

FINANCIAL PLANNING WEEK 2017

Your money smarts affect your quality of life

How financially savvy, or money-smart are you? And just what is financial savvy, money smarts or financial literacy, anyway? Overall, Canadians are very smart, educated people. More Canadians have a post-secondary degree than do people in any other country. But our money smarts leave something to be desired.

There's a dearth of financial savvy across the generations. That's a key reason why in June 2015 the federal government launched Count me in, Canada. It's our national strategy for increasing financial literacy in this country.

Whatever you call it – financial literacy, financial savvy or money smarts, it's something you should pay attention to every day. Because your money smarts can affect your quality of life.

UNDERSTANDING WHAT "FINANCIAL SAVVY" MEANS

Broadly, the main things encompassing personal finance – and hence financial savvy – are:

- money, credit and debt management, and
- saving, spending and investing.

There are many facets within these two main areas, including:

- creating a budget and sticking to it
- choosing the right credit card – and why you should have one
- knowing the difference be-

tween TFSAs, mutual funds and exchange traded funds

- lines of credit versus credit cards
- why paying attention to your credit score is important
- investing in life insurance and living benefits coverage
- having a financial safety net for unexpected things
- why it's important to start saving for the future early
- how compound interest works
- how and why having a financial advisor can help you

Having money smarts means having a good practical knowledge and understanding of how all these things work together. Not only that, but also how to make them work best together for you. How savvy you are about all of them really can affect your quality of life.

LESS FINANCIALLY SAVVY, LOWER QUALITY OF LIFE

Let's say you signed up for a credit card while in college. A bank rep was on a campus drive one day. He explained getting a credit card will help you establish a credit rating. You bought the sales pitch. But you didn't first make sure it was the right credit card for you... because you didn't know that's important to do. Then you got into the bad habit of paying on credit instead of your using your debit card. And you never got into the good habit of paying the balance off in full every month, or paying as much as you can afford instead of just

the minimum monthly payment.

A decade later, your credit card debt's out of hand. You're constantly buried under it plus a mountain of utility bills, vehicle payments, auto insurance and mortgage payments every month. You've got to put food on the table; and keep yourself and your child clothed. You never had an allowance when you were a kid, so you never learned money-management skills early. As a result of that, you never made sure you had enough in a savings account for a safety net. Now you're not bringing in enough household income to cover all the monthly expenses. Your credit score's in the sewer. The consulting business you started after being laid off twice in the changing work world hasn't taken off yet. You've been barely surviving on your partner's salary.

It's overwhelming for both of you. You're under constant financial duress. All you can think about is the very real possibility of losing everything you've worked for. You're wondering where you went wrong. All this constant financial stress is affecting your health and your relationships. It's not a pleasant situation. It's not the quality of life you thought you'd have at this point.

COMFORTS THAT COME WITH BEING FINANCIALLY SAVVY

Meanwhile your 30-something, next-door neighbour

– we'll call her Lisa – has a starkly different quality of life. She has, it seems, won the lottery or come into a substantial inheritance. She's earning a good living in marketing, and seems to be living in comfort and style. She's always cheerful and happy. You're feeling very resentful towards your neighbour. Truth is, Lisa is just money smart. Much more so than you.

She has just bought a new pick-up truck; is having her home totally renovated; travelled to both Ireland and Australia this year; has a retirement nest-egg that makes money for her while she sleeps; and revels in being a foodie. At the annual neighbourhood summer barbecue Lisa went on endlessly about her favourite meals at all the trendy restaurants she and her boyfriend Jonathan visit regularly. They're planning on having their first child next year. They're not going to the expense of getting married. That's because they've been together five years and know they can use the same tax strategies living common-law. They've already started putting aside money that'll go into a registered education savings plan when the time comes. And they're planning on being mortgage free in 10 years.

You, on the other hand, may eventually get out of the hole you're in and on a better track. But it's going to take some hard work, discipline and getting more money



Your "money smarts" affect your quality of life. When you're money smart, you can be more financially secure. You can indulge in your interests now plus make sure you've got the future covered. (PHOTO: GETTY IMAGES)

smart. Several degrees of financial savvy separate Lisa's quality of life from yours. When you're money smart, you can be more financially secure. You can indulge in your interests now plus make sure you've got the future covered. It's as simple as that.

TAKE THE FIRST STEP TOWARDS BEING FINANCIALLY SAVVY

Many Canadians need a bit of a nudge to become more money smart. Consulting with a well-qualified financial advisor is a great first step to becoming financially savvy. They can help you prepare a financial plan and educate you about the best way to reach your goals. To

find an advisor near you, visit Advocis, The Financial Advisors Association of Canada, at www.advocis.ca, and follow the links, or go directly to our advisor.ca.

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Should you keep separate or joint bank accounts?

When you find your soulmate, fall in love and decide to become life partners, your personal finances – your bank accounts in particular – take on a whole new dimension. Do you keep separate accounts? Or do you pool everything into a joint account?

There's really no definitive answer. It's a matter of personal preference requiring a conversation with your partner. You could decide to:

- Start with separate accounts, but merge them later.
- Open a joint account right away.

- Maintain separate accounts.
- Have both a joint account and separate savings accounts.

WHAT THE SURVEY SAYS ABOUT JOINT ACCOUNTS

A 2014 Angus Reid poll done for TD Bank in the U.S. found 42 per cent of couples choose that last option.

The survey showed independence is the top reason why 38 per cent of couples keep individual accounts. More women (43 per cent) than men (34 per cent) cited independence as their main

reason for having separate accounts.

If you're a millennial, marriage is less of an impetus for opening a joint account, according to the TD Bank survey. Millennial couples are pooling their money well before marriage. They're tending to merge their accounts when they're living together, and after they get engaged. Couples 55 and older didn't do that until they got married, the poll found.

REASONS TO GO JOINT

There are some good reasons to open a joint account

instead of having separate ones:

- Everything is in one account, so you both know your total financial resources for paying expenses, spending and saving.
- You both know where your money is being spent.
- If anything happens to either of you, looking after estate finances will be a lot easier legally.
- Granted, having a joint account can get messy if you separate or divorce. But generally, it makes your financial life as a couple much easier:
- Both of you can set up

online banking to pay bills.

- Either of you can deposit and withdraw funds, and write cheques.
- Each of you has a debit card.

JOINT ACCOUNTS AND SINGLE INCOMES

It's even more important to have at least one main, joint account when there's only one income-earner:

- If your income-earning partner dies suddenly, you could find yourself without funds to pay monthly bills, funeral costs or other estate expenses.
- Unless it's a joint account, set up so only one signature is required for transactions, the surviving partner won't have access to the account. (If you've maintained separate accounts, you won't have access to your partner's money, either.)

If there's no will, you may not be able to claim the money in a double-signature joint account (or separate account) until your partner's estate goes through probate.

This article was supplied by Advocis, The Financial Advisors Association of Canada.

With more than 11,000 members organized in 40 chapters across Canada, Advocis members assist millions of Canadians in achieving their financial goals.

What unites our members is the emphasis they place on helping their clients prepare for every major life milestone. Financial advisors protect what is at stake – the financial security of Canadian families.

MEMBERS PROVIDE ADVICE AND EXPERTISE IN A NUMBER OF AREAS, INCLUDING:

- ▶ Estate and retirement planning
- ▶ Wealth and risk management
- ▶ Tax planning
- ▶ Planned giving

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Do you really need a financial advisor? Three out of four Canadians do.

One of the questions financial advisors hear a lot is, "Why do I need a financial advisor?" The answer to that is two-fold: maybe you do, and maybe you don't.

If you have a lot of financial savvy, a good sense of how all the elements work together and you thrive on managing your own investments and financial interests, then you probably don't need an advisor to help you. A study by Vanguard, one of the world's largest investment companies, found 25 per cent of individuals manage their own investments.

Sound overwhelming? It takes significant financial

savvy to be comfortable doing all this on your own. If you haven't got the money smarts or comfort level to do your own investing in your future, get help. The most financially savvy thing you could do is turn to a professional financial advisor.

Whether you're a wealthy high-income earner with a lot of disposable income or in Canada's middle class and concerned about your financial future, an advisor can help you make the best decision about your financial interests.

RESEARCH SHOWS THE VALUE

Vanguard noted in its

study that 75 per cent of individuals don't manage their own investments. And research by Russell Investments, a money management firm, shows you can increase your returns 3.75 per cent through working with a professional financial advisor who follows best practices. Other research has shown your investment returns can be almost four times greater than without having an advisor.

HELPING YOU ASSESS RISK COMFORT

Maybe you're thinking about a guaranteed income certificate (GIC) or a tax-free savings account (TFSA) in

which to invest some money for your goals and interests. Or maybe you're thinking about buying some shares and playing the stock market to build a retirement fund. How do you really know whether that GIC or TFSA is really the best option for you? And do you really know how much investment risk you'd be comfortable with?

If you sit down with a financial advisor and talk about your situation, your needs and your interests, one of the first things he or she will do is walk you through an investment risk questionnaire. It only takes a few minutes. It will help you discover your risk level (low, moderate or high), and what kinds of investments are appropriate for your comfort level.

Vanguard calls the increase in returns you can have by working with a professional financial advisor, the Advisor's Alpha.

SEVEN BENEFITS TO WORKING WITH A FINANCIAL ADVISOR

According to Vanguard, there are seven ways a financial advisor can add value for you:

1. The right asset allocation. Everything starts here, so this is probably the most important thing your advisor can do for you.
2. Guiding you on total return versus income investing. Maybe you have an annual income in mind that you'd like to reach with dividends and interest. That's income investing. But if you get fixated on reaching specific numbers every year, and put too much emphasis on income investing, you could end up taking too much risk. And that could be disastrous. An advisor can show you how and why

total return through diversification is a better way to look at your portfolio. Total return focuses on both income and money growth.

3. Rebalancing. Your situation and markets can change, which means you sometimes need to shift the mix of your investments. The idea is to minimize your risk, not maximize your return. An advisor can help you make sure you don't end up with more risk than you can afford if things change. At the same time, you could see your return increase.

4. Cost-effective investing. Maybe you've seen those television commercials about mutual funds in which the person is asking why they're paying so much in fees and where their money's going. A professional financial advisor can help identify investments that will help you meet your goals without breaking your piggy bank.

HOW DO YOU FIND THE RIGHT ADVISOR FOR YOU?

For the most part, advisors rely on referrals to build their business. You'll want to find an advisor with whom you'll be comfortable building a long-term, trusted relationship. So ask around. You can also find a professional financial advisor at ouradvisor.ca.

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Some goals are definitely worth saving for.

Come chat with us today!

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