

Value of Planning



When it comes to financial planning, there are a lot of terms and concepts to understand which can create complexity and confusion. The following article will explain what planning means and the importance of having a planning conversation.

A recent study conducted by FP Canada¹ supports that people who engage in comprehensive financial planning feel that they:

- Have improved their ability to save
- Are more confident that they are prepared to deal with the “bumps” in life
- Have a stronger sense of financial and emotional well-being
- Are on track to meet their retirement goals

What is a Plan?

The purpose of a plan is to help an individual or couple assess their current financial situation and articulate their vision and goals for their future. The plan should uncover and highlight the path they can follow to meet their goals based on their unique situation. A financial plan can also assist in identifying potential risks an individual may encounter and solutions to mitigate those risks to ensure their financial security is protected.

A plan can validate whether current savings and strategies are sufficient to meet future goals and if they are not, provide solutions to address the shortfalls. It can also be useful to determine if savings are directed to the right type of account to minimize taxes. In the instance of death, disability or critical illness, a plan should address the following:

- Net Worth Statement and Cash Flow – Provides a snapshot of your financial situation today and an overview of your cash inflows and outflows.
- Investment Management – Determines how you should invest your money based on your time horizon and risk tolerance, as well as what type of account is most appropriate.
- Insurance – Helps to determine if you are adequately covered in case of death, disability or critical illness.
- Tax Planning – Provides an assessment of tax minimization, deferral and avoidance strategies to manage your tax liabilities.
- Retirement Planning – Validates that you are on track to meet your retirement goals.
- Estate Planning – Ensures the appropriate plans and documentation are in place such as a Will and Power of Attorney.

Who should engage in planning?

Common misconceptions about individuals or couples developing a financial plan include:

- They are too young to begin planning;
- They are too old and it's too late to begin planning;

- They don't have enough money to warrant a plan; or
- Their situation is straightforward and doesn't require planning.

Regardless of circumstances, everyone has goals, needs and priorities that should be addressed and a financial plan is an effective way to capture these details.

What is the Planning Process?

Creating a comprehensive plan begins with the discovery process, which is a conversation and exchange of information with your advisor. The objective of discovery is to detail the current situation (e.g., current assets, liabilities, salaries, budget, etc.) for the individual or couple seeking a plan. The discussion also includes future goals, needs and priorities.

The advisor will guide the conversation to help the individual or couple articulate their goals to define the plan. A plan can deal with timeframes of up to 50 years and is based on a number of assumptions including:

- Indexation of figures including income and expenses to an assumed rate of inflation;
- Future rates of return applied to investment portfolios;
- Savings and withdrawal patterns
- Eligibility and amounts for government benefits such as OAS and CPP/QPP; and
- Life expectancy (generally to age 90 or 95).

Accurate information (e.g., pension statement rather than an estimate) and clearly articulated goals will make for a more accurate plan. It is still possible to begin the planning process if statements are not available or if the goals aren't clearly defined, as having an initial planning conversation can still assist in outlining next steps.

The information and data provided will then be used to analyze and identify issues and opportunities related to your goals. Upon completion of the analysis, your advisor will present the plan to you to ensure you understand the contents and any next steps recommended to put your plan in motion.

A plan is developed at a specific point in time, however, life happens and therefore, a good plan is an evolving document that adapts to changes in circumstances and priorities in an individual's or couple's life. It's important to revisit your plan on a regular basis as well as any time there is a major life event that could impact your plan.

Conclusion

Speak with your TD Advisor to determine how you can begin the planning process and work together towards building your personalized plan based on your specific circumstances and goals.



¹ http://www.fpsc.ca/docs/default-source/FPSC/fpsc_valuestudy_reduced.pdf?sfvrsn=0

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