

Personal Financial Planning



YOUR CA AND BUSINESS ADVISORY SERVICES

**The Business Advisory Services Committee
The Canadian Institute of Chartered Accountants**

Helping You Reach Your Financial Goals

Assistance with your personal financial planning can be one of the most important services your CA can bring to you, whether you are an owner of an active business, a busy executive or a prudent investor with an eye to your future.

Recent years have seen a proliferation of new and sophisticated investment vehicles, more varied types of insurance policies and new kinds of retirement plans. Canadians are earning even more disposable income, investing and saving large amounts of money, purchasing insurance for various risks and living under a complex tax system. At the same time the economy and the course of interest rates have become more volatile.

Personal financial planning is a systematic, comprehensive process that assists individuals and families to create and preserve wealth and security. The process involves:

- Analysis of your current financial position
- Development of your financial objectives
- Creation of strategies to help you reach your objectives
- Implementation of strategies
- Monitoring your progress, including periodic reevaluation of your plan.

Your CA's Credentials in Personal Financial Planning

Many CAs offer personal financial planning along with other services such as accounting, pension and tax advice. Personal financial planning is a well established discipline within the profession. In addition, your CA is committed to a code of professional conduct emphasizing independence and objectivity. Your CA operates in strict adherence to this code and maintains independence from sellers of financial products and services. Your CA will not take commissions or other compensation for sales or referrals to other people. Fees charged are based only on the time spent on your assignment.

Where Do You Start?

Talk over your objectives with your CA to, first, determine what you really want your CA to help you with. If you think you will benefit from comprehensive personal financial planning, make the effort to do it right. Start by understanding your current financial situation. At a minimum, this requires a personal balance sheet and a cash flow statement of personal income and expenditures. More complete analysis might also include an investment performance report and income tax analysis.

Plan Your Personal Financial Strategies - to Meet Your Personal Goals

Personal financial objectives will differ depending on your circumstances. Generally they relate to:

- a) a good retirement
- b) security for the family
- c) financial independence
- d) educational commitments
- e) reduction of current and future income taxes
- f) an investment portfolio
- g) a new home
- h) a better current lifestyle

You and your CA can consider different strategies to achieve chosen objectives.

Your Personal Financial Plan

Typically, a personal financial plan will have seven parts, dealing with different aspects of your finances.

1. The Budget or Money Management Plan

Begin by estimating your net worth and develop an annual living expense summary. To be financially independent, you must understand the size and pattern of your income and expenditures. An important part of the budget is the analysis of your "Lifestyle Expenditures." Many people use personal financial planning to establish control over normal living expenses such as housing, food and clothing.

2. The Investment Plan

A key to both the accumulation and preservation of wealth is the proper selection of investment vehicles. This plan covers your RRSPs, house and cottage, government and corporate bonds, stocks, mutual funds, rental properties, etc. – and the related tax consequences. Your CA can recommend an investment adviser who will assist you in making the right investment decisions, taking into account protection of capital, ease of management, leverage, diversification and tax considerations. Your portfolio strategy is then designed based on your personal situation, preferences and future needs.

And keep the long-term impacts in mind. For example, the promised immediate gains from some types of tax shelters can have serious consequences in the future.

3. The Retirement Plan

The rapid increase in inflation in the last decade combined with the many new retirement plan vehicles make retirement planning a very complicated area. This plan should determine your financial needs upon retirement in order to maintain your desired lifestyle, including the consideration of receiving various types of annuities and the related income tax implications.

4. The Estate Plan

Proper planning provides sufficient assets to maintain your family's lifestyle and assures the distribution of your assets to your heirs in accordance with your wishes and at as low a tax and administrative cost as possible.

5. Risk Management Plan

All of the positive effects of good financial planning can be offset by improper insurance planning. A good plan would include a review and analysis of your family's security in the event of death or disability, accident or malpractice.

6. Education Financing

Escalating education costs at all levels require that planning be instituted as early as possible, well in advance of your family's needs.

7. Income Tax Planning

Income taxes are one of your largest annual expenditures and must be considered in any personal plan.

Referrals

You decide on the type of investments to suit your plan – insurance, bonds, stocks, real estate, etc. Your CA can provide you with a broad choice of reliable and proven advisers in most fields relating to your personal financial plan. Your CA is capable of ensuring that the advice of various specialists is consistent with your overall objectives.

Keep Up the Commitment

After you've launched your personal financial plan, make sure that results are monitored. And it's up to you, how little or much involvement you'll need from your CA. The CA can act as an overall "facilitator" who can help you develop and implement a comprehensive financial plan. The smooth integration of the various areas of your plan is critical to success.

Bear in mind that there are numerous events that can trigger the need to develop new financial strategies, such as:

1. Changes in income tax laws
 2. Swings in the economy
 3. The need for new goals as you achieve your current financial objectives
 4. Changes in personal lifestyle
 5. Early retirement
 6. Interest rate fluctuations.
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