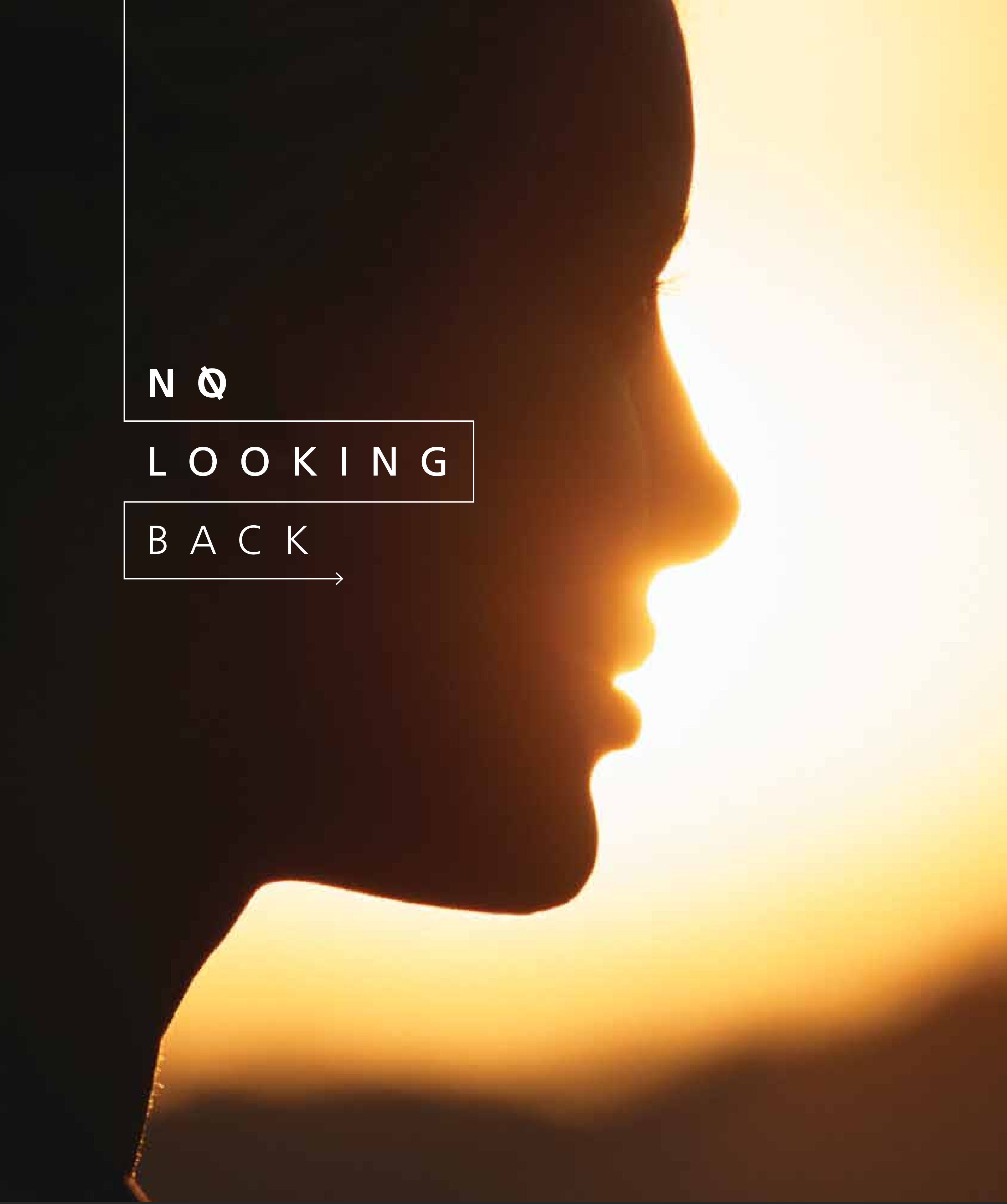

NO LOOKING BACK

FINANCIAL PLANNING 101

BUILDING A PATH TO A BRIGHTER FUTURE

With challenges come new opportunities and the chance for a brighter future. In the following story, we learn how financial planning allows a single mom to take charge of her finances. By adding flexibility to her borrowing needs, investing for the future and helping protect her family through critical illness insurance, she takes hold of her future and doesn't look back.

Michelle is looking forward to starting a new phase in her life. After a recent divorce, she is ready to make a plan for the future with her daughter, Emma, who has just turned 10. The divorce has been tough on both of them, but with the help of a few close friends and a supportive family, Michelle is starting to feel happy and optimistic about how the next few years are going to unfold.

Michelle enjoys her successful career as a manager working for a mid-sized telecommunications company in Edmonton, Alberta. She purchased her home in 1998 with her former husband, and they focused much of their financial resources on paying down the mortgage.

In the past her husband took care of most of the family's finances. Now that Michelle is living single she has decided to meet with an advisor to help her find the best way to achieve her immediate and long-term goals.

Client Overview

WHO: Michelle, age 41, divorced

HER GOALS: Gain financial flexibility, begin saving for retirement, purchase insurance to protect her daughter in case of a critical illness

THE PLAN: Open an all-in-one account, invest for retirement and purchase critical illness insurance

CURRENT MONTHLY NET INCOME: Salary $4,700; Child support $800

ASSETS: House $350,000

SAVINGS: Group RRSP $35,000; Chequing account $1,500; Divorce settlement $25,000

LIABILITIES: Mortgage $225,000; Credit card $3,500; Car loan $10,000

MONTHLY COSTS: Mortgage $1,360; Household expenses $800; Property tax $260; Car loan $390; Childcare $400; Credit card $300

TOTAL MONTHLY EXPENSES: $3,510

MONTHLY FREE CASH FLOW: $1,990

For illustrative purposes only. This is a fictional scenario.

MICHELLE'S FINANCIAL GOALS

1. Open an all-in-one account to finance home repairs, maintenance and other expenses, as need be.
2. Invest beyond her small employer-sponsored Group Registered Retirement Savings Plan (RRSP) to increase her retirement savings.
3. Enquire about health insurance options to help ensure that they are protected financially in case Michelle ever becomes sick.

With these three goals in mind, Michelle meets with Jeffrey.

1. FINANCIAL FLEXIBILITY

Jeffrey begins their first meeting by explaining that how we manage our debts and day-to-day cash flow can have a significant impact on our ability to realize other financial goals. He asks Michelle about her current debts, savings and respective interest rates.

She tells him she has a $225,000 mortgage at 4.0 per cent, a $10,000 car loan at 1.9 per cent and a $3,500 credit card balance at 9.9 per cent.[1] She also has $1,500 in a chequing account and $25,000 from the divorce settlement in a savings account, earning very little interest.

While this is how banking traditionally works – one product for each particular need – it's very inefficient. Like many Canadians, Michelle is lending money to her bank at a relatively low rate through her chequing account, then borrowing money, at higher rates, through loans and mortgages.

Jeffrey tells Michelle about a banking solution that is growing in popularity: all-in-one accounts. All-in-one accounts combine deposits and loans into one efficient, flexible account. By consolidating her debt at a competitive rate and using her savings and income to reduce debt faster, she could save a considerable amount in interest each year.

Working with an interest rate of 3.5 per cent,[1] Jeffrey determines that Michelle's current method of banking is costing her more than $1,000 in unnecessary interest each year. Michelle is surprised to learn that by consolidating her debts at one low rate, and putting her savings to work more efficiently, she can reduce her monthly interest costs and generate an improved monthly cash flow.

Michelle decides to go ahead and consolidate her mortgage, cash and debts in one account. She is thrilled that through more efficient money management – and with no changes to her current lifestyle – she could now have almost $1,500 each year to put towards investing for the future and protecting her family.

She has the added security of knowing that she can tap into the equity in her home at any time, without needing to apply for a loan, should she need to make repairs to her home or access money for an emergency. This is a significant step for Michelle down the path to financial flexibility.

BY CONSOLIDATING HER DEBT AT A COMPETITIVE RATE AND USING HER SAVINGS AND INCOME TO REDUCE DEBT FASTER, MICHELLE COULD SAVE A CONSIDERABLE AMOUNT IN INTEREST EACH YEAR.

[1] Rates are for illustration purposes only.

2. INVESTING FOR THE FUTURE

Michelle also has some concerns about her retirement savings. Her Group RRSP offers some comfort, but she is worried that the 24 years she has between now and when she'd like to retire at age 65 won't be enough time to build sufficient savings. And, while Michelle isn't ruling out that she'll meet someone in the future, she wants to be sure that she is prepared, independent of anyone else.

From her divorce settlement, Michelle received $25,000 from the sale of jointly owned assets. Using this, and budgeting $500 a month for retirement savings, she is hoping to build up her nest egg.

What she's heard about the financial markets over the past few years has made her nervous about where to invest – she wants her money to grow, but isn't sure she's comfortable with the volatility of the stock market. Hearing this, Jeffrey suggests she consider a newer breed of retirement planning product – one offering a Guaranteed Minimum Withdrawal Benefit (GMWB).

Jeffrey explains that GMWBs are designed to provide a guaranteed stream of retirement income, often for life, but they also have a number of additional features that can help Michelle accelerate her savings. As Michelle won't need to take income for roughly 24 years, she can earn an income bonus each year that she doesn't make a withdrawal. These bonuses are not cash deposits but rather they increase the basis for calculating the amount Michelle can take as retirement income in the future, and are great because they are earned regardless of market conditions.

GMWBs ARE DESIGNED TO PROVIDE A GUARANTEED STREAM OF RETIREMENT INCOME, BUT THEY ALSO HAVE A NUMBER OF ADDITIONAL FEATURES THAT CAN HELP MICHELLE ACCELERATE HER SAVINGS.

With Michelle's initial investment of $25,000, and assuming no growth, she would have a guarantee base of at least $55,000. If she defers taking income for 24 years, she could more than double her income base since the bonus on a typical GMWB is five per cent of the deposit amount (24 x five per cent = 120 per cent). Factoring in her monthly deposits of $500, corresponding bonus amounts, and a fixed annual return of five per cent, her guarantee base at age 65 – the amount available from which to draw retirement income – would be $341,883. This alone would provide her a guaranteed annual income of at least $17,094 for life starting at the age of 65 (assuming a five per cent payout percentage).

Should markets perform better than this, there is an opportunity to increase her income guarantee (and the amount of each bonus paid for not taking income) even more through the reset feature that most GMWB products offer. Michelle also doesn't have to worry should she find herself in the situation of having to retire earlier. Many GMWB products offer flexibility around when income can start – some guaranteeing lifetime income as early as age 50. For investors willing to wait until they are older to begin receiving income, the payout percentage is typically higher.

Another nice feature that is appealing to Michelle is the death benefit guarantee that most of these products offer. In the event of Michelle's death, a minimum 100 per cent of her investment (proportionally reduced for any withdrawals) would be guaranteed to be paid to her beneficiary – her daughter Emma.

Michelle agrees that a GMWB will help her save for retirement and is the right step on the path to securing her future.

3. PROTECTING EMMA

Last year, a friend of Michelle's was diagnosed with breast cancer. Michelle learned that in 2010 in Canada, each week 445 women were diagnosed with breast cancer.[2] The good news is that the five-year survival rate for breast cancer in women is high – 87 per cent.[2] But, as Michelle learned, getting better costs money. Her friend struggled financially for the better part of the year. As a single mom, Michelle is already worried about finances – she knows she can't afford to get really sick.

To help Michelle deal with this concern, Jeffrey recommends critical illness insurance. While there are a variety of plans to choose from, he suggests the renewable option because it offers a more affordable solution. This would give her the most "bang for her buck." As well, the plan he suggests provides:

- Coverage against major illnesses (heart attack, stroke and cancer)
- The flexibility to change coverage type to offer lifetime protection without further medical evidence (time limitations may apply)
- Coverage for certain non-life threatening diseases like ductal carcinoma in situ of the breast or coronary angioplasty

Michelle agrees that the $52.63 per month for $100,000 of Term 10 Renewable coverage with return of premium on death is a good price to pay for peace of mind.

SUMMARY

With her immediate and long-term goals now addressed, Michelle is relieved to discover that with the help of her advisor she has built a solid financial foundation for her future with Emma. Jeffrey was able to address her concerns without straining Michelle's monthly budget. Michelle smiles knowing that her future is already starting to look brighter! •

SPEAK WITH YOUR ADVISOR

For more information please contact your advisor today. Professional advisors can help empower you to overcome life's financial challenges through careful planning and by directing you to the right products that best suit your needs.

[2] Canadian Cancer Society: www.cancer.ca/statistics.

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