

## FINANCIAL PLANNING II



# Financial Planning Myth #9: No need to save; 'I intend to die young'

By PETER MERRICK

As a certified financial planner and an instructor teaching students enrolled in the CFP designation program in Toronto, I have come across many misconceptions about financial planning, from both professionals and the general public. In this article, I would like to address and dispel the most common myths about financial planning.

**Myth 1:** *I need to have some investments before I'll have a need for a CFP.*

Investing is about one fifth of what financial planning is all about. There is also risk management and insurance, income tax planning, retirement planning and estate planning. And to the extent that you don't reduce your insurance expenses and income taxes and develop the discipline to start saving the amount needed to fund your retirement, you won't have any investments to need advice about.

**Myth 2:** *I (or my stockbroker, or the managers of my mutual funds) can beat the market.*

So can about half of all orangutans flinging darts at a list of stocks. In any given year, there are many managers and investors who beat the market due to luck. But over the long haul, very few active managers beat the market because of management fees and transaction costs, and because they are wrong. The wonder is not that people like Warren Buffett and Peter Lynch exist, but that more of them do not exist. Based on pure probability, there should be hundreds or thousands more like them, but there are not. Why is that? The market is a giant, efficient pricing mechanism that instantly incorporates new information into securities prices. Since all known information and all expected future events are already reflected in securities prices, prices are fair, and very few abnormal profit opportunities exist net of expenses (or at least you can't take advantage of them.)

What causes prices to change is new, unexpected information reaching the market. Since no one can consistently predict the future, no one can consistently beat the market, unless they are lucky and repeatedly guess correctly.

**Myth 3:** *My estate won't be subject to tax.*

While that will probably be true for the first spouse to die, it

will not be true for the surviving spouse, though life insurance can pay much if not all the tax bill. Other than the primary residence and the first \$500,000 of capital gains on a small business, taxes will be due on all other capital property after both spouses die. And if you don't have a spouse, guess what? CRA comes knocking after you meet your maker to take its pound of your flesh.

**Myth 4:** *All of my insurance is in order.*

I have yet to meet a client who did not have inadequate limits, unnecessary coverage or inappropriate deductibles. Additionally, consumers are generally unaware of all the factors that need to be considered for each type of policy whether it is life insurance, disability insurance, critical illness insurance or car insurance.

**Myth 5:** *I'm saving enough for retirement.*

Most Canadians aren't, and most underestimate the amount of money they'll need. The only way that one will know the amount they need for retirement is to create a financial plan that sets out specific goals you wish to prepare for, and after this you can then determine the capital you will need to set aside to accomplish your very personal goals. It is when you know the amount needed at the end of your working career are you able to know the amount of money you will have to set aside each month to achieve the retirement you so desire.

**Myth 6:** *My estate will pass according to my will.*

If your will is valid, it will only cover your probate estate. Jointly owned property, retirement plans and life insurance proceeds are not covered by your will.

**Myth 7:** *If something happened to me, my family would know what my wishes would be.*

Did you know that many Canadians mistakenly believe that having a will or a power of attorney are not priorities? Nothing could be further from the truth. In fact, your will and power of attorney are probably the most important documents you will ever write.

Unless you've discussed your wishes with your family in detail and put them in writing, chances are they wouldn't know what you want.

If you die without a will the



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province will decide how to distribute your estate. And if you have children who are minors, the provincial government through the public trustee will decide who will raise them and care for them. Children might be taken into public custody until guardians are identified. This situation may occur if you become incapacitated and do not have a continue power of attorney. You should be reminded that the wishes and directions that you place in your will do not have legal authority and until you have died.

**Myth 8:** *Old Age Security and the Canadian Pension Plan will provide most of my retirement income.*

For 2004, the maximum combination that Old Age Security and the Canadian Pension Plan benefit for people who retire at 65 years old is \$1,277 per month. Our government administered retirement benefit programs were only designed to provide one third of an individual's total retirement income. The remainder is to be generated from both employer pension plans and the retiree's own savings. In 1997, 49.1 per cent of unattached elderly females were living in poverty compared to 33.3 per cent of elderly males.

**Myth 9:** *I don't need to save for my retirement because I'm going to die young.*

So what will happen if you don't die young? This year, one in 117 Canadians will die, what are the odds that you will be one of them. In past generations people lives would go like this, they work for 40 years, retire at age 65, live off their savings for a few years, and by the age of 70, they would be pushing up daisies. In the past, the primary concern of retirees was losing their money. Going forward, the top worry for retirees will be the chance of out-living

their money. With advances in health and science, some futurists are predicting that many people alive today will live to be well over 100.

**Myth 10:** *I can't afford a financial plan right now.*

Perhaps part of the reason you think you can't afford one is because you're paying too much in insurance premiums, income taxes, interest and investment expenses, all of which a Certified planner can help you reduce. And fees you pay for investment advice and tax planning are tax deductible. Hiring a competent, fee-only planner to prepare a comprehensive financial plan will probably be the best investment you will ever make.

Peter Merrick, BA, FMA, CFP, FCSI, is a professor of financial planning and employee group benefits at George Brown College in Toronto. He is also President of Merrick Wealth Management Inc. a fee-for-service financial planning firm in Toronto. He can be contacted at: (416) 677-6611, or at: peter@merrickwealth.com.

## Cape Breton miners awarded pension windfall

By DONALEE MOULTON

A federal arbitrator has ruled that the Cape Breton Development Corp.'s pension plan surplus, worth approximately \$40 million, is to be split among workers of the now-defunct coal mining company. The corporation, commonly called Devco, is not entitled to any of the funds, ruled Peter Cory.

"The corporation had a fiduciary duty which it owed to the beneficiaries to act in their best interest," the retired Supreme Court of Canada judge wrote in his decision.

"There is simply no statutory authority, he added, which would permit Devco to allocate benefits to itself."

When Devco finally closed its last mine in 2001 the company proceeded to wind-up its pension.

Once this was done, it was discovered that there was significantly more money in the fund than originally anticipated. At stake is a roughly \$30-million non-contributory pension plan set up in 1973, and intended for all the company's roughly 6,000 employees. As well, there is a \$9-million con-

tributory pension plan into which approximately 950 employees paid.

In determining who should receive this money, Cory relied heavily on the *Cape Breton Development Corporation Act*, which formally created the federal Crown corporation more than 35 years ago in the wake of private companies pulling out.

"In my view, there can be no doubt that the 1968 legislation provided Devco with broad powers and overriding obligations. It was to conduct itself in such a manner that the closure of the mines would be effected with as much benefit as possible to the workers in the mines and as little detriment as possible to the economy of Cape Breton," Cory said.

"The wording of the Act itself, and the record of debates in the House of Commons, clearly recognizes that a state of emergency existed in Cape Breton," he added. "It was expected that the coal mines would have to be closed in 15 years. It was recognized that this would have a devastating effect on the miners and the Cape

Breton economy."

According to Cecil Roberts, president of the United Mine Workers' of America's, which spent close to \$1 million fighting for the funds, this is the largest pension allocation ever awarded to labour in Canada.

It took time for those funds to be allocated. Once the pension windfall was discovered, Devco declared they belonged to the company, a stance that was vociferously argued by local unions, former employees and their families. To determine ownership, Devco filed an application in the Nova Scotia Supreme Court. However, it withdrew the application and opted to resolve the issue by binding arbitration.

The arbitrator's decision, which is final, came as a jolt to Devco's board.

"(We're) somewhat surprised, but then this has been a very complex issue," Gordon MacInnis, chairman of Devco's board of directors, told reporters.

However, he noted, "we're certainly pleased to see a conclusion to the matter."