

Managing Excellence in Agriculture

- Welcome
- Who am I - Greg Pearce
 - Chartered Accountant
 - Financial Planner
 - Tax practitioner
- What is your main motivation for coming to this session?
- What do you hope to get out of it?

Seminar Structure

- Fact versus reality
- Underlying issues for producers
- The four cornerstones
- What does a financial plan look like?
- Tax planning ideas
- Key questions to ask an advisor
- Next Steps
- Case study

Financial Planning : Fact Versus Reality

- According to recent study conducted by the Canadian Securities Administrators:
 - 85% of survey respondents said it is important to build their savings & investments : 35% said that they do not have any savings or investments
 - 64% said it is important to have a formal written financial plan : 25% had one
 - 80% said it is their responsibility to acquire investing skills : 32% said they had taken steps to do so
 - Where do you fit in with those statistics?

Financial Planning for Producers

- What are some key realities for producers?
 - More likely to high debt levels
 - More likely to have fluctuating income levels
 - More likely to have multiple sources of income (e.g. off-farm income)
 - More likely to have on farm accidents (statistically farms have higher accident rates)
 - More likely to be in it for the long-term (not that easy to make a career change)

Financial Planning for Producers

- Why does this create challenges from a financial planning perspective?
 - More likely to put off financial planning to run the farm business
 - Cash flow is the most important thing
 - Often farmers have high debt loads at the start of their careers – limits ability to invest – debt reduction is primary goal
 - Need to keep the banker happy
 - Take a long-term view of wealth creation

Lay a solid foundation for financial independence



Growth opportunities

(tax planning strategies, real estate)

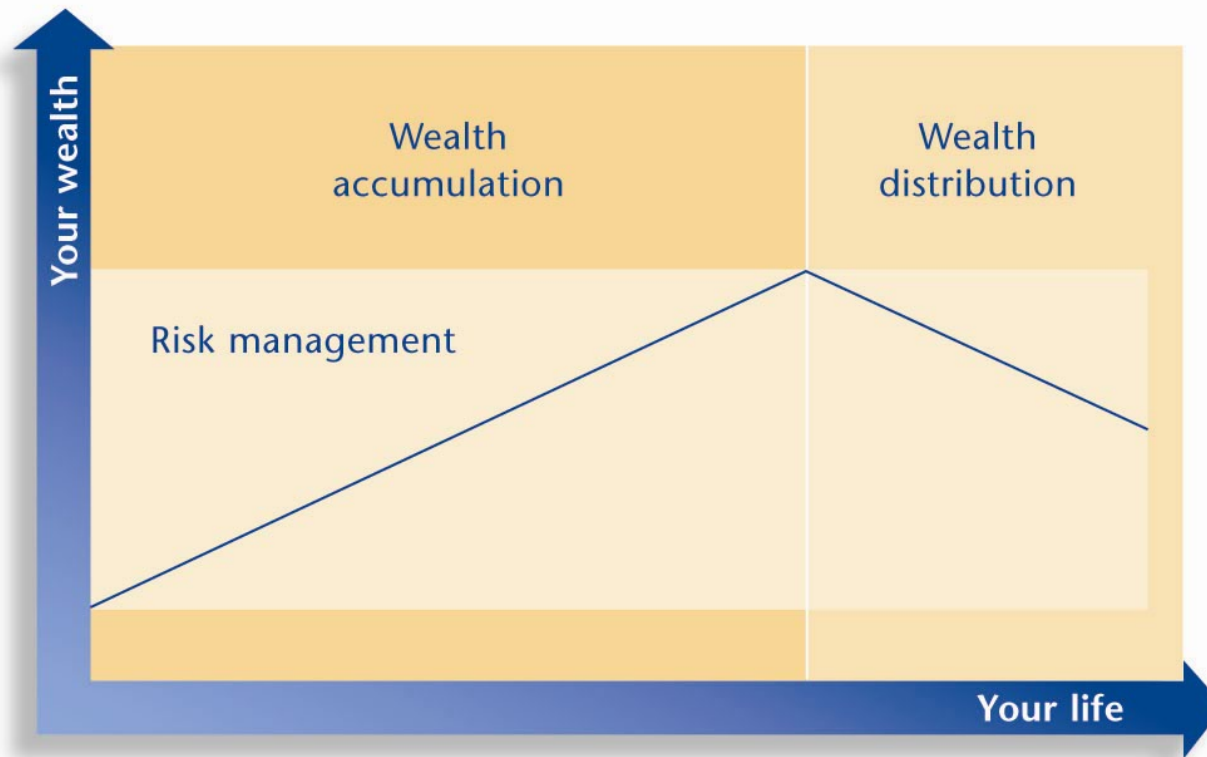
Controlled events

(opportunities, recreation, retirement, savings,
home ownership, debt elimination)

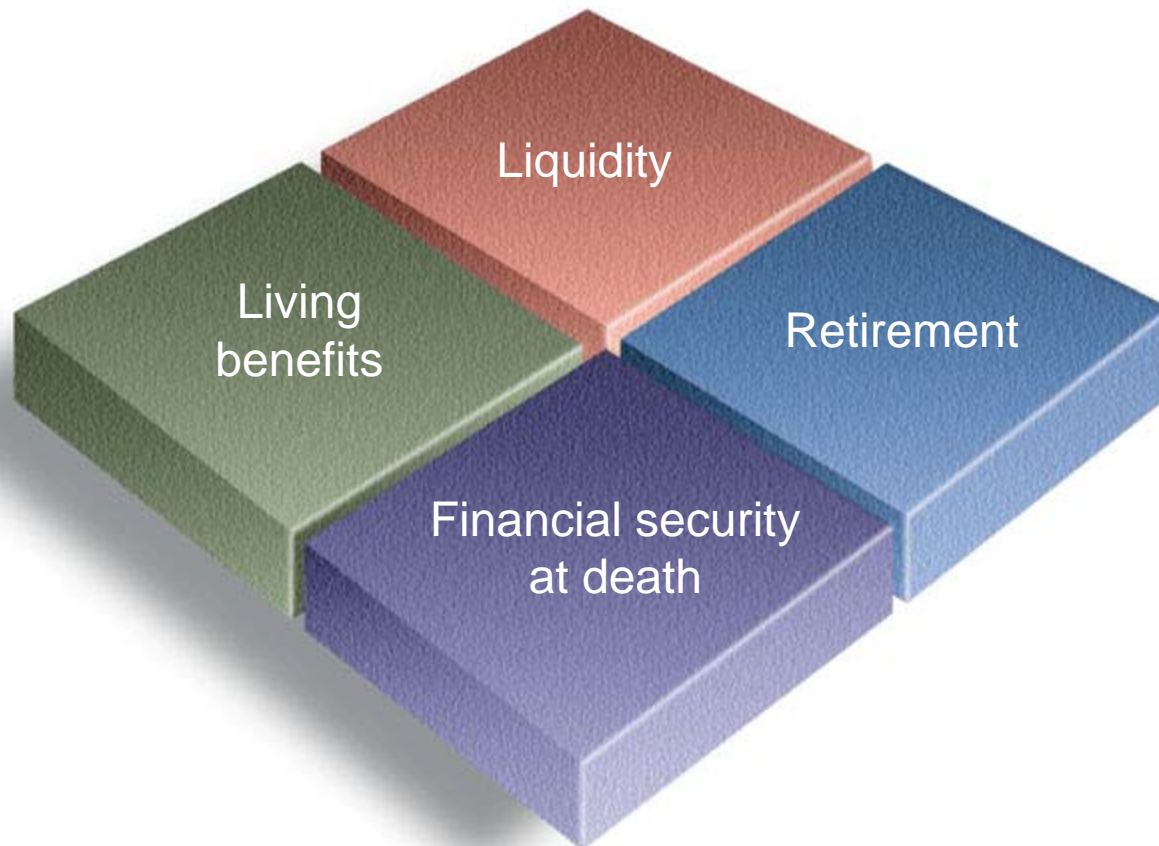
Uncontrolled events

(income risks, emergencies,
health risks, life risks)

Achieving your goals takes careful planning

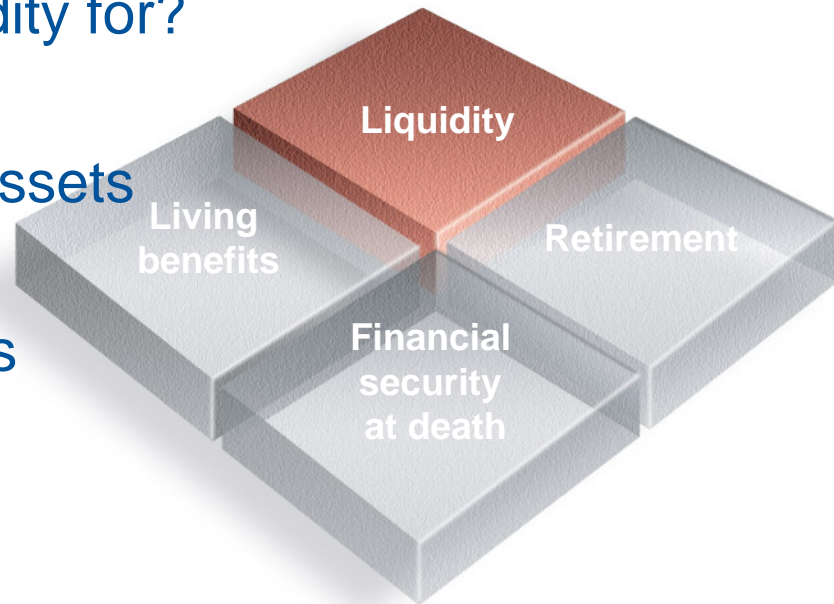


The four cornerstones



What would happen if you needed cash?

- **#1 - Liquidity**
 - What do you need liquidity for?
 - Emergencies
 - Need for new farm assets
 - Poor crop year
 - Farm building repairs
 - Home renovations
 - Potential opportunities
 - New Business
 - Expansion/growth
 - Diversification



Liquidity

- What options are there?
- Cash (most likely to have cash put to work in the business)
- Line of credit
 - Most likely option
 - Should be secured to keep interest rates low
- Tax free savings account (TFSA)
 - \$5,000 per/person/year (> 18 yrs)
 - May be a good alternative to RRSP if marginal income tax rates are low
- Other

What would happen if your health failed?

- **#2 Living Benefits**
- What is your most important financial asset?
- What do need coverage for?
 - Income replacement
 - Debt payments
 - Education funding
- Specialty care
 - May need costly medical care
 - May need rehabilitation



Living benefits

- Disability insurance
 - Will provide for replacement of income (usually 67%) during period of disability
 - Usually the first piece in a comprehensive financial plan
 - **Without a source of income there is no plan.**
- Critical Illness
 - May provide lump-sum benefit if you get sick
 - Mostly for major illnesses (e.g. heart attack, stroke, life threatening cancer)
 - Can provide the resources to seek alternative treatment
 - May preserve retirement savings if no other resources are available

What will your retirement be like?

- **#3 Retirement**
- What you do in retirement will be different from your neighbour
- Should consider:
 - Income needs
 - Lifestyle
 - Travel
 - Leisure time
 - Recreation
- Tax planning strategies



Retirement

- How much is enough? – everyone has a different need
- What do you want your retirement to look like?
- Having a goal makes it easier to make decisions and take action to achieve them (*if you do not know where you are going how will know if you have arrived*).
- Having an investment strategy is key
 - Determine risk tolerance (low, medium, high)
 - Time frame (short term versus long term)
 - Diversification (asset class, fund manager style, geographical location)
 - Contribute regularly and stay invested (do not try to time the market)

Retirement – Asset Diversification

- Asset Diversification – many farmers accumulate land or pay off land during course of farming career.
- Can sell land at some point in the future - generally land is considered an inflation hedge
- That said many planners recommended that it not be the only asset held
- If can be a central part to funding retirement but it should not be the only part
- Land values will be based on the market at the time of sale
- Land may not be readily marketable (depending on location and economic cycle)

Retirement – Savings

- Retirement Savings
 - Most people focus on rate of return – majority of retirement capital will come from savings (or not spending).
 - A good financial plan will look at how to provide for retirement savings.
 - A good financial plan will account for inflation – it can ravage purchasing power over time.
 - Savings rates have been estimated at between 10% and 30% - sounds large but it is what will get you to where you want to be - (good references might be *The Wealthy Barber*, *The Money Assassins*, as well as many others.....)

Retirement – Sources of Income

- Income sources in retirement may include:
 - CPP (must contribute)
 - OAS (not income based)
 - RRSP/RRIF
 - Other Pension plans (probably not for a non-incorporated farm business)
 - Non-registered funds (may come from sale of farm assets)
 - Rental of farm land
 - Cash value from permanent life insurance policy

Retirement Income –

- CPP
 - Maximum annual benefit is \$11,210.04 (is indexed to CPI)
 - Splitting of CPP is allowed between spouses
- OAS – Maximum annual benefit is \$6,203.52 (is indexed to CPI)
- Other programs for low income seniors
 - Guaranteed Income Supplement (GIS)
 - Income Allowance

Retirement

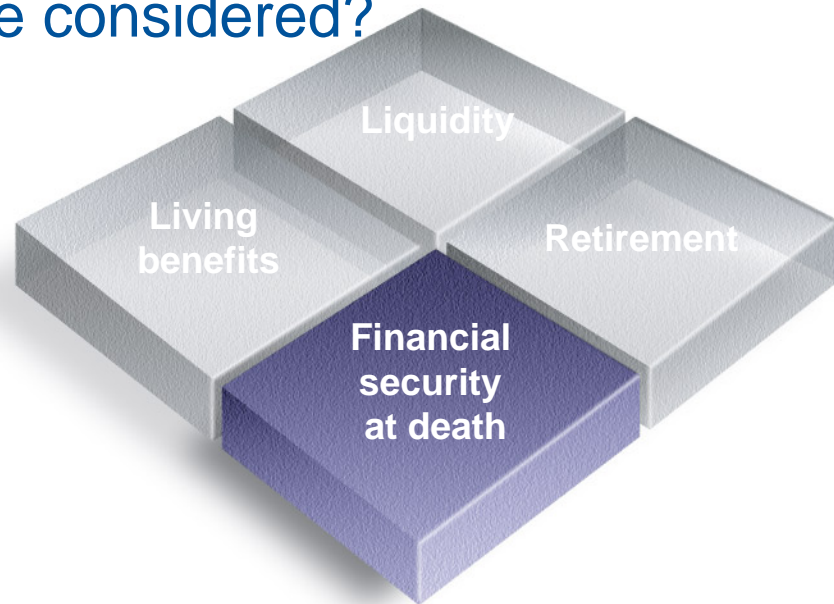
- RRSP (registered retirement savings account)
 - Tax deferred growth
 - Tax relief at time of contribution
 - Potential for decrease in tax rates between time income is earned and when it is withdrawn (most efficient use)
- TFSA (Tax free savings account)
 - Relatively new but has many uses
 - Tax deferred growth with annual limit
 - Funds can be withdrawn and contribution room never changes (different from a RRSP)

RRSP Contributions Rates

- RRSP Versus TFSA?
- Maximum RRSP contribution rates:
 - 2009 - \$21,000
 - 2010 - \$22,000
 - 2011 - \$22,450
 - 2012 – will be indexed
- RRSP contribution limits are limited to 18% of your prior years earned income (to the maximums noted above)

What would happen if you died?

- **#4 Financial Security at Death**
- What expenses need to be considered?
 - Burial costs
 - Income Taxes
 - Debt repayment
 - Education funding
 - Income replacement
- What legacy will be left?
 - To survivors
 - To estate
 - To a charity



Financial Security at Death

- 2 main types of insurance coverage
- Term insurance
 - Most economical
 - Based on current age so increases over time
 - Benefits paid tax free to beneficiaries
- Permanent insurance
 - More expensive but will pay out
 - Universal life
 - Permanent
 - Participating
 - Non-participating

Financial Security at Death

- Permanent insurance
 - Benefits paid tax free to beneficiaries
 - Cash value can be used to assist in financing retirement or for other financial needs (e.g. policy loans)
 - Potential for insured asset transfers (where there is non-registered assets that are in excess of needs)
 - Tax deferred growth potential on investment component in insurance policies
 - Universal Life
 - Participating whole life (e.g. 20 pay)

Utilizing a planning approach

- What does a financial plan look like?
 - Should be goal based
 - Provides for collection of relevant facts
 - Provides a detailed analysis of situation
 - Should make recommendations – in writing on all aspects of clients needs
 - Living benefits, savings/retirement, insurance needs...
 - Implement recommendations (it is important to start and work towards implementation of the whole plan)
 - Regular review (make adjustments as necessary)

Key Questions

- What are some good questions to ask your current financial advisor (or a potential one)?
 - Credentials – they are important but should not be the only issue to consider (Madoff, Jones...)
 - How are they paid? (fees for service versus commissions)
 - What is the Corporate structure? (bank, insurance company versus independents)
 - Ask for a regular review – make sure results are reflective of market reality
 - What are the insurance coverage's on my assets (CDIC, Assuris)?
 - Seek qualified references

Basic Case Study

- John (40) and Mary Farm (38)
- 2 kids – Jane (6) and Mike (4)
- John's current taxable income is \$75,000
- Mary works off farm part-time and currently earns \$35,000
- Current RRSP savings are \$5,000/each and they save \$100/month each
- Allow for 2% inflation
- Retirement goal is modest at \$50,000 annually after tax and want to retire in 25 years
- Is that achievable? Lets see

Recommendations – Basic

Reassess retirement goal or provide additional funding

- Could increase monthly RRSP contributions
- Let John make RRSP contributions (with half going into a spousal RRSP account)
- Use any tax refund from RRSP contributions to pay down outstanding debt
- Could take more risk (i.e. higher % of equities) to achieve higher returns (but should be based on your own risk tolerance)
- Could look at value of farm in 25 years and utilize that equity to fund additional retirement income needs

Recommendations – Basic

- Look at life insurance needs (complete a needs analysis)
 - Mary does have life insurance at work (equal to ones times her annual salary) - not enough - significant risk if something should happen to either of them
- No disability income insurance in place for John - should look at coverage to replace his income should something happen to him
- Set up TFSA's if there are non-registered funds to minimize income tax
- Look at RESP plan for kids (Are they going to attend secondary education?)

Next Steps

- Where do I go from here?
- Make an effort to become financially literate
- Talk to your friends and neighbors
- Try to find an advisor that you can work with
- Start the process and start making the effort to make financial planning part of your regular business activities

Having a plan will give you the opportunity to achieve the financial success you want - nobody is going to do it for you

Next Steps

- Thank you
- Questions?