest costs substantially and cut years off your mortgage. Paying down your mortgage early frees up additional cash for investment elsewhere.

Consider automatic investing. "Pay yourself first" is a key principle of long-term financial success, but finding the money to invest can be hard. You can set up regular monthly or quarterly contributions to your RRSP, TFSA or non-registered accounts. Even a small amount each month can make a big difference over time and chances are you'll hardly miss the money.

Professional advice can help you on the way to financial success, but get the full benefit from examining your full financial picture. ◂

A checklist to optimize your finances

Here are seven reminders to help you stay up to date:

1. **Check your estate plan.** Ensure that you have an up-to-date will, power of attorney, and living will.
2. **Review unused contributions for registered plans.** If you haven't contributed the maximum amount to your RRSP or TFSA in past years, the unused amount can be carried forward.
3. **Examine your debts.** Paying down debt is a great way to improve your finances. Are you prioritizing high-interest debts like credit cards?
4. **Revisit your investment plan.** Are you on track to meet your goals? Are you comfortable taking on more risk to achieve greater returns? If you are more conservative, you may need to boost your contributions.
5. **Review your pension and insurance benefits at work.** Look for overlaps with personal plans and your spouse's employment benefits.
6. **Pay down debts that are not tax-deductible.** Make the most of this strategy by investing the interest you save.
7. **Pay yourself first** — particularly if you're behind in your investment plan. One of the best ways to pay yourself first is to have investment contributions automatically withdrawn from your bank account at regular intervals.

This year's higher limit just one great reason to revisit TFSAs

Canadians love Tax-Free Savings Accounts (TFSAs). And no wonder — with tax-free earnings and tax-free withdrawals, what's not to like? And this year, there's even more to like: the annual contribution limit for 2019 rises to $6,000, up from $5,500 last year.

So, if you've never contributed, haven't contributed in a while, or if you have contribution room to spare, now is a great time to reacquaint yourself with this flexible savings and investment vehicle.

Despite its name, a TFSA is not actually a savings account — it is an investment account, with restrictions on how much money you can put in and take out. The account can hold a wide variety of investments, including common investments like Guaranteed Investment Certificates, mutual funds, or even stocks and bonds.

The big attraction of TFSAs as a savings tool is that money placed in a TFSA will never be taxed, regardless of how much of a return it earns, making it a powerful way to meet financial goals, be they short-term ones like saving for a vacation or a down payment on a home, or long-term ones like saving for your retirement.

However, unlike Registered Retirement Savings Plans (RRSPs), contributions to a TFSA are not tax-deductible.

There are limits on annual contributions, and these have fluctuated over the years (see chart this page). The good news here is that contribution limits "roll over" or accumulate, meaning that if you never contributed before (and were at least 18 years of age in 2009), you could put up to $63,500 in right now. There are penalties for over-contributions, so it's worthwhile to keep track of your totals.

There are also rules regarding withdrawals: you can withdraw any amount at any time — and with no tax implications. You can even re-contribute the amount you withdrew, but not during the same calendar year. If making a re-contribution, make sure you're following this rule or you may face penalties.

TFSA strategies

How do you use TFSAs effectively to meeting your financial and savings goals? That really depends on your personal goals and what other investments you have in place.

For instance, if saving for a short-term goal, you may want to choose investments that are highly liquid so you can get your money when you need it. You may also want investments focussed on capital preservation, as you may not have time to recover from any downturn in the markets.

If using a TFSA as part of your retirement savings regime, it's beneficial to coordinate your investments across both your TFSA and RRSP (and potentially any pensions) to maximize the tax planning available. Remember that while the investments returns in both accounts grow free of tax while in the account, a withdrawal from an RRSP will be treated as income for tax purposes.

Clearly, TFSAs are a simple and powerful way to make the most of your savings. With some professional advice and investment planning, they can also be an important part of building your financial success over the short and long term. ◄

Got TFSA room? This chart could show you how much

Do you remember how much you have contributed to your TFSA in past years? Or, how much contribution room you still have? It may be more than you think. This chart will help, as it shows the contribution limits since the account's introduction in 2009. Keep in mind that if you have withdrawn from your TFSA and/or recontributed, your calculation may be more complex.

Tax-Free Savings Account Annual and Cumulative Limits, 2009-2019

Year	Annual Limit	Cumulative Limit
2009	$5,000	$5,000
2010	$5,000	$10,000
2011	$5,000	$15,000
2012	$5,000	$20,000
2013	$5,500	$25,500
2014	$5,500	$31,000
2015	$10,000	$41,000
2016	$5,500	$46,500
2017	$5,500	$52,000
2018	$5,500	$57,500
2019	$6,000	$63,500

Source: Government of Canada, 2019.

Your home is not your retirement plan

After a decade of soaring prices, many Canadian homes have appreciated considerably in value. If yours is one of them, you may be tempted to be less vigilant in your retirement savings — on the grounds that your principal residence is turning a decent profit for you and will one day supply a large portion of your retirement income.

However, there remains compelling arguments for a robust and diversified investment portfolio, including growth investments like equities, as the foundation of a long-term retirement plan. Consider the following.

Equities outperform over the long term. Historically, equities have provided average annual compound returns superior to the returns of any other asset class, including returns on real estate. In one recent example (see table this page) for the period between 1993 and 2017, the TSX Composite Total Return Index provided a return of 9.0% versus 5.5% from the hot real estate markets of Toronto and Vancouver and just 4.7% based on the national average of real estate values.[1]

You may be overweighted in real estate. If your home has increased in value and you also hold other real-estate-related investments (such as a vacation or rental property or units in a real estate investment trust), your retirement plans will be vulnerable to a downturn in that sector. It's always wise to monitor your diversification across all investments and rebalance if necessary.

You may not want to move when you retire. When it comes time to retire and sell up, you may decide you want to stay put. In fact, a survey by Ipsos in 2018 found that 9 in 10 Canadian seniors wanted to stay in their current home throughout their retirement.[2] Many said they want to stay close to family, friends or their community and maintain their sense of independence.

Market timing can work against you. House prices can go up or down, and there's no guarantee you'll receive top dollar when you're ready to retire.

Housing is not a liquid asset. It takes time to prepare a house for sale, and even after you sell, the closing date may be months away. Having more liquid assets, like market-based securities, means greater flexibility in your retirement and income planning.

Moving costs money. Many additional costs are incurred when selling property. Real estate fees, legal fees, land transfer taxes, and moving costs can all take a chunk out of your proceeds from the sale, eating into your retirement funds.

Professional advice can help you assess your current exposure to real estate and maintain a diversified investment portfolio designed to meet the needs of your unique retirement plan. ◄

Sources
[1] RBC Global Asset Management Inc., with real estate information from the Canadian Real Estate Association (CREA). Data as of January 31, 2018.
[2] Ipsos poll conducted between June 15 and June 18, 2018, on behalf of HomeEquity Bank.

Compare equity and real estate markets for the past 25 years

The Canadian residential real estate market has been one of the best performing in the world, but as indicated in this table, it still underperformed equities in the period 1993 to 2017. The lesson? Don't over rely on rising house prices to fund your retirement plan.

S&P/TSX Composite Total Return Index vs Select Canadian Real Estate Markets

Based on an initial investment of $300,000 with no leverage over 25 years (1993-2017)

Market	End Value	Rate of Return
S&P/TSX Composite Total Return Index	$2,608,610	9.0 %
Toronto	$1,149,673	5.5 %
Vancouver	$1,163,495	5.5 %
Calgary	$1,021,800	5.0 %
National Average	$949,489	4.7 %
Montreal	$937,722	4.7 %
Halifax	$809,769	4.1 %

Sources: All data as of Jan. 31, 2018. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). Source of the S&P/TSX Composite is RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions. Note that data for the Montreal market is not seasonally adjusted. For illustrative purposes only. An investment cannot be made directly in an index and this table does not reflect cost, fees or taxes which could lower returns.