Do you have the right financial plan for these uncertain times?

NOW IS A GOOD TIME TO REVIEW AND UPDATE YOUR PLAN

By Marc Séguin

Investment returns are down. The cost of living is growing at rates not seen in a very long time. Fixed-income portfolios based on bonds have plunged. Hmm, weren't bonds supposed to be the stable assets in a portfolio?

How do you feel about your current financial situation? Most seniors worry about money, and during uncertain times, this anxiety is more intense.

It doesn't need to be. A financial plan goes a long way in providing peace of mind. However, the reality is few people have a proper financial plan. Many believe they have a plan, possibly not realizing that their investment plan is only one component of a comprehensive financial plan. A poll conducted by Scotiabank Investment (COVID-19, May 2020) revealed that only 39 per cent of Canadians have a written financial plan.

A good financial plan for seniors should include, at minimum:

- statement of goals
- identification of life expectancy (typically, a minimum of 90 years)
- yearly budgets and cash flows (budgets should reflect the likelihood that expenses will be greater at both the beginning of retirement and toward the end of life)
- investment plan (with clear assumptions for inflation and rates of return)
- identification of valuable assets (those contributing to net worth)
- insurance plan
- income tax plan

If you do have a plan, know that it is only as good as the

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ability of the people involved to understand it and execute it. To make the outcome understandable, I recommend carefully dividing all available financial elements, including income sources, savings, investments, and assets, into three allotments: everyday spending; rainy-day protection; and estate and legacy.

Everyday spending

The "everyday spending" allotment contains income sources complemented by enough savings, investments, and other financial assets to sustain your yearly spending requirements for the planning period. If your income is more than enough for those needs, it is not necessary to direct any of your savings or other assets to this allotment.

Rainy-day protection

The "rainy-day protection" allotment contains sufficient financial resources for significant and unplanned life events. The risk that you may live longer than expected, or that you will face extra healthcare costs due to a serious health problem are just two examples that could be included in this category. Certified financial planners can calculate the amount required today for potential future cash flow needs. Reserving funds in this allotment provides peace of mind while reducing the temptation to use the money for day-to-day spending.

Estate and legacy

The "estate and legacy" (inheritance) allotment contains any financial resources and assets you will not require during your lifetime. It holds the excess assets you will give while you're alive, possibly for tax efficiency, and the estate you will pass on to your heirs or to charity after your death. Not everyone will be able to place funds in this allotment.

An example: Diane and Robert

Diane and Robert, now in their mid-80s, have enjoyed a very active and healthy retirement life. Despite their limited assets, their investment manager served them well with good returns that complemented incomes from their indexed pension, Canadian Pension Plan (CPP) and Old Age Security (OAS). Nonetheless, a few years ago, they started to worry about:

• the realistic possibility that either or both could live well into their 90s or even past 100
• a rather aggressive investment portfolio mix, with 50 per cent invested in equity
• the risk of increasing living and healthcare expenses

They consulted a financial planner who prepared the following plan:

Diane & Robert's financial plan - summary

Everyday spending	Rainy-day protection	Estate & legacy
Yearly budget - $80K	$300K in assets	None planned
$60K (Pension, OAS, CPP) $20K (Annuity)	$250K (RRIFs, TFSAs) $50K (Non-registered)	

A few key changes were implemented, which went a long way in providing confidence and peace of mind …

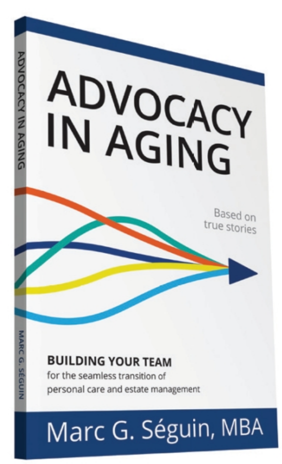
A yearly spending budget of $80,000 was established. This simple and clear reference provided great relief to the couple, and is something they can easily track. They felt there was plenty to cover rent and maintain a quality lifestyle.

A "last-to-die" annuity was purchased to complement the existing pension incomes, resulting in a total yearly income of $80,000 to match the spending budget. Diane and Robert were thrilled to know their income did not depend on investment returns, regardless of how long they lived.

The remaining assets – totalling $300,000 – were segregated into the "rainy-day protection" allotment. A financial analysis confirmed there was more than sufficient funds to cover the various risks of increasing costs, including a retirement home and assisted living. With this new perspective, the investment manager was instructed to evolve their investment mix to a much lower risk level.

Diane and Robert made a conscious decision not to plan for an estate inheritance, but were happy to know that anything left over from the "rainy-day protection" allotment would translate into a small inheritance for their three children.

The three-allotment strategy provides simplicity and clarity for your financial plan, while improving understanding and sharing with your trusted advisors and advocates. *Now* is the time to review, update, and possibly upgrade your financial plan.



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