

Advisor

The Personal Financial

In This Issue

RETIREMENT INCOME SPLITTING... 1

A PLAN TO DIE FOR..... 2

LOST TRACK OF YOUR LIFE INSURANCE COMPANY 3

A WINNING IDEA 4

CRITICAL ILLNESS INSURANCE 5

SUMMER READING 5

RETURNS? 6

WHERE TO LOOK FOR YOUR MUTUAL FUND PRICE 6

THE HIGH COST OF OVER-CONTRIBUTING TO YOUR RRSP 7

RETIREMENT INCOME-SPLITTING

Fabio Ventolini, CFP, CDEFA

When it comes to paying taxes, it is more advantageous for two spouses to have equal incomes, rather than having one high income and one low. Hence, most people in retirement or about to go into retirement should be happy with the federal government's income-splitting proposals, put forward last fall and confirmed in the February budget. These proposals, if enacted (and it appears they will be), could put several thousands of dollars into the pockets of many retired couples.

Here are the proposals as outlined to date:

- Starting in 2007, you can split up to 50% of your company pension benefits with your spouse without any age restriction.
- Once you are 65 or older, you can split up to 50% of the payments from a Registered Retirement Income Fund (RRIF), Lifetime Income Fund or Registered Retirement Savings Plan (RRSP) annuity with your lower-income partner.
- This splitting means both can qualify for the pension credit, which has just been doubled to \$2,000 per year.

For some time, spouses have been able to split Canada or Quebec Pension Plan payments once both are 60, to the extent that the benefits were accumulated while they were living together. This will continue.

Retirement income-splitting has benefits beyond tax savings. Old Age Security (OAS), for example, is available to individuals at 65. Canada Revenue Agency, however, starts clawing back those benefits once an individual's annual net income exceeds a certain amount — this year, \$63,511. OAS benefits are completely eliminated once net income reaches \$102,865. Hence, transferring income to your spouse from your pension or RRIF income could reduce the OAS clawback.

Many people without pensions and with both RRSP and non-RRSP investments often choose to draw their income first from their non-registered investments and defer receipt of income from their RRSP. However, these new rules suggest it could be wise to withdraw some of your RRSPs starting at 65 to take advantage of the income-splitting and the pension tax credit. This can be implemented by making an election on your tax return. To ensure you optimize the benefits, you should consider having your taxes done professionally

■ A PLAN TO DIE FOR

Ian G. Johnson, CFP, PRP

As advisors we joke that the perfect estate is one in which we would die with only \$1 left in our bank account. While that may be possible it is not probable and it does not provide for our family and loved ones which is the reason to seriously consider estate planning.

Death is a difficult and emotional event and in many cases is a topic that is not discussed. It is difficult to face up to our own mortality. But everyone, no matter their financial or marital status, needs to plan their estate. It is certainly better to do so while alive than leave your family heirs to sort out the mess while they are emotionally distressed over your death.

The Estate Plan

It is probably best to start by preparing a summary of your current financial situation including the details and value of your assets that would fall in should you die tomorrow including such items as life insurance.

From a cash flow standpoint, list what income sources would stop or be reduced upon your death such as pensions. Calculate your liabilities and determine how they would be settled should you die.

Registration of assets and beneficiary designations are important to review to see how the assets would pass upon death. Determine which ones can be transferred easily without going through the estate thereby avoiding probate and reducing legal costs.

These can be arranged by:

- Establishing joint ownership
- Naming beneficiaries of your registered assets
- Consider setting up trusts either while you are alive or in your will
- Purchasing life insurance to create immediate cash
- Use life insurance products naming beneficiaries who will receive the proceeds directly without tax consequences

Your Will

The next step is to review or prepare a Will. A Will is the most essential part of the Estate Plan. Your estate can be basically frozen without it. There would be no Executor to administer the estate acting on your behalf to carry out your wishes. There would be no Guardian named to protect your minor children and no Trustee to hold assets for them until they attain their majority.

Someone would have to apply to the court to be appointed as the Administrator. Otherwise the provincial government would appoint a representative to handle everything. And what if there was a dispute in the family about who would be the Administrator? This could become costly and produce dissension among the family members.

If you die without a Will, called intestate, and are survived by a spouse, your spouse would be the logical person to apply to administer the Estate. Even if unsophisticated, he or she can hire professionals or use trusted family members to actually manage the estate process.

But if you die intestate without a spouse and there is an estate dispute there will be delays and additional unnecessary legal costs.

Powers of Attorney

Establishing Powers of Attorney, both financial and health care, is an important step in the Estate Plan. They allow you to appoint trusted people to carry on your affairs while you are alive if you are unable to do so.

The persons named in the Property Power of Attorney are given the authority to make all your financial decisions while you are incapacitated. For that reason the choice of who is named should be made carefully using one or more persons whom you trust.

For the Power of Attorney for Personal Care, the person(s) named should be well aware of your wishes from a medical perspective. They should obviously be humane but also strong enough to make the difficult but necessary decisions required. ??? is regard, you may wish to name different people in two separate documents. Just like in your Will, it is prudent to name a primary as well as someone to be the contingent or back-up.

Taxes

One of the main goals of estate planning is to minimize the taxes payable on death. In Canada there are no estate or death taxes or any gift taxes. However there are income and capital gains taxes as well as ever-changing legislation, which can produce considerable tax liabilities for the estate. Where amounts are not transferred to a surviving spouse many beneficiaries do not realize that their inheritance may be severely reduced by these taxes.

Tax planning is therefore an important consideration and should be explored with your financial advisor or a tax professional.

continued on page 3

A PLAN TO DIE FOR

Conclusion

Each Estate Plan is unique and is approached differently by each person depending on their own circumstances, family makeup and expectations. Once implemented it should be reviewed every year or two. Changes in any of the individual components such as family status, asset makeup

and legislation can have a dramatic effect on your estate planning objectives.

As they say, while you are planning life happens. But what if death happens? Many times it is unexpected. Will your estate plan be effective and appropriate?

LOST TRACK OF YOUR LIFE INSURANCE COMPANY?

J. Christopher Snyder CFP, RFP

Over the past few years, there have been dozens of changes and mergers in the life insurance world. If you have a policy and know the Canadian insurance company, but can't find it, the following list of mergers and changes of ownership may be of help.

- Abbey Life was bought by ITT Hartford Life Insurance Company of Canada, which was later bought by AIG Life Insurance Company of Canada.
- Aetna Life bought Financial Life and Excelsior Life and then Maritime Life bought Aetna Life.
- Aeterna Life was taken over by Desjardens Group.
- Canada Life was bought by Great West Life in 2003.
- Crown Life was bought by Canada Life.
- CNA Life was bought by Canada Life.
- Colonia Life changed its name to Concordia Life and then Empire Life purchased Concordia Life and is currently in the process of integrating all its products and systems.
- Confederation Life's individual life insurance contracts and segregated funds were bought by Maritime Life.
- Commercial Union Life was bought by Manulife Financial.
- Counsel Life was bought by Security Life, which was then bought by Cooperators Life.
- The Credit Life changed to Union Fidelity Life.
- Financial Life was bought by Aetna Life, which was then acquired by Maritime Life.
- Sun Alliance was bought by Royal Life, which changed its name to Royal & SunAlliance Life. Gerling Global Life later became part of Royal & SunAlliance Life which was again later purchased by Maritime Life.
- Glacier National Life was bought by The Bank of Nova Scotia.
- Holland Life Insurance Society Ltd. was purchased by Commercial Union Life in 1973. In April 2001, Commercial Union's individual life book of business was assumed by Manulife.
- Imperial Life was taken over by Desjardins Financial Security.
- Laurentian Life was absorbed by The Imperial Life Insurance Company of Canada.
- Laurier Life became a division of Imperial Life, which was then taken over by Desjardins Financial Security.
- Liberty Health was bought by Maritime Life in 2003.
- London Life was bought by Great West Life but still operates as London Life and markets under the name of Freedom 55 Financial.
- Maritime Life was bought by Manulife Financial in 2004.
- Mony Life was bought by NN Life, which then became Transamerica Life.
- Monarch Life was bought by North American Life, which in turn was acquired by Manufacturers Life.
- Metropolitan Life of Canada was bought by Mutual Life, which has since changed its name to Clarica. Metropolitan Life accumulated some brokerage life insurance sales which Mutual Life didn't want, so those clients were sold to Equitable Life. Some older, paid up industrial policies are still retained by the original Metropolitan Life and can be tracked down by using the toll-free number 1-877-210-2212.
- Mutual Life changed its name to Clarica.
- Mutual of Omaha was purchased by RBC Life.

continued from page 3

LOST TRACK OF YOUR LIFE INSURANCE COMPANY?

- North American Life was bought by Manulife Financial.
- New York Life was absorbed by Canada Life.
- NN Life was bought by Transamerica Life.
- Norwich Union was bought by AIG Life Insurance Company of Canada.
- Paul Revere Life became Provident Life & Accident Insurance Company which later became Unum Provident Canada, which is now RBC Life.
- Prudential Life Insurance Company of England was bought by Mutual Life, which has since changed its name to Clarica.
- Royal & SunAlliance was purchased by Maritime Life.
- Seaboard Life was bought by North West Life, which in turn was bought by Industrial Life. Industrial Life then changed its name to Industrial Alliance Pacific Life Insurance Company.
- Sovereign Life's individual life insurance book of business was assumed by Standard Life after the Ontario Superintendent of Financial Services took over control of the company in 1992.
- Unum Provident Canada was bought by RBC Life in 2004.
- Westbury Life and Canadian General Life merged and the combined company was renamed Westbury Canadian Life. Westbury Canadian Life was then bought out by the Royal Bank who continued the operation for a while as Westbury Life and then changed the name to RBC Life.
- The Federal Civil Service Mutual Benefit Society was taken over by Sun Life.
- Toronto Mutual Life changed its name to Unity Life.
- Transamerica Life was bought by Aegon but continued under the Transamerica Life name.
- U.N.A. Life was absorbed by Maritime Life.
- Western Life changed its name to Unity Life. Unity Life has since sold the name Western Life, which now operates as a separate entity.

A WINNING IDEA

In our last newsletter, we asked for your ideas on *how to be green* and save money (Being Green With Your Greenbacks, page 1). Furthermore, we said we would send \$250 to the charity of choice of the person with the best idea.

Our winner is Tony Hill from Mississauga and \$250 will be sent in his name to the Toronto Vegetarian Association. Their mission is "To inspire people to choose a healthier, greener, more peaceful lifestyle".

While not everyone may wish to become a vegetarian, Tony's green idea is worth thinking about.

"I think you missed one of the most important things (in your article), namely to go away from animal foods.

The production of animal foods is responsible for an enormous use of energy and the animals themselves

(before slaughter) result in more climate change gases than all the motor vehicles in the world. In total, they are responsible for 18 percent of human induced greenhouse gas emissions.

Plant-based cuisine is delicious and also healthy for the body. Numerous studies show that vegetarian foods greatly help in the prevention of heart disease, cancer and many other diet-related diseases.

So here is a very important thing you can do to be Green with Your Greenbacks. If the whole world were to adopt a plant-based diet, we would have gone a long way towards solving the ecological problem (and we would save "greenbacks" while doing it too and do our bodies a favour at the same time). Too hard? Not at all! Try it! Go to www.veggiechallenge.com and see".

CRITICAL ILLNESS INSURANCE

Robert DeMelo, CFP

Many people spend so much time working at careers and overseeing their investments in order to create and manage personal wealth that they sometimes overlook the preservation of that wealth. One of the greatest and most probable threats to our wealth is the onset of a critical illness.

While cancer will develop in one in three Canadians (*Source: Canadian Cancer Society*) and accounts for more than 50% of critical illness claims worldwide, heart attacks and stroke represent the other significant portion of claims.

Critical illness insurance can also provide coverage for a multitude of other illnesses including: coronary bypass, Alzheimer's disease, aortic surgery, benign brain tumour, blindness, coma, deafness, heart valve replacement, kidney failure, loss of limbs, loss of speech, major organ transplant, major organ transplant waiting list, motor neuron disease (ALS or Lou Gehrig's disease), multiple sclerosis, occupational HIV injury, paralysis, Parkinson's disease and severe burns (*Manulife Financial* list of covered conditions).

Many life insurance companies offer critical illness insurance coverage – a lump sum amount that is payable tax-free in the event of the diagnosis of a critical illness (currently there is no specific direction in the tax act regarding critical illness insurance). But the benefit payable may be contingent on surviving the critical illness. For instance, if the insured dies of a heart attack, the premiums are only refunded, the face amount of the benefit is not paid out.

In most cases, the policyholder may do with the money as he or she wishes — for example, fund alternative or costly medical procedures in this or another country, pay off the mortgage or provide income while on medical leave from work.

Individuals who possess significant assets and thus have the ability to “self-insure” (pay for medical expenses by cashing out investments) may still benefit from owning critical illness insurance protection. Assets may often be tied up in investments that are not easily liquidated (triggering taxation, for instance) or the timing might not be right to liquidate (recent equity markets are a good example). A critical illness benefit makes it possible to leave assets intact or liquidate them at a more financially appropriate time.

The following case study (courtesy of Manulife Financial) illustrates how a retirement portfolio may face a threat greater than a market downturn:

Alan, 35 years old, doesn't smoke and has never had any serious health concerns. Allan has a \$75,000 registered investment portfolio into which he contributes \$5,000 at the beginning of each year and he already has \$3,000 in a non-registered portfolio (largely due to the fact that he reinvests his income tax refunds into his non-registered plan). Allan earns an 8.33 per cent before-tax annual rate of return on these funds. If Alan were to become critically ill, he feels that he has enough money in his non-registered and registered portfolios to cover any potential recovery expenses.

Situation:

Allan suffers a heart attack at age 45. His recovery expenses add up to \$150,000, which he pays by first making a withdrawal from his non-registered plan and then making a withdrawal from his registered plan.

Financial impact:

At age 65, Allan's retirement portfolio is approximately \$1 million less than the amount he planned to have for retirement, jeopardizing his standard of living.

Please consult with your financial advisor to learn more about how critical illness insurance fits into your financial plan

SUMMER READING

J. Christopher Snyder CFP, RFP

If you want to stir your emotions this summer, here are a few books that should do just that.

28 by Stephanie Nolen. A new book about HIV/AIDS-infected people in Africa. There are 28 personal stories — 1 story for every million HIV infected people on that continent. Stephen Lewis calls it “the best book on AIDS” he has read.

An Inconvenient Truth by Al Gore. Few people need to be reminded about our climate crisis, however this book brings the issues forward dramatically.

A Thousand Splendid Suns by Khaled Hosseini. A new book by the author of the outstanding book *Kite Runner*. Detailing how people survive in Afghanistan, it has had great reviews.

Marley & Me by John Grogan & William Morrow. For animal lovers, this is a must. It has been at the top of the New York Times bestseller list for several years and for good reason. It rates with the best of the animal books. You will laugh ... and cry.

RETURNS

J. Christopher Snyder CFP, RFP

The following chart should be of interest to those who follow returns. They clearly indicate the superior returns of equities over bonds and bonds over cash when measured over a long period of time, however, in any short period of time, the reverse could be true.

	<u>91 Day T-Bills</u>	<u>Mid Term Bonds</u>	<u>Long Term Bonds</u>	<u>TSE 300 Stocks</u>	<u>S & P 500 U.S. \$</u>
1984	11.59%	14.44%	16.90%	-2.39%	6.27%
1985	9.88%	21.92%	26.88%	25.07%	31.76%
1986	9.33%	13.98%	17.21%	8.95%	18.67%
1987	8.48%	3.89%	1.78%	5.88%	5.27%
1988	9.41%	9.18%	11.30%	11.08%	16.60%
1989	12.30%	12.80%	15.20%	21.40%	31.68%
1990	13.48%	7.63%	4.32%	-14.80%	-3.10%
1991	8.80%	17.08%	22.10%	12.02%	30.47%
1992	6.84%	9.29%	11.54%	-1.43%	7.62%
1993	5.51%	18.90%	22.09%	32.55%	10.06%
1994	5.35%	-5.23%	-7.39%	-0.18%	1.32%
1995	7.57%	21.80%	26.34%	14.53%	37.53%
1996	5.02%	12.70%	14.18%	28.35%	22.99%
1997	3.10%	9.71%	18.46%	14.98%	33.34%
1998	3.47%	7.21%	9.69%	-15.19%	5.96%
1999	4.66%	-1.84%	-5.98%	31.71%	21.04%
2000	5.49%	10.91%	12.97%	7.41%	-9.15%
2001	4.72%	7.89%	6.06%	-12.57%	-11.91%
2002	2.52%	10.46%	11.05%	-12.44%	-22.15%
2003	2.91%	6.83%	9.07%	26.72%	28.68%
2004	2.30%	7.77%	10.26%	14.48%	10.88%
2005	2.58%	5.68%	13.84%	24.13%	4.91%
2006	3.98%	4.08%	4.08%	17.26%	16.13%

WHERE TO LOOK FOR YOUR MUTUAL FUND PRICE

Chris Snyder, CFP, RFP

With most of the newspapers removing the daily prices of mutual funds from their papers, it has become more difficult to get a quick read on the value of one's mutual funds. For those who check on values everyday, this move by the papers is quite irksome. Here are a few suggestions:

1. The Globe & Mail lists prices on Saturday but only the largest 180 funds.
2. You can go online with your dealer. Most dealers have online services. Call your advisor on how to do this.

3. Globe Fund can provide a daily price, however, you have to set up your portfolio and it will be updated daily. www.globefund.com
4. You can call the fund companies directly.

Alternatively, if you can be patient, wait for your statements from your dealer.

In hindsight, since your investments should be long term, this move by the papers may be a blessing in disguise.

THE HIGH COST OF OVER-CONTRIBUTING TO YOUR RRSP

Vicki Lungu, CFP

For most Canadians, RRSPs are an important part of their financial planning for retirement. The most attractive RRSP benefits are the tax deduction for the amounts contributed in that taxation year and the tax-free growth in the plan's investments. If you currently have RRSPs, it is important to know the rules and the tax implications of your contributions.

RRSP Contribution Limit

Each year, you are allowed to contribute a specified amount to your RRSP. This amount is known as your RRSP deduction limit and is reported on the Notice of Assessment that you receive after filing last year's income tax return.

You are also permitted to have an over-contribution balance in your RRSP of up to \$2,000. This allowance is cumulative during your lifetime. Any over-contribution in excess of \$2,000 is subject to a penalty tax of 1% a month until either you withdraw the amount, or additional contribution room becomes available (for instance, on January 1 of the next tax year, assuming you had earned income in previous year). Canada Revenue Agency (CRA) might also charge you a late filing penalty and interest on the amount owing.

Let us say that your RRSP contribution limit was \$10,000 and you contributed \$15,000. You would be charged 1% per month on \$3,000, or \$30 a month, until you either withdraw the amount or have additional RRSP contribution room.

RRSP OVERCONTRIBUTION

Over-contributions commonly arise because of group RRSP plan contributions made by employers; or because you joined a company pension plan and did not realize how much that would reduce your contribution room; or because your income fluctuates. People can also make an honest mistake through confusion over the tax year for which an RRSP contribution is intended. For example, a contribution made in the first 60 days of 2007 can be used either on your 2006 or 2007 tax return. This usually works to your advantage. Since the first 60 days over-contribution can be applied to next year's tax return, many who think they have contributed too much actually have not. A portion of your annual CRA Notice of Assessment indicates over-payment.

The over-contribution shown on your Notice of Assessment is called, confusingly, "unused RRSP contribution" and is often overlooked or misunderstood by tax-payers. You will find an explanation note on the second page of your Notice of Assessment.

In the above example, your 2007 RRSP contribution room is \$6,500 and you have \$3,000 unused RRSP contribution. This means that you could contribute \$3,500 and use the \$3,000 unused contribution for a \$6,500 tax deductible RRSP contribution.

For many years CRA seems to have ignored the over-contributions since it has not reinforced the rules. This year, it has established a task force and sent letters to those who have not paid the 1% per month on the excess contributions, asking for back years owed. For many this has come as an unpleasant shock. It is also expensive.

What to Do about an RRSP Over-contribution

So how do you reverse an inadvertent over-contribution? Say you have a \$10,000 over-contribution going back 12 months. Subtracting the \$2,000 permitted means you would have to pay a penalty of 12% of \$8,000, or \$960. In the past, some taxpayers took the simple expedient of letting a year go by and not making an RRSP contribution for the new year. In the above example, if you have \$8,000 contribution room, you would be back onside as of January 1 of next year. In theory, you should have informed the CRA and paid the penalty. In practice, many people have not and the problem has resolved itself.

The first step is to ascertain that an over-contribution has really occurred. After all, on Jan. 1, 2007, new contribution room opens up in respect of 2006 earned income, so you may not be in an over-contribution situation. If it is determined that despite the new room you still have over-contributed, you should remove the excess as soon as possible. There are two ways of doing it.

- Redeem the over-contribution as soon as possible. The tax is withheld but you get it back when filing the next return. You will receive a T4RSP slip to document the RRSP withdrawal and tax withheld. Both amounts are entered on the return but you claim an offsetting deduction so it is not added to taxable income. Tax withheld and reported on the T4RSP can be credited

continued on page 8

continued from page 7

THE HIGH COST OF OVER-CONTRIBUTING TO YOUR RRSP

Date	Name	Social Insurance No	Tax year	Tax center
May 1, 2007	Smart Investor	111-111-111	2006	Sudbury ON P3A 5C1
2007 RRSP Deduction Limit Statement				
The back of this notice contains important information. Amounts marked with an asterisk (*) cannot be less than zero.				
RRSP deduction limit for 2006				
..... \$15,500				
Minus: Allowable RRSP contributions deducted in 2006				
..... \$12,000				
Unused RRSP deduction limit at the end of 2006				
..... \$3,500				
Plus: 18% of 2006 earned income of \$100,000 (max. \$19,000) \$18,000				
Minus: 2006 pension adjustment \$15,000				
..... \$3,000 *				
Minus: 2007 net past service pension adjustment				
..... \$0				
Plus: 2007 pension adjustment reversal				
..... \$0				
Your RRSP deduction limit for 2007				
... \$6,500 *(A)				
<p>You have \$3,000 (B) of unused RRSP contributions available for 2007. If this is more than amount (A) above, you may have to pay tax on the excess contributions.</p>				

against tax on other sources of income, so is effectively refunded and you end up in the same position as before the overcontribution. You do not have to actually redeem the money. You could transfer the amount in kind to a non-registered account.

- You can file tax form T3012A: Tax Deduction Waiver on the Refund of Your Undeducted RRSP Contribution. This asks the CRA for permission to remove RRSP over-contributions without having tax withheld by your RRSP trustee. This makes sense, since you never received a tax deduction for the overcontribution. However, once the T3012A is filed, the CRA is aware of the overcontribution and will ask you to fill out the more complicated T1OVP form: Individual Tax Return for RRSP Excess Contribution. This calculates the penalty.

It is important that you understand your Notice of Assessment and know how much your RRSP contribution limit is. If your overcontribution is more than \$2,000, remove it as soon as possible from the same plan type as the contribution (individual or spousal). You do not have to remove the money from the same investment, so you could choose the investment to redeem within the plan. Keep in mind that you did not get a tax deduction for the overcontribution, so use it as soon as possible. When in doubt, consult your financial advisor or your tax preparer.

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