

Annual Review & Planning Discussion

9 messages

Brian Laundry <blaundry@bfinancial.ca>

Fri, Sep 7, 2018 at 12:18 PM

Hi Herb

Thanks again for taking the time to meet for your annual review this week. As discussed, a formal annual review every September (after the policy anniversary) makes a tremendous amount of sense. We covered a lot of information summarized below (I apologize in advance for the length of this email, but I want to 'capture' as much as possible).

Before I get started, I'm already downtown next Tuesday and if you have some time to meet face-to-face (the agenda is outlined below). Are you able to meet me at 4 or 4:40 at [26 Wellington Street East](#)? I'll send a calendar invite for you.

A. Will Planning

I'm starting with the will because you need to get this done asap. Herb, to be clear, you need to hire an estate lawyer to draft your will properly. In fact, you'll probably be instructed (by the lawyer), to have multiple wills (one personal and one corporate). I highly recommend initiating this process before the end of the year. In fact, if you want, I can arrange a meeting at my downtown location (26 Wellington) for you, me and an estate lawyer to get-the-ball-rolling. Is this something you want to do (it's gonna take some time)? If you're able to meet next Tuesday, I can see if my lawyer can attend (if not, I can get whatever information sent to me for us to complete together).

In the meantime, we created a very simple will online. Below is the login credentials. I strongly encourage you to print, sign and have witnessed these documents asap. Once complete, send the signed copy to me and David via email (for safe keeping).

<https://app.willful.co/>
 Username: email address
 Password: laundry
 promo code: laundry

B. Retirement Planning

The key takeaway from your financial plan is that we want to use your personal assets for retirement first and defer the corporate assets as long as we can (ie. tax deferral in the corporation is mathematically advantageous). When we look at your plan, we should isolate our brains into (a) personal assets/planning and (b) corporate assets/planning.

I'm going to provide a lot of detail below, but the "quick-and-dirty" is that you've exceeded your retirement projections from last year.

Personal Asset Planning

As you may recall, last year I wrote a detailed report and stated the following:

We assumed a retirement income of \$200,000 per year after-tax indexed at 2.5%. The plan does not include working part time in retirement, nor does it include selling your home (~\$3M today). This plan also does not take into consideration any corporate savings (~\$3.1M today).

Depending on the rate of return of your investment portfolio, the personal investments will erode to \$0 at the following age(s):

0% Rate of Return: Age 70
 3% Rate of Return: Age 74
 4% Rate of Return: Age 75
 5% Rate of Return: Age 76
 6% Rate of Return: Age 79
 7% Rate of Return: Age 82

In other words, the personal investment assets are sufficient to sustain retirement income needs for no less than 10 years after full retirement.

This year, I used software to update the financial model's together (which is great because you can see the results in 'real-time'). Using a 4.88% rate of return, your personal assets should be sufficient to last until age 78 (much better than age 75/76 from last year). Attached to this email is an export from the model that we developed together ("Retirement Model - Current Situation Personal").

Corporate Asset Planning

To make sure your retirement plan had built-in conservative assumptions, we assumed that you would have literally \$0 personal retirement assets by age 70 (not 78 as projected). In other words, we need to make sure that all corporate assets would continue to be deferred to no less than age 70 before creating 'income'.

We implemented the BMO whole life insurance policy to create a pension-like investment for this purpose. The goal is to deposit \$300,000/yr for 10 years (you have already made 2 payments). At age 70 (13 years from inception), we would use a collateral loan strategy (called a Corporate Insured Retirement Program), to provide "income" from the corporation tax efficiently. Based on a whole life investment return of 4.50% (the actual return was 5.50% when we implemented and has since increased to 5.75%) and a bank loan rate of 5.0%, this structure is projected to provide \$248,663 from age 70 to age 85). See below:



BMO Insurance Whole Life Plan

Collateral Bank Loan Projection with BMO Insurance's Corporate Insured Retirement Plan

Planned Payout Method of Annual Bank Loan: Assumes a Personal Loan

Based on an assumed bank loan interest rate of **5.0%**

Year	Age	Total Annual Deposit	Guaranteed Cash Value	Total Cash Value	Total Death Benefit	Adjusted Cost Basis	Capital Dividend Account Credit	Annual Bank Loan	Annual Interest	Cumulative Bank Loan	Bank Loan Balance to Total Cash Value Ratio (%)	Net Estate Value (net of bank loan)
1	51	300,000	11,744	12,272	5,388,800	295,637	5,093,163	0	0	0	0.00%	5,255,763
2	52	300,000	38,032	40,290	5,394,336	589,632	4,804,704	0	0	0	0.00%	5,129,001
3	53	300,000	79,566	85,481	5,405,542	882,448	4,523,094	0	0	0	0.00%	5,008,440
4	54	300,000	127,296	139,135	5,422,892	1,174,105	4,248,787	0	0	0	0.00%	4,894,545
5	55	300,000	198,782	219,957	5,449,120	1,464,597	3,984,523	0	0	0	0.00%	4,790,051
6	56	300,000	287,668	322,481	5,485,873	1,753,943	3,731,930	0	0	0	0.00%	4,696,598
7	57	300,000	394,708	448,414	5,534,715	2,042,080	3,492,635	0	0	0	0.00%	4,615,779
8	58	300,000	499,917	577,845	5,594,649	2,329,032	3,265,617	0	0	0	0.00%	4,546,585
9	59	300,000	642,835	752,172	5,669,339	2,614,876	3,054,463	0	0	0	0.00%	4,492,645
10	60	300,000	806,600	955,679	5,760,195	2,899,700	2,860,495	0	0	0	0.00%	4,455,330
11	61	0	1,023,590	1,223,368	5,872,014	2,882,158	2,989,856	0	0	0	0.00%	4,575,043
12	62	0	1,251,677	1,513,916	6,004,676	2,861,848	3,142,828	0	0	0	16.43%	4,468,182
13	63	0	1,490,915	1,828,176	6,158,055	2,838,334	3,319,721	248,663	0	248,663	27.88%	4,371,047
14	64	0	1,741,251	2,166,906	6,332,010	2,811,089	3,520,921	248,663	12,433	509,758	36.18%	4,283,111
15	65	0	2,002,414	2,530,623	6,526,373	2,779,465	3,746,908	248,663	25,488	783,909	42.35%	4,203,847

During our meeting we modified your retirement forecast to reduce your earnings over the next 4 years to \$350,000 and down to \$100,000 by age 62. Although we both agree you'll likely continue to work part time through your 60's, we didn't include that in our projections. Herb, even after making the deposits to the BMO Whole Life plan, your corporate assets never dip below \$3,446,000 (age 64). Below is the projection that we did together:

Year	Client Age	Spouse Age	Active Business Income	Salary of Client	Salary of Spouse	All Expenses	Non-Deductible Expenses	Net Active Business Income	Taxable Active Business Income	Investment Income	Taxable Investment Income	Corporate Income Tax	Other Income	Capital Balance
2018	58	54	\$300,000	\$0	\$0	\$300,000	\$300,000	\$0	\$300,000	\$160,537	\$94,100	\$85,678	\$0	\$3,565,345
2019	59	55	\$350,000	\$0	\$0	\$300,000	\$300,000	\$50,000	\$350,000	\$165,976	\$99,730	\$95,184	\$0	\$3,686,136
2020	60	56	\$350,000	\$0	\$0	\$300,000	\$300,000	\$50,000	\$350,000	\$171,542	\$105,351	\$97,933	\$0	\$3,809,745
2021	61	57	\$350,000	\$0	\$0	\$300,000	\$300,000	\$50,000	\$350,000	\$177,240	\$110,970	\$100,681	\$0	\$3,936,304
2022	62	58	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$172,870	\$116,831	\$69,926	\$0	\$3,839,248
2023	63	59	\$0	\$0	\$0	\$300,000	\$300,000	-\$300,000	\$0	\$164,197	\$117,386	\$56,814	\$0	\$3,646,631
2024	64	60	\$0	\$0	\$0	\$300,000	\$300,000	-\$300,000	\$0	\$155,178	\$114,514	\$55,488	\$0	\$3,446,321
2025	65	61	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$160,077	\$106,253	\$51,281	\$0	\$3,555,117

In other words, you'll have an income from the BMO whole life policy of approximately \$248,000 (after-tax) PLUS \$3.5M+ sitting in your corporate investment account.

One other thing....this plan does NOT include the loan repayment (~\$1M) from you to the corporation (for the home renovations).

C. Retirement Planning Observations

1. Personal assets will continue to be sufficient to provide \$200,000/yr after-tax until age 78 - Monitor investment returns to make sure these assets continue to support most of your retirement'
2. Corporate assets continue to appreciate in value. There are a few problems associated with the corporate assets:
 - (a) the investment income from the corporate investment portfolio (\$160,537 from the table above) exceeds the passive tax threshold of \$150,00 set forth by our stupid Liberal gov't. That means instead of paying 13.5% tax on your earnings (\$350,000), you'll lose your small business tax rate and instead be taxed at 26% (this 'costs' \$70,000 in tax loss each year while you work).
 - (b) As we take less risk in our investments, the tax rate on fixed income investments in the corporation is 50.17% (ouch!)
 - (c) In retirement money from a corporate investment portfolio needs to be paid to you and Marianna via a non-eligible dividend (40%+ personal tax treatment)

D. Insurance Structures

We have already implemented the BMO Whole Life plan. This plan requires \$300,000 of annual deposits for 10 years (it's not flexible). As you may recall, last year I recommended another insurance structure that is FAR more flexible but provides the same tax planning characteristics (already mentioned) with investment options that provide guarantees that you cannot lose your money (ie. the floor is 0%).

Last year we paused because of 'sticker shock', but given the projections, I think we should consider implementing that structure to make sure we have a "bucket" available for ongoing corporate savings.

BMO Universal Life

This structure will over up to \$3,000,000 of 'contribution room' over the next 10 years. I built the structure assuming we reallocate \$500,000 from the current investment portfolio for the next 4 years to guaranteed investments within the structure.

What I like most about the structure is the flexibility. The minimum annual cost is only \$33,144/yr. In other words, if there is a situation that you don't want to make the maximum deposit, you can make a deposit anywhere between the minimum or the maximum.

Using only a 3% rate of return on the investments (and the same 5% bank loan rate), the structure is projected to provide another \$91,112/yr of collateral loan from age 70 to age 85 (and you'll still have over a \$1M of cash in your corporation. Below is a projection of moving money from the corporate investments:

Year	Client Age	Spouse Age	Active Business Income	Salary of Client	Salary of Spouse	All Expenses	Non-Deductible Expenses	Net Active Business Income	Taxable Active Business Income	Investment Income	Taxable Investment Income	Corporate Income Tax	Other Income	Capital Balance
2018	58	54	\$300,000	\$0	\$0	\$800,000	\$800,000	-\$500,000	\$300,000	\$137,271	\$80,463	\$79,131	\$0	\$3,048,626
2019	59	55	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$118,576	\$75,767	\$83,762	\$0	\$2,633,440
2020	60	56	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$99,138	\$69,469	\$80,848	\$0	\$2,201,730
2021	61	57	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$78,955	\$61,674	\$77,193	\$0	\$1,753,492
2022	62	58	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$71,419	\$52,173	\$38,772	\$0	\$1,586,140
2023	63	59	\$0	\$0	\$0	\$300,000	\$300,000	-\$300,000	\$0	\$59,503	\$49,639	\$24,151	\$0	\$1,321,492
2024	64	60	\$0	\$0	\$0	\$300,000	\$300,000	-\$300,000	\$0	\$47,159	\$43,668	\$21,311	\$0	\$1,047,340
2025	65	61	\$0	\$0	\$0	\$300,000	\$300,000	-\$300,000	\$0	\$34,383	\$36,999	\$18,127	\$0	\$763,595
2026	66	62	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$35,462	\$23,791	\$11,487	\$0	\$787,570
2027	67	63	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$36,570	\$24,767	\$11,963	\$0	\$812,177

You'll notice the corporate investment balance reduces each year to \$763,000 at age 65. However, at age 65, the insurance structures have accumulated \$3,800,000 of investment value (more tax efficiently). You'll also notice that the investment income starts to drop below \$150,000 and eventually below \$50,000 therefore preserving your small business tax rate of 13.5%. This is especially helpful if you work part time past age 62.

Below is the exact same projections assuming part-time work until age 70:

Year	Client Age	Spouse Age	Active Business Income	Salary of Client	Salary of Spouse	All Expenses	Non-Deductible Expenses	Net Active Business Income	Taxable Active Business Income	Investment Income	Taxable Investment Income	Corporate Income Tax	Other Income	Capital Balance
2018	58	54	\$300,000	\$0	\$0	\$800,000	\$800,000	-\$500,000	\$300,000	\$137,271	\$80,463	\$79,131	\$0	\$3,048,626
2019	59	55	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$118,576	\$75,767	\$83,762	\$0	\$2,633,440
2020	60	56	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$99,138	\$69,469	\$80,848	\$0	\$2,201,730
2021	61	57	\$350,000	\$0	\$0	\$800,000	\$800,000	-\$450,000	\$350,000	\$78,955	\$61,674	\$77,193	\$0	\$1,753,492
2022	62	58	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$71,419	\$52,173	\$38,772	\$0	\$1,586,140
2023	63	59	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$63,597	\$49,078	\$37,318	\$0	\$1,412,419
2024	64	60	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$55,467	\$45,458	\$35,604	\$0	\$1,232,303
2025	65	61	\$100,000	\$0	\$0	\$300,000	\$300,000	-\$200,000	\$100,000	\$47,087	\$41,344	\$33,647	\$0	\$1,045,743
2026	66	62	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$100,000	\$49,307	\$32,276	\$29,069	\$0	\$1,165,981
2027	67	63	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$100,000	\$54,976	\$36,020	\$30,875	\$0	\$1,290,082
2028	68	64	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$100,000	\$60,828	\$39,915	\$32,756	\$0	\$1,418,154
2029	69	65	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$100,000	\$66,867	\$43,966	\$34,712	\$0	\$1,550,309
2030	70	66	\$100,000	\$0	\$0	\$0	\$0	\$100,000	\$100,000	\$73,098	\$48,175	\$36,744	\$0	\$1,686,663

As you can see, if you keep working part time (which is likely), you can have two tax efficient structures (with guarantees and tax efficiencies) and STILL have over \$1,000,000 in your corporation.

Make sense?

E. Next Steps

I think it's a good idea for us to meet to complete the insurance applications (again). Unfortunately, I need all new paperwork and medicals to be completed. As you know, this is going to take a lot of time to finalize but we should at least get the ball-rolling. I can have the paperwork 95% complete when we meet (from last year's information), but I still need some signatures, etc.

During our meeting I'll also bring all paperwork necessary to cancel/modify your existing insurance too.

Thoughts?

PS. Sorry....I told you this would be long!

Brian Laundry
Limitless energy.

My Vision: To be regarded by Advisors, professionals and clients as the best financial planning organization in Canada, synonymous with the highest levels of quality, respect and influence.

To learn more, see my LinkedIn profile: [ca.linkedin.com/in/brianlaundry](https://www.linkedin.com/in/brianlaundry)
My Website is www.blfinancial.ca

5/3/2019





Direct Line: 1-(289) 644-2345
Cell Phone: 1-(905) 330-2366 (text to this number)
Email: blaundry@bfinancial.ca



To View my Screen Click: <https://join.me/brianlaundry>
Call in Number: 1-(647) 977-2648
Conference ID: 445-931-168

If you do not wish to receive emails from me, please respond to this email and notify me. I will remove your name from my address book (I do not send mass emails)

3 attachments

 **Retirement Model - Current Situation Personal Only.xlsx**
14K

 **Retirement Model - Corporate Scenarios.xlsx**
20K

 **Insurance Summary** 
275K

