



Why You Need an Annual Financial Check-up

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While it is great to work hard and create financial wealth, the proverbial work life balance is also important to keep your sanity! 'Busy' seems to have become the most-heard response to "how are you?", and we are all feeling the stress of the past couple of years.

Business owners are at the top of the stress list for several reasons.

As an entrepreneur, your commitments are made up of complex layers of daily tasks and to dos, employee issues, operations, customer service, and supply-chain challenges—and these issues are only getting more complex and challenging each day. Like many, at the end of the day you're walking in the door exhausted. Yet you do it all again the next day.

There are clear positives about owning and running your own business especially as you influence it to grow, however, the modern-day entrepreneur is being asked to juggle bigger and often heavier issues daily.

Before you find your financial goals in the ditch, you should consider an annual financial check-up. Just as there are consequences to allowing your physical or mental health to deteriorate, you should also keep on top of your **financial health**.

Once you've completed your financial health check-up, you can look to the coming year with confidence. So, what should you be checking for?

1. Short and long-term goals

The first step in your financial check-up is to evaluate your financial goals. Have you kept on track during the year and are you satisfied with your progress? If not, look for where or how you fell short; but don't be too hard on yourself.

Was there an unexpected expense this year or did you just fail to plan? Did you meet your savings and investment goals? If you're a business owner—how are profits trending? Up, down, or level?

Did your business do better than expected? Do you know why? If it's not going the way you want, what needs to change? If the answer is not obvious, who can you turn to for help or advice, or just a listening ear?

It's always a good idea to review and revise your goals annually and we all know that it is important to write our goals down. When you set clear and achievable goals—whether you want to add to your emergency account, increase your retirement contributions, grow your corporate investment account, or pay off your business debt—they tend to create an object for you to focus on and move toward.

2. Fences and safety-nets

Remember that you are your biggest asset. That is why it's important to review your personal and corporate life and health insurance policies (safety nets), along with your corporate and trust structures (fences). Realistically, this stuff doesn't need to be checked every year; however, if you don't remember the last time all of this was checked: then it's probably time.

Reviewing your beneficiary designations, checking the premium amounts coming out of your bank each month, or reviewing what you're paying each year for your various insurances—can help avoid mistakes or unwanted charges. Your advisor should provide you with a personal insurance summary with all the details, including premium, owner, insured, date that premiums are due or come out of the bank—and other details. This helps you to better cross-reference with what's happening with your banking.

If you don't own a business, then your financial check-up is a bit simpler. Check your group benefits information (whether online or in a booklet) to be sure you have what you think you have. Also, look at your personal insurance policies and remember to look at your Will and POA documents occasionally; especially if anything changes such as marriage, divorce, separation, or birth and adoption of children. These and others are all significant changes.

Many families whether business owners or not, have experienced the unintended consequences of failing to update a beneficiary designation from an ex-spouse. Take the example of a pension plan from a former employer. The ex-spouse is still the named beneficiary; the plan is long forgotten, and years pass by, a second marriage takes place and only upon death is the oversight discovered—except the person who has passed is not there to verify that it was in fact an oversight and unintended and so, the battles that hurt family relationships begin.

3. Evaluate your debts

Your annual financial check-up should include reviewing how you are managing debt. Has your debt increased during the pandemic? Figure out where you may be overspending and start budgeting ahead for items rather than paying interest on debt. Remember there is good debt and bad debt. The former, is debt that is wisely and sparingly used to purchase assets that grow in value. A mortgage is an example. A business loan might be another. What we would call bad debt is typically consumer spending debt like furniture or electronics on credit that is not paid off right away before interest charges begin.

Have an honest conversation with your partner or even yourself and a trusted friend (who is good with money) and create some goals here too. You can make course corrections and get back on track.

For your own knowledge, you should access your credit score. There are several agencies who provide this service. Make note of any errors and contact the service provider to have them corrected.

For the business owner, meet with your accountant to go over your business debt picture. Get their opinion on whether your debt level for a business of your size is reasonable or desirable. Having a lot of debt; even seemingly good debt (such as for expansion), can become bad debt if it is too high. Remember the [Blue Balloon](#) special needs treatment clinics? Look it up. It was a great business that tried to grow too fast and paid the price.

4. Begin with the end in mind

When was the last time you looked at your retirement plan? It is never too early to start planning. If you have left it a bit too long—it is never too late either. Today is the day!

Your advisor should help you walk through a planning process that is comprehensive in nature including a retirement component. If it has been a while or you have never done such an exercise it is important to note that while some of the tools to create a forward-looking retirement plan are similar; you and your family are unique. Your retirement plan should reflect that uniqueness. Besides, over time you will end up changing your mind on one or more facets of the plan, so annually reviewing the data your objectives and desired outcomes is important.

5. Your legacy plan

When you complete your annual financial check-up, it is always helpful to consider what you want for your children or grandchildren, extended family, or philanthropic objectives. If you know you will have some 'never-spend' money; funds that you will have beyond what you will need for your retirement—think about what you will want to happen to it. We like to talk about something called The World's Simplest Estate Plan, which very simply is this:

When you pass away, your remaining wealth can only go in three possible directions and these destinations include:

- children
- charity
- the CRA—yes, the tax man!

We recommend that you pick two! For most of the clients we work with—the one they would like to leave out becomes obvious. The problem is—their plans might not accurately reflect those wishes.

It has been said that we all recognize that when we pass there will be taxes that must be paid; however, there is no rule that says you need to [leave a tip](#)! As such it is important to create plans and structures ahead of time that will mitigate or even eliminate the tax hit upon your death so that the people and causes you care most about will benefit—not the tax department.

It's time to reach your financial goals

Once you have decided to do your annual financial check-up, there will be areas where you need answers and may not know where to go. If you have a financial advisor well versed with these issues—sitting down with them may be very insightful and provide you with some options and solutions.

It is important that your advisor collaborates with the other professionals on your team. If possible; get everyone who advises your financial life in the same room with you. Rather than any hint of protecting their turf or thinking in a silo; they need to work together with a singular focus— helping you reach your financial goals!

Recommended for you

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Our Contributors

[Philip Evenden](#) is a Director with the Wealth Management practice at GlassRatner. His focus is on advanced financial planning for the successful—active or retired—entrepreneur. Philip can be reached at pevenden@farbergroup.com or at 416.496.3762
