Financial Considerations Across Life Stages

Whether you're a young professional, married with a family, or are nearing/in retirement, your financial priorities will vary depending on your personal situation and stage of life. This article highlights relative investment and insurance options for three major life stages – starting out, the peak earning years, and approaching retirement. For more information or professional advice specific to your situation, please contact your BMO Nesbitt Burns Investment Advisor.

Starting out

Individuals in this stage are often still growing their careers, paying off outstanding student debt, or thinking about further education. They may also be planning for significant life milestones, such as buying a house or starting a family, all of which can have a major financial impact. Budgeting and saving are two key practices that can help people in this stage of life to achieve their financial goals.

Building a nest egg

It is never too early to start saving for life's major purchases while also building your retirement nest egg. A Tax Free Savings Account ("TFSA") and Registered Retirement Savings Plan ("RRSP") are two tax-advantaged vehicles in which you can put some of your hard-earned money aside. You are not limited to one or the other – you can hold both types of accounts and enjoy the benefits of each.

TFSAs are a good way to save for your short-term and long-term goals, such as saving for car, a down payment on a house, or a vacation. The contributions are not tax-deductible and all withdrawals are tax-free. The contribution limit for 2017 is $5,500. Any withdrawals or unused contributions in the current year will be added to your contribution limit for the following year. In addition, various investments can be held in your TFSA, such as equities, bonds, mutual funds, GICs, and Exchange Traded Funds ("ETFs").

RRSPs provide a number of tax savings benefits. The contributions are tax-deductible, and the growth of the investment in the RRSP is tax-deferred. Generally, you can contribute up to 18% of your earnings of the previous year, or up to a maximum of $26,010 for 2017. As a Canadian taxpayer, you may open an RRSP as soon as you have qualifying earned income. If you meet certain requirements, there are also government programs that allow you to access the funds in your RRSP to purchase your first home or continue your post-secondary education.

To learn more about TFSAs and RRSPs, ask your Investment Advisor for a copy of **Financial Considerations for the Millennial Generation**.

Protecting yourself with insurance

At this stage, your greatest asset is yourself and your ability to earn an income. Disability insurance is designed to replace a portion of your income in the event that you become unable to work and earn an income due to an accident or illness. Some employers may offer disability plans – including long-term disability ("LTD") and short-term disability ("STD") – to their employees as part of their company benefits plan. If it is not available through your employer, you should consider purchasing disability insurance to protect yourself and those who may be dependent on you to provide for them. While paying for insurance at this stage may not seem like a priority, accidents can happen and dealing with the health issue is difficult on its own, but the hardship is compounded when your ability to earn income is impacted.

The peak earning years

With an established career, it's a prime time to think about your future and what you're working towards – for many it's a vision of enjoying a successful retirement from their career years. It's important to plan for your retirement, and also to ensure that you, your loved ones, and your personal assets are protected in the event of a critical illness, mental incapacitation, physical disability, or death.

Retirement planning

Outliving one's savings is a major concern for Canadians. With advances in medicine and healthy lifestyles, many people are living longer into their retirement years. As a Canadian

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taxpayer, you start accumulating RRSP contribution room as soon as you start earning a qualifying income. That means that, if you have not yet opened an RRSP account or have not always contributed the maximum amount allowed each year, then your eligible contribution room has accumulated over the years. This additional contribution room may be beneficial, considering you're in your peak income earning years and can benefit from the tax deduction, while also accumulating tax-sheltered savings for retirement.

If you own a private corporation, you may want to consider an Individual Pension Plan ("IPP"). IPPs are designed specifically for business owners and incorporated professionals. An IPP is a registered pension plan established for a single plan member, and provides an effective way for your business to fund your retirement pension while reducing corporate income taxes. To learn more about IPPs, ask your Investment Advisor for a copy of **Individual Pension Plans: A Retirement Savings Option For Business Owners**.

Safeguard against the unexpected

A critical illness, such as cancer, heart attack or stroke, can have a devastating financial impact. You may be unable to work, and medical bills that are not covered by the government or company health plan can add up quickly.

A critical illness insurance policy pays a tax-free cash benefit, typically about 30 days after the insured is initially diagnosed with a qualified life-threatening illness. With critical illness insurance, you can choose to use the benefit in any way you see fit – to take a sabbatical and recuperate, pay off your mortgage, make renovations to your home to accommodate any special needs, inject money into your business to keep it going while you're recovering, or even pursue private medical treatment outside of Canada. Many of the plans will refund your premiums in the event no claim is made. Long-term care insurance, which can be used to complement critical illness insurance, provides a daily tax-free benefit to cover the costs of a nursing home or professional in-home care, in the event that you are unable to perform certain activities of daily living.

To learn more about critical illness and long-term care insurance, please ask your Investment Advisor for a copy of **Protecting Baby Boomers from Increasing Risk**.

Estate planning

Regardless of your personal circumstances, it is important that you have an estate plan to protect yourself, your family, and your personal assets in case of death or mental/physical incapacitation. Your estate plan should include:

- An up-to-date Will that reflects your wishes and names an appropriate Executor(s);
- A continuing Power of Attorney for Property; and
- An End of Life Directive and Power of Attorney for Personal Care[1].

A Will reflects your succession intentions and names an appropriate executor (referred to as a "liquidator" in Quebec) to oversee the administration of your estate after your death. Having a Will is the only way you can control who will administer your estate, the manner in which your estate will be distributed and to whom. It is also a succession vehicle which allows, by way of testamentary trusts (trusts created in the Will) to guide the distribution of your estate over a long-term timeline, as opposed to an immediate distribution of all assets, after death. A Continuing Power of Attorney for Property (often referred to as a POA for PPTY) authorizes the person you name as your attorney to make decisions regarding your financial affairs on your behalf in the event of mental or physical incapacity[2]. An End of Life Directive (also referred to as a Personal Directive or an Advanced Directive) sets out your wishes about your health and medical care needs, and takes effect when you no longer have the mental and/or physical capacity to communicate these wishes. A POA for Personal Care (POA for PC) authorizes your attorney to make decisions about your personal care and healthcare issues if you are no longer capable of making such decisions yourself. A POA for PC can include the Personal Directive instructions.

Approaching retirement

As retirement draws near, it's time to consider how to make the most of your retirement income, while also planning how to transition your assets to future generations through estate planning.

[1]In Quebec, a "Mandate in case of incapacity" includes the continuing Power of Attorney for Property, End of Life Directive and Power of Attorney for Personal Care.

[2]A POA for PPTY is mandatory in Quebec.

Making the most of your retirement income

After years of saving, it's time to use your accumulated wealth to finance your retirement. When you are ready to convert your RRSP to provide a retirement income stream, there are number of options available to you, including:

- **A Registered Retirement Income Fund ("RRIF")**. The purpose of an RRIF is to provide retirement income by making regular withdrawals. Growth and income generated by the assets in an RRIF are tax-sheltered until they are withdrawn.
- **A life annuity**. A life annuity provides a series of periodic payments that you are guaranteed to receive for the rest of your life. The payments are taxed each year as you receive them.
- **A lump sum cash payment.** A lump sum cash withdrawal will be fully taxed in the year you receive it. Unless the value of your RRSP is quite small, you will likely find yourself being taxed at a higher rate than if you had transferred your RRSP into one of the other maturity options and received smaller payments over several years.

If you also have a TFSA, you can manage withdrawals from this account as well, in addition to your RRIF or annuity. These withdrawals will not impact your entitlement to income from government sources.

Your retirement strategy should also consider pension income-splitting with your spouse, as well as a plan to help preserve assets and generate income for a surviving spouse in the case of death. For more detailed information about preparing for retirement, please ask your Investment Advisor for a copy of **Making the Most of your Retirement Income**.

Legacy planning

It is important to ensure that your Will is up-to-date and that your loved ones are aware of your wishes, in the event of your death. To ensure that everyone is on the same page, set up a family meeting to discuss your estate plan. This can help prevent conflict and unpleasant surprises for your family, as well as reduce the potential for family members misinterpreting your intentions. It can also help you pass on family beliefs and values, and help your family members understand how your legacy will live on.

For assistance in preparing for your family meeting, ask your Investment Advisor for a copy of **Estate Planning: Family Meeting Guide**.

Your BMO Nesbitt Burns Investment Advisor can help

Whatever your life stage, your BMO Nesbitt Burns Investment Advisor can provide you with the valuable information, tools, and professional investment advice necessary to reach your financial goals.

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ID1400 (10/17)