West End Wealth Planning

SPECIAL REPORT

Live *your* dream.

Risk Management & Estate Planning Review

Thank you for requesting our Risk Management and Estate Planning Review. Its purpose is to reveal the potential problem spots in your current financial plan which could threaten the financial security for you, your family and business. Once identified, strategies to reduce risk can be developed and implemented.

Why do we lead off with the word "RISK"?

In our experience, most Canadians have serious gaps in there financial planning which make them open to serious financial risks… even if they have a well-constructed financial plan.

"Risk" doesn't only mean losing your money on speculative investments. Even people with a very conservative portfolio may still be running serious risks as to cash flow, coping with a critical illness, income disruption due to disability, funding long-term care, and dealing with premature death. For business owners, risk can go far beyond traditional concepts as these same unanticipated events can threaten the very existence of their business.

There are risks associated with your estate planning too – like the potential for serious erosion of the value of your estate at the hands of the tax man.

Our questionnaire will enable you to pinpoint the weak spots

Our review consists of two parts, the first looks at risk management and insurance issues and the second at estate planning. By reviewing both parts and answering the questions, you will be able to measure your current situation against a series of potential risks and threats.

You'll be able to keep score as you work through the review. By honestly answering the questions, you'll have an impartial and realistic assessment of where you stand… and what to do about it.

What is a Wealth Management Strategy?

Risk Management and Estate Planning are but two segments of a comprehensive Wealth Management Strategy. A Wealth Management Strategy outlines specific ways that will greatly increase your chances of attaining your goals and objectives. Without a plan the chances of achieving what you want is small. For the most part, success is planned, it doesn't happen by accident. If you don't plan, you will probably not get to where you want to be.

The first step is to discuss with your financial advisor what your objectives are in relation to Financial Independence, Portfolio Management, Risk Management, Insurance, Estate and Tax Planning. They are all intertwined!

The Advisors at West End Wealth Planning understand that a well thought out financial plan provides the best opportunity for

1. achieving your goals, and
2. having piece of mind.

To arrange a meeting with an Advisor at West End Wealth Planning please call 416-640-9990 x 251 or visit www.westendwealth.com .

Part One - Risk Management

Section One – Short-Term Cash Flow

Conventional Wisdom suggests that Canadians should always have, or have access to, a cash reserve equal to four to six months of income.

This reserve can provide you with the resources to take advantage of an unexpected opportunity and gives you the security of knowing that funds are quickly available for emergencies.

This can come in the form of cash in a readily accessible vehicle or a line of credit.

1. Do you keep 4 – 6 months net income in reserve?

   ☐ YES ☐ NO

2. Do you have an open line of credit

   ☐ YES ☐ NO

Amount $________________

Are you concerned that you will not be able to take advantage of an unexpected financial opportunity if it was presented to you?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ___________

Are you concerned that an emergency will hurt your long term savings plan?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ____________

Section Two – Critical Illness

The facts regarding Critical Illness

The price tag of a serious illness is often worse than that of premature death. Not only must the family or business deal with the loss of income but also there are normally significant additional expenses incurred. Your entire family will be engulfed in the illness and the last thing anyone wants to worry about is money. The chances of suffering a serious illness are much higher than those of death and just one year of sickness can eat up 10 years of savings.

Such a financial lose would often destroy even the best made financial plans and ruin a lifetime of dreams.

Are you concerned that if a family member was to get sick, you will not have the capital to cover the immediate medical expenses, replace income, pay off debts and on going medical care?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ____________

Are you concerned that these expenses may have a negative impact on your finances for the long term?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ____________

Section Three – Disability

Will Day to Day Living Ruin your Financial Plan?

The old saying – the only two certainties in life are death and taxes, should also include sickness and accidents.

Gerry is employed as a middle manager in a manufacturing business. He makes approximately $85,000 annually and has no group disability coverage at work and no personal disability protection. He has a home with a mortgage, a wife and two children in school. He suffers a long term illness and is off work for almost a year.

His mortgage payment is $2,500/mo, utilities, realty taxes, food, clothing etc. are $3,100/mo. Every month Gerry remains disabled without an income, his family pays out $5,600 in expenses. Over one year that totals $67,200. Gerry had been investing 10% of his income, or $8,500/year into a retirement fund which now totals $215,000. One year of disability will cost Gerry and his family almost one third of his entire retirement fund and put his financial independence plans in serious jeopardy.

Many working Canadians are in the same position and those without the benefit of a group insurance plan will have an even tougher time making ends meet.

"4% of all mortgage foreclosures in Canada were caused by the death of a breadwinner and <u>48% were caused by a disability</u>" Bank of Canada stats

The facts regarding Long Term Disability

Every Canadian who works to earn an income and depends on this income to pay for his or her living and lifestyle expenses faces a serious financial risk.

Interestingly, the majority of Canadians don't realize this risk until a disability interrupts their stream of income, when it's too late.

The odds are that one out of every three Canadian workers age 45, will suffer at least one disability lasting 90 days or longer before age 65.

If you were unable to work due to an injury or an illness and was unable to work for more than 90 days, there is a strong possibility that the disability will continue for at least 3 years.

1. Do you have disability insurance through work?

   ☐ YES ☐ NO

2. Do you have individual disability insurance?

   ☐ YES ☐ NO

3. Do you know how much income you would receive?

☐ YES ☐ NO

If so, how much $______________; for how long______________

Are you concerned that you are not properly protected in the event of a disability?

A. Very Concerned	Equals 5 points	
B. Somewhat Concerned	Equals 3 points	
C. Not Concerned	Equals 1 point	____________

Section Four – Long Term Care

Live Long and Prosper?

Henry and Margaret have watched their investments grow over their working years and they now have a portfolio to fund their retirement and allow them financial independence. Their home is mortgage free and along with government benefits, their income before taxes will be approximately $61,000 per year or $54,000 after tax.

Henry's health gradually deteriorates and he develops Alzheimer's. Margaret needs help and seeks in-home nursing assistance. Eventually, Henry will need care in a long term care facility. The monthly cost will be approximately $3,200 or $38,400 per year and this will increase due to inflation. This ongoing expense will seriously erode Margaret's financial independence and she will need to use their retirement capital vs. just portfolio income. Chances are that Margaret will run out of money before she runs out of life.

The facts are simple,

a. We are living longer and life expectancy is continuing to increase as medical science advances.
b. The cost to our medical system of us living longer is increasing at a rate much higher than inflation
c. Demographics tell us that once baby boomers retire there will be proportionately less Canadians paying taxes and proportionately more retired. Its simple math; taxes will increase and services will decrease.

Canadians *may* be expected to pay for health services they now receive for free. (Though the chances are likely we will have to pay more for our health care, we cannot forecast it as a certainty.)

For those over age 65, 43% will at some point in their remaining years, require long term care (LTC) and spend time in a nursing home or LTC facility. The average stay in a LTC facility is 3 to 4 years (1 out of 5 will stay more 5 years). For a couple over age 65, there is a 2 out of 3 chance that at least one spouse will enter a facility at some point. The cost of facility care in Ontario ranges from $3,000 to $4,000 per month!*

What are your options - ranked in order of cost to you!

- Take the money from your retirement savings
- Sell your home
- Purchase long term care insurance

The reality is that the long term care stage of our lives can occur unexpectedly anytime.

Chances of a house fire:
1 in 1200

Chances of an auto accident:
1 in 240

Chance of needing Long Term Care:
1 in 2

Are you concerned about becoming a financial burden on your children?

A. Very Concerned	Equals 5 points	
B. Somewhat Concerned	Equals 3 points	
C. Not Concerned	Equals 1 point	________

Are you concerned that you (or your family) will not have enough money to cover expenses related to home care or a long term facility?

A. Very Concerned	Equals 5 points	
B. Somewhat Concerned	Equals 3 points	
C. Not Concerned	Equals 1 point	________

Section Five – Premature Death

The facts about Premature Death

A premature death of a breadwinner could not only cause major emotional turmoil but also add permanent damage to the financial viability of the family finances and long term plans.

Widowhood affects the income of women differently compared to men.

Studies show that 51% of widowers have suffered a loss of adjusted income after five years of widowhood. On the other hand, 72% of widows suffered a loss.**

Senior widows have seen their median income decline continuously in the five years following the loss of the spouse.

1. Do you have group life insurance?

   ☐ YES ☐ NO

2. Do you have mortgage insurance?

   ☐ YES ☐ NO

3. Do you have income replacement insurance?

   ☐ YES ☐ NO

4. Do you have estate protection insurance?

   ☐ YES ☐ NO

Are you concerned that if either you or your spouse were to pass prematurely, your family would be unable to survive on the income of the other spouse?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ____________

Section Six – Preserving the value of your Estate

Did you know some Canadian families have seen the value of their estate's assets reduced by as much as 46% (based on the Ontario maximum tax rate)? But there are effective strategies which can minimize taxation on your estate.

Who Will Inherit Your Wealth – Your Children or CRA?

Fred and Ethel have accumulated registered assets of $245,000, an open account portfolio of $115,000, and have a home estimated at $425,000. They are retired and Fred receives a pension from his employer of $38,000 per year. They have three children.

When Fred passes away all their assets are now owned by Ethel. When Ethel passes away, she anticipates that everything in the estate will now go to the children according to the terms of her will. First in line is the Canada Revenue Agency. Once they take what they are owed the balance is available for any creditors and then the children.

How are assets taxed at death?

Registered assets	fully taxable at top marginal tax rate
Non registered Investments	unrealized taxable capital gains taxed at top marginal tax rate
Business	unrealized taxable capital gains taxed at top marginal tax rate ($750k capital gains exemption may apply)
Principal residence:	Probate fees will apply but no capital gains
Second home, cottage or condo:	Unrealized taxable capital gains taxed at top marginal tax rate

The first step is to create a written estate and financial plan that considers your current and future assets, your income needs in retirement, and the capital amounts you wish to have distributed to your heirs on your death.

Have you made provisions to offset the reduction in the value of your investments and property as a result of the taxes you will owe when your estate matures?

☐ YES ☐ NO

Are you concerned that the current structure of your estate could result in a significant reduction in the net value of your estate?

A. Very Concerned	Equals 5 points	
B. Somewhat Concerned	Equals 3 points	
C. Not Concerned	Equals 1 point	____________

Part Two - Planning Your Estate

Issues that will materially affect those closest to you.

Whether your family is large or small there is the potential for conflict when it comes time to distribute your final assets. Below are some questions to ask yourself when determining whether your Estate Plan's current structure is designed to ensure that you leave a positive legacy.

1. Are there specific bequests, including cash that you would like to leave to family members, friends or charity?

   ☐ YES ☐ NO

2. Have you considered how you want your personal effects distributed such as jewellery, cars or boats?

   ☐ YES ☐ NO

3. If you have minor children, have you named guardians for them?

   ☐ YES ☐ NO

4. Do you have a list of all your beneficiaries (spouse, children, grandchildren, other family members, friends, charities, etc)

   ☐ YES ☐ NO

5. Have you indentified if a trust would help to save estate taxes and/or better ensure your estate plans work better?

   ☐ YES ☐ NO

Are you concerned that there is a potential conflict among beneficiaries when it comes time to distribute your assets?

A. Very Concerned	Equals 5 points	
B. Somewhat Concerned	Equals 3 points	
C. Not Concerned	Equals 1 point	____________

Preparedness of your Wills, Powers of Attorney etc.

Without a properly drafted will, the division of your assets will be left to the Provincial Probate Courts. Your assets may not be distributed to the beneficiaries that you intended to receive them.

Did you know that if you become incapacitated and did not sign a Power of Attorney for finance and personal care, the government or the courts can appoint someone, possible a stranger, to represent you? They would be responsible for any legal decisions that you would normally make.

1. Do you have a Will?

   ☐ YES ☐ NO

   If so, is your Will kept in a safe place and do your Executors know where it is kept?

   ☐ YES ☐ NO

2. Have you named a Power of Attorney for both financial matters and health care in the event you are unable to make decisions?

   ☐ YES ☐ NO

3. Have you chosen an Executor that will remain impartial?

   ☐ YES ☐ NO

4. Have you chosen an Alternative Executor in the event your primary Executor is unable or unwilling to fulfill their duties?

   ☐ YES ☐ NO

5. Are there any legal obligations that may affect the distribution of your assets through your Will? (i.e. marriage separation agreements, other dependants, debts, and business buy/sell arrangements)?

☐ YES ☐ NO

6. Have you made any special instructions for your funeral?

☐ YES ☐ NO

7. Do you have a completed estate directory? An estate directory is an up to date inventory of all of your bank accounts, investment accounts, safety deposit box(es), personal effects etc)?

☐ YES ☐ NO

8. Does your lawyer and executor know where your estate directory is located?

☐ YES ☐ NO

Are you concerned that the current status of your Will and Power of Attorney could open the door to your wishes not being met?

A. Very Concerned Equals 5 points

B. Somewhat Concerned Equals 3 points

C. Not Concerned Equals 1 point ____________

Total ____________

West End Wealth Planning has the comprehensive planning process to help you. Our team is made up of a group of professionals and financial advisors that specialize in providing advice to Canadian families on all aspects of their financial situation.

If you have questions or would like more information on estate planning you should consider coming in to see West End Wealth Planning for a free no obligation consultation. You can arrange a meeting by calling 416-640-9990 or by visiting www.westendwealth.com .

Personal Service | Intellectual Decisions

West End
wealth planning

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Investment Planning Counsel®
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CIPF
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MEMBER

*Source: Council on Aging of Ottawa October, 2008

**Source: 2006 Statistics Canada Study (Death of a spouse: The impact on income for senior men and women)