The sky's the limit

CROSS-CANADA CHECK-IN: financial-planning experts from across the nation offer insurance, lifestyle, estate-planning and other advice to empty nesters

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Forever Young

The kids have left home; your mortgage is paid off; and you are still young and energetic enough to enjoy life without limitations.

Yes, you are now a certified empty nester.

"It's now time to start looking after yourself," says June Oliver, a certified general accountant (CGA) and certified financial planner (CFP) who runs the Oakville-based Tax Management Centre (taxmanagementcentre.com).

But preparing a plan for this new period of financial freedom is a different proposition for every empty nester, depending on wealth, goals and resources. In reality, there are very few who fit the definition perfectly -- some have kids' university bills to pay that counter the mortgage-free status; others have kids moving back home; and some are gay or lesbian and may not have kids.

It turns out that financial advisors surveyed across the land don't necessarily have the same advice for all.

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Paul Way, a CFP and vice-president and managing director of TD Waterhouse's private-client services in Winnipeg, has designed a checklist for clients to use when considering their future options as they pursue lives as empty nesters.

- Itemize assets and liabilities and prepare a budget.
- Make a "life list of what you want to accomplish," says 44-year-old Way. "Now that you've spent the last 20 years focusing on your kids, figure out what you want to do over the next 20 years and focus on yourself." That can range from such typical pursuits as travelling and gardening, to the more unconventional, such as snowboarding, which one of Way's empty-nester clients wants to learn.

"My mother decided she wanted to take up painting," Way says. "So she travels around the country and takes her easel with her, and her grandchildren and children have these great paintings hanging on the walls."

- Look at your family home. Do you need to downsize? Could you sell your house and purchase two condominiums -- one here and another in a vacation spot?

- Look at your career. How long do you want to be doing what you're doing, or is it time to try something else?

"Most of my clients say they want to retire as soon as possible, but have ideas about other businesses they want to start or be involved with, or other jobs they want to have," says Way. "The trend now is to start a second career and people retiring want to do things that are very different from what they did their entire lives. And, have fun doing it while attaining a better work-life balance."

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In his role as a senior financial advisor with Assante Capital Management Ltd. in Ottawa, David Phipps (davidphipps.ca) tries to cover all bases when exploring financial options with his clients, many of whom are empty nesters.

"The first thing I do with them is review their risk-management tools, which include insurance products, wills and power-of-attorney documents," says Phipps, a 40-year-old CFP who serves as chairman of the wealth-management-practice advisory group for Financial Advisors Association of Canada.

"One of the things I find when I do a needs analysis is that most empty nesters who no longer have dependents are over-insured. If that's the case, they may be able to realize substantial savings by reducing the amount of their life insurance.

"It may also be more appropriate at this stage to be using permanent life insurance rather than term life insurance, where premiums begin to skyrocket as you grow older."

Phipps says that empty nesters can use a permanent-life-insurance policy as a savings vehicle in which money grows in a tax-sheltered environment. Funds can be withdrawn at any time, at which point they are taxable.

"But if you don't need the money, you can leave it in the policy and it pays out to your beneficiaries tax-free," he explains.

Empty nesters should also consider their need for critical-illness insurance, long-term-care insurance and disability insurance.

"While the need for life insurance may have decreased, there may be new needs for other forms of insurance, such as critical-illness insurance, which pays out a lump-sum of cash in the event you are diagnosed with a critical illness as defined by the policy... or long-term-care insurance, which provides a monthly income to pay for care expenses in the event you are incapacitated in the future."

The next step, says Phipps, is to examine asset accumulation with the goal of eliminating all non-tax-deductible debt associated with mortgages, home renovations, vehicles, boats, cottages and the like.

"After looking at the debt situation, I look at my client's retirement savings to determine if they are adequate to meet their desired retirement income."

"If there's a shortfall in retirement savings, there are a number of options that can be pursued, such as downsizing from a house to a condo, and putting the money saved into investment accounts used to supplement retirement income."

He explains that the early empty-nester years are also a good time to adjust asset allocations in registered and non-registered accounts to ensure that investments are optimized for tax purposes.

"There are three basic types of investment income: interest, capital gains and dividends. Interest income is taxed at your highest marginal tax rate, while dividends and capital gains are taxed at lower rates."

Therefore, non-registered accounts should reflect investments that generate capital gains and dividends, leaving tax-sheltered registered accounts to feature interest-generating savings.

"The worst thing you can do, from a tax perspective, is to hold fixed-income investments in your non-registered accounts while having equity investments in registered accounts," explains Phipps. "You're then missing out on the tax-preferential treatment of capital gains in your registered account and paying the top tax rate on the interest income in your non-registered account. However, if you need to access money within, say, three years, you should also be looking at completely risk-free investments, and put that money in a high-interest savings account."

For empty nesters carrying non-tax-deductible debt, Phipps recommends a way to pay that down using non-registered savings without incurring high taxes.

Known in the financial community as the "Singleton shuffle," the strategy is based on a 2001 Supreme Court of Canada decision that determined British Columbia lawyer John Singleton did not violate the Income Tax Act by using equity in his law firm to purchase a house, and then refinancing the law firm's equity using borrowed money and the interest payments as tax deductions.

Empty nesters can follow the same idea to reduce debt and avoid taxes, says Phipps.

"You can sell off your non-registered investments to pay off your non-tax-deductible debt. You can then borrow money to repurchase your investments and the interest on the loan is tax-deductible."

Says Phipps: "Through proper restructuring of investment and insurance strategies, empty nesters can free up additional cash to allow them to achieve their long-term retirement goals and, at the same time, their short-term fun-factor goals."

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Says Oakville's Oliver, the first item of business to tend to is to ensure that you have critical-illness and long-term-care insurance.

"Then you can start enjoying your money with tax-efficient investments," she says.

If you're an empty nester no longer having to pay tuition or other education-related costs for their children, you can use the extra cash for an annual vacation or for renovating the home or for an investment that's going to yield high returns -- a particularly good option for those whose assets are locked into home equity.

"You might consider things like charitable donations to reduce your taxes," says Oliver, 59, an elder planning counsellor. "Get a good advisor and set up an estate plan that looks at your investments, insurance coverage, will updates and go over the numbers to see what's feasible."