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Why Leon, 80, and Melanie, 70, need to communicate more about finances

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Leon is getting on in years and worries about who will handle the investments for his wife, Melanie, after he's gone. It's a problem shared by many couples, especially elderly folks: One spouse runs the household and the other the investment portfolio.

"I am in my eightieth year and my wife is in her seventieth year," Leon writes in an e-mail. "Because of the age difference I am concerned about my wife's survivor financial position."

Melanie and Leon are comfortable financially. They have defined benefit pensions that pay $48,500 a year for Leon and $49,000 a year for Melanie, indexed to inflation. As well, they have substantial investments.

But if Leon predeceases Melanie, she will lose 40 per cent of his pension income as well as his government benefits, although the Canada Pension Plan survivor benefit would make up some of that loss.

Leon decided to manage their portfolio after First Leaside Securities Inc. collapsed in 2010 and they lost $400,000 of their $700,000 investment in the firm, which sold limited partnerships.

Recently, Leon has begun shifting away from individual stocks, buying some exchange-traded funds from Horizons ETFs Management Inc. and the Mawer Balanced Fund run by Mawer Investment Management Ltd. He has also added some bonds.

Looking ahead, Leon wonders how to leave Melanie on secure financial ground. Should they do a "dry run" where Melanie adds to their existing portfolio quarterly? "Engage a fee-only financial planner that provides assistance/input on a yearly basis but is available to answer questions two or three times a year?" Should they buy an all-in-one balanced exchange-traded fund such as the Vanguard Growth ETFs Portfolio? Or engage a robo-adviser, or online portfolio manager?

Like many people, Leon equates financial planning with investing. Unlike investment specialists, a financial planner is a generalist, advising on budgeting, saving, investing (mainly asset allocation), tax planning and estate planning. A comprehensive financial plan for a couple such as Leon and Melanie could cost $5,000 or more with an hourly rate for follow-ups. Most investment firms offer financial planning as part of their annual fee for clients with at least $500,000 to invest.

We asked Ian Calvert, a vice-president and principal at HighView Financial Group of Oakville, Ont., a portfolio management and financial planning firm, to look at Leon and Melanie's situation. Mr. Calvert holds the certified financial planner (CFP) and chartered investment management (CIM) designations.

WHAT THE EXPERT SAYS

With their two defined benefit pensions, government benefits and savings, Leon and Melanie have surplus income and assets for this stage in their retirement, Mr. Calvert says.

Next year when Melanie's minimum withdrawal from her registered retirement income fund

(RRIF) commences, they will have an additional $12,000. Without considering the interest and dividends from their non-registered portfolio, they will have a total income of about $175,000 a year, the planner says.

For Leon, the main concern is the management and transition of their investable assets to the surviving spouse, Mr. Calvert says. "His focus is now on estate planning and the longevity of investment management."

It's not unusual for one spouse to take the lead on investment decisions based on their own individual interest, the planner says. "This has worked well for Leon and Melanie up to this point."

But leaving Melanie to manage their investments after Leon's death "is a risk," he says, and something that ideally should have been addressed earlier.

The first and most important step should be communication between Leon and Melanie, Mr. Calvert says. "It's important for both spouses to know where the investments are held, what specific investments are in the portfolio, their purpose, how to access them, online passwords, key contacts and a solid understanding of the family's objectives and investment strategy." For example, what is their targeted asset mix between stocks and bonds? Will this change over time? What type of annual income are they targeting from the portfolio? Will they continue to hold any individual stocks?

Moving from individual stocks to a balanced ETF, for example, will help reduce the financial burden on Melanie. A balanced ETF would provide broad exposure to Canadian, U.S. and international stock ETFs as well as to bond and fixed-income ETFs. "This would be a relatively hands-off scenario that would allow for broad diversification and minimal management for Melanie," the planner says. "Moving more of the portfolio into these types of holdings would solve the management problem."

There would still be some maintenance involved – such as periodic selling of ETF units to fund RRIF and other withdrawals – and Melanie would need to be comfortable with making occasional trades, the planner says.

The portfolio should be structured as simply as possible with one or two balanced ETFs or low-fee balanced mutual funds, Mr. Calvert says. Even then Melanie would have to be comfortable with the up and down moves that come with a balanced portfolio. "Calendar 2022 is a good recent example of this. Balanced ETFs were generally down 11 per cent through the year."

In this type of market environment, Melanie would have to stick to the long-term strategy "and ensure she doesn't become an active trader of passive investments." Even the most seasoned investors are not immune to making emotional investment decisions during bear markets, the planner notes.

Leon also asked about moving some of their holdings to a robo-adviser, or online portfolio manager, that could build a portfolio of ETFs. This would give them broad-based diversification and index-based returns. The robo-adviser option would come with a management fee for automatically rebalancing the accounts – buying or selling when an asset class exceeded target ranges – and executing other required trades, the planner says.

Another option to consider would be working directly with a qualified portfolio manager who has a fiduciary duty to act in their client's best interest and who also offers financial planning. DIY investors such as Leon tend to resist paying fees for professional money management but Melanie might welcome such a service.

"This would be an option to consider if Melanie truly has no interest in portfolio management or feels overwhelmed by taking on the responsibility of trading and dealing with market volatility."

If this is a route they want to consider, they should start the interviewing process now while Leon can use his knowledge to ask the right questions and find a suitable money manager, the planner says. "In addition to the competence and offering of the adviser, it should be an individual that provides a connection and level of comfort for Melanie," Mr. Calvert says. "Ensuring Melanie is comfortable and included in the decision making is paramount."

They may also choose to deal directly with a fee-only financial planning firm or one or two low-fee mutual fund companies that offer balanced funds, also called "fund of funds," and offer investment advice.

CLIENT SITUATION

The people: Leon, 80, and Melanie, 70.

The problem: How to arrange their investments to make things as easy as possible for Melanie if and when Leon dies and she is on her own.

The plan: Communicate. Leon needs to tell Melanie what they are invested in, how to access their investments, and why they hold them, among other things. Consider switching their entire holdings to one or two funds of funds, whether balanced ETFs or low-fee balanced mutual funds.

The payoff: Peace of mind for both of them.

Monthly net income: As needed.

Assets: Bank accounts $16,440; GICs, cash equivalents $82,100; joint non-registered investments $607,344; his non-registered $214,470; her non-registered $325,060; her mutual funds $17,200; his TFSA $142,300; her TFSA $138,800; his RRIF $128,770; her RRIF 228,960; estimated present value of his DB pension $360,400; estimated present value of her DB pension $616,600; residence $800,000. Total: $3.7-million.

Monthly outlays: Condo fee (includes heat and hydro) $1,515; property tax $235; home insurance $65; maintenance, garden $330; transportation $575; groceries $610; clothing $190; gifts, charity $140; vacation, travel $540; other discretionary $25; dining, drinks, entertainment $685; personal care $160; club membership $160; golf $215; subscriptions $40; doctors, dentists $350; prescriptions $85; vitamins, supplements $60; health insurance $290; communications $195; TFSA $110. Total: $6,575.

Liabilities: None.

Ian Calvert is a Vice President & Principal at HighView Financial Group.