



CANADIAN INVESTORS' COURSE

Session 6 – Simple Financial Planning



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Simple Financial Planning





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Let's fully disclose where we stand

Basic steps to implement a financial plan:

1. Create your family's Balance sheet and Cashflow statements.
2. Determine how much money you would need to live on if you were to retire tomorrow morning.
3. Determine what amount of money you would need to accumulate at your retirement age.
4. Where does insurance play a role here? Estate planning.
5. How do I invest to achieve these goals?
6. How does the plan 'holistically' impact me?
7. Who are Financial Planners? Are there differences?



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Personal Household Net Worth Statement

Assets

Short Term

cash	\$5,000
\$ mmkt, t-bills	\$20,000

Long Term

bonds, GICs	\$100,000
mutual funds	\$50,000
equities	\$100,000
house	\$500,000

Other Assets

cars	\$40,000
jewelry	<u>\$10,000</u>

Total Assets	\$825,000
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Net Worth = Assets – Liabilities

= \$825,000 – 275,000

= \$550,000

Liabilities

Short Term

credit cards	\$10,000
home equity loan	\$45,000
car loan	\$20,000

Long Term

Mortgage	\$200,000
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Total Liabilities	\$275,000
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Balance Sheet Questions

1. \$25,000 short term cash? Too much?
2. Short term liabilities. Credit card debt? Home equity loan? Car loan? How does being debt free feel to you?
3. Long term assets versus long term debt?
4. Insurance?
5. Utilizing various sheltered Investment vehicles?
6. Does analysis of balance sheet by an advisor/planner reveal a lot about that individual and their firm?



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Personal Household Budget or Cash flow Statement (family of four)

Family Income			
	Salaries	\$100,000	
	Interest Income	\$3,000	
	Dividends	\$5,000	
Total Income		\$108,000	\$108,000
Less			
	Mortgage	\$15,000	
	Food	\$11,000	
	Clothing	\$5,000	
	Utilities	\$6,000	
	Auto/ Transportation	\$12,000	
	Property Tax	\$5,000	
	Vacation	\$5,000	
	Miscellaneous	\$3,000	
Subtotal (1)		<u>-\$62,000</u>	\$46,000
	RESP	\$4,000	
	RRSP	\$12,000	
	Income taxes	\$30,000	
Subtotal (2)		<u>-\$46,000</u>	
	Total Net		\$0



How much do I need to save?

1. Assume you have no debts.
2. Assume you are going to retire tomorrow morning.
3. Use a reasonable inflation assumption. 3% is the rate we'll use.
4. Assume a long term rate of return on investments.



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Let's calculate the number using the Cashflow Statement

Dollars required to maintain lifestyle based on retiring tomorrow morning:

Expenses

Food	\$9,000
Clothing	\$4,000
Utilities	\$5,000
Auto/Transportation	\$12,000
Property Taxes	\$5,000
Vacation	\$7,000
MISC.	\$3,000
<u>Income Taxes</u>	<u>\$15,000</u>
Total Expenses :	\$60,000

Income

Canada Pension Plan (indexed)	\$15,000
<u>Private Pensions (indexed)</u>	<u>\$20,000</u>
Total Income	\$35,000

Amount of income required from a Savings

Portfolio: $\$60,000 - \$35,000 = \mathbf{\$25,000}$



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LONGEVITY – we are living longer

Probability of a 65-year-old in good health living to:

AGE	MALE	FEMALE	COUPLE
70	93%	96%	99%
80	71%	81%	94%
90	33%	44%	63%
95	16%	23%	36%

Source: Annuity 2000 Mortality Table, Society of Actuaries



The Power of Time

Consider 3 family scenarios

- 30 yr old couple
- 40 yr old couple
- 50 yr old couple

In each scenario

- No debt
- Total pension income will be \$35,000 @ 65
- Inflation is 3%
- ROR (Rate of Return) is 6%
- **Required portfolio income is \$25,000**
(in today's dollars)
- Need the income to last 25yrs (to age 90)



The 30 Year Old Couple

- \$25,000 in today's dollars will be \$70,000 (when they turn 65 in 2051)
- This requires a portfolio of \$1,276,000
- If they start now they need to save **\$650/month** (also indexed @ 3%)



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The 40 Year Old Couple

- \$25,000 in today's dollars will be \$52,000 (when they turn 65 in 2041)
- This requires a portfolio of \$950,000
- If they start now they need to save **\$1050/month** (also indexed @ 3%)



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The 50 Year Old Couple

- \$25,000 in today's dollars will be \$39,000 (when they turn 65 in 2031)
- This requires a portfolio of \$707,000
- If they start now they need to save **\$2050/month** (also indexed @ 3%)
- **Less time? Larger monthly investment required for same result (no magic)**



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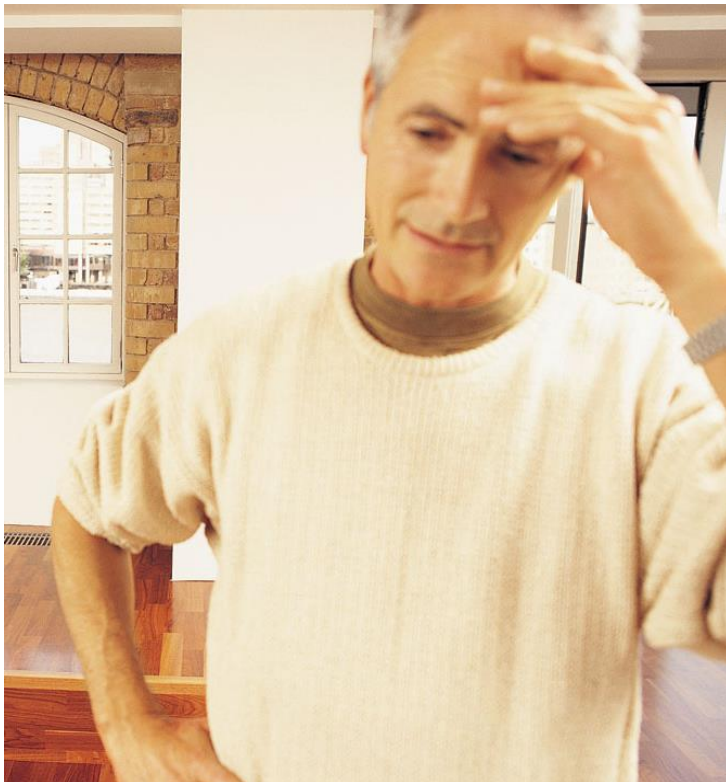
Retirement Calculators

<http://www.dinkytown.com/java/ca.html>

<http://www.burnrate.ca/>

We're Confused

We don't want to make a mistake!
We don't want to outlive our money!
We don't want to pay too much tax!





New Challenges in Retirement

Our biggest concerns for retirement?

- Protecting Lifestyle
- Enjoying Lifestyle
- Looking after Family
- Managing our Nest Egg
- Creating a Legacy

Source: CSA (Society of Certified Senior Advisors)



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What roles does Insurance possibly play?

1. Protecting lifestyle.

2. Creating a legacy

This separates financial planners from imitators.



How we help reduce the risk of having distributions erode portfolio assets?

1. Be realistic on how much you demand from your portfolio as income.
2. Be aware of what guaranteed interest rates are.
3. If the guaranteed interest rate is enough to cover income needs, then why take risk?
4. Practicing Rules Based investing helps alleviate major portfolio losses (overviewed in Session 4, more details in Session 15)



Financial Planners

Emergence of a new industry or practice? Really?

****Please visit the Commentary for Session 6 to learn
What is a Financial Planner?**



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WEALTH MANAGEMENT IS A FAMILY AFFAIR





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Gerry Gabon

P. Eng (retired), MBA

AskGerry@TrustedWealthProfessionals.com

905-203-1162



To connect with a local Wealth Professional, please enter your postal code on the website listed below.

www.TrustedWealthProfessionals.com