

## Budget – it's not a four-letter word!

# Routine pays off

*For most of us, the cooler weather and routine of fall brings out organizational skills that we didn't know we had. From cleaning out the garage, to setting up a household budget, getting organized often becomes our personal mission once fall rolls around.*

Fall may also be a time when bills and financial commitments seem greater than other times of the year, whether it's children's sports and cultural activities or membership fees. Once those and household bills are paid, you may wonder if you'll ever have enough money to do everything you want.

Worried? Don't be. The money you have left over is always more important than the money you start out with. So determining what you can and cannot afford may be more a matter of budgeting than how much money you have.

### How to set up a budget

**Income.** Add up the total amount of income that comes into the home. This includes pay cheques, investments and government contributions.

**Expenses.** There are two kinds of expenses. The first are your regular monthly payments:

- rent or mortgage payments
- utilities (phone, power, heat, cable)
- membership fees
- loan payments (car, credit cards)
- other payments deducted from your account monthly, such as car or home insurance premiums, RRSP and investment contributions, etc.

For the occasional expenses, you should be able to determine average monthly costs by adding these up and dividing by 12:

- income tax, home and property taxes
- insurance premiums (life, auto, homeowner, disability)
- maintenance and repair of automobile and home, furniture and appliances
- medical and dental expenses (not covered by insurance)
- clothing
- food
- vacation
- gifts
- annual membership fees
- personal care (toiletries, cosmetics)
- transportation (bus fare, parking, gasoline, taxi) and
- entertainment (hobbies, restaurants, meals, liquor, movies, sports events and books and music purchases)

### The math

Add the occasional expenses figure to the total monthly expenses. Subtract this from the money that comes into your house. With any luck, your expenses don't exceed your income!

## Timing is everything

# What's important to you?

*Now that you have a clear picture of your financial situation, the next step is to identify what stage of life you're at and think about your priorities. We've included some information on financial security products that are available and their benefits at each stage of life.*

### **Financial security product information**

**Life insurance** helps to create security for you and your family. It can be used to pay final expenses and provide an income for your family when you die.

Term life insurance is well suited to meeting high, short-term protection needs for the lowest initial cost.

Permanent life insurance products can protect you for your lifetime. They can build cash values *and* provide a death benefit.

- Permanent participating life insurance policies have the potential for earning policyowner dividends. The assets in the participating account are managed by the insurance company. If the actual experience in the par account overall is more favourable than the conservative assumptions that support the guaranteed values (including investment returns, mortality and expense experience), a surplus is generated that can be paid to policyowners in the form of dividends. These dividends can be used to buy additional insurance each year on a tax-advantaged basis without proving your insurability. They can also be used to lower your out-of-pocket premium.
- Universal life insurance provides a combination of permanent life insurance and tax-advantaged investment options in one policy. You select an investment mix that is as individual as you are to invest the cash values that accumulate. Your money can be invested in guaranteed interest accounts, fixed income or equity-linked investments.

**Disability insurance** protects your income. Individually-owned policies pay a monthly tax-free benefit that helps you to pay day-to-day living expenses so you can maintain your lifestyle and independence while you recover.

**Critical illness insurance** pays additional expenses associated with a critical illness. A lump-sum benefit ranging from \$10,000 to \$1 million will be paid if you are diagnosed with a critical illness or condition defined in the policy and satisfy the survival period. The benefit can be used for any need, from paying uninsured medical treatment or prescription drugs, taking time off to care for a critically ill spouse or paying down a mortgage or personal loan.

An effective **retirement and investment savings** plan is designed to help you meet your financial needs and goals. By answering questions about your investment knowledge, your tolerance to risk and your financial goals, your financial security and investment representative can help you personalize an investment portfolio that's right for every stage of your life. With an asset allocation process that is designed to minimize risk while still optimizing returns, your investment plan can meet your goals with registered and non-registered investment funds, as well as specialty products such as labour-sponsored investment funds and registered education savings plans (RESPs) through Quadrus Investment Services Ltd.

## **Early career**

### **Needs**

- Marriage and children
- Career selection (advancement)
- Home purchase
- Auto purchase
- Repayment of student loans
- Creation of children's university fund

### **Opportunities**

If you're just starting your career, you can still benefit from most financial security products. It's all about protecting what you're about to accumulate and developing a plan to meet both your current needs and your long-term goals. If you're thinking about starting a family or making some large purchases, you'll want to develop a financial security plan to protect your income and your assets and establish an investment plan.

- Life insurance premiums are generally lower when you're healthy and younger.
- It pays to compare if you're buying a home. Mortgage insurance available from most lending institutions covers your mortgage, not you. Term life insurance available from a life insurance company provides more flexibility and is often cheaper.
- Your income is one of your greatest assets. Whether you're a business owner or employee, you need to protect that income throughout your working life. Disability insurance can help you do this. Disability insurance is particularly valuable if you are a business owner because plans are available to protect you personally and help you cover eligible business expenses while you are disabled.
- If you are a member of a partnership, buy-sell insurance can help you fulfill your partnership agreement if you become disabled, critically ill or die.
- Critical illness insurance can supplement disability insurance by covering additional expenses often associated with a critical illness, protect a non-income-earning spouse or insure a mortgage or personal loan.
- Ensuring you maximize your RRSPs to benefit from tax-deferred growth can be a challenge when you are just starting out. By depositing regular pre-authorized amounts into your investments, you can take advantage of the fluctuations in the markets by effectively buying more when the markets are low, and buying less when markets are up. In the long run, this strategy lets you maximize growth and actually benefit from market volatility. It is an effective and simple savings strategy.
- Opening an RESP allows you to benefit from the Canadian Educational Savings Grant for your children's education up to a maximum of \$400 per year.

## **Mid career**

### **Needs**

- University expenses for children
- Financial start for children
- Vacation home, travel
- Financial independence

### **Opportunities**

As your lifestyle and needs change, it's important to have a financial security plan in place that can change with you. Financial security products can be very flexible. They have optional benefits that you can choose for more complete coverage.

- The risk of a disability or critical illness increases with age and may jeopardize money put away for children's university, vacations or retirement. Additional disability insurance options enable you to protect an increasing income, protect that income against inflation and protect your retirement savings.
- Additional critical illness insurance options enable you to increase your benefit at certain times, increase the number of covered illnesses or conditions or receive a refund of premium in certain situations.
- Investing in equities has shown to be the most effective way to grow your assets in the long term.

## **Peak accumulation**

### **Needs**

- Wealth accumulation
- Asset conservation
- Minimization of income tax
- Vacation home, travel
- Recreation, health

### **Opportunities**

Perhaps it's time to think about you. If you're lucky enough to have most of your major expenses behind you, you may be thinking ahead for yourself.

Your financial security and investment representative can help to ensure that your financial security plan is aligned to meet your goals in the most tax-efficient way.

- Permanent life insurance policies can pay the taxes owing on your growing estate when you die, whether it's registered assets, a business or a family cottage.
- The risk of disability continues to increase. Disability coverage should be increased as your earnings increase to maintain your current lifestyle and protect your assets and savings.
- Protect your savings and assets if you become critically ill. The lump-sum payment enables you to alleviate financial pressures of dealing with a critical illness. Use the lump-sum payment to seek uninsured medical treatment, make home modifications, purchase special equipment or pay down debt.
- While maximizing your RRSP remains one of the best ways to ensure your investment plan is tax efficient, speak to your financial security and investment representative about other tax-efficient products and investment strategies such as labour-sponsored investment funds that may be appropriate for you.

## **Pre-retirement**

### **Needs**

- Repositioning of assets
- Asset conservation
- Legal affairs, wills, trusts
- Plan distribution option
- New career
- Dependent parents
- Recreation/health
- Auto purchase

### **Opportunities**

If you're within two to five years from retirement, it's likely time to get your affairs in order and plan ahead.

- Life insurance can create an estate at a time when funds may be needed the most, for final expenses, to pay taxes owing or to leave a bequest to a favourite charity. Your beneficiary will be paid within a few days of the insurance company receiving the required information. The death benefit is not subject to income taxes, and probate costs can be avoided if you name a beneficiary other than your estate.
- Disability insurance continues to provide valuable coverage if you retire early to start a new business or career.
- Critical illness insurance becomes increasingly important to protecting your savings and assets, particularly if you take early retirement or do not earn an income. Coverage is available to age 65, 75 and 100, but must be purchased before age 65 (before age 60 for coverage to age 65).
- Segregated funds and their unique capital and maturity guarantees may be the right choice for you and can be an effective way to preserve your estate and avoid the delays and costs of probate fees.

- In this stage of life, it's critical to avoid market timing and ensure your personalized, long-term investment plan allows you to take advantage of market volatility, not be derailed by it. A well-diversified investment plan that benefits from an asset allocation strategy will help ensure you can optimize returns at your level of risk.

## **Retirement**

### **Needs**

- Enjoyable lifestyle
- Preservation of purchasing power
- New living arrangements
- Dependent parents
- Retirement job
- Gifts

### **Opportunities**

It's finally here... time to do all the things you didn't have time to do before. Even if you've pursued a different kind of a career, and are still earning an income, there's always planning to be done.

- The cash values from a participating or universal life insurance policy can be used to supplement your retirement income or make a retirement dream come true.
- You may want to make a special gift to your favourite charity. You can make this provision in your will, or for a minimum investment, you can use life insurance to create a substantial legacy and receive tax benefits immediately or on your final tax return.
- If you are still working, disability insurance policies that are already in force can be conditionally renewed after age 65.
- Your need for critical illness insurance is greatest now, as the risk of becoming critically ill increases significantly. Remember, you must purchase coverage before age 65.
- Converting your RRSPs to a RRIF is an important time to consider your financial needs throughout your retirement, and the legacy you wish to leave behind.
- Even for conservative investors, equities should continue to be an important component of your portfolio to ensure your money continues to grow while you're drawing an income.

Your plan and the solutions you choose will depend on your priorities. The cost of your plan will depend on your health and lifestyle, your age, gender and the products you choose. ■

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## **Freedom 55 Financial – an important part of planning for your future**

The financial security plan you create today, with the help of Freedom 55 Financial, will give you the freedom to choose your goals and achieve your dreams at every stage of your life.

Together, we can take the time to determine an affordable solution that is right for you, and develop a plan that can change over time as your needs change.

This information is provided by London Life Insurance Company.