

The Joy of Money - 6 sessions

1. The connection between money and happiness
2. Importance of calculating one's surplus (or deficit)
3. To maximize happiness seniors need to *manage* their money wisely
4. To maximize happiness seniors need to *use* their money wisely
5. Estate planning rules to maximize happiness
6. Philanthropy - the secret to happiness

Session # 1 review

- ▶ Wealth is only useful if it can be used to create happiness. Happiness is the goal not more wealth.
- ▶ It's okay to 'treat yourself' - the desire to be happy is the 'Mother of all Goals'.
- ▶ After basic needs are met greater wealth does not always equate to greater happiness.
- ▶ A happy life means getting happiness from routine activities as well as big events.
- ▶ Know that sharing times with family or friends is as 'good as it gets'.

Session # 1 review

- ▶ When we experience the moment / live in the moment - we're as happy as is possible to be.
- ▶ We are only thought away from happiness or sadness and thoughts can be changed.
- ▶ Conditional and unconditional happiness
- ▶ Maslow's hierarchy of needs for happiness.
- ▶ An unfulfilled desire is the only source of unhappiness.

Class profile

- ▶ Average age 69, most married, average have 2 children
- ▶ Most are receiving or will receive maximum CPP + OAS
- ▶ 35% have indexed pension - average amount is \$51,000
- ▶ Average desired spending is \$74,000 plus income tax
- ▶ Most common worry is about the cost of health care

Class profile

- ▶ Average home value is \$900,000 with no plans to sell
- ▶ Average value of RRSP/RRIF is \$460,000
- ▶ Average value of TSFA is \$80,000
- ▶ Average value of other non registered assets is \$570,000
- ▶ 60% of you are on track to achieve your goals - I expect everyone to be on track by lesson # 6!

Class profile - Goals questionnaire

Estate goals

Avoid conflict between family members when you're gone

About 1/3 want to leave as much as possible to your heirs, 1/3 what ever is left over and 1/3 some specific amount.

Lifestyle goals

Know you can maintain your lifestyle for the rest of your life

Travel the world and experience many different cultures

Income tax goals

Reduce amount of tax payable at death

Move into more tax efficient investments

Class profile - Some routine events you enjoyed last week

- ▶ Enjoyed doing some volunteer work
- ▶ Enjoyed fall colours on a morning run
- ▶ Completed a Yoga practice
- ▶ Good time shopping with sister
- ▶ Enjoyed a Zoom call with former colleagues
- ▶ Good chat with spouse and coffee in the morning
- ▶ Helped friend hook up a patio heater
- ▶ Happy that flowers are still blooming

Essential Capital and Surplus Capital

- ▶ Essential Capital is the capital/net worth that is required to achieve all your goals - including leaving an estate of a certain size.
- ▶ Surplus Capital is the capital that you can spend or give away because it is unnecessary to achieve your goals.

Reasons why you need to calculate your surplus or deficit

Most of us simply can't enjoy life without knowing we're going to be okay.

It will help you avoid regrets or run out of money.

It may allow you to create happiness for self & heirs.

Perhaps help heirs or loved ones learn how to invest.

It may allow you to give more support to your favorite charities or enjoy giving back to your community.

More reasons why you need to calculate your surplus or deficit

It will help you separate emotional and financial issues.

It will allow you to spend less time thinking about money.

It will allow you to explore ‘what if’ scenarios.

It may allow you to pay less income tax.

Why doesn't everyone have a financial plan that shows the surplus or deficit?

- ▶ Banks have no incentive for you to spend or give away your money. Most financial planning tools don't calculate a 'surplus'.
- ▶ Few retirees ask for this type of plan because they don't realize that this type of financial planning is available.
- ▶ Most retirees assume that more is better. So even if they believe there's a surplus they think it makes sense to grow the surplus.
- ▶ There may be a cost and the plan may quickly be out of date. They fear sales pressure if they don't pay for the plan.

How much do you need to achieve your goals?

“He who knows he has enough is rich”. Lau Tzu

The financial plan will show how much is needed - and depends on:

1. Your goals and your desired lifestyle.
2. The ‘supply shocks’ and ‘demand shocks’ which you want to plan for.
3. The amount you want to leave to your heirs.
4. How conservative you want to be in your assumptions.

Common problems with financial plans

1. Spending shown as continuously going higher
2. Not considering the value of your home
3. Not considering possible health care costs
4. Relying too much on Monte Carlo simulations
5. Not quantifying/identifying a surplus or deficit

If running out of money is a possibility - this is something you need to know

- ▶ If there is a possibility of a shortfall you may already be concerned and you can't enjoy retirement if you're worried about running out of money.
- ▶ If there is a risk of a shortfall - you can take steps to avoid the problem. A small spending reduction in your 60's may extend financial security for many years.
- ▶ If \$50,000 is the amount you can safely spend - then you'll only worry if you spend more than \$50,000.
- ▶ The financial plan enables you to make sensible choices and avoid regrets.

Options if there is a deficit

- ▶ There is always a solution when the potential problem is many years in the future.
- ▶ Reduce discretionary spending.
- ▶ Minimize income tax
- ▶ Consider your options including housing options.
- ▶ Work longer or get a part time job (many benefits).
- ▶ Invest more aggressively (understand GIC risk).
- ▶ Consider the ALDA (Advanced Life Deferred Annuity).

Initial steps to calculate your surplus

- ▶ Be clear of your lifestyle goals and on the amount you wish to leave to your heirs.
- ▶ If you want to leave as much as possible you can't calculate a surplus. All your capital is essential.
- ▶ If your goal is to leave the largest possible estate - the best approach is to spend less.
- ▶ But it is possible to calculate a surplus if your goal is simply not to run out before age 110.

Benefits to discovering a surplus

- ▶ You avoid wasting capital and wasting opportunities for happiness
- ▶ The planning process encourages thinking about goals
- ▶ Allows you to stop worrying about money
- ▶ Allows you to support your heirs when they most need your help. Possibly give them an opportunity to learn about investing and managing money.
- ▶ Allows you to enjoy philanthropy

Benefits to discovering a surplus

- ▶ If you discover a surplus you may decide to invest for the longer term and gain tax efficiency.
- ▶ Allows you to reduce the odds of the inheritance causing more grief than happiness or that the large estate causes family to be torn apart.
- ▶ Allows you to avoid working longer than necessary.

No one wants to waste capital

One way capital may be wasted is if it's spent and no value is received. Why does this happen?

Another way capital may be wasted if it's saved until it's too late to spend it and the larger estate means:

- More income tax and probate fees

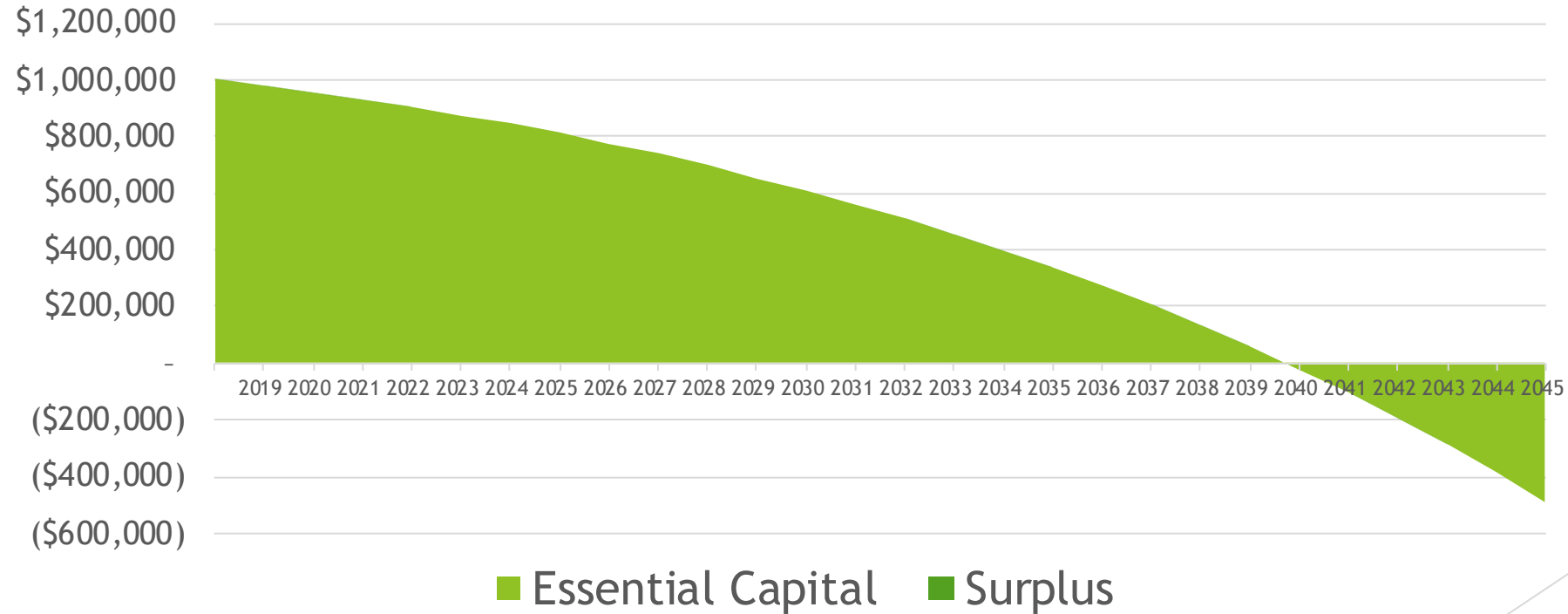
- Money is foolishly spent by heirs

- The larger estate causes heirs to hire lawyers

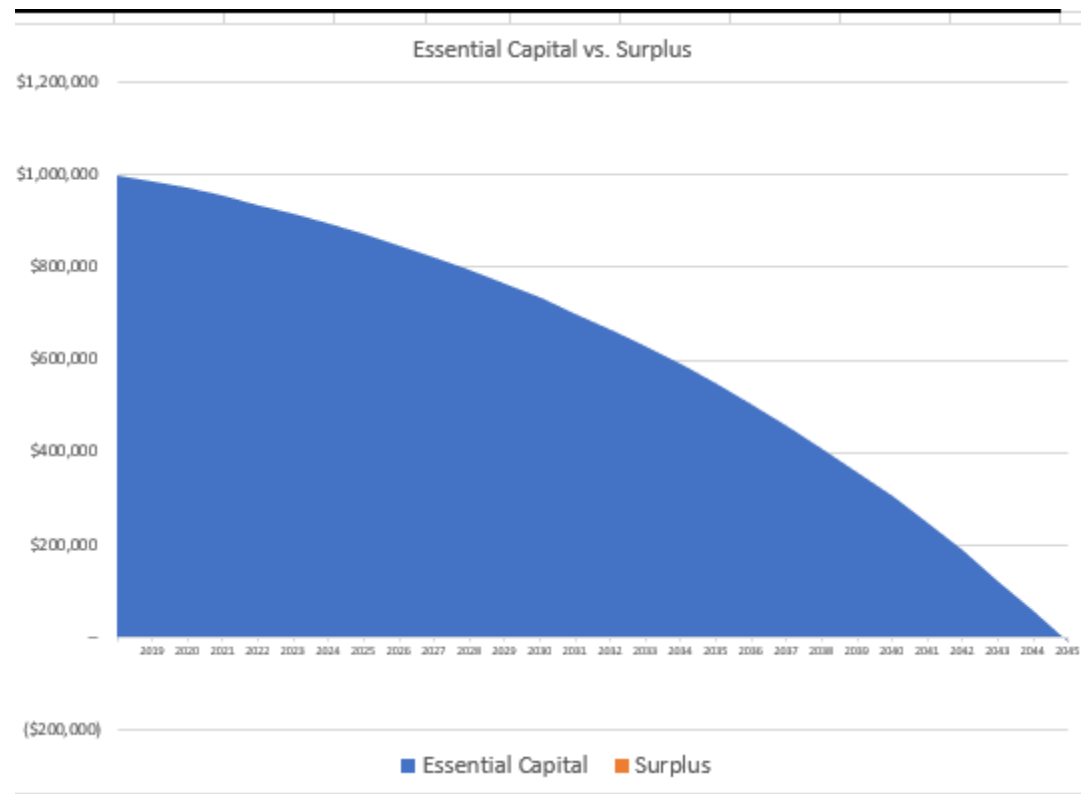
- Heirs never learn the value of money

1 M assets (earns 4%) + income OAS and CPP / no real estate
spending 63K with goal of leaving zero estate

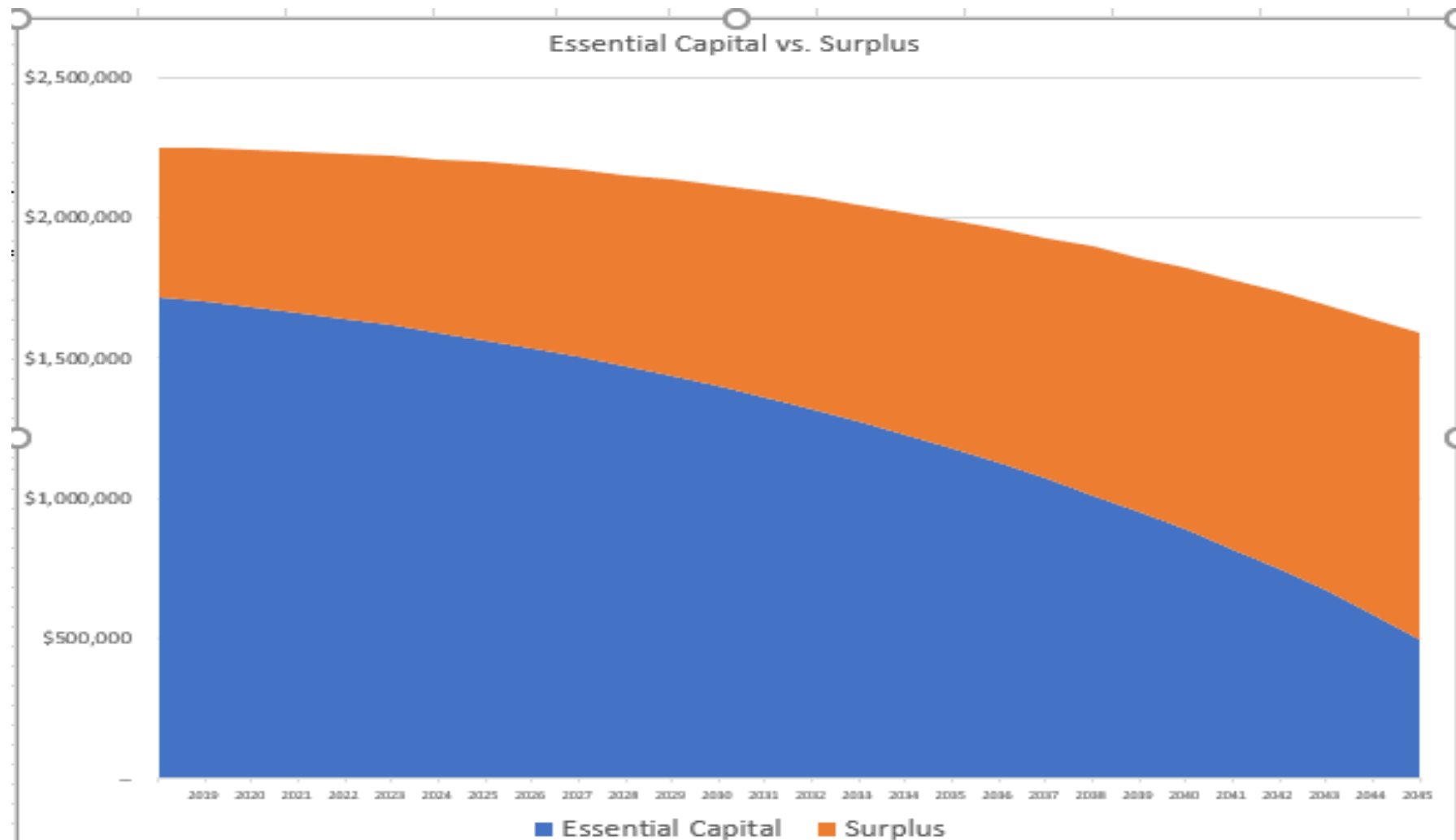
Essential Capital vs. Surplus



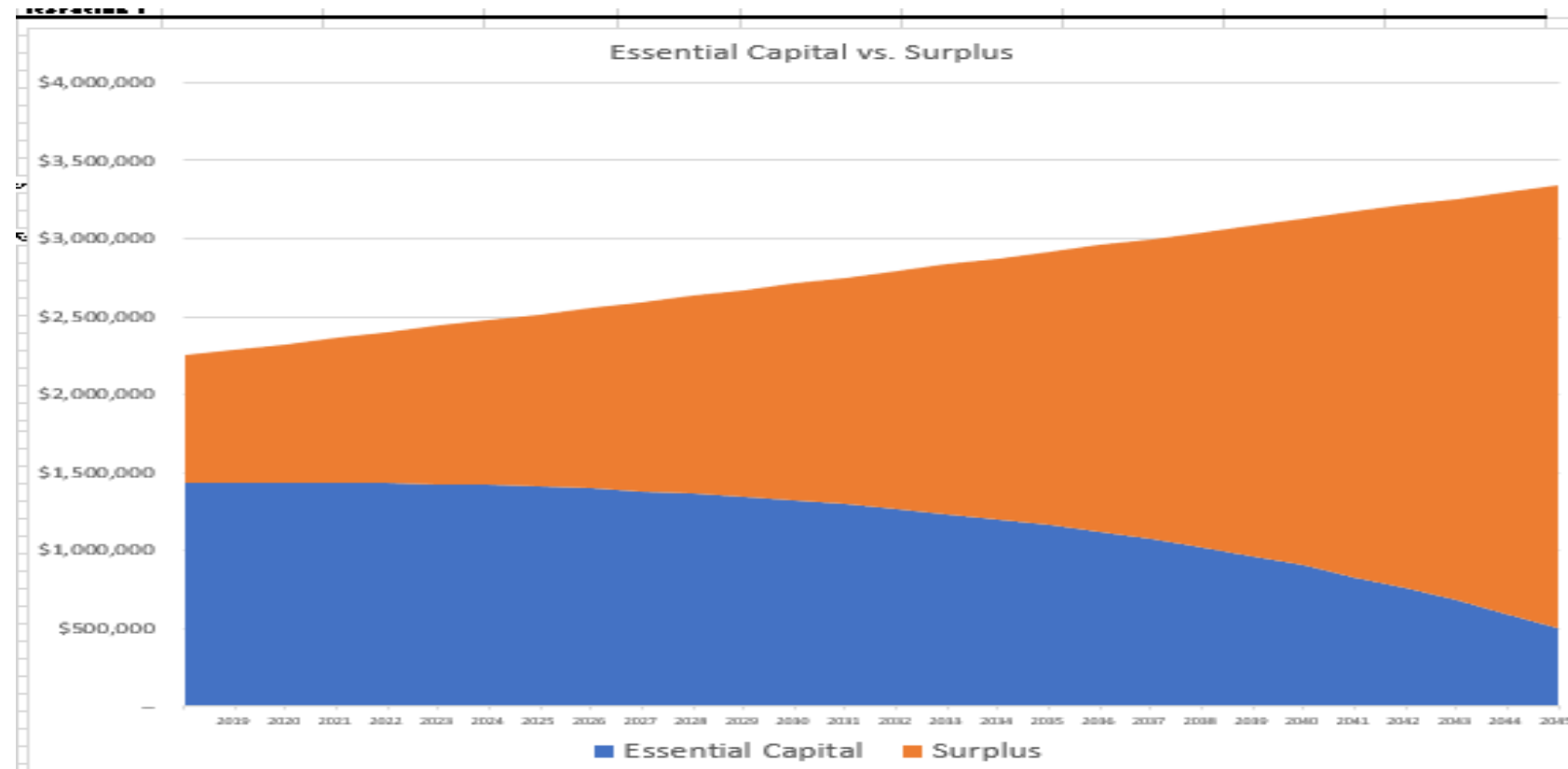
1 M assets (earns 4%) + income OAS and CPP /no real estate
spending 55K with goal of leaving zero estate



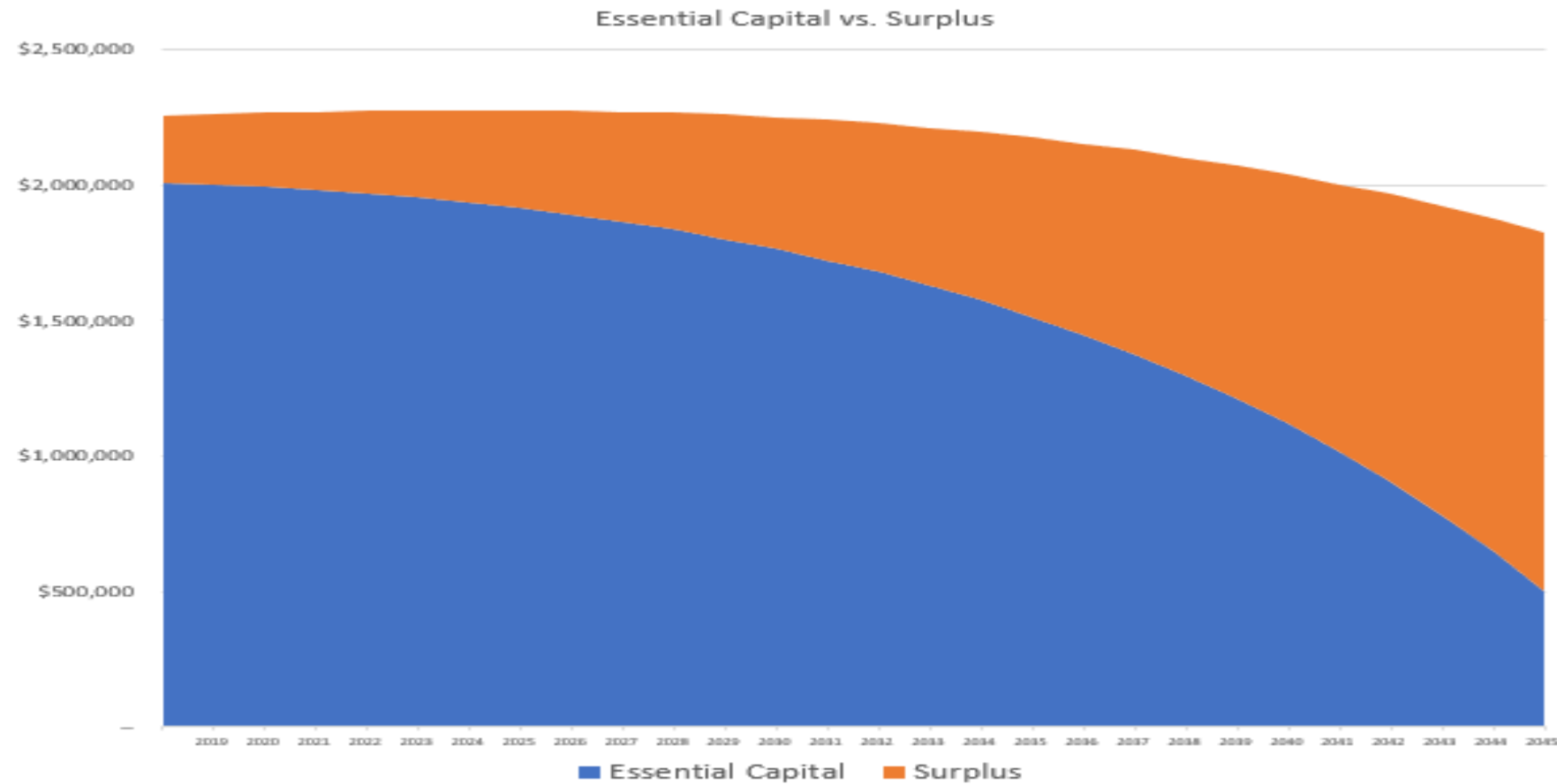
Individual with 2.3 net worth / OAS + CPP / no DB pension
/ spending 63K / who wants to leave 500K - has a \$600,000
surplus.



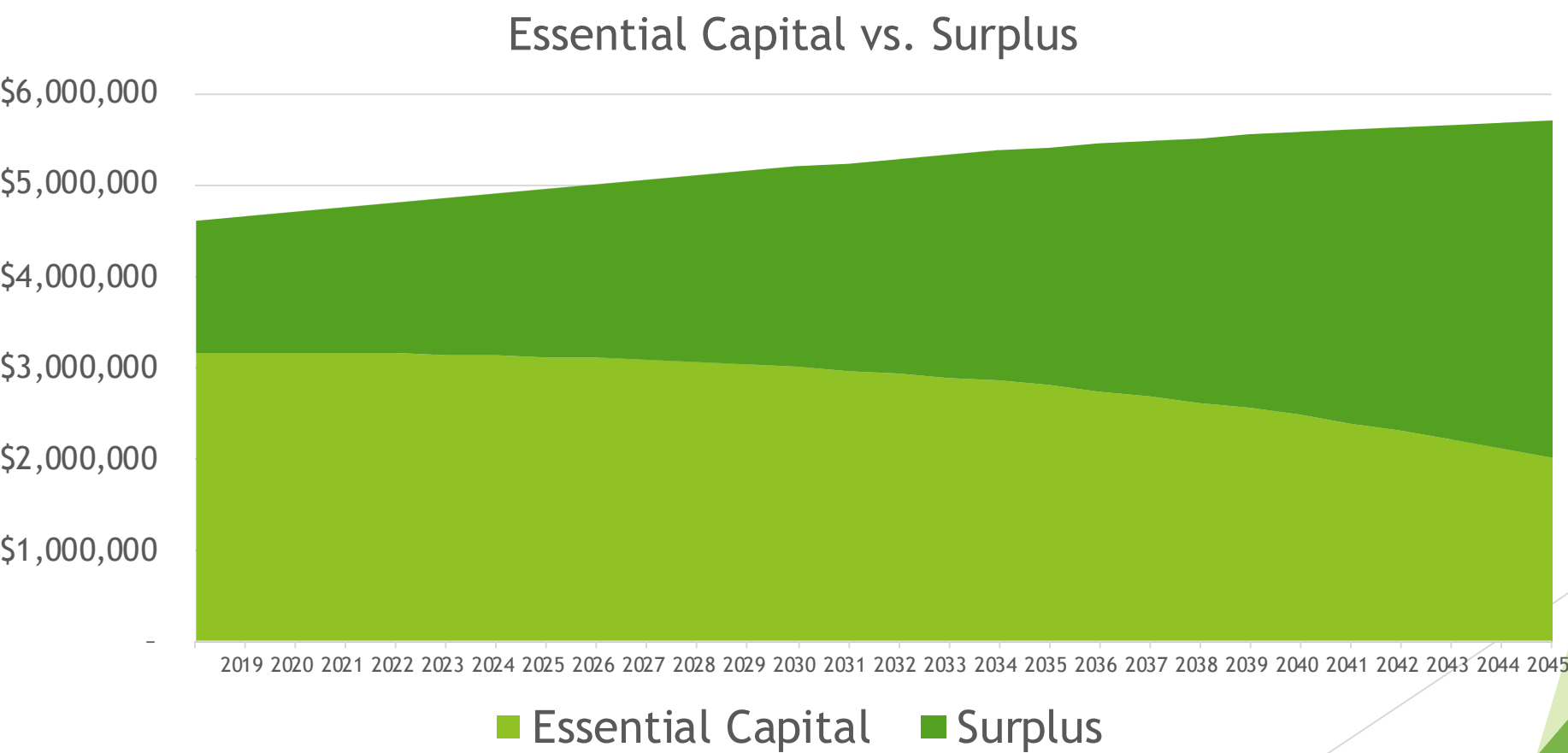
Individual with 2.3 net worth /OAS + CPP/ and 51K DB pension /spending 63K/ who wants to leave 500K has a \$700,000 surplus



Same as previous slide but spending more. Individual with 2.3 net worth /OAS + CPP and 51K DB pension /spending 103,000/ wants to leave 500K has a \$250,000 surplus



Example of a HNW individual 4.8M (spends \$100,000 per year) who wants to leave \$2,000,000 to heirs - has surplus of 1.7M



Questions and discussion

Thank you