THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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Many Canadians have taken a wait-and-see view on economic recovery — not surprising given the impact of the financial crisis on jobs, securities prices, and personal lives.

But, even though it may be a long march to shake off memories of the bears, it's wise to watch for the variety of suitable investment opportunities to be had while other investors are lying low. A market downturn is an opportune time to be in the markets because prices are reduced.

Let's talk about keeping your portfolio well-poised to potentially capture the gains of an improving climate.

FOCUS ON INSURANCE

Protect your heirs with an insurance trust

While life insurance will provide security to your loved ones, consider your options when planning how the proceeds will be passed on to your heirs.

Instead of having a death benefit paid directly to a beneficiary, it can sometimes be advantageous to have proceeds designated into an insurance trust and distributed over time. This can be arranged either in a will or through a separate legal document, allowing you some control over how the assets are distributed.

Tailored to meet needs of beneficiaries

An insurance trust might be applied to help take care of beneficiaries who are underage, have disabilities requiring ongoing care, have poor money skills, or are elderly and may have difficulty managing their affairs.

While trusts can be complex and require tax and legal expertise, a properly structured insurance trust may be able to accomplish a number of things:

- Protect assets until minor children are of age.
- Delay large payouts until kids reach young adulthood and are more mature.
- Provide for regular distributions.
- Designate funds for certain purposes, such as post-secondary education.
- Avoid probate fees, if applicable, otherwise paid by the estate.
- Remain confidential, outside of the rest of the estate.
- Protect funds from creditors.

An individual decision

While a trust may offer a number of estate planning advantages, it needs to be carefully considered and planned. Professional advice can help guide you in learning whether a trust could play a role in your insurance planning. ■

MUTUAL FUNDS

Help protect purchasing power with real return bond funds

In the past few years, inflation has only attracted attention because of historically low rates. But currently, there is growing concern that inflation will accelerate once the global economy begins to recover, spurred by various government stimulus programs.

Economists are calling it "the great rate debate." Will interest rates go up sooner, or later? If higher inflation does manifest itself, it's an opportune time to explore investments with inflation protection that are good for the long term. Namely, real return bond funds.

Real return counts

When evaluating investments, we typically focus on what's known as "nominal" return. If you invest $1,000 and it grows to $1,040 after a year, your nominal return was 4%. But if inflation was 3%, you really gained just 1% in purchasing power. This figure is known as the "real" return. The greater the inflation rate, the harder it is to build wealth for the future. (See below for the effects of inflation on your dollar.)

After the high inflation rates of the 1970s and 1980s, the governments of Canada and several provinces began issuing real return bonds as a source of stable long-term funding. These bonds protect investors from inflation by linking both principal and interest to the consumer price index. This means that real return bond performance tracks the rate of inflation.

Because real return bond funds hold real return bonds, they also carry inflation-risk protection, and tend to be less volatile than traditional long-term bond funds. However, it also means that real return bond funds typically have more modest growth potential than regular bond funds. And, like any mutual fund, they can go down in value.

What's available in Canada

A number of Canadian mutual fund companies offer real return bond mutual funds. The minimum investment for most is well under $1,000. In addition to Canadian issues, these funds may hold foreign-currency real return bonds from the U.S. and European governments.

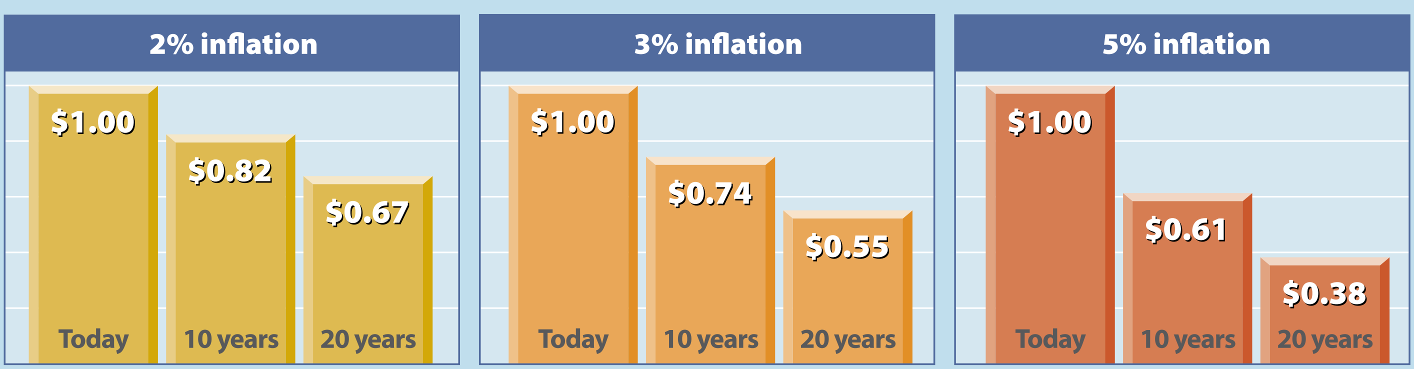
Real return bond mutual funds should be held in a registered plan, such as an RRSP, an RRIF, a registered education savings plan, or a tax-free savings account. Because both principal and interest are adjusted to reflect inflation, the adjustment to the fund's principal must be included as income every year, even though you don't receive the bond income until the bonds are sold or mature.

If you're interested in an investment for long-term investors in inflationary times, professional advice can help determine whether they might have a place in your portfolio. ■

EYEOPENER
graphic evidence of how investing works

Even low inflation can erode your dollar power over time

The effects of even modest inflation can devastate your purchasing power over several years. Watch the shrinking loonie at 2%, 3%, and 5% inflation over a decade, then 20 years. Protection against inflation is a key consideration when investing for long-term goals.



Source: Bank of Canada Inflation Calculator

INVESTMENT PLANNING

Snowbirds, plan for trading while you're away

Planning a long winter getaway to the U.S. sunbelt? Include in your preparations an investigation to see if it will be possible to phone or fax trading instructions from your winter home. Securities regulators in different states vary widely on whether a Canadian advisor can accept instruction from someone in that state. Not all products/securities can be traded either. Some states are more flexible with your management of registered investments; others require your dealer to file notice with the state for a fee. If you're not allowed to do so from your winter home, make sure to meet with your representative ahead of time. ■

EDUCATION SAVINGS

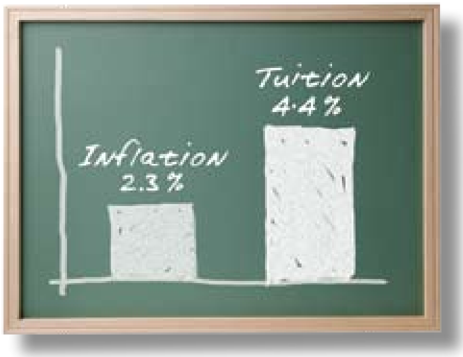
There's still time to get the CESG

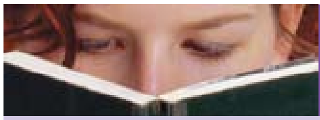
If you haven't done so already, plan now to make your Registered Education Savings Plan (RESP) contributions before December 31. It's easy to forget because RRSPs have a 60-day grace period at the beginning of next year, while RESPs don't. Making an RESP contribution by year-end means your child's plan will get the Canada Education Savings Grant (CESG) without delay. Remember, the Canada Education Savings Grant will give you 20 cents for every dollar on your first $2,500. It can be even more, depending on your income. ■

FINANCIAL PLANNING

School costs go *waaay* up

Average tuition for full-time undergraduate enrollment at a Canadian university rose by 3.6% to $4,724 for the school year from 2007 to 2008, according to Statistics Canada. Tuition fees have risen at almost twice the pace of inflation over the past decade — an average annual rate of 4.4% versus 2.3% for the consumer price index. If this continues, it will make saving for your children's post-secondary education even more important. ■





FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Spousal loans

A spousal loan is a legitimate way for a couple to save tax on investments. While it would be great if, say, higher-income Ginger could simply give stay-at-home-dad Fred money to invest (to take advantage of his lower marginal tax rate), attribution rules prevent that by taxing Ginger for any income earned on the investment. Here are the details.

What it is

A loan from one spouse to another, backed up by a promissory note that is signed by both parties, showing the loan's date, amount, interest rate, and repayment terms.

How it works

Ginger's marginal tax rate is much higher than Fred's. She lends him money to invest, and must charge him interest either at a commercial bank rate or the Canada Revenue Agency's prescribed rate in effect when the loan is made, whichever rate is lower. Fred must pay Ginger interest for the year no later than January 30. Ginger must report the interest as income, but Fred can claim it as a tax deduction.

Why it matters

Fred pays the tax on the investment earnings, and the amount is less than Ginger's would be because of his lower tax rate. While Ginger has to report the interest that Fred pays her as income, the CRA's prescribed rate is quite low as it reflects Treasury bill yields. As a couple, they save money because the tax saved on the investment earnings should easily exceed the interest cost. In addition, the loan (and its low rate) can be locked in. Note that this can also be done with minor children through a trust to save tax on interest and dividends; there is no attribution for capital gains on money given to a minor.

These factors help determine how much coverage you need

According to a recent survey cited in the press, a majority of people surveyed, 54 % underestimated the amount of coverage needed to provide protection for their families.

This could mean that, despite the best of intentions, many families may be caught short in the event of a premature death. And, in this unpredictable economy, an increasing number of people may not be properly insured, as many families face uncertain job prospects.

So exactly how much life insurance do you need? In considering each individual situation, professional advice begins by focusing on the basics and your family's situation, before considering specific insurance products or services.

These four key elements help establish your life insurance requirements:

1. Ongoing support for family needs

This is the most important reason most people want life insurance: to ensure that loved ones won't face financial hardship if left on their own.

You and your spouse will each need to have enough coverage to replace your incomes so that your beneficiaries can maintain their current lifestyle.

Age is a key consideration when calculating potential financial needs for the future. For example, if a main income-earner were to die prematurely at age 40, that could represent a loss to the family of 25 years of income.

Professional advice also helps to forecast foreseeable income needs, such as retirement savings for your spouse, education savings for your children, and the cost of inflation.

2. Childcare

An income-earning parent isn't the only one who needs life insurance: It's also crucial to calculate coverage required by a parent who is home raising children. In his or her sudden absence, replacing all those unpaid tasks may mean hiring a nanny or babysitter, paying daycare fees, arranging for a housekeeper, or paying for services such as shopping, tutoring, and home and yard maintenance.

3. Expenses and debts

If one spouse dies prematurely, it could leave an expensive debt load on survivors. The mortgage, property taxes, and utility bills still need to be paid. Your family will also need to cover any debts, such as a car loan, business loan, or line of credit.

4. Final expenses

Your beneficiaries will need to have funds available to settle your estate. This can include funeral costs, probate fees, income on registered assets, and capital gains taxes on assets such as a cottage or other vacation property.

Each situation is different, and your family's needs change along with life circumstances. With professional advice, your plans are reviewed carefully so you can be confident in having just the right amount of life insurance. ■

INSURANCE PLANNING

Women need to protect home as a financial asset

FINANCIAL SECURITY IS often the top reason women cite for buying a house. Yet a recent poll cited in the media suggested that more than one in three female homeowners don't have any coverage beyond home insurance to help cover liabilities and protect this financial asset in case of illness or death.

While it's essential for a home to be protected against fire and property damage, it's also important for female homeowners to cover their mortgage liabilities to protect themselves, their families, and their biggest investment.

Whether through a traditional life insurance policy, critical illness insurance, or an insurance product tied to a mortgage, professional advice can help identify the right financial security blanket for homeowners.

If you have children, life insurance is key to provide for their long-term security. Adequate coverage can pay off the mortgage, allowing children to live in the same house, go to the same schools, or fund a university education.

With critical illness insurance, you won't have to worry about mortgage payments or household expenses if a serious illness forces you to take unpaid time off work. It pays you a lump sum, to be used however you wish, if you're diagnosed with a covered condition such as cancer, heart attack, or stroke.

With professional advice, women who own their own homes independently can fortify their financial security. ■

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