THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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As you gather your paperwork and receipts for another tax season, remember, there are various ways to reduce your tax burden. It's what's left after tax that really counts.

If you expect to receive an income tax refund, consider putting this extra money to work for you by getting a jump on your Registered Retirement Savings Plan (RRSP) contribution for 2010 or topping up your Tax-Free Savings Account (TFSA).

Questions? Please feel free to give me a call.

FOCUS ON INSURANCE

Pay up-front for a lifetime of coverage

In recent years, many investors have discovered the benefits of Universal Life insurance. These "permanent" policies not only provide a tax-free, lump-sum death benefit, they also have a tax-deferred investment component.

Less well known, however, is that these policies can be paid for in advance, eliminating the need for future premium payments.

With most policies, if you stop paying your premiums for any reason, the coverage stops. Paying up-front, with "limited-pay" insurance, means you'll be guaranteed coverage for life for a finite cost, even if you run into financial difficulties in the future.

The payment period can be anywhere from 10 to 15 to 20 years, or to age 65. With this last option, you have the comfort of knowing that your insurance can remain in effect without the worry of paying premiums from your potentially lower retirement income.

The cost of a limited-pay policy may be a little higher, but the benefit is that you are covered no matter what might happen to your health and however your insurance needs might change over time.

Remember, in addition to protecting your family, pre-paid insurance can be used to benefit children or charity, or to pay capital gains taxes when an asset such as a family cottage is passed from one generation to the next.

If you have any questions about your permanent insurance or would like to investigate paying up front, professional advice can help you. ■

MUTUAL FUNDS

What past performance can teach investors

Investing for the long term in equity markets is a winning strategy, although the recent turmoil in worldwide markets certainly put that adage to the test. But the pain of falling fund values was quickly eased by a strong rebound in 2009, proving yet again that patience pays for the disciplined, long-term equity investor.

In 2008, equity mutual funds were labouring under the load of the credit crisis, testing even the conservative investor's confidence in the market's ability to come back. The median Canadian equity fund had a 33% negative return in 2008, while funds that invested outside of the country fared not much better. It was not unusual to hear pundits predict years of losses and even depression.

By late last year, however, the markets had bounced back and many Canadian equity funds recovered ground. U.S. equities had a tougher time, struggling under the burden of a soaring national debt and continuing worries about a consumer credit crunch. International markets, on the other hand, roared back, fuelled in particular by rebounds in Asian and emerging economies.

The contrast between the two years' equity fund returns is striking, and weathering such volatility can be unnerving. But history proves that it has happened time and time again.

Echoes from the past

A year or two of declines followed by a strong rebound is a pattern that's been repeated over the decades and around the world.

Canada. In 2001-02, the median fund in the Canadian equity fund category fell by nearly 20% according to Morningstar. That was followed by four straight years of double-digit gains. Going further back, we find 2% drops in 1998 and 1994 followed by powerful double-digit rallies in the following years.

In fact, Canadian equity funds have posted negative returns in seven of the past 20 calendar years. Yet the overall compound annual return over that time is a respectable 7%.

The U.S. We see a similar story when we look to the U.S., although the 2009 rally was muted for Canadian investors because of the strength of our dollar against the American greenback. Still, despite suffering negative returns in six of the past 20 years, investors in U.S. equity funds have managed to enjoy an average compound annual return of 4.7% in Canadian-dollar terms over those two decades.

Lessons for the future

While the past is no guarantee of what the future will bring, past performance can help us maintain a long-term perspective. The message appears to have sunk in for Canadian fund investors.

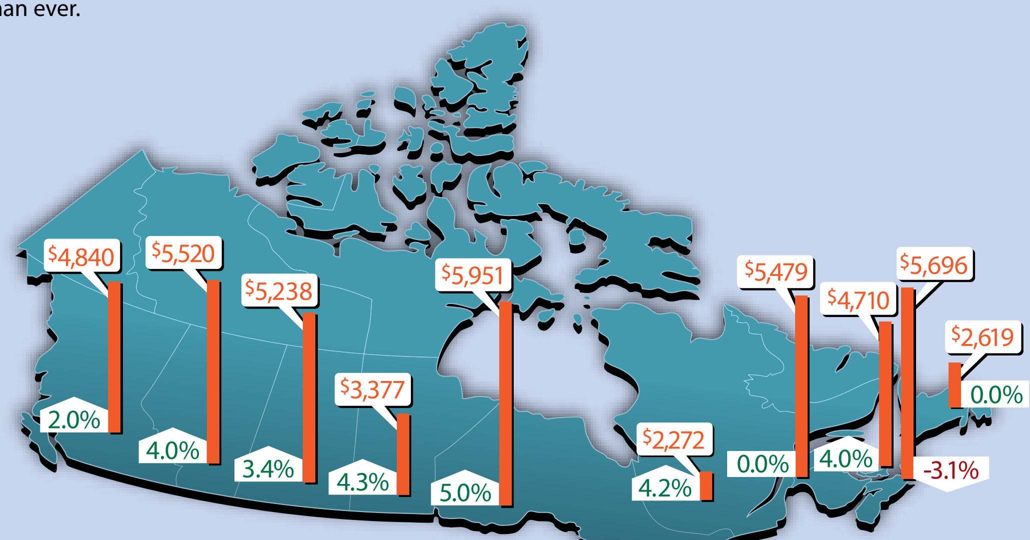
Redemptions of Canadian equity funds rose by less than 2% in 2008 from the 2007 level. That compares with a year-over-year redemption jump of nearly 10% the last time Canadian equity funds lost ground (in 2002). This is an encouraging trend, suggesting investors don't panic-sell as much as in the past.

One of the benefits of working with a professional advisor is having the support you need to make the decisions that are right for you, even when times are tough. Remember, we're here any time you're feeling uneasy or you have a question about your investments. ■

EYEOPENER
graphic evidence of how investing works

Tuition: Big and getting bigger

Undergraduate university tuition fees rose for the 2009-10 year everywhere except in some of the Atlantic provinces. Saving for your kids' post-secondary education is more important than ever.



■ 2009/2010 Tuition Fees

Source: Statistics Canada. Percentage change in 2009/2010 average annual undergraduate tuition fees over 2008/2009 fees.

TAX PLANNING

Get your tax refund up front

When you get a tax refund, it means you have given Ottawa an interest-free loan of funds you could have used last year to reduce debt or boost your investments.

The good news is that if you think you'll be in line for a refund, you don't have to wait. Your district taxation office can authorize your employer to deduct less tax from your pay to reflect ongoing payments that typically trigger a tax refund — things like Registered Retirement Savings Plan (RRSP) contributions, charitable donations, deductible support payments, and childcare expenses. You might also qualify if you will be making a large RRSP contribution or "catch-up" contribution early in the year, or if you expect to have significant carrying charges, rental losses, allowable business investment losses, or legal expenses incurred to collect child support.

If you'd like to request a reduction in your at-source deductions, contact the Canada Revenue Agency or Revenu Quebec for the necessary forms. ■

TAX PLANNING

Tax time! Remember to claim insurance premiums

Are you missing out on potential tax savings because you're not making the most of the Medical Expense Tax Credit? This credit is available for medical expenses that exceed 3% of your net income or $2,011 (whichever is less) in 2009. But a lot of people don't realize that in addition to the cost of prescriptions and eyeglasses, qualifying expenses include:

- The portion of travel insurance that relates to medical coverage.
- Premiums that you pay for medical or dental coverage as a member of an employee group benefits plan (premiums paid by your employer or premiums relating to critical-illness or disability coverage are not eligible).
- Supplementary medical/dental insurance that you purchase on your own.

If you are self-employed, it's usually better to claim health insurance premiums as a business expense, as these tax savings are likely to be greater than those available with the Medical Expense Tax Credit. Premiums may be claimed as a business expense up to a maximum of $1,500 each for you, your spouse, and any dependent adult children, and $750 per minor child. ■

RETIREMENT PLANNING

Important changes afoot to the Canada Pension Plan

Proposed changes to the Canada Pension Plan (CPP) may affect your decision on when to retire and begin drawing benefits. The changes, to be phased in starting in 2011, would mean higher payouts for those who wait beyond age 65 and less for those who collect earlier.

In 2010, the maximum CPP retirement benefit is $934 monthly at age 65. Under the proposals, those who defer their pension would see benefits increased by $78 each year to reach $1,326 monthly by age 70. Those who start early would lose $67 each year and receive only $598 monthly if they collect at the first opportunity at age 60. Actual benefits will depend on individual contribution history and are adjusted for inflation every January.

A second significant change affects those opting to take benefits early. Currently, in order to qualify for CPP, you must stop work or reduce earnings for at least two months. That test will be dropped in 2012. Instead, those who collect early and continue working will be required to contribute to CPP at the same time, as will their employers. This will mean a higher pension the following year. Contributions will be optional for those 65 and older. ■

Long-term care insurance comes in a variety of shapes

As the population ages, and boomers hit retirement, more and more people are likely to need some kind of ongoing care for chronic, debilitating illnesses. Whether the choice is in-home care or assisted living in a facility, the potential costs are significant. One effective way to cover them is with long-term care insurance.

When it comes to individual policies, however, there are a lot of choices to make. Understanding what's available will help you make an informed decision, whether it's for your future needs or those of your parents.

Questions to ask

When comparing policies and coverage, the following are the key areas to explore.

What type of care is provided? Facility care and in-home care can be purchased separately or together. Usually, in-home care can be administered only by a health-care professional, although some plans offer adult day programs and respite care where professional assistance is supplied to give a family caregiver a break.

Is there a policy maximum? Most policies have a lifetime maximum and offer a reimbursable benefit — claimants submit receipts to claim only what is necessary — or an endowment benefit, which provides a fixed, lump-sum payment. Monthly benefit amounts typically range from $1,000 to about $8,000.

How long will payments continue? The choice of benefit period is usually one, two, or five years, or for life. The longer the benefit period, the higher the cost.

How long will I have to wait before payments start? Elimination periods are usually zero, 60, or 90 days. Longer waiting periods generally mean lower premiums.

Are there any exclusions or limitations? Most policies have a list of medical exclusions and claims are disallowed if they are the result of war, self-inflicted injury, criminal activity, impaired driving, or drug abuse. Most companies won't issue a new policy if you are over a certain age, usually 75 or 80.

Are there any optional riders available? A number of optional riders can help keep premiums down. They include:

- Discounts if both spouses are insured.
- Return of premiums at death if benefits were not paid out.
- No requirement to pay premiums while benefits are being paid.
- A limited pre-payment period so that coverage is assured but premiums cease after a number of years or at a certain age.
- Starting with a smaller benefit with the option to increase the benefit amount later without medical evidence.

It pays to think ahead

If you want to be assured of receiving quality care, purchasing well ahead of time can be a valuable "investment" — the longer you wait, the more expensive premiums will be.

We can help you compare long-term care plans to find the coverage that best meets your needs and your budget. ■

Give your child the gift of insurance

WE ALL KNOW that life insurance is essential for parents to ensure the financial well-being of dependent children should either parent pass away.

But did you know there can also be benefits to insuring the life of a child?

First, the cost is very low, especially if you opt for a rider on your own insurance policy that covers your child for a modest amount, say between $2,000 and $20,000. These riders can cover all of your children, even those yet to be born.

The policy amount is less about the death benefit — one you naturally hope never to collect — and more about providing future benefits for your children, in the form of guaranteed insurability or cash value:

Guaranteed insurability. Until they reach age 25, the insured children can convert their riders into permanent insurance for up to five times the face amount of the coverage you chose at the outset — so a $20,000 rider can become a $100,000 policy. This could be invaluable if a child developed a serious medical condition that would make buying life insurance more difficult later on in life.

Cash value. Alternatively, a parent or a grandparent might opt for a permanent policy on a child at the outset. The purchaser would probably pay more for coverage, but the policy would build a cash value that can be accessed by the child later in life — to cover post-secondary education costs, for example.

Ask us if giving your child the gift of insurance belongs in your family's financial plan. ■

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