
# Starting out and moving up

## Build financial security for life with good planning.

*This is the first in an ongoing series of articles about the importance of planning ahead for some of the financial challenges and opportunities that can arise throughout different stages of life.*

Starting the journey into adult life is an exciting time, full of new experiences. For post-secondary graduates who may be settling into a new job, now is a great time to begin focusing on some short- and long-term goals. Building a financial plan can help you manage monthly bills, debt payments and investment contributions, while also putting some money aside to enjoy life.

## Dealing with debt

Earning an education is a big accomplishment and can fuel your motivation to go after what you've always wanted. But getting to this stage may mean that you've had to borrow money along the way – and you're not alone. In 2019, 50 per cent of Canadians aged 18 to 24 had a student loan.[1] The good news is that most people don't carry their student loans for too long. About 36 per cent of people in their mid-to-late twenties, just over 20 per cent in their early thirties and only about five per cent of those over 35 reportedly still have student loan debt.[2] Making it a priority to pay these loans off can be tough at times, but remind yourself how satisfying it will be to reach the light at the end of that tunnel.

Gaining ground against your current debt means being mindful of not accumulating more, which would only add to the pressure of keeping up with payments. Missing a payment or two can affect your credit rating and seriously hamper your ability to qualify for larger loans or a mortgage down the road. On the brighter side, paying down debt is one of the best ways to show lenders that you can handle more as you get older. If debt payments are a constant challenge that leaves little room for saving, prioritizing your expenses and creating a detailed budget can make a big difference.

A budget is an excellent way to help keep your monthly spending on track. It's a perfect tool for showing where you can trim or completely cut some costs that might be hindering your ability to save. In fact, Canadians who use a monthly budget are less likely to fall behind on their financial commitments (8 per cent, compared to 16 per cent of those who do not budget).[3] Budgets can be as simple or complex as you wish and can easily be adjusted to deal with any new set of circumstances. The only hard and fast rule of budgeting is to stick with it. Check out this helpful guide to establishing a budget or use this handy worksheet to get started.

## Investing in your future

One of the best things about youth is the time horizon that's laid out ahead of you – and as the saying goes, time is money. If you can save any amount of your pay, your interest or investment earnings can begin to compound, setting you on a path to earning money while you sleep. Look for a high interest or Tax-Free Savings Account (TFSA) that offers continuous growth and low fees and that you can access at any time. Arranging to make regular investment contributions that fit your budget will put the advantages of dollar-cost averaging to work. When possible, increase the contribution amount with whatever you can afford to ensure every spare dollar goes towards saving more. And take advantage of helpful opportunities, such as employer-run contribution matching programs, which can add up to a sizable amount of money over time.

## Retirement (yes, retirement)

Though it might seem strange to begin thinking about the end of your career when you're fresh into it, you could be in a much better position to enjoy your post-working life if you get a head start on preparing for retirement.

Depending on your preference, both non-registered and registered plans, like a Registered Retirement Savings Plan (RRSP) or TFSA, are effective ways to fill your retirement fund and save you some money on taxes. (Read about the differences between the two here.) The sooner you begin to contribute, the better. Starting to save for retirement in your twenties can potentially double the amount of funds compared to starting in your forties.

Here's a table showing the extra savings that can be achieved by contributing to a retirement fund from an earlier age. Assuming the same initial investment, monthly contributions and annual rate of return, but 15 extra years of contributions results in a much higher value at age 65. In this example, the difference amounts to more than $237,000.

| Investor | Younger | Older |
|---|---|---|
| Initial investment | $1,000 | $1,000 |
| Regular monthly contribution | $250 | $250 |
| Start investing (age) | 25 | 40 |
| Stop investing (age) | 65 | 65 |
| Years of investment growth | 40 | 25 |
| Annual rate of return | 5% | 5% |
| Future value | $390,453 | $152,979 |
| **Difference in value (at age 65)** | **+ $237,474** | |

## Insurance matters

It's impossible to predict the future, but having the right protections in place before you encounter any unexpected events can provide some valuable peace of mind. Canadians have access to a broad selection of life insurance and living benefits products, like critical illness and disability policies. Since insurance sits high on the list of items people know the least about but believe to be one of the most important, this is an area where the services of an advisor can be helpful, to assess and recommend insurance products that meet your specific needs.

Wondering how much insurance is enough? Visit InsureRight.ca to learn more about a range of cost-effective plans – and check out this article on insurance basics.

## Estate planning is for everyone

There's a common belief that estate plans are for older, wealthy people who need to formally outline what they want done with their financial holdings and interests at the end of their life. Maybe this is why 31 per cent of people in a recent study said their "lack of wealth" was the main reason they haven't created an estate plan of their own. The other top reason (19 per cent) was "I'm too young."[4] Both are misconceptions. The reality is that even at a young age, if you're earning money and acquiring assets, and especially if there are people who depend on you for financial support (such as a spouse or children), it's sensible to have a will and an estate plan (as well as insurance) to provide protection for others in the event of your death.

## Professional guidance

As you gain more wealth, assets and debts (and the tax implications that come with them), you will benefit from relationships with an advisor and other professionals to help you make the best choices and understand their effects.

Canadians get their financial advice from a variety of sources. Nearly half of respondents to a 2019 survey said they seek the insights of a professional advisor or planner, while others look to banks, friends and family, and internet and media sources.[5] The bottom line, however, is that receiving guidance from an advisor clearly has its advantages, as outlined in another recent poll. [6]

- 87 per cent of Canadians who met with an advisor felt confident that their investments will be okay, compared to 67 per cent who did not meet with an advisor
- 86 per cent said their advisor keeps them on track to meet their goals, regardless of market volatility
- 76 per cent believe they are better off financially than if they managed their money on their own

## Move forward with confidence

We all know life can be busy and there may not always be enough time to think about your finances, even though they play a key role in the future you've already begun to build. Unless you're an expert in all or most of these areas, it's reassuring to have a written plan, developed with an advisor, that's aimed at keeping your money working in your best interests. By staying in touch and following the plan, you can move confidently towards your goals through each stage of life.

# Protection above and beyond the employee benefit plan

Many employers offer a group benefits package to help their employees pay some of the costs associated with health care and insurance protection. While it's a welcome perk, the level of coverage and extent of those plans may not always be as much as you hope. They might cover a substantial portion of dental care and prescription drug costs, but the amount of life, disability and critical care insurance can be less than what is generally considered sufficient, leaving individuals vulnerable to steep costs if certain circumstances arise.

The optional or additional coverage that these plans usually offer is worth a serious look, especially as you age, and when a spouse and children come into the picture. Supplemental coverage outside of the plan itself is also an important consideration, since you would no longer qualify for the company's coverage if you were to lose your job, or if a medical condition or injury forced you to stop working.

If you are fortunate enough to receive benefits coverage from your employer, resist the urge to think of it as the solution to all potential problems. Experts commonly agree that, to provide a proper amount of protection for your family, life insurance should cover seven to ten times your annual salary.[7] However, employer plans typically cover only one or two times the value of the employee's salary. If the option to bulk up your coverage through your employer's plan doesn't reach the level you are comfortable with, look to the broader market for additional protection. Better yet, have your advisor crunch some numbers and show you the logic of being fully insured.

[1] Canadians and their Money: Key Findings from the 2019 Canadian Financial Capability Survey.

[2] Ibid.

[3] Ibid.

[4] Manulife Investment Management Will & Estate Planning Research Report, December 2021.

[5] Canadians and their Money: Key Findings from the 2019 Canadian Financial Capability Survey - Canada.ca

[6] Nearly one-third of Canadians more concerned about funding their retirement than a year ago

[7] Financial Consumer Agency of Canada, How much life insurance you need.