So, you want to be a MILLIONAIRE?

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LOOK TO LONG-TERM INVESTING, NOT LUCK

Without a large lottery ticket win, most of us won't be able to save a million dollars overnight. But the possibility of saving to become a millionaire in retirement may be an attainable goal. Whether you are 25 and starting from scratch or 45 and feeling a bit behind on your savings strategy, with a solid financial plan in place, the goal may be more achievable than you think.

In the following story we meet a young couple in their late 20s who are looking for a basic strategy to help place them on the road to financial success and reach their million dollar goal.[1]

John and Lisa live together in an apartment in Toronto and are looking forward to building a future together. Having graduated from university with a master's degree in science, John is working as a research assistant for a pharmaceutical company, while Lisa is a marketing associate.

Sharing an apartment and expenses helps keep their overhead relatively low. But both realize that they are spending money

CLIENT OVERVIEW

Who: John and Lisa, age 29 and 27, living as a couple

Goal: To save a million dollars

The plan: Create a budget, put money into retirement savings and buy a condominium in five years

Current monthly net income: John, $3,524; Lisa, $2,761 (salary assumptions: John, $56,000; Lisa, $42,000)

Assets: Car, $15,000

Savings: John, $1,500; Lisa, $1,000

Liabilities: Student loans: $19,500; credit card debt: $2,600

Pre-budget monthly expenses: Rent, $1,500; student loans, $500; household expenses, $800; car payment, $400; insurance, $200; credit cards, $500; entertainment, $1,200; clothing, $500; other non-essential expenses, $350; transit passes, $220

Total monthly expenses: $6,170

Total free cash flow: $115

[1] This story is fictional and is used for illustrative purposes only.

unnecessarily and have little left to show for it at the end of the month. Ready to make a change, Lisa calls Jennifer, a friend of the family who is an advisor, to set up a meeting.

Before their meeting, John and Lisa decide that their ultimate goal is to save one million dollars, but they also need a plan to help them:

1. Start a budget and stick to it
2. Begin a regular savings plan for retirement
3. Save $40,000 for a down payment on a condominium

1. Starting a budget

At the meeting, John and Lisa provide an overview of what they are looking to achieve. Their goal is to be able to save a million dollars for retirement, but they are having trouble getting started. Both realize they need to cut back on spending as they've developed some bad habits that are undermining their ability to save.

After a quick review of their spending, Jennifer provides John and Lisa with a simple yet effective plan. The goal is to put aside approximately 10 per cent of their after-tax income every month, or approximately $600, into a regular savings plan. In order to do so, they will need to cut back on their entertainment budget and their non-essential expenses.

Jennifer thinks their entertainment budget, at $1,200 a month, is out of control. She suggests that for entertainment, they could easily get by on $750 a month and still enjoy their current lifestyle. She recommends cutting back their non-essential expenses to $200, and Lisa's clothing budget to $300.

Jennifer points out that with a 26.5 per cent interest rate they need to payoff their credit card debt first. She suggests they use their current savings to eliminate this debt. Once they pay it off, they will have an additional savings of $500 per month. Finally, Jennifer recommends that they begin putting aside money in an emergency fund to cover things like unscheduled car repairs and other unforeseen expenses.

With an outline of their new budget in hand, the next step is to create a savings and investment plan.

Before- and after-budget breakdown

	Before ($)	**After ($)**
Rent	1,500	**1,500**
Student loans	500	**500**
Household expenses	800	**800**
Car payment	400	**400**
Insurance	200	**200**
Credit cards	500	**–**
Entertainment and leisure	1,200	**750**
Clothing	500	**300**
Other non-essential expenses	350	**200**
Transit passes	220	**220**
Total expenses	**6,170**	**4,870**

2. Starting a savings and investment plan

Jennifer points out that, with a goal of saving $1,000,000, they need to begin saving now. Lisa and John are approximately 35 years from retirement, which provides them with a considerable amount of time to achieve this goal.

In their current jobs, neither has a company pension plan, which means that, at this time in their careers, the onus is entirely on them to address their retirement needs.

Jennifer then proceeds to show John and Lisa Chart 1 to illustrate how much they will need to invest every month to become a millionaire at age 65 starting at different ages. The chart assumes that the investment is held within a tax-deferred savings account such as a Registered Retirement Savings Plan (RRSP).

Jennifer explains, "The longer you wait, the more you have to save. And the more you have to save, the tougher it's going to be. You both need to start investing as early as you can and let the power of compound investment returns begin working for you. Time – and spending less than you make – is the key to achieving your financial goals."

Jennifer works out the numbers and recommends that John and Lisa put $616 a month into an RRSP to achieve their million dollar goal.

Jennifer explains that when you contribute to an RRSP, the amount you contribute – which is limited to up to 18 per cent of your

CHART 1
Starting early makes it easier for John and Lisa to save

Age	Rate of return (%)	Monthly investment ($)	Investment goal ($)
25	6	502.14	1,000,000
30	6	701.90	1,000,000
35	6	995.51	1,000,000
40	6	1,443.01	1,000,000
45	6	2,164.31	1,000,000
50	6	3,438.57	1,000,000

For illustration purposes only.

earned income[2] – is tax-deductible, thus lowering the amount of income you pay taxes on. In addition, any investment growth earned on assets held within an RRSP will not be taxed as long as they remain in a registered plan.

For John and Lisa, the RRSP will constitute the foundation of their financial plan since it allows them to take full advantage of compound investments returns on a tax-deferred basis.

3. Saving for a down payment on a condominium

The next part of their savings plan is to put aside money for a condominium. Their goal is to save $40,000 over five years. John and Lisa are aware that this can be accomplished through the Home Buyers' Plan available through an RRSP.

Jennifer advises them that while RRSPs can be a good way to save for a down payment, they may be better off doing so through a Tax-Free Savings Account (TFSA) because of its

[2]Refers to earned income from the previous year minus pension adjustments up to an annual limit. The RRSP limit for 2012 is $22,970.

inherent flexibility. A TFSA is a general purpose savings vehicle that allows each of them to make a $5,000 contribution every year,[3] and withdraw funds at any time in the future tax-free. Like the RRSP, a TFSA allows the investment growth to compound free from taxation. However, unlike with an RRSP, you cannot claim a tax deduction on contributions. The nice thing about TFSAs is that there is no restriction on how withdrawals can be used.[4]

In order to achieve their goal for a down payment, Jennifer advises John and Lisa they will need to put aside an additional $8,000 per year, or approximately $650 per month.

Lisa and John agree to follow Jennifer's recommendations and decide to open up an RRSP and TFSA. Each month, the $1,266 will be automatically withdrawn from their savings accounts through a Pre-Authorized Chequing Plan (PAC) and invested into a broadly diversified portfolio of mutual funds that Jennifer recommends.

"We will need to review your financial plan annually to ensure that it remains realistic and on track. You are both young and your combined incomes will change, so you may have the opportunity to achieve your goals even faster than what we have outlined here today," Jennifer concludes.

With their budgeting/savings plan in place, John and Lisa are happy to know that they are taking control of their finances and that their goals are achievable with the right plan.

Talk with your advisor

Talk to your advisor about how they can help you to develop a financial plan that ensures you take advantage of the tax advantaged investment strategies available.

After-budget savings plan breakdown ($)

Surplus before savings	**1,415**
Savings: Registered Retirement Savings Plan (RRSP) – retirement	**616**
Tax-Free Savings Account (TFSA) – condo down payment	**650**
Emergency savings	**149**

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[3] Increases, rounded to the nearest $500, to the yearly contribution limit will be applied as warranted by the consumer price index for years after 2009.

[4] Amounts withdrawn in a taxation year will be reflected in contribution room in the following year. Over-contributions in a year will be subject to tax consequences assessed by the Canada Revenue Agency.

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