FINANCIAL STRATEGIES
Investments • Tax • Insurance • Wills • Estates
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Financial Planning Guide

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Are you planning to “retire” debt-free?

There is some growing evidence that Canadians are changing their view of retirement. The vision of idle days spent golfing or on a beach is fading.

Keep on working

Of the pre-retirees polled in a recent survey — all financial decision-makers aged 45 or older — more than half expect to keep working after retiring from their current careers. That’s more than three times the 16% of today’s retirees who hold jobs.

The primary reason cited by these pre-retirees for continuing to work was to stay mentally active. But many also don’t expect to be able to afford retirement without working. In fact, while they would prefer not to work, two-thirds expect that they will be carrying debt.

Debt-free doubts

This echoes the results of another survey, which found a weakening in the age-old idea that retirees should be debt-free. This poll covered the whole Canadian adult population.

While 85% of respondents felt that it’s important to be debt-free at retirement, almost half did not consider it a necessity. The survey found that about one-third of today’s retirees owe money on loans, averaging about $35,000. One in seven retirees has more than $100,000 of debt.

Mortgages and outstanding credit card balances were the most common sources of debt. Other sources included lines of credit, business loans, and car loans.

Your decision

Do you expect to retire with debt or be debt-free? Do you want to continue working after you retire? These decisions are personal ones. No matter which choices you make, getting professional advice can help you shape your financial plans accordingly. ■

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

MORTGAGE PLANNING

Reduce the possible penalty

Selling your home? If you break your mortgage before the term is up, you normally face a prepayment penalty based on the outstanding balance. Make sure your lender counts your annual prepayment privilege — typically 10% to 20% — before calculating the penalty amount. Some do this automatically; others don't unless you ask. Also, mention this to the lawyer handling the sale of your house.

HOME IMPROVEMENT

Saving energy saves you money

Sharply higher energy costs are taking a big bite out of household budgets, leaving less to save and invest. But it's not hard to use less energy. Simple changes like insulating hot water pipes, replacing light bulbs with compact fluorescents, keeping air conditioner filters clean, and properly insulating your attic and walls can help make a difference. Check out the EnerGuide for Houses Service (under the Office of Energy Efficiency Website at www.oee.nrcan.gc.ca) in which the federal government subsidizes the cost of a home energy evaluation and may pay you a grant based on the improvements you make. The Canada Mortgage and Housing Corporation also has lots of energy- and cost-saving advice at www.cmhc-schl.gc.ca.

RETIREMENT PLANNING

Canada is aging fast

In about 10 years, Canada is expected to face an unprecedented situation: There will be more seniors than children. According to projections by Statistics Canada, about nine million people will be over 65 in 2015, and about five million under 15. This demographic flip-flop stems from several factors. These include Canada's low birth rate and the aging of the baby boomers, who will all turn 65 between 2011 and 2031. About one in four Canadians will be a senior 25 years from now. This could prompt governments to shift resources from children's programs to programs for older adults.

WHAT YOU NEED TO KNOW ABOUT...

Homeowner's insurance

Insuring your home might be more difficult than you think. There are many insurance companies, and their policies are not standardized. The Insurance Bureau of Canada, an industry organization, offers tips at www.ibc.ca. Here are answers to some common questions.

Q: Should I insure my house for its market value?

A: No. Land is a large part of the market value. Only cover the cost of replacing the house, its contents, and any other structures on the property. Insurers use rule-of-thumb standards based on age of the property, square footage, and features. Make sure to point out any special amenities — and tell your insurer whenever you make a major change.

Q: Does running a home office create a problem?

A: Not usually. Depending on your business, a normal policy might automatically cover your office furniture and computer — but not data. If it doesn't, supplemental coverage is available — and likely essential if clients visit your workplace.

Q: Should I insure my home and cars with the same company?

A: This often generates a discount on both policies. Compare the discounted prices to those of separate policies elsewhere. If an item from your home is stolen from your car, having just one insurer could simplify the claims process.

To get the right insurance for you, be sure to seek advice from a qualified property insurance professional.

New protection pending for registered plans

New federal legislation may soon protect all Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) from seizure by creditors in the event of bankruptcy.

Parliament passed Bill C-55 in November of 2005, but delayed its implementation until at least June 30, 2006 to provide time for more study.

Anti-abuse controls. The legislation doesn't mean that people in financial trouble will be able to beat their creditors by pouring money into an RRSP. The rules will be tailored to prevent abuse. For example, contributions made within 12 months of bankruptcy won't be protected.

Members of Parliament are still to determine whether there should be a limit on the amount of money protected. Also to be finalized is a requirement that the bankrupt person lock in the protected money until a certain age, probably 55.

This creditor-proofing of registered funds will apply only in a formal bankruptcy and is therefore not as complete as the shield for Registered Pension Plans and insurance-based RRSPs and RRIFs. But it's a big step toward clarifying the confusing current patchwork of legislation.

Current patchwork shield. Saskatchewan and Prince Edward Island have the clearest rules. All RRSPs, RRIFs, and Deferred Profit Sharing Plans (DPSPs) are creditor-proof during the plan holder's life and at death. Quebec recently clarified creditor protection with Bill 136 by detailing the conditions under which annuity contracts are exempt from seizure.

Across the country, provincial insurance laws generally grant protection from creditors for RRSPs and RRIFs held with insurance companies during the plan holder's life, as well as at death, provided that a family member is named as beneficiary. (Depending on the situation, contributions and transfers made in the past one to three years might not be protected.)

Registered Pension Plans are shielded (with the exception of spousal claims) through pension legislation across Canada. The same legislation protects locked-in plans, such as Locked-In Retirement Accounts (LIRAs), Life Income Funds (LIFs), and Locked-in Retirement Income Funds (LRIFs), which hold money from pension plans. Group RRSPs don't qualify because they are not formal pension plans.

Protected only at death. British Columbia legislation protects RRSPs and RRIFs from seizure at death if there is a named beneficiary. Plans in Ontario get the same protection under a 2004 Ontario Court of Appeal ruling.

Several provinces and territories — Alberta, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Labrador, and the northern territories — have no legislation or clear court rulings that protect non-insurance-based RRSPs and RRIFs.

These issues are most relevant to entrepreneurs and small-business owners. Regardless, professional advice can help ensure that your retirement savings are as secure as possible. n

List your assets to avoid confusion

EXECUTORS AND FINANCIAL organizations often encounter problems in settling estates because the deceased failed to leave clear instructions.

Lost and found. Sometimes the deceased inadvertently leaves the same asset to two or more people. Assets also sometimes go to the wrong people. Consider the case of a woman who, after a very bitter divorce, forgot to change her husband as beneficiary in a $100,000 life insurance policy. There are also assets that people forget about. The Bank of Canada holds more than 800,000 unclaimed chartered bank deposits.

Make a list. To avoid such situations, make a "who gets what" list part of your estate plan. Create three columns:

- The first column should list every asset of yours that is of any value — financial or sentimental.
- The second column should name the person or group to whom you would like to leave that asset.
- The third column should tell your executors where to find the document that proves the intended beneficiary's entitlement. This might be your will; a designation form filed with a financial company, pension plan or life insurer; or a personal letter in safekeeping.

Make it official. This last column is important. By keeping your paperwork up to date, you are less likely to leave unclear instructions about your assets.

Make reviewing your list part of your regular financial review process. Professional advice can help you create a practical list as part of your estate plan. n

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