A financial plan that does it all

Your financial plan should cover more than just your investments. It should also include advice on retirement, taxes, insurance, cash flow and debt management.

By MoneySense staff | Online only, 24/01/12

Retirement

Where will your retirement income come from? You'll likely rely on the Canada Pension Plan, Old Age Security, and your workplace pension plan if you have one. But if that's not enough, your personal savings will have to make up the difference. Think about what age you'd like to retire at and how much you'll need annually to live comfortably once the house is paid off and the kids are gone. Then have an adviser determine how much you should be saving annually and how your portfolio should be invested to make sure you retire with the nest egg that you'll need.

Taxes

If you own your own home and use RRSPs, RESPs, and Tax-Free Savings Accounts (TFSAs), you're already taking advantage of the best tax shelters out there. If you're in a higher tax bracket—that is, if you make $85,000 annually or more—it may be worth paying for a few hours of an accountant's time to see what mix of these investment options is right for you tax-wise.

Insurance

Examine what your workplace benefit plan offers and then have your adviser review all your insurance policies—disability, life, auto and home—to make sure that your coverage is adequate. If you need extra coverage, make a note of it so you can include that in your financial plan.

Cash flow

Determine how much you spend and save right now by keeping a journal. The result may surprise you. If you're spending more than you make, your net worth may be decreasing every year. "Successfully managing cash flow is your key to financial control," says Karin Mizgala, chief executive officer of Money Coaches Canada. "It will give you an awareness that has more long-term value than anything you can invest in, buy or sell."

Debt management

In general, you should focus on paying off your debt before investing for the future. Comb your budget to see if you can find extra savings to put towards your payments. And make sure to have a plan, such as paying off high interest rate debt first. Also consider renegotiating your mortgage or cutting out one major expense completely—like travel—to pay your debt off quicker. "Do what you can to increase your income, cut your expenses, and start cutting your debt," says Al Feth, a fee-only adviser in Waterloo, Ont. "That will give you the best risk-free return on the bottom line."

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