PROGRESS
CAPITAL MANAGEMENT
The Personal Prosperity Program™

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Sunil Chugh, CFP®
Financial Advisor
Coopers Business Centre
5755 Coopers Avenue
Mississauga, ON L4Z 1R9

Bus:(905) 568-8338
Fax:(905) 568-4554
Toll Free:1-866-254-3334
Email: sunil@progresscapital.ca
Website: www.progresscapital.ca

Wealth Viewpoint

Maximize Your Financial Possibilities

PERSONAL FINANCE VERSION 1902

Protect your financial plan using Life Insurance

We do our best not to get ourselves involved in too much risk. When driving, do not exceed the speed limit. Safe boaters wear a safety vest. While skiing, icy surfaces are avoided. When creating a financial plan, build assets in accord with your risk profile and buy life insurance.

Life insurance needn't be a boring topic. It's the foundation of a good financial plan. Moreover, protecting our family's financial future is of great interest.

When building wealth, life insurance offers the ability to manage unforeseen risks. Let us look through a longer lens to see life insurance at work. Life insurance protects against income loss, and the adverse effect less income can have on a family if one were to die or have a disability.

Building on that foundation, by increasing assets and net worth via investing, it is essential to occasionally reassess the necessary level of life insurance coverage. Caring for others is at the root of life insurance planning:

• There are many family responsibilities. Adequate coverage allows a surviving spouse and surviving family to maintain their current lifestyle.

• Life insurance proceeds can support a stay-at-home parent caring for the children. If one parent's income is currently relied on to provide all living expenses, the death of that individual may cause financial insecurity for all family members, especially when a stay-at-home parent is caring for the children.

• Life insurance protects children. The coverage needed will be affected by:

• the number of children and their ages
• educational expenses of the children
• the current value of invested assets
• current and necessary

future income
• debt accumulation
• future employment goals versus stay-at-home parenting
• overall financial goals

Beneficiaries and children need consideration. Young children can be established as secondary or contingent beneficiaries; thus, allowing them to receive the death benefit if the parent or primary beneficiary predeceases them. On behalf of children, a trust can manage funds to protect the income uses as directed via a will. It can direct proper investing of the life insurance proceeds of the death benefit to create guardian income for loved ones.

Continue coverage throughout college or university. When children go to college, many of us tap into our savings to help meet their tuition and housing expenses. We may purchase a child's first car, or pay him/her income for one or more years. If a parent or guardian dies without providing continuing support, a young adult child may need to quit seeking a higher education due to a shortage of funds.

Protecting a significant income in case of disability is possible. Think about how becoming ill or injured could affect children's financial security. Would household income be reduced, placing them under duress? Disability insurance is designed to replace approximately 70% of pre-disability income and is especially necessary for the self-employed.

Life Insurance can pay off all debts. A car loan or credit card debt can be cleared up and paid off. Greatly reduce financial risk by paying off a Home Equity Line of Credit (HELOC). HELOC debt is a liability many do not understand. Debt is very often tied to home real estate value, enabling banks and financial institutions to offer quick credit, especially in a market where home values rise quickly. The downside is that many may be unaware that they are spending the value of home equity. Expenditures on a trip, a car, or a home renovation can increase HELOC debt while depleting home asset value.

Eradicate business debt using life insurance. Businesses can accrue debt in many ways. If the debt is personally assigned, there can be liens against personal assets, or in some cases, the home. Upon an owner's death, business debt is redeemed if enough life insurance has been purchased on all shareholders or partnerships using a buy-sell agreement.

Why estate plans are important

It is important to plan the most efficient manner of leaving hard-earned assets to heirs. Try to avoid the following mistakes:

1. Keep your testamentary trust (your will) updated. Without an updated will, deceased heirs may be named, or monies in trust may conflict with your current situation.

• If there is no will your estate may be deemed intestate, and your provincial government can appoint trustees who may then divide the estate according to legislation, not your wishes. This can incur probate fees.

2. Young children need a guardian directive. It is very important that a directive in the will establishes who will be the children's prearranged guardian.

3. Specify what assets will be

left for your heirs. This assures that a dominant executor won't determine the distribution of the heirlooms that you'd prefer specific heirs to receive.

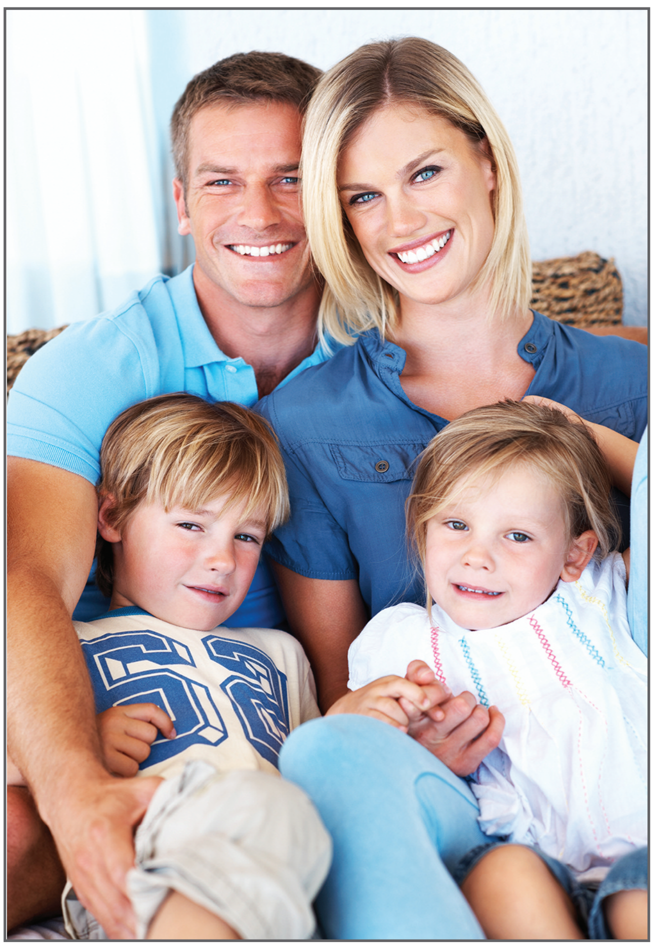
4. Proper beneficiaries have not been named. Update your beneficiaries on your various life insurance policies and investment accounts (such as segregated funds) to allow passing these assets directly to named beneficiaries. Tax-free proceeds from life insurance can be divided proportionately to coincide with your wishes.

5. Consider equalizing your estate. Where one child inherits the family cottage or business, consider leaving equivalent cash assets to other siblings. Life insurance can be purchased to create new tax-free money to divide up among siblings not inheriting a significant family asset or to provide retirement funds for a surviving partner. Life insurance benefits can be assigned to beneficiaries outside of the will.

6. An estate plan can direct payment of your tax bills limiting tax erosion of wealth.

- **RRSPs and estate taxation** Where there is a surviving spouse, RRSPs/RRIFs can roll over free of taxation. If not, registered money will be taxed as income in the final tax return of your estate.

- **Capital gains taxation** Taxation on capital gains can erode bequeathed assets such as a cottage, home, or business shares left to adult children. Such assets are deemed to be disposed of at death where there is no spouse or dependent, in most cases creating taxable capital gains on the difference of the current asset value minus the purchase price. Life insurance can help pay capital gains taxes, for example, to keep a cottage or business in the family.



Note: Talk to your advisor about tax exemption changes to investment components of life insurance.

Education's effect on future income

How parents help shape the financial future of their children

In Canada, the government allows a welcome tax break when you save for your child's education. As parents, we need to consider the effect that education will have on the future income and lifestyle of our children.

The Internet is bringing many changes quickly: Amazon is replacing many of our once-renowned retailers. Google sweepingly controls business success: who gets to view your website and consequently buy your services is based on paying for Google AdWords. The world has moved into one of the most profound eras of change in human history. Our children, for the most part, are just not prepared for this new reality. The gap to accessing a secure income, or obtaining a job with a substantial retirement pension is widening.

Parents who can see the chaos, the economic uncertainty, the stress and the complexity in the world, know intuitively that the new wave of robotics and artificial intelligence (AI) call for an educational revolution. Our children must be able to get a post-secondary education while aiming for higher accreditation in a career known to provide substantial income that keeps up with inflation. Serious financial planning can provide significant funds to go to university or college.

The Financial Comfort Zone Study found the following:

"Canadians who establish registered education savings plans (RESPs) for their children are setting their kids up for financial success later in life because there's a direct correlation between having post-secondary education and wealth".[1]

The study revealed the following:

• Among those holding a postgraduate degree (the highest level of education) 23% have investible assets of $500,000 or more, whereas approximately only 11% if the schooling is at the post-secondary level.

• Of those with only a high-school diploma, only 8% have investible assets of $500,000 or more, while 72% have investible assets of $100,000 or less.

Parents can influence the education of their children by fostering the right attitude toward the need for educational training for a financially sustainable future.

"Among parents who gave education a high rating of importance and who had one or more children living at home, 49% indicated they had established an RESP for their children. Similarly, 45% of parents who gave education a medium rating of importance and who had one or more children living at home indicated that they had established an RESP for their children. In contrast, only 15% of parents who gave education a low rating in terms of importance and who had one or more children living at home had established an RESP for their children."[2]

What ways can we plan for our Child's education? Consider using both the traditional Registered Educational Savings Plan (RESP) and the Tax-Free Savings Account (TFSA) as an educational savings vehicle. A TFSA offers parents another tax-efficient method to provide for education planning.

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[1] Credo Consulting Inc. and Investment Executive

[2] ibid