Is inefficient cash flow and debt derailing financial planning?

Jeff Spencer, CFP
VICE PRESIDENT, RETAIL SALES & DISTRIBUTION

Bill Bell
B.MATH, B.ED, CHS, CFP, CLU, CEA, CIM
MANULIFE SECURITIES INCORPORATED
PRESIDENT, BELL FINANCIAL INC.

Discussion priorities

- Why managing cash flow matters
- Debt should be tailored and diversified
- Making real estate an active part of retirement income
- Interactive discussion: Making the case for CFPs to manage client debt and cash flow

Is it fair to say…

Despite good incomes, some clients still struggle to meet their financial planning objectives.

How much of your clients' income goes toward your financial recommendations?

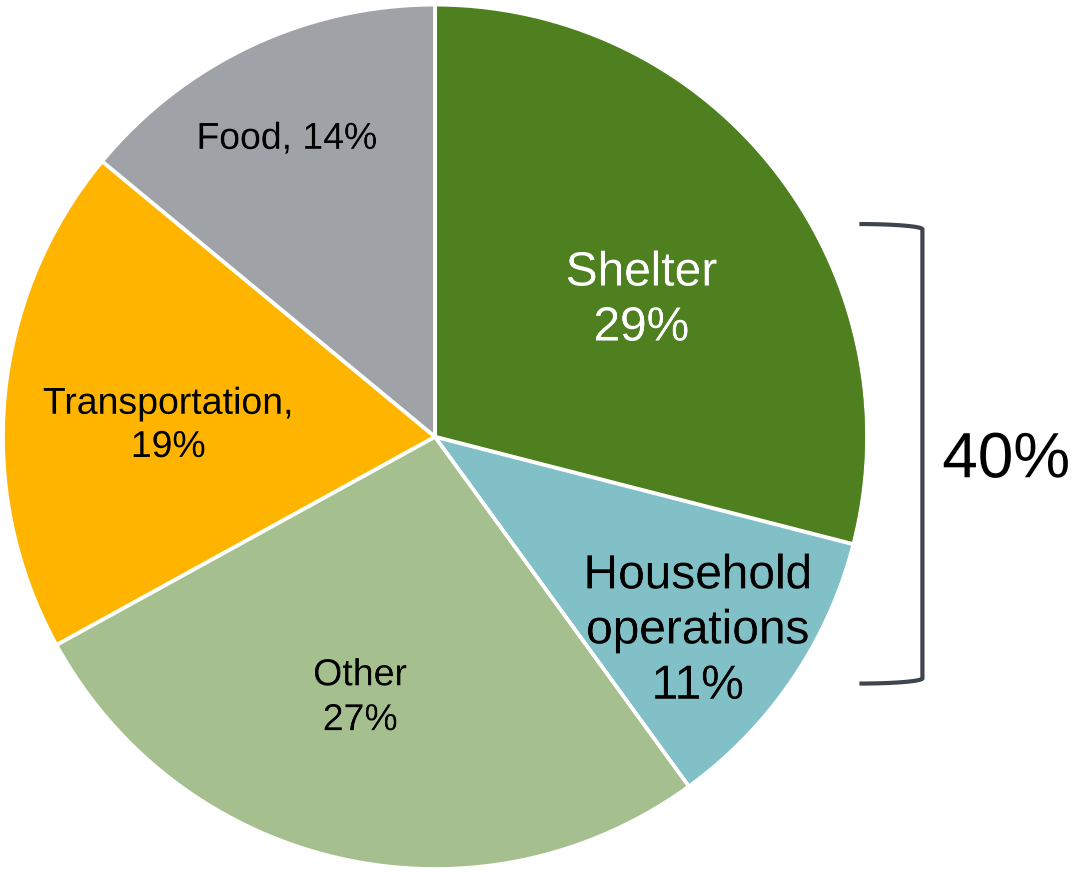
Over 40%*

of income goes to housing costs

Where as household savings rate is <10% (which doesn't include real estate)**

37%*

of all debt in Canada is held by households earning $100,000+



*Source: Statistics Canada: *2015, Household spending in Canada*

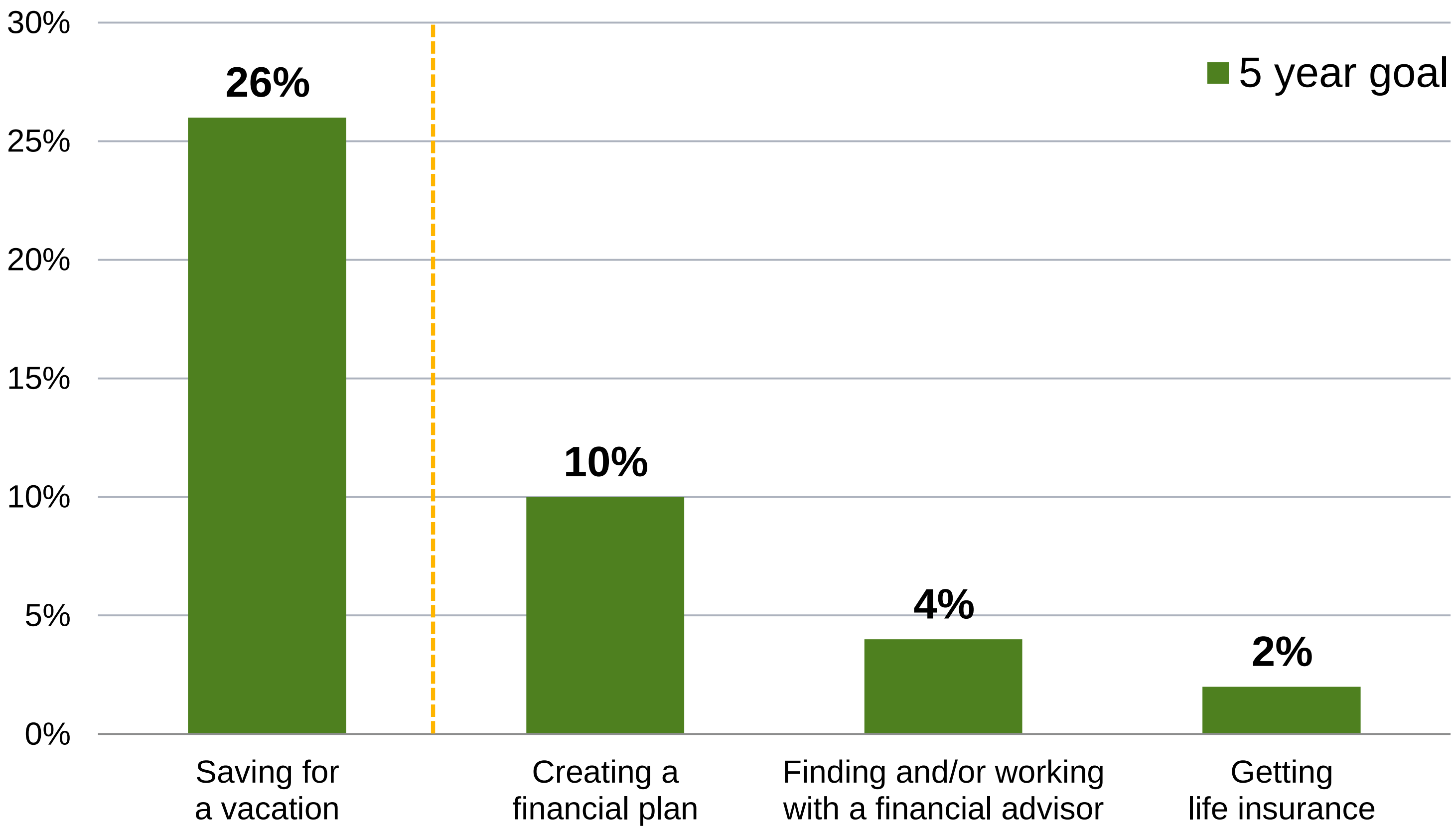
***Tradingeconomics.com: Canada Household Saving Rate 1981-2018*

When clients self-manage finances, they can lose focus… which impacts planning

Top short-term priority is:

- The next vacation: 26%
- Financial planning: 10%

With rising mortgage costs reducing cash flow, where will they cut back?



A1. What are your top three financial priorities in the next 5/ 10 years?
Base: All Respondents (n = 2409)

When clients self-manage finances, mortgage decisions impact your financial plans

50%
of mortgages renew in 2018-19

2013
Qualifying easier
3.05% 5 year fixed rate

2018
Qualifying harder
3.84% 5 year fixed rate

Many of your clients could experience increased debt-servicing costs

NEARLY
1/2
of Canadians don't negotiate their rate**

Many will take the rate they're given. Why?...

63%
Don't know who to talk to about debt management

…Most clients don't know where to go?

$1,000 – $3,000+ mortgage cost increase per year

Less money for living… or less for savings

*Moody's Investor Services, analyst Jason Mercer, March 13, 2018.
**HSBC news release – Global Survey, February 28, 2018
Source: Fall 2017 Manulife Bank Debt Survey, 2017. Rates from Manulife Bank as of March 1,2013 & 2018

If you're not managing a client's debt and cash flow, who will?

Are you prepared to have someone else help them make these critical decisions?

Rapid change in financial landscape

Competitors target advisory fees

Increase your competitive edge by adding debt and cash-flow solutions

Managing debt & cash flow protects your assets

When a client passes away where do the estate proceeds go?

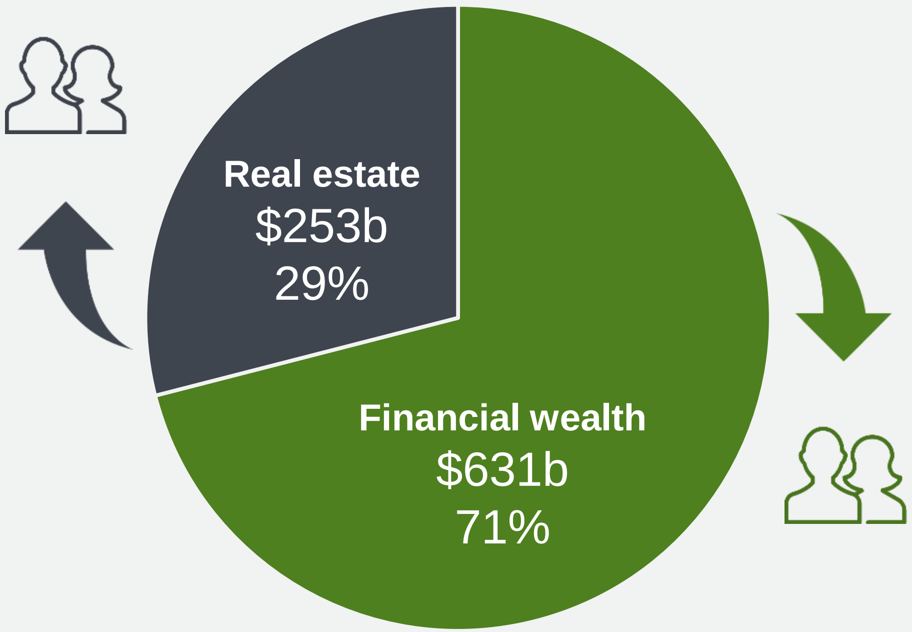
$885 BILLION

in cash movement is expected over the next decade

At death, parts of the AUM or insurance proceeds are deposited to a bank account…

…is that account affiliated with your business practice?

$885 billion "in motion"



Projected Intergenerational Inheritance Transfers.
Strategic insights.

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Would your home owners with debt like a 0% to 1% loan?

- Do these clients realize they are the lender?
- Does it make sense to be a borrower and lender at the same time?

$400 BILLION

sits idle in Canadians' chequing and savings accounts

Managing debt and cash flow can help build a home ownership plan

You wouldn’t give every client the same investment portfolio… Why is your client’s debt not diversified?

When did the 5 year term (fixed or variable) become the homeowner standard… regardless of circumstances… where is the diversification?

We should diversify the debt like any other savings plan

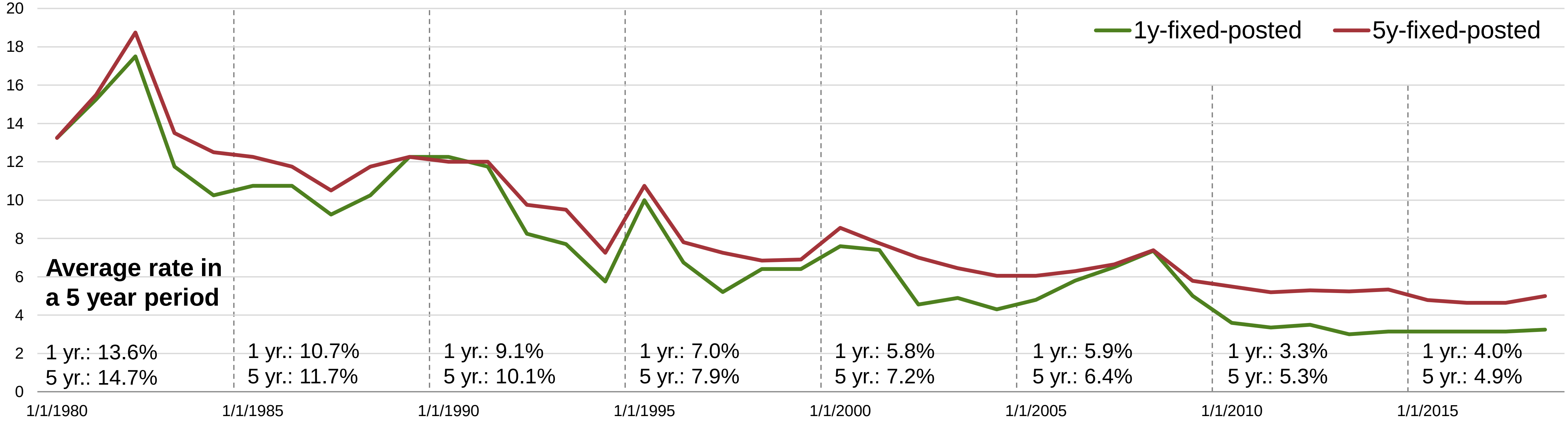
Build a mortgage specific to your clients' needs

- Income
- Lifestyle
- Cash flow surplus
- Interest rate risk tolerance

When did the 5 year term mortgage become the standard?

- 5 year fixed-terms = less flexible
- Historically more expensive
- No behavioral benefits
- Shorter terms = huge potential for money saved

OVERALL AVERAGE RATE: 1980 TO 2018	
1 yr. term	**5 yr. term**
7.4%	8.6%



Tailored debt management:
Rate sensitive clients can ladder debt like GICs

Clients who like the security of fixed rates with limited extra cash-flow

								AVG. RATE
CREDIT LINE	$50,000	Open credit line: Variable interest (Prime +1%)						5.63%
1 yr. Fixed Term	$50,000	7.7%	7.25%	6.9%	6.05%	5.79%	3.04%	6.12%
2 yr. Fixed Term	$50,000	8.0%	10.75%	8.55%	6.05%	5.59%	2.84%	6.96%
3 yr. Fixed Term	$50,000	8.5%	7.8%	7.75%	6.3%	5.19%	3.14%	6.45%
4 yr. Fixed Term	$50,000	9.0%	7.25%	7.0%	6.65%	5.29%	3.7%	6.48%
5 yr. Fixed Term	$50,000	9.5%	6.85%	6.45%	7.39%	5.24%		7.09%

(e.g. $300,000 Manulife One – 25 year amortization)

INTEREST COSTS	
Old way: 5 yr. fixed only	**New laddered debt**
$332,000	$294,750

*1993 to 2018. Credit line principal payment is consistent over 25 years. Rates are for illustration purposes only and based on Bank of Canada posted 1 to 5 year rates.

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Tailored debt management: Moving away from the 5-year rate

Summary: tailor debt by tolerance for mortgage rate volatility – e.g. 25 year amortization

	TRADITIONAL 5 YEAR FIXED	LOW TOLERANCE	MODERATE TOLERANCE	HIGH TOLERANCE
Structure	Five 5-year terms	Laddered equal portions: Credit line + 1,2,3,4, & 5 yr. terms	Equal portions: credit line + 1, 2, & 3 yr. terms	Staying short: credit line + 1yr. terms
Average rate	7.09%	6.46%	5.91%	5.88%
Average payment	$2,100	$1,980	$1,970	$1,870
Total interest	$332,000	$294,750	$291,700	$261,100
Savings		**$37,250**	**$40,300**	**$70,900**

Manulife Bank 25 YEARS 1993 - 2018

Tailored debt management…even in retirement

With clients living to 100 years and beyond don't they need to use all of their assets for income?

Canadians aged **100+** are the fastest growing segment in the country

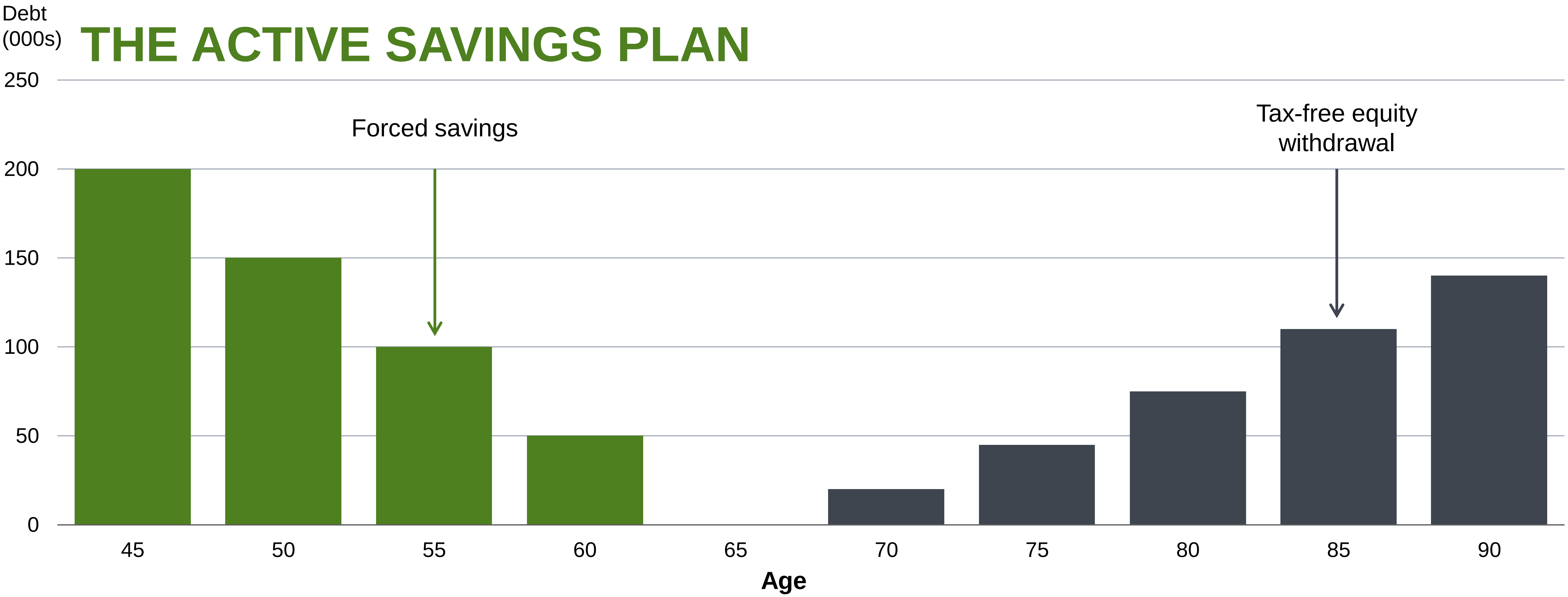
Your client's home may represent **½** of their net worth at retirement

More clients are retiring with debt. Seniors are adding debt faster than any other age segment*

*Statistics Canada: 1 in 3 retirees hold debt/Equifax news release q2, 2017: senior debt grew by 4.3 per cent over the past year, outpacing every other segment o

Your clients home is a great retirement savings plan…
but they don't have to sell it. Treat it like any other income vehicle

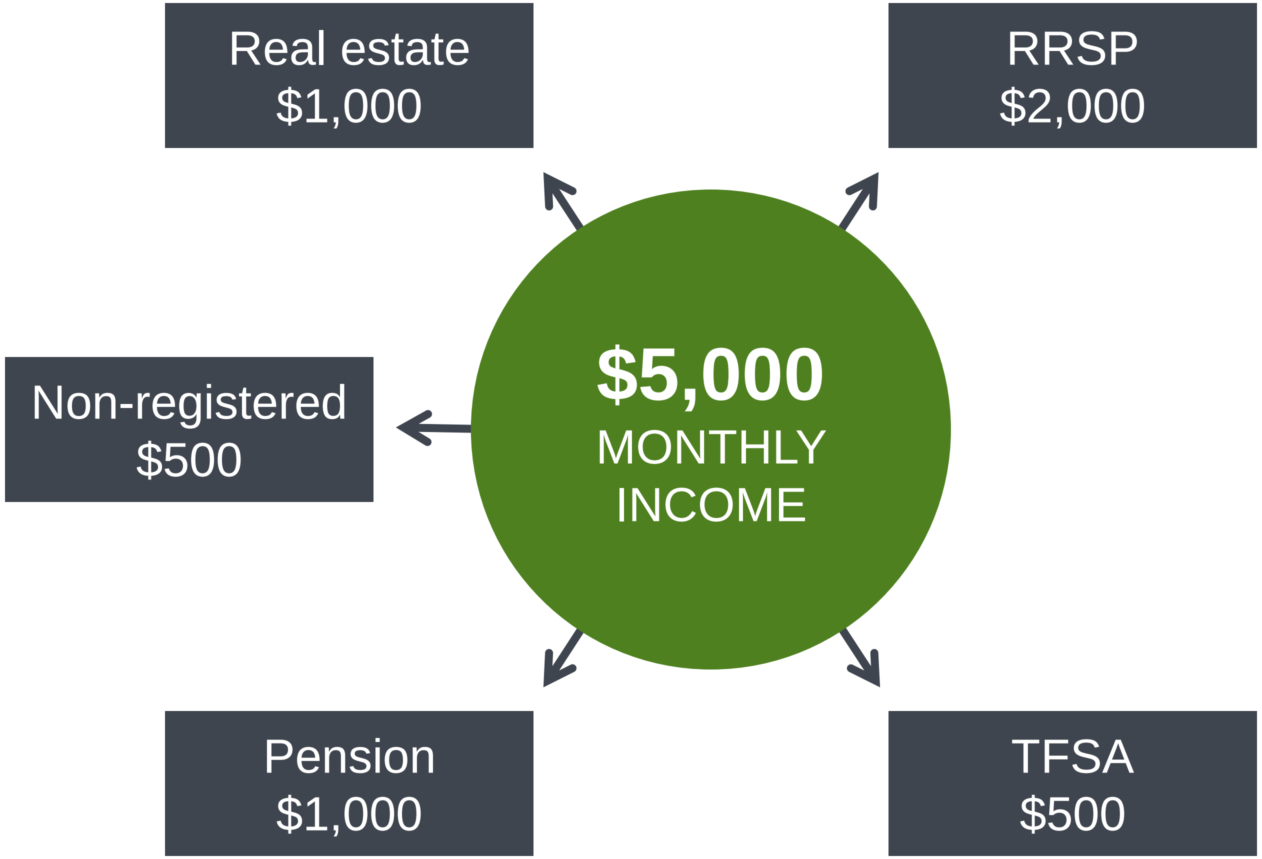
Home ownership as a tax-free income source



Real estate is a “real “asset. Fully diversify a client’s retirement income

DIVERSIFIED APPROACH

Dialed up or down
with all asset classes



Being open minded to this approach has some big benefits

- Helps clients stay in their home longer… they live longer
- Extends the life of all client assets
- Retains net worth later into retirement
- Optimizes tax efficiency – PAY LESS TAX!
- Eliminate idle savings. Keep financial flexibility – LESS STRESS!

Manulife Bank 25 YEARS 1993 - 2018

WHAT’S IN IT FOR YOU

Own the debt… Own the client

- Protect your AUM & client base
- Maximize net worth planning process
    - Greater diversification and planning flexibility
- Profit from increased savings and insurance commitments

Manulife Bank 25 YEARS 1993-2018

Interactive Discussion:
Making the case for CFPs to manage client debt and cash flow

Bill Bell

President, Bell Financial Inc.

B.Math, B.Ed, CHS, CFP, CLU, CEA, CIM

Financial Author: Simple Money (2007) & One Step to Wealth (2000)

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Agree or disagree

Should advisors remain focused on their core product offerings (investments or insurance) and not spread themselves too thin in areas where they are not experts (such as banking)

What would be your recommendation to advisors who say…

"I'm comfortable with clients who use their existing bank for mortgages, credit cards, chequing and deposit accounts"

Agree or disagree

Commissions on bank products are low for the effort/risks involved

Follow-up question for Bill

Now that you have incorporated banking into your practice, how have you benefited from it’s income generating potential?

Agree or disagree

Access to home equity lines of credit or all-in-one accounts are generally dangerous for clients

What would be your recommendation to advisors who say…

"Even though a home equity line of credit may be good for some clients, there's no sense putting one in place when they are debt-free."

Closing remarks with Bill Bell

Recap:

Keep your clients’ financial plans on track by managing their cash flow and debt

- Clients have cash flow, debt and retirement income challenges. CFPs are best trained to help
- Effective cash flow planning pre-retirement can help meet overall retirement savings goals
- Remove the stigma that the home can’t be touch for retirement income
- Cash flow management leads to goal setting. You deliver what clients want!

Thank you… Questions?

Important information

As at April 9, 2018, the Manulife One base rate is 3.95% and the annual interest rate is 1.25%.

Both are variable rates, calculated on the daily closing balance and charged monthly.

The monthly administration fee is $16.95 ($9.95 for seniors). Rates and fees are subject to change.
Rates are as May 10, 2018

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25 YEARS 1993 - 2018

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25 YEARS 1993 – 2018