What IS TIIFA?

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Where does the value come from when you are creating a financial plan? There are many intangible sources of value like peace of mind, confidence in confirmation, uncovering unknowns that may be causing stress or preparation for different circumstances like market events.

TIIFA is focusing on tangible costs that tend to plague most people and prevent them from reaching their financial goals

T = Taxes

Taxes are a well-known item that people recognize as being a large expense. Typically, the accountant or tax preparer would find tax savings by claiming credits unknown to someone, or tax harvesting of capital gains, or finding expenses to claim in the case of a business. The financial planner can find value in the link between a person's income, their taxes and their investments or asset base. Depending on what accounts you have your investments in, the tax consequences will flow differently once assets are sold and income is claimed. This is particularly true for registered accounts. Timing of withdrawal can be key with respect to tax savings, and combined with business income, non-registered income and other sources like pensions, CPP, OAS or principle can change how the cash flows are organized to minimize taxes as well as paying the bills and keeping the lifestyle intact.

I = Interest

Most financial planners do not get into debt management or debt servicing, because this is the realm of the lender or mortgage broker. When you have decisions that cross disciplines like paying debt versus investments, buying real estate versus other investments, business versus employment, having someone who has general knowledge in many areas to see the big picture can find savings that someone with a piece of the picture may not be able to find. An easy example is whether to pay a $40,000 Visa bill with a 20% interest rate versus investing in an RRSP. Unless your investing skills are highly rated, paying off the 20% debt will be how to maximize your assets. There are exceptions to this rule if the VISA debt is short-lived and the RRSP will have future benefit, or there is a personal reason why the debt is a good idea.

I = Inflation

Inflation is one of the least understood concepts in finance, largely because money is nebulous. The value of money is not really known by most people. The idea of inflation is discussed like it is normal so people just assume that it is always there and not controllable. Inflation can't be controlled per se, but knowing what it is can be useful in preparing for future expenses, how much they can rise, in what areas etc. Inflation turns out to be expensive over many years due to its constant erosion of your money over time.

F = Fees

Fees pertain to investment fees mainly, but fees can encompass banking fees, car leasing fees, convenience fees etc. Once you get into the mindset of "nothing is free – where is the cost", "are the fees I am paying justified for what I am getting" and in the investment world "how much am I really paying for these investments and / or service?", you will discover how much you are paying in fees. One cardinal rule is that the customer always pays the bill, so make sure you understand what you are paying for. Once the understanding is there, it is time to balance out cost versus needs, and then to negotiate. If you can haggle at a flea market, surely negotiating something that can save you hundreds of thousands of dollars over your lifetime is worthwhile to do. This same thinking applies to negotiating mortgages, other debts, etc.

A = Addictions

Addictions are defined as small but frequent drains of capital from your budget that you either are not aware of or do not want to see. By finding these "leaks" and consciously deciding what to do about them, your budget tends to reflect more of what you want from your money and less about subconscious habits or fears that may be driving your money situation. This aspect is very personal and will require a lot of introspection and monitoring on the part of the client since it is their money and only they can decide what to spend it on or not. Discussing your money with someone tends to bring habits to light simply by virtue of the discussion. Sometimes the act of monitoring your spending reveals various things. Paying in cash to force you to be more aware of what you are doing is another method that may yield results. Sometimes discussing debt, taxes or another aspect of money can reveal something smaller but frequent that can help accumulate more assets over time. There are the stereotypical addictions like smoking, alcoholism, gambling, compulsive eating, compulsive shopping etc. which are likely psychological and emotional in nature, but talking about them can go a long way to discover what the root cause of these addictions are. There is typically a trauma or emotional event, some programming in your upbringing or from the media that has shaped your beliefs, or it may be a compensating influence such as "I never was able to do this in childhood, now that I can, I am going whole hog!"

TIIFA can serve a purpose in discovering where to find value in your financial situation.