

Financial Planning Guide



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FOCUS ON INVESTING



Planning an active retirement? Factor in the costs

Members of the influential baby boom generation are just now coming into the pre-retirement years. Most of them are expecting to enjoy a much more active lifestyle than their parents have. Consider the key differences between today's retirees and pre-retirees, as found in a national poll by Decima Research:

- More than half of those aged 45 to 54 expect to work at least some of the time when retired. Just 22% of today's retirees do so.
- Boomers are twice as keen as today's retirees on heading south for an extended stay during the winter months — 56% versus 27%.
- About 28% of boomers expressed interest in buying a vacation property, motor home, or boat. Only 15% of

current Canadian retirees have done that, or plan to do so in the future.

- Just over 80% of boomers expect to be physically active. That was well above the 64% response rate for today's retirees.

Whether these ambitious boomers will be able to achieve their retirement dreams is another matter entirely. The same Decima survey found that 56% had no idea how much money they would need to make their retirement vision come true.

What's the key to making sure your retirement is everything you want it to be? Planning ahead. That means deciding what you want to do, determining what it will cost, and setting up a financial plan designed to take you to your goals. With professional guidance, you can reach your retirement goals. ■

FINANCIAL PLANNING

Canada's most popular renos: the trendy and the trusted

Canadians spend more than \$20 billion a year on home repair and renovation, according to Statistics Canada. The top three projects according to the Appraisal Institute of Canada (AIC) were home theatres, hardwood kitchen floors, and main-floor laundry rooms. The projects with the best payback continue to be bathroom and kitchen renovations, and interior or exterior painting.

If you're planning a project, check out the AIC's free Renova payback analyzer at www.aicanada.ca and tips from the federal government's Canada Mortgage and Housing Corporation at www.cmhc-schl.gc.ca. ■



TAX FILING TIPS

Tax tips for working students

If your children have summer jobs or work part-time during the school year, make sure they're taking advantage of the following strategies:

- ▶ **Filing a personal tax return.** Make sure your kids file a return even if they earn less than the amount sheltered by the basic personal tax credit (\$8,148 in 2005). If they're 19 or older, they may qualify for GST tax credits. And any taxable earnings on file generate RRSP contribution room that they can use in later years, when they're working full-time.
- ▶ **Claiming deductible moving expenses.** Students attending school more than 40 kilometres away can deduct the cost of moving back home to work between school sessions. ■



FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Life interest

A life interest is a potentially powerful tool in estate planning and arranging elder care and housing.

What it is

By granting someone a life interest in an asset that belongs to you, you give that person the right to use the property (or to receive its income) for as long as he or she lives — without assuming ownership. You decide what happens to the property upon the death of the person who has the life interest.

How it works

Suppose Marge, a divorced mother and homeowner, remarries. She feels that her new husband should be able to remain in her home after she dies, but she wants her own children — not his relatives — to inherit the house when he passes away. A life interest provision in her will gives the house to her kids, but requires them to let him live there.

This type of provision is often used by farmers to leave the farm business to a child with a life interest, which ensures that the farmer's spouse can live on the farm and share the revenue until he or she dies.

Why it matters

A life interest provision lets you help others — usually family members — while protecting your interests and those of your intended heirs.

RETIREMENT PLANNING

How to eliminate the RRSP scramble

Canadians used only 9% of the Registered Retirement Savings Plan (RRSP) contribution room they had available in 2003, the latest year for which tax data are available. Many people say they would like to save more, but holiday bills hit just before the RRSP deadline at the end of February.

If that sounds like you, consider converting to monthly contributions taken automatically from your bank account. Most people find that 12 small monthly payments are a lot easier on their cash flow than a single, large, lump-sum contribution. By contributing monthly, you may even be able to have less tax withheld from your paycheque. ■

Our dollar may be strong, but you still need to invest abroad

For the past few years, our dollar has risen steadily against its U.S. counterpart. At the same time, Canadian stocks have done well, benefitting from high energy prices, demand for natural resources, a strong economy, and low inflation.

Given this, does it still make sense to invest abroad? The answer for most of us is a resounding *yes*. The reasons are the same as when the loonie was worth only 65 cents U.S.:

Diversification. It's impossible to consistently predict market turns. That's why prudent investors spread investments across asset classes and geographic areas. When one area declines, others may rise.

Investment selection. Canada accounts for only about 3% of the world's stock market, and many top global companies are available only through foreign markets.

Currency hedge. When the Canadian dollar is weak, it costs more to purchase goods produced elsewhere. Foreign investments can offer a cushion against this long-term currency risk — a key concern if your retirement plans include wintering in another country.

In today's economic climate there are even more reasons to consider international investments:

Booming foreign markets. Canada's growth prospects pale in comparison with

such emerging powerhouses as China and India. While globalization has made countries more interdependent, they still vary in economic activity and outlook.

Effect on some of your Canadian investments. While the stronger Canadian dollar is beneficial for Canadian consumers and those travelling to the U.S., it can be detrimental to Canadian companies that export their finished products because it makes them more expensive to buyers elsewhere.

How significant is the dollar's rise? Our strong dollar has



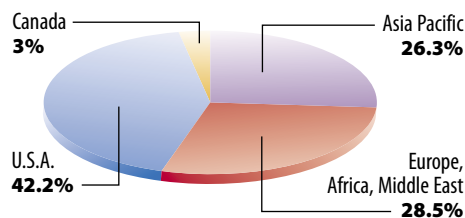
Changing conditions in the U.S. The gains against the U.S. dollar are due more to American fiscal problems than to positive developments here. The climate could easily change if the U.S. situation improves.

The proportion of foreign investments in your portfolio that's

right for you will depend on your objectives, time horizon, and investor profile. With the federal government's proposal to eliminate the 30% foreign content limitation for Registered Retirement Savings Plans (RRSPs), you have more flexibility than ever.

You should keep in mind that, as with Canadian investments, the risk and rewards associated with foreign investments vary widely. With professional advice, you can choose the right foreign investments in the right amount to meet your objectives. ■

Canada in the world



If you're investing only in Canadian stocks, you're missing out on 97% of the world's publicly traded companies.

Source: Toronto Stock Exchange and the World Federation of Exchanges. Figures in US\$; as of Dec. 31, 2004.

MUTUAL FUNDS

Let a pro manage your foreign funds

KNOWING THAT INVESTING internationally has benefits is one thing; knowing where to invest is another. And for the individual Canadian investor, finding reliable information about foreign companies is not easy. Overseas trading can be difficult as well. There are time zones to deal with, and some countries require foreign investors to meet stringent requirements.

A far simpler, often more effective way to get the foreign exposure you need is to invest through mutual funds that focus on foreign markets. Mutual fund managers get a steady flow of company information, along with reports on economic and political

climates. They may also take their own trips to tour facilities and interview local executives.

Understanding accounting is critical to evaluating a company, yet standards vary among countries. Fund managers adjust for that, either on their own or by consulting specialists.

They also get much better foreign exchange rates by dealing in large amounts. And they have the systems required to track all the taxes foreign governments withhold. Those taxes — often eligible for Canadian credit — are conveniently consolidated on

your annual tax slip, in Canadian dollars.

Finally, the biggest benefit to using mutual funds is diversification. Some funds invest only in one country, but still hold a varied portfolio. Others invest on a regional basis. "International" funds invest anywhere but in North America. And "global" funds have no geographic limits. In each case, the portfolio is diversified and professionally managed to optimize the risk-reward trade-off.

Professional advice can help you evaluate which foreign mutual funds are most appropriate for your situation. ■



Planned giving means tax savings

Canadians can be very generous when it comes to charity; consider our response this year to the tsunami tragedy. But few use a strategy of “planned giving” to maximize the benefits to their charities of choice — and their own tax savings. In fact, only 4% leave charitable bequests, says the Canadian Centre for Philanthropy.

Here’s a rundown of the main types of planned giving. As you’ll see, many of them offer benefits over and above the charitable tax credit associated with a simple donation of cash or assets.

Bequests in a will. Through your will, you can direct that some, or all, of your assets go to one or more specific charities. The resulting charitable tax credit can be used to offset any taxes payable by your estate, or carried back to reduce your income tax payable for the year preceding death. Some people choose to donate their entire Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) assets, which otherwise would be fully taxable on death.

Ordinarily, you can donate a maximum of 75% of your net income to claim a charitable tax credit. But in both the year of death and the preceding year, the limit is higher. Up to 100% of net income donated can qualify for the credit.

Donations of life insurance. Naming a charity as beneficiary of a whole life or universal life insurance policy is an effective way to leave a sizeable sum for a relatively small monthly premium. You can donate an existing policy or a new one. The premiums also qualify for a charitable

tax credit in the year you make them.

Charitable annuities. With a charitable annuity, the donor contributes a large amount to charity now, and receives lifetime income from it. With a “charitable gift annuity,” the donor takes less income and receives ongoing tax credits as well.

Charitable remainder trusts. In this arrangement, an irrevocable trust holds investments marked for a charity on your death. You get the investment income in the meantime — plus charitable donation tax credits now, based on your life expectancy. This strategy prevents heirs from challenging a bequest in your will. Your will could also create this trust at death, to make the donation but provide ongoing income for your spouse. Your estate or spouse could get the tax credit.

Charitable residual trusts. These are similar to remainder trusts, but they cover real property such as a cottage or artwork. You get full use until death, when the charity takes possession.

Donor-advised funds. Several mutual fund companies offer these specialized arrangements that resemble the private foundations that are used by the wealthy, but are generally inaccessible to those of more modest means. Your donation goes into a charitable foundation, which issues a tax receipt. The foundation invests the money. A withdrawal is made every year and donated as you’ve directed.

It’s best to explore planned giving opportunities with the help of a qualified professional. ■

Your tax refund: Put it to work

EXPECTING A TAX refund? Large or small, that “found” money can put you a few steps further along the road to your financial goals. Here are some strategies to consider:

Pay back your RRSP loan. If you borrowed for a 2004 Registered Retirement Savings Plan (RRSP) contribution, paying down that loan should be your first priority. Paying the loan off quickly reduces your total interest paid and helps ensure that the long-term benefits of the RRSP loan outweigh the short-term borrowing costs.

Pay down consumer debt. Using your refund to pay off the balance on a high-interest credit card can save you big money in interest.

Top up your emergency cushion. It’s a good idea to have cash at hand to cover a few months’ worth of expenses, in case your income is temporarily interrupted or unexpected financial obligations arise.

Make your 2005 RRSP contribution. Get ahead of the game by putting your investments to work for you earlier.

Save for your child’s education. The federal government will match 20% of Registered Education Savings Plan (RESP) contributions, up to \$400 per child per year (more for low-income families).

Pay down your mortgage. Every prepayment on your mortgage reduces the total interest you pay in the long run.

Professional advice can help you find the best use for your 2004 tax refund. ■

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