THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

iNDEPENDENT
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What are you most looking forward to in the months ahead? Perhaps one of your children – or even your spouse – will be starting or graduating from college or university. Or maybe you're planning to move into a bigger home.

Whatever your goals, remember that we're here to help you reach them. We'll work with you to understand what you're trying to achieve and help you plot a path to make it happen, with the support of a tailored financial strategy.

We're looking forward to celebrating your successes with you!

FOCUS ON INSURANCE

How to minimize the "bicker factor"

We sometimes see cases in which the bulk of a person's estate is made up of a large, illiquid asset, typically the family home, a cottage, or a business. In situations where there is more than one beneficiary, it can be a real conundrum to determine how to divide everything without seeming to show favouritism. Even in close-knit families, these situations can cause serious tension. And if your family dynamic doesn't resemble The Waltons, well, it can be a recipe for long-term discord and relationship fractures.

A simple, elegant solution

One effective way to minimize potential conflicts is to use life insurance to equalize your estate and the value of the assets you plan to give to your heirs.

With a life insurance policy in place, one beneficiary could get the asset (say the cottage) while another could receive an equivalent amount from the life insurance proceeds. Insurance also provides a source of cash to cover the tax bill that may arise when ownership is transferred.

Who pays?

It is becoming increasingly common for the beneficiaries of the assets (typically the family's adult children) to pay for the insurance coverage. After all, they're the ones who will inherit the assets, so it's in their own best interests to minimize the taxes, expenses, and bickering.

Whether you are the owner of an indivisible asset or the potential beneficiary, come talk to us. We can show you how insurance can help make the transition easier for everyone. ■

Shield your fund portfolio from these 5 stealth bombers

Most segregated fund investors know about the risks of having too little diversification or not enough exposure to equities. Other risks are less obvious, but that doesn't mean they're any less of a threat. Take a look at these five stealth bombers on a mission to hamper the long-term success of unwary investors. In fact, they're such a threat, they should really be called "wealth bombers."

1. HOME COUNTRY BIAS

Canada is a global leader in some sectors (resources and banking, for example), but we are not a powerhouse in healthcare, information technology, or consumer products. Including international equity and bond funds in your portfolio gives you exposure to other economies, currencies, and market cycles, providing you with the benefits of growth potential outside of Canada as well as protection from domestic market contractions.

2. LIQUIDITY

Liquidity, or the ability to get at your money when you need it, is a cornerstone of financial security. If you have significant capital tied up in real estate, locked-in investments, or even GICs, this could be a significant wealth bomber. We don't necessarily have to strip those securities from your portfolio, but rather counterweight them with liquid assets such as money market segregated funds.

3. PORTFOLIO DILUTION

Dilution can be a serious problem for investors who have multiple investment accounts at different institutions, as there may be significant overlap between your portfolios. As well, you may be paying more than necessary in fees and expenses to maintain all of those accounts. Consolidation is the answer here. With it, you can eliminate duplication, reduce fees, and ensure your holdings are working effectively together to achieve your overall goals.

4. TAXATION

Taxes are like a syphon, draining away your funds' returns. Protecting against this means more than just holding income funds in your registered plans. It means taking advantage of funds that invest specifically to minimize your tax liabilities. Depending on your specific needs and objectives, these might include corporate class funds or return-of-capital funds.

5. INFLATION

With inflation maintaining a fairly low profile for the last several years, it's easy to forget how insidious it can be. But over the long term, it's B52-like in its capacity to devastate. Case in point: An item costing $100 50 years ago would cost almost $750 today.[1] In addition, some things tend to go up faster than the overall rate of inflation. Gas is a good example. From 2009 to 2010, the price of gas rose 9.1% while the CPI rose just 1.8%.[2] Protecting yourself from inflation means insulating your portfolio with some of the so-called "inflation-proof" securities, including real estate funds, precious metals funds, oil and gas funds, and real return bond funds.

Want to learn more about the "stealth bombers" and the steps we can take to protect your portfolio? Feel free to call or make an appointment to come in and speak to us.

1 Bank of Canada inflation calculator
2 Statistics Canada, 2012 Canada Year Book, "Prices and Price Indexes"

TAX PLANNING

U.S. residents in Canada take note: Uncle Sam wants your tax dollars

If you're a U.S. resident living in Canada or a greencard holder, legislation that went into effect in July of 2014 may have put you on Uncle Sam's tax radar.

The U.S. government has always required U.S. persons to pay U.S. taxes regardless of where in the world they actually reside. But the Foreign Account Tax Compliance Act (FATCA) takes that a very big step further. It compels foreign governments to actively participate in identifying and reporting those persons.

As a result, Canadian financial institutions now have to report accounts that appear to be held by U.S. persons to the CRA. The CRA then must share its findings with the IRS. And the IRS in turn, will undoubtedly use this information to ensure it's getting its fair share of your tax wallet.

The rules governing who is considered a U.S. person can be complex and can even extend beyond people to estates and trusts. If you are a U.S. citizen, greencard holder, or someone who spends considerable time in the U.S., consider meeting with your tax advisors to get clarity about how this sweeping legislation might affect you. ■

CHARITABLE GIVING

Giving to overseas charities? You might not get a tax receipt

The Canada Revenue Agency (CRA) recently changed the rules governing foreign charities and their ability to issue tax receipts. And the news isn't good if you support non-Canadian-based organizations.

Foreign charities must now formally apply to the CRA for qualifying status. Only charities that are involved in disaster relief, humanitarian aid, or activities deemed to be in Canada's "national interest" qualify.

As of this writing, the CRA has recognized only a handful of internationally based charities. So while you can still donate to the Aga Khan Foundation, your alma mater overseas, or any other non-Canadian charity, you might not be able to claim the donation on your tax return.

For a complete and current list of the eligible charities, visit www.cra-arc.gc.ca and search for "foreign charities." ■

TAX STRATEGY

A better way to get your tax refund

Expecting your tax refund to arrive soon? You might think that's reason to celebrate — but think again. After all, a tax refund is just the government's way of paying your money back — without interest.

If you are expecting significant tax deductions in 2015 (perhaps from RRSP contributions, support payments, childcare expenses, or a large charitable donation), you can arrange to get your tax breaks throughout the year, rather than having to wait until 2016. All you need to do is fill out a little paperwork:

- File form T1213, Request to Reduce Tax Deductions at Source, with the Canada Revenue Agency (CRA). Quebec residents also need to file Quebec provincial form TP-1016.
- If your request is approved, your employer will be authorized to reduce the amount of tax withheld at source, leaving you with more money every paycheque.
- To really make the most of this strategy, consider setting up an automatic investment program for that money.

Whether you're looking for advice on how best to use your tax refund or how to avoid getting one next year, we're here to help you. ■

Who will care for the caregivers?

Sandwich generation take note: The cost of raising your kids could be overshadowed by the costs of caring for your aging parents. In a recent survey,[1] seven out of 10 caregivers acknowledged that they were providing financial assistance to their parents. And as a result, more than half of them were forced to alter their own retirement plans.

Sadly, the case could be made that these families were actually the fortunate ones. Statistics Canada reports that in 2012, nearly 461,000 Canadians needed home care for a chronic condition but weren't receiving it.

And lest you think that you can rely on the healthcare system or other social safety nets, consider that the same study reported that 8.1 million Canadians (typically adult children) provide 70% to 80% of all home care.

The statistics are sobering. And so is the likelihood that any of us could become a caregiver and, eventually, a patient.

The cost

The expenses associated with caregiving can be significant. Things like wheelchairs and hospital beds can run upwards of $5,000. Renovating a residence to include ramps, a walk-in bath, or stair lift could cost thousands more. Factor in the expenses of in-home care workers, cleaners, or therapists, and you've got all the makings of a financial crisis.

Some relief may be available, in the form of tax credits (such as the caregiver, disability, and medical expense tax credits) and deductions for medically necessary home renovations.

Where will the money come from? Depending on your situation, possible solutions could include long-term care insurance, drawing on the cash value of a permanent life policy, or simply setting aside extra funds now, before there's a crisis.

Start talking today

Whether you're taking care of your elderly parents or worrying that you may have to rely on your adult children for assistance, now is the time to talk about how you will cope with the expenses related to declining health. The key is to honestly address the likelihood and to make realistic contingency plans.

Reviewing all the potential problems and solutions can be a daunting task, even in the most harmonious families. We would be pleased to meet with you and your parents, or your adult children, to discuss your finances and assess your existing insurance coverage.

We can also look at how to manage your savings and your income stream (today and as you move through retirement) to ensure you're keeping as much money in hand as possible, just in case.

In the best-case scenario, you won't need the money for health-related expenses and can use it to enhance your lifestyle. But it's reassuring to know that you'll be able to afford the care you need. ■

[1] http://www.bmo.com/pdf/FINAL%20Canadian%20English%20BMO%20Retirement%20Institute%20report%20April%202012_E.pdf

Annuities have benefits even when rates are low

In these days of low interest rates, many investors may assume that a Registered Retirement Income Fund (RRIF) is a better destination than an annuity for their Registered Retirement Savings Plan (RRSP) assets. Regardless of rates, however, annuities remain a solid choice, especially for older retirees or risk-averse investors.

Interest rates only part of the story

Annuity payments are determined by complex calculations based on current interest rates, how much you invest, and your age. The older you are when you purchase the annuity, the higher your payments are likely to be.

Many retirees are attracted to annuities because the income is fully guaranteed. Whatever happens in the financial markets, your income won't be affected. Further, you have the choice of guaranteed payments for a fixed number of years, for your life, or for the lives of both you and your spouse.

The insured annuity strategy

To help you maximize income, you may want to consider something called an "insured annuity." With this strategy, you use a portion of your money to purchase an annuity with the highest possible payments (typically a straight life annuity). The rest of the money is used to buy life insurance. You enjoy a higher income through retirement and the policy ensures an income for your surviving spouse or a legacy for your beneficiaries.

We'd be happy to explore the benefits of an annuity-based strategy for you, either on its own or together with a RRIF. ■

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