

1 The Personal Financial Advisor

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EDUCATION SAVINGS PLAN

Fabio Ventolini, CFP, CDFP

If I told you the government was handing out money for free, would you be interested? Of course you would. All you need to do is set some money aside for your child or grandchild's education – something you may be doing anyway.

According to recent information released by Statistics Canada, university tuition fees increased an average of 4.3% annually between 1997 and 2008. In total, they have increased 209% since the 1990-1991 school year.

In 2007, Canadian undergraduate students paid an average of \$4,524 a year in tuition fees. Some professional programs and graduate programs charge significantly higher amounts than that — first-year tuition for a law student at the University of Toronto ranges from \$6,000 to \$20,000, depending on the program. Add in books, food and housing costs and you could be looking at a very significant expense.

There are, fortunately, savings vehicles that can help you prepare.

Most people are aware of the RESP (Registered Educational Savings Plan), which has some features similar to the RRSP (Registered Retirement Savings Plan). While you cannot deduct RESP contributions, your earnings do accumulate tax-free and the beneficiary (normally your child or grandchild) pays the taxes when he or she withdraws the funds. Since students tend to have little other income, they will likely pay very little (if any) tax on the money they receive.

In 2007, the Conservative government also made some significant changes to the RESP rules.

- The annual contribution limit of \$4,000 was eliminated, and parents can now contribute up to a total of \$50,000 — up from \$42,000 — to each child's RESP.
- The Canada Education Savings Grant is available to anyone who opens an RESP. The government will supplement your plan with a grant equal to 20% of your contribution, up to an annual maximum of **\$500** and a lifetime maximum of **\$7,200**.

You don't have to be rich to take advantage of the plan, either. If you are thinking of bequeathing money for education to your grandchildren in your will, consider setting up an RESP.

Money inside an RESP does not have to be used directly for school purposes — the child needs only to be enrolled in school full-time to have access to it. If he or she needs to buy books or pay for accommodation, the money could be used for that purpose.

Many different options and alternatives are available with an RESP. Review the new rules with your financial advisor to see how they can help you finance your children and grandchildren's education.

RISK: A FOUR-LETTER WORD?

J. Christopher Snyder, CFP, RFP

To laugh is to risk appearing the fool.
To weep is to risk being called sentimental.
To reach out to another is to risk involvement.
To expose feeling is to risk showing true self.
To place your ideas and dreams before the crowd
is to risk being called naïve.
To love is to risk not being loved in return.
To live is to risk dying.
To hope is to risk despair.
To try is to risk failure.
But risks must be taken,
Because the greatest risk in life is to risk nothing.
The people who risk nothing do nothing,
have nothing, are nothing, and become nothing.
They may avoid suffering and sorrow,
but they simply cannot learn to feel,
and change, and grow, and love, and live....
Chained by their servitude, they are slaves;
They've forfeited their freedom.
Only the people who risk are truly free.

Anonymous

As the unknown author of this verse so clearly points out, the word “risk” conjures up the fear of loss — whether it be loss of a relationship, of employment or of money. Yet, if we do not accept risk and take a chance, we risk the loss of much more — the loss of an opportunity, the loss of experience and yes, the loss of money.

Taking a risk does not mean throwing all caution to the winds. It does not require you to act foolishly — changing lanes on the highway without looking for cars through your mirrors, climbing a mountain without training, or making an investment because your taxi driver gave you a tip. There is such a thing as “smart risk.”

Prudent investing means taking a smart risk, understanding that not every investment works out. Investment legend John Templeton said if he were right on 75% of his investment choices, he would do very well. One can be a

smart investor by following some basic rules, such as having a good advisor, selecting the right asset mix for your comfort level, diversifying, being patient and not trying to time the market. Taking some risk will likely produce better returns than doing nothing.

The volatility of the market during the first three months of the year frightened many people, a lot of whom decided, as a result, to invest their RRSP (Registered Retirement Savings Plan) contributions in a Money Market Fund or short-term guaranteed investments. Chances are, if you are one of those people, you are probably still invested in them. However, the markets have recovered substantially since the first of the year. Had you invested in the TSX on Feb. 15, you would have made 11%; if you invested in the S&P 500, you would have gained 3.73%. Your Money Market Fund would have earned you 0.9%.

We often get spooked by the news and the latest world crises. In fact, many people make investment decisions based on the headlines and suffer from inertia caused by fear and their day-to-day activities. But there will always be crises and, regardless of the situation, markets have always rebounded.

The following chart is revealing. Many will remember Black Monday, October 19, 1987. The Dow Jones Industrial Average dropped 508 points and closed at 1939. By the time the housing bubble burst in 2006, 19 years later, the Dow had increased to 12,463.

When is the right time to invest? As Templeton once said “the right time to invest is when you have the money.” For those sitting on cash, that means now. And remember, “Once invested, stay invested.”

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RISK: A FOUR-LETTER WORD?

“I don’t want to invest my money now because...”

<u>Year</u>	<u>DJIA</u>		<u>Year</u>	<u>DJIA</u>	
1934	104	Great Depression	1970	839	Conflict spreads to Cambodia
1935	144	Economy still struggling	1971	890	Wage & price freeze
1936	180	Spanish Civil War	1972	1020	Largest trade deficit in US history
1937	121	Recession	1973	851	Energy crisis
1938	155	War imminent in Europe, Asia	1974	616	Steepest market drop in 40 years
1939	150	War in Europe	1975	852	Clouded economic prospects
1940	131	France falls	1976	1005	Economy slowly recovers
1941	111	Pearl Harbour	1977	830	Market slumps
1942	119	War-time price controls	1978	805	Interest rates rise
1943	136	Industry mobilizes	1979	839	Oil skyrockets, 10%+unemployment
1944	152	Consumer goods shortage	1980	964	Interest rates hit all-time high
1945	193	Post-war recession predicted	1981	875	Deep recession begins, Reagan shot
1946	177	Dow tops 200-“market too high”	1982	1047	Worst recession in 40 years, debt crisis
1947	181	Cold War begins	1983	1259	Market hits record –“market too high”
1948	177	Berlin Blockade	1984	1212	Record U.S. federal deficits
1949	200	USSR explodes atomic bomb	1985	1547	Economic growth slows
1950	235	Korean War	1986	1896	Dow nears 2000-“market too high”
1951	269	Excess Profits Tax	1987	1939	The Crash-Black Monday
1952	292	U.S. seizes steel mills	1988	2169	Fear of recession
1953	281	USSR explodes hydrogen bomb	1989	2753	Junk bond collapse
1954	330	Dow tops 300-“market too high”	1990	2634	Gulf War, worst market decline in 16 yrs
1955	485	Eisenhower has heart attack	1991	3169	Recession, “market too high”
1956	499	Suez Canal crisis	1992	3301	Elections, market flat
1957	436	USSR launches Sputnik	1993	3754	Businesses continue restructuring
1958	584	Recession	1994	3834	Interest rates are going up
1959	679	Castro takes over Cuba	1995	5117	“The market is too high”
1960	616	USS downs U-2 spy plane	1996	6448	Fear of inflation
1961	731	Berlin Wall erected	1997	7908	“Irrational Exuberance”
1962	652	Cuban Missile Crisis	1998	9374	Asia Crisis
1963	763	JFK assassinated	1999	11497	Y2K
1964	874	Gulf of Tonkin Incident	2000	10787	Technology Correction
1965	969	Civil rights marches	2001	10021	Recession, World Trade Centre attack
1966	786	Vietnam War escalates	2002	8342	Corporate Accounting Scandals
1967	905	Newark race riots	2003	10454	War in Iraq
1968	944	USS Pueblo seized-“market too high”	2004	10783	US has massive trade & budget crises
1969	800	Money tightens, market falls	2005	10718	Record oil & gas prices
			2006	12463	Housing bubble bursts
			2007	112402	Sub-prime loan issue

Source: DJIA – Dow Jones Industrial Average
CI Investments

BEING LOCKED-IN IS NOT A LIFE SENTENCE

Part 2

Ian G. Johnson, CFP

In the previous issue, we described the new Ontario LIFs (Life Income Funds) and examined important changes to the provincial rules and regulations governing locked-in accounts. The biggest change was the one-time opportunity to withdraw or transfer to an unlocked RRSP (Registered Retirement Savings Plan) or RRIF (Registered Retirement Income Fund) an amount up to 25% of the total market value of the assets transferred into the new LIF.

In this article, we will examine other ways in which to transfer locked-in monies to unlocked retirement plans, or even withdraw the funds.

Small Amounts

When the owner or annuitant of a locked-in account is over the age of 55 and has less than 40% of the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (\$17,960 in 2008) in all of his or her locked-in accounts, he or she may either receive the entire amount in cash, which is taxable, or transfer it directly to his or her own RRSP or RRIF. If the plan holds desirable or transferable securities, the owner may also request that the transfer or payment be made "in kind" rather than in cash.

Financial Hardship

In times of serious financial or medical hardship, a LIF owner of any age may be allowed to withdraw funds for certain expenses. This, however, would be considered as a last resort and used only when there is no other sufficient source of money.

Particular circumstances that may warrant consideration would include:

- Inability to pay the rent or mortgage.
- Risk of eviction from a home or rented residence after receiving formal notice.
- Annual expected total personal income before taxes is \$29,133 or less (2007 figures. This amount changes every year.)
- Life expectancy is 2 years or less, or the LIF owner requires the money to pay for serious medical costs for self, spouse or any family dependent. The claim can be for expenses already paid or anticipated in the near future, and must be supported by a written opinion from a certified Canadian doctor.
- The funds are required for residential renovations

to accommodate wheelchair or other needs related to disability or illness in the family, with supporting medical evidence and opinion.

Persons who feel they are eligible for any of these special access options should contact the financial institutions holding their account and apply for the release of the locked-in funds on a form approved by the Financial Services Commission of Ontario (FSCO).

The FSCO will charge a fee to successful applicants to offset partially their administration costs. The amount incurred will be 2% of the amount allowed to be withdrawn, to a maximum of \$600. There is a minimum fee of \$200. More information, on-line forms and guides are available on the FSCO website at www.fSCO.gov.on.ca.

It is interesting to note that even if the owner has unlocked or withdrawn money under the new LIF 25% option, he or she can still apply for additional unlocking due to the financial hardship or other criteria.

FEDERAL PLANS

There are pension plans that are not governed under Ontario pension laws but are federally regulated. These plans, which include industries such as transportation, banks and telecommunications, as well as Crown corporations, operate under a different set of rules. To determine if this affects your pension plan, check with human resources or the plan administrator.

The February 2008 federal budget outlined proposals to amend the rules and regulations for these plans, and these have now been passed as law. This makes it easier for people to transfer or withdraw from their federal LIFs under certain circumstances.

Small Amounts

In situations where the owner or annuitant is at least 55 years old and holds \$22,450 or less in his LIF or locked-in RRSP, he or she is entitled either to receive the entire amount in cash (which is taxable) or to transfer the funds to a non locked-in plan. The \$22,450 maximum level will be increased annually.

Financial Hardship

These rules are similar to those in Ontario. Those persons who are suffering from severe disabilities or medically

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BEING LOCKED-IN IS NOT A LIFE SENTENCE

Part 2

related costs, or who have low annual incomes, can apply for special access to release locked-in monies. If successful, they can withdraw up to \$22,450. Again, this dollar limit will be increased annually.

Partial Unlocking

If the owner or annuitant is 55 years of age or older, he or she can, on a one-time basis only, apply to withdraw or transfer to a non locked-in plan up to 50% of the value of their LIF or locked-in RRSP account.

By reducing the heavy restrictions on locked-in funds, these provincial and federal amendments have moved plan flexibility a major step forward. It will be interesting to see if many eligible persons will rush to gain access to their

locked-in monies and spend it prematurely. The fact that the funds are fully taxable may be a deterrent.

Are these steps reducing paternalism too much? Will the rules continue to be liberalized or, over time, removed completely? After all, governments are facing a rapidly aging population that has considerable lobbying power.

Although there is a growing trend away from registered pension plans, even those with defined contributions, they still have an important place in providing sustainable retirement income. To allow full access may be a mistake and may hasten the decline of pension plans. The debate will continue and we hope cool heads will prevail.

WOMEN & MONEY 101

Vicki Lungu, CFP

From the time we enter the adult world until our retirement, we're told that we should be saving for our future. But many women find money intimidating and have difficulty both thinking about this and actually doing it. Despite taking great strides toward financial independence, women remain largely uninvolved in issues critical to their long-term welfare, particularly regarding investment decisions.

There are several reasons why we may be hesitant to think about our financial future:

- The men in our lives have always taken care of our money.
- We feel it's outside our control.
- We have never learned good money management skills.
- We have always had enough money, so we assume we always will.
- We have never had enough money to worry about any surplus.
- We are afraid of losing the money we do have by investing it unwisely.

When thinking about our financial future, it's important for us to remember some of the persistent and not so pleasant facts about women and money in Canada:

- On average, women earn 72% of what a man earns.
- Women may enter the workforce later, and leave it sooner and more often, than men.
- Disproportionate numbers of women still work in low-skill, low-pay jobs, and in part-time or term employment.
- Women often find themselves the major caregiver to their children as well as to parents.
- Without their husband's income, 50% of married women would live in poverty. After a divorce a woman's income drops an average of 45%.
- On average, women live six years longer than men. Half the single women 65 or older live in poverty.

These facts alone should be enough to motivate you to think about and do something about your financial future.

Here are some suggestions.

Get informed and get advice

First of all, find out about your benefits at work and those that are available through government plans.

A financial advisor can help you develop a savings investment plan, and whether you're a beginner or a sophisticated investor, the Internet is a great source of

WOMEN & MONEY 101

financial information. Courses can also be a good idea and lots of great articles and books are available. It's better to know how to manage your money before you have to do it.

Investing and perfection don't go together – don't worry about not knowing enough. The key is to get involved and improve over time.

2. Saving vs. Investing

Women are becoming more interested and better informed about investing, but many are still uncomfortable with the idea and tend to be more conservative than men. As a result, they hold their investments in GICs (Guaranteed Investment Certificates) and savings accounts. It may sound strange, but bank accounts are risky too. If you put all your money in your bank account and earn 1% or 2% interest, you will not keep pace with inflation.

You need to put money into investments that will grow at a faster pace. Consequently, you have to assume some risk in order to earn a decent return. And remember not to put all your eggs in one basket. Diversification will give you more return for less risk over the long term. Different kinds of investments respond differently to different market conditions. Being diversified protects you.

3. Start early

Start saving as early as possible. This will set you on the right path for saving throughout the rest of your life, and increase your confidence that you can do it. If you invest \$100 per month at 6% from age 25 to age 45, by the time you reach 65 you will have accumulated more than \$145,000. If you invest the same \$100 per month from age 45 to 65 you will accumulate just over \$45,000. However, regardless of how old you are, it's never too late to start saving.

4. Keep out of debt

Debt can be a serious impediment to one's ability to save and can easily spiral out of control. If at all possible, minimize your debt or use debt to buy something that will likely increase in value, such as a house. Remember too, some interest rates are much higher and therefore more dangerous than others. Credit card interest charges can be as high as 22%. Try to avoid charge accounts with a high interest rate and pay them off quickly.

If necessary, be vigilant about living life more frugally in order to pay down your debt. Start bringing your lunch to work. Skip the morning Starbucks. Brown-bagging your

lunch may not be the most glamorous thing but neither is turning into a bag lady. You'll be amazed at how much you're saving once you've scrutinized your every spending habit and slashed unnecessary expenses.

5. Get insurance

Insurance is especially important in situations where one or more family members is dependent on the income of another. For example, for stay-at-home women with young children who are relying on their partners' incomes, the death or disability of a wage-earning spouse could mean substantial financial hardship. Single women without children tend to have less need for insurance.

When buying life insurance, distinguish clearly between buying protection against loss of income (often best achieved through term insurance), and paying into a savings program (often done in a whole life policy). If you need protection, don't put your insurance dollars into a savings program. Also, make sure your income is insured against a disability.

I hope that I've inspired you to take charge of your finances and as always, make sure you get sound advice from a financial professional.

The Personal Financial Advisor

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