

The Personal Financial Advisor

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NURSING HOMES OR NURSED AT HOME?

Ian Johnson, CFP, PRP

There are currently 613 nursing homes in Ontario housing approximately 77,000 elderly residents. The majority of homes are non-profit, administered by the government under the Long-Term Care Homes Act. The “for profit” facilities are expensive, especially for the average family.

The level of care provided to the residents of non-profit nursing homes can range from high quality to inferior. Indeed, there have recently been some shocking stories in the media regarding the sub-standard conditions encountered by residents of some facilities.

A major reason for this is inadequate government funding and staff shortages, which result in patient neglect in such areas as diaper changing, violence, abuse, food insufficiency and lack of mobility assistance.

The government is aware of the problems and has been proactive in addressing them through measures such as more funding, additional staff, surprise inspections and nursing home councils. Ontario is already spending 46% of all its non-debt spending on healthcare and the pressure to keep increasing this amount is relentless.

An Alternative

Many seniors are now living longer and maintaining better health. They want to enjoy independence and dignity by living in their home for as long as possible and this is also the best choice for the average family. As their loved ones age and require additional assistance, the family is often reluctant to move them into a

nursing home. For such families, home care may be the best solution.

Home care will provide all the necessary medical and social services for seniors to recuperate or to function independently in their own home. The care includes daily nursing, therapy, respite care and medical equipment and supplies, as well as community services such as Meals on Wheels, transportation, homemaking, companionship and recreational services. There are also financial assistance programs to help seniors to purchase medical equipment or make home adaptations.

Access to Home Care

In Ontario, publicly funded home care services are coordinated by Community Care Access Centres (CCACs), which are agencies that provide information on homecare options. There are 14 CCACs throughout Ontario currently serving 185,000 seniors.

CCACs (also known as Local Health Integration Networks or LHINs) are mandated by the provincial Ministry of Health and Longterm Care to provide access to in-home medical and community support services. Under a new Aging at Home strategy announced in August, 2007, the government will invest, through the CCACs, home and community living funds totalling \$700 million to enhance quality home care. Of this amount, 20% will go toward innovative projects.

More information on home care can also be obtained through the Ontario Home Care Association whose members are providers of

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quality home care services. The association (www.homecareontario.ca) advocates and promotes home and community care and helps shape healthcare policy.

The Ontario government has recently opened a website (www.seniorsinfo.ca) to provide information on government services to seniors. This website is part of a national network (the Collaborative Seniors Portal Network) developed by all three orders of government, numerous seniors groups and service providers. There is also a Ministry of Health and Longterm Care information line (toll free: 1-866-532-3161).

In addition to the government-funded programs, home care services can be obtained through private companies (for example, Eldercare Home Health Inc.) or through private insurance benefit plans.

Conclusion

Home and community care is cost-effective and is an increasingly integral component of Canada's healthcare system. It prevents unnecessary hospitalization or premature institutionalization and enhances the quality of life for participating seniors. And as more in-home medical technology develops, it will further improve at-home medical support.

Home and community care has comprised only about 5% of overall healthcare spending in Ontario. However, with government initiatives such as the Aging at Home strategy, it is hoped support will continue to increase and all will recognize the value of home care programs.

RESPS VERSUS TRUSTS AND IN TRUST ACCOUNTS

Vicki Lungu, CFP

When it comes to saving for your children or grandchildren's education, one of the first decisions is to choose the best investment vehicle for achieving the desired goal. For many, the dilemma lies between choosing an RESP (Registered Education Savings Plan) or an "in trust" account. Ideally, the best plan allows savings to grow as quickly as possible without the donors incurring tax liabilities. It also permits as much flexibility as possible in using the saved funds.

There is no perfect vehicle. Both RESPs and in trust accounts have their pros and cons. The answer depends upon the specifics of your family situation. While RESPs are simple and usually mean that you get "free money" in the form of a government grant, in some cases the trust can be the better choice. We have discussed RESP accounts in length in a previous article and so the thrust of this article will be trust and in trust accounts.

There are two types of trusts -- formal and informal -- that may be used to save for a child's future needs. Both are legal structures that operate in essentially the same way: money is placed in trust by a parent or other "settlor" (the legal term for the person setting up the trust), and a trustee invests the money and oversees the administration of the trust for the benefit of a child (beneficiary).

Formal Trust Accounts

A formal trust is a legal entity. The trust document clearly identifies the donor, the trustee and the beneficiaries, provides broad investment instructions for the trustee, details how and when trust property can be distributed to the beneficiaries, places restrictions on the use of income and capital of the trust, indicates the intended life of the trust (this may go well beyond the age of majority) and explains what happens in case of the death of the trustee or beneficiaries.

A formal trust has up-front and ongoing administrative costs and is more appropriate for larger sums of money. You are required to file annual tax and information returns. Taxes on investment income are paid by the trust, unless they are distributed to the beneficiaries. Because of the low tax rate for most children, it is often a good idea to let them assume the tax responsibilities.

Informal In trust Accounts

An informal in trust account is relatively simple to set up with a bank, investment dealer or other financial institution. There are no set-up or ongoing fees and this type of trust is suitable for smaller amounts. The beneficiary, however, could assume control upon reaching the age of 18 (a child under 18 cannot enter into a legally binding contract). This

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could cause problems if the beneficiary is not mature enough to handle large amounts of money.

With an in trust account, a parent or grandparent can transfer cash to and make investment decisions on behalf of a minor. Essentially, the minor is the beneficial "owner" of the account and the adult has given up all rights to use the investments in the account for his or her own benefit.

When a donor contributes or transfers assets to an in trust account, he or she is deemed to have disposed of these assets at fair market value on the transaction date. If the market value of the transferred asset is greater than its original cost, the donor may be subject to capital gains tax. The informal trust would then be deemed to have acquired these transferred assets at the fair market value on the transfer date.

All investment decisions are made for the benefit of the minor. There are no limits on the amount of funds that can be contributed to the account and all funds can be used at any time for any purpose that benefits the child, other than food, clothing and shelter.

In trust accounts are also a convenient way of investing money that rightfully belongs to the child, such as inheritances or child tax benefit payments. They can also be used to manage a variety of investments, including mutual funds, stocks, bonds and GICs.

Since an in trust account may not be recognized in law without suitable supporting documentation, it is important to ensure that you properly complete the application establishing the in trust account. It is also a good idea to ensure that the trustee and the donor are not the same person. For example, one spouse may donate cash to the trust while the other spouse acts as trustee, or a grandparent is the donor while the parents are the trustees. By doing this, you will avoid future tax issues with the Canada Revenue Agency (CRA).

Taxation of an In trust Account

Contributions made to an in trust account are not tax deductible. Taxation depends on the type of income generated and the source of the funds. If the funds come solely from child tax benefit payments, an inheritance to the child or income from a child's part-time job, all tax on the income would be attributed to the child and not the donor. You should keep all relevant documentation in case there is a challenge from CRA.

If the funds originate with the donor, any interest and dividend income earned is attributed back to the donor until the child reaches the age of majority.

The child pays tax on the capital gains and second-generation income (income from re-invested interest or dividends) earned in the account. This provides an excellent opportunity to split investment income with a minor. For example, if the money in the account is used to purchase equity mutual funds that are expected to distribute mainly capital gains, the child would pay tax on these gains and any gains realized on the sale of the funds. Since most children will not have any other income, approximately \$17,600 in capital gains can be reported by the child without incurring a tax liability (only 50% of the gain is taxable). This income is offset by the child's basic personal exemption (currently \$8,839). If the parent who provided the funds to the account is in the top tax bracket, the tax savings realized annually would be approximately \$4,000 (assuming 46% marginal tax rate). With the impact of compounding, these savings could be substantial by the time the child turns 18 years of age.

You could also choose to pay tax on any capital gains from time to time, whenever they reach the \$17,600 threshold. This way, when the funds are eventually withdrawn, the cost base of the account will be close to the market value and there will not be too much tax to pay.

The chart on the next page sums up the main differences between formal and informal trusts and RESP accounts.

Which is best?

For some people, having fewer rules is a good thing. For others, it could lead to problems. Suppose you disapprove of the way your child decides to use the money, such as buying a sports car instead of going to university or buying a house? If this worries you, look for savings plans that offer ways to keep control of the money.

You could consider a combination of both plans for maximum benefits and flexibility. Invest the Child Tax Benefit, any inheritance the child has or income from part-time jobs in an in trust account. This way, the beneficiary pays tax on all income. Keep in mind that proper documentation as to the source of the funds is required, or CRA will challenge it. If you like to maintain ownership of your contributions and the money is to be used for post

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Account type	Savings limit	Gov't grant	Tax advantage	Limitations of using the funds	Who gets the money if the child does not go to college or university
RESP	\$50,000	\$7,200	Investments grow tax free. No tax deduction for contributions. Beneficiary pays tax on gains at redemption.	Funds must be used for education related expenses.	The contributor gets back the amount invested, grant returned to the gov't. Special rules for capital gains.
Informal Trust	No limit	None	Beneficiary pays tax on capital gains. Income attribution rules may apply.	None, providing the money is used for the benefit of the child	The child at the age of maturity.
Formal Trust	No limit	None	Beneficiary and/or trust pay tax on income.	According to the trust deed.	According to the trust deed

secondary education, the RESP is the way to go. For maximum benefit, invest at least \$2,500 per year for each child in an RESP account and take advantage of the \$500 grant from the government.

Using this combination, the RESP portion reduces the amount of capital the child can control at age 18 while the in trust portion will provide the flexibility lacking in the RESP account. Note that you cannot transfer funds from an in trust account to an RESP account. This would be considered a breach of trust because contributions to the RESP would then belong to the contributor (you) and not the beneficiary (your child).

In trust accounts are popular because of their investment potential and the opportunity they provide for splitting any capital gains with a minor. The drawback is that when the child turns 18, the parents cannot maintain control of the assets. Where significant growth in assets has occurred under an informal trust arrangement, the parents may wonder if the informal arrangements can be formalized before the child has the legal right to deal with the assets? There are options available, but professional advice should be obtained prior to any implementation.

TAX-ADVANTAGED INCOME SOLUTIONS

Robert DeMelo, CFP

With the leading edge of the baby boomers about to enter retirement age and an enormous wave in close pursuit, it is timely that we mark the close of 2007 with some ideas about turning your non-RRSP assets into tax-efficient income. It is particularly important to develop such a strategy when we consider that life expectancy is now greater than ever before. We know, for example, income from GICs paying 4% to 5% is all fully taxable, and at this rate you will soon run out of money.

Here are three possible strategies for you to consider.

T-SWPs (Tax-Efficient Systematic Withdrawal Plans)

An investment made in a T-SWP mutual fund allows for

growth of the investment while delivering regular tax-efficient income. Many mutual fund companies offer a wide range of income, balanced and growth mutual funds with a feature that allows investors to draw income. It is the tax treatment of this income that makes T-SWPs unique — it allows you to defer taxes until you redeem the investment. This is due to the unique structure of its monthly distributions, which don't require unit redemptions.

The cash-flow distributions consist primarily of "return of capital," which is part of your original investment and not subject to tax (return of capital from non-registered investments is not taxed because it's invested as after-tax

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dollars). Each month, you will receive a target level of cash-flow as a percentage of the fund's market value (5% or 8%). Investors should not confuse this cash-flow distribution with the fund's rate of return — that will depend on the underlying fund's performance.

Keep in mind, the monthly cash-flow distributions are not guaranteed. And eventually the original capital could run out, effectively reducing your adjusted cost base (ACB) to zero. All future withdrawals will then be taxed.

In summary, the T-SWPs allow you to:

- defer tax
- realize more tax-efficient cash-flow than guaranteed investments
- capitalize on tax-favored dividends and capital gains
- potentially reduce government claw-backs
- help preserve or even grow investments for the future
- make a tax-free switch within the same fund family

Annuities

You can gain significant tax advantages with a "prescribed annuity," whereby the tax load is spread over the life of the annuity, setting a prescribed taxable amount that never changes. Rather than paying tax on a large portion of the annuity payments in the early years, the tax burden is

spread out over the life of the annuity, resulting in tax-efficient, guaranteed cash-flows until death.

Keep in mind, with an annuity, that once you have given your funds to the insurance company, your capital is gone. Should you die the next day, your payments will cease immediately, unless you've also purchased a minimum guaranteed term. These annuities are often coupled with life insurance, which pays out tax-free when your annuity ceases. For those wishing a guarantee, this can be much better than a GIC.

Guaranteed Withdrawal Plans

Guaranteed Withdrawal Plans are offered by major life insurance companies. These "guaranteed income" plans are structured to provide a 5% guaranteed income and possible capital appreciation of the original investment.

To make the non-registered investment as tax-efficient as possible, income payments are treated as regular fund withdrawals. Therefore, only a portion of the income will typically be taxed, and that portion is often classified as more tax-friendly capital gains.

Since many of these payments include little taxable income, they could keep your income low enough that you do not give up your Old Age Security.

CARING FOR THE ELDERLY: WILL YOU BE PREPARED?

Fabio Ventolini, CFP, CDFA

Statistics Canada reports that more than 1.7 million Canadians aged 45 to 64 provide informal care to seniors with long-term disabilities or physical limitations. Some 10% of those caregivers themselves suffer from health problems and one-third incur extra expenses as a result of assisting an aging relative. If you are not looking after a senior now, chances are you will be in the future. Extended life expectancies mean people are generally living longer and many family members will experience a disability as they age.

Too frequently, scenes similar to this one are played out in families all across the country. The phone rings and it's your mom. Your father has had a stroke and, while he is likely to survive, he is going to require more care than your mom can handle. You quickly rearrange your schedule to free up a few days but after visiting and assessing the

situation, you realize that the situation is not temporary and your parents, particularly your mom, have some big decisions to make.

A crisis such as this can suddenly thrust you into the world of eldercare, leaving you scrambling to make arrangements and decisions in an environment that is often emotionally charged.

Caregiving in Canada

According to a survey conducted for BMO Financial Group by Ipsos Reid in March, 2007:

- 34% of baby boomers currently provide some assistance to an aging family member;

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- 44% involved in care are still supporting children financially;
- 20% have had to take time off work and 19% say it has affected their finances;
- 25% indicate they have had to change their retirement plans;
- 75% of baby boomers have yet to plan for their own end-of-life care.

Even under the best of circumstances, it is easy to become overwhelmed and experience great stress if you have the responsibility of caring for an elderly relative. If you are a member of the “sandwich” generation, coping with the needs of children while caring for an aging relative, the stress will be even greater.

While there may not be much you can do to change your aging family member’s situation, you can reduce the stress by planning ahead. Decisions and choices are far better made without the pressure of an immediate crisis, while the affected family members are in good health and can participate in the decision-making.

Talking to your parents or other aging relatives about the caregiving they may need is never easy. There is no good time to have this conversation but the best time to start it is now. Rather than having a planning meeting, keep the conversation casual, asking a few questions at a time and revisiting issues over the course of several discussions. If there are siblings, it is vital to share information, as parents often relate differently to each child. Sometimes parents may be worried about not being able to leave a legacy if care is expensive, so you may need to reassure them.

Once you have a good idea of the type of care desired, you’ll want to investigate the options and evaluate the financial implications to your parents and to yourself. In anticipation of this, you or your partner may wish to set aside some contingency funds or consider long-term care insurance.

Long-term care insurance provides a daily benefit if you lose the ability to care for yourself, and require the services of a long-term care facility or need care at home. It also protects two generations: parents and children. It provides parents and children with peace of mind and the resources to maintain their lifestyle and financial security. It also provides children with an alternative to providing care for their parents.

Long-term care insurance pays a daily benefit if the insured:

- Loses the ability to care for him/herself, due to cognitive impairment or a condition that results in the inability to perform two or more activities of daily living. This could be the result of Alzheimer’s disease, a stroke or some chronic illness.
- Requires the services of a long-term care facility or professional assistance at home.

This type of insurance could be of interest to older people, if they qualify to buy it. It can also be a welcome addition to your own insurance coverage, so your own children will not be placed in the position of caring for you, both financially and with your day-to-day needs.

Are you insured?

If you plan to go shopping across the border, don’t forget to buy travel insurance. Should you have an accident or fall ill in the U.S., provincial health plans will cover only a small portion of your healthcare costs.

THE LOONIE AND THE GREENBACK

Chris Snyder, CFP, RFP

The big financial event of the year is the surprising strength of the Canadian dollar versus other currencies, particularly the U.S. dollar. No one predicted this. At its peak, our dollar went up 20% against the U.S. dollar over a 6 month period, and more than 60% since 2002. It is also up slightly against the Euro and other currencies, year to date, and up 10.94% over the past five years. This is the highest the Canadian dollar has been against the U.S. dollar for some

30 or 40 years — in fact, many Canadians have never experienced this in their lifetimes.

This change in currency has affected two main areas of life: investments and consumer purchases.

For some, a strong Canadian dollar has been a positive thing. It has been good for those who wish to travel, those

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THE LOONIE AND THE GREENBACK

CANADIAN DOLLAR APPRECIATION

November 2006 to November 2007 (1 Year)

Against US Dollar	18.75%
Against the Euro	1.56%
Against the British Pound	9.75%
Against the Japanese Yen	6.80%

who live close to the border and buy south of the border and those whose investments are predominantly in Canada. It could also lower the costs of internationally-made goods that we buy in Canada. However, the soaring loonie is not so good if you are a manufacturer, if you have invested a lot of your money in the U.S., if you have property in the U.S. or if you are in the tourism business and depend on Americans coming to Canada.

This currency shift has led many of our clients to ask, “What should I do with my investments?” and “What do you think about me buying a car in the U.S.?” Not surprisingly, there is no simple answer.

First, we need to understand some facts. The following table shows how the Canadian dollar has performed against the world’s major currencies during a one- and five-year period.

The strength of the Canadian dollar relative to that of the U.S. is a function of many things:

- The U.S. currency was overpriced for many years and is now undergoing a correction.
- The Canadian economy is strong, thanks in part to the devaluation of our dollar many years ago.
- Lady Luck is on our side. Since Canada has great resources (oil, gas and minerals) and global demand is currently very strong, Canada has boomed.
- The U.S. dollar, for a number of reasons (war, balance of payments, poor political leadership, overspending), has been very weak.

While currencies fluctuate and often over-react, the magnitude of the recent changes is unusual.

A currency’s value is a result of many factors, including:

- the underlying strength of the economy and government policy;
- speculators who drive the price and value of a currency up or down;
- interest rates;
- direct control by a government (for example, China)

November 2002 to November 2007 (5 Year)

Against US Dollar	62.50%
Against the Euro	10.94%
Against the British Pound	21.95%
Against the Japanese Yen	48.48%

Currencies fluctuate for a number of reasons.

If currencies get out of line, our systems have built-in corrective mechanisms. If a currency is too strong, rebalancing or repricing provides manufacturers and others a relative price advantage, which gives them a more competitive edge when they sell internationally. We have witnessed this in Canada. In the late ’80s and ’90s, the Canadian dollar became worth less than the American but it proved to be a boon to Canadian businesses that sell internationally, producing strong profits and large returns for investors. The current dollar imbalance will eventually pay off for the Americans.

It is almost impossible to predict currency trends.

While some people can make short-term calls, it is very hard to predict anything long-term.

What, then, do we do about our investments?

Of late, we have received questions ranging from “Since the Canadian dollar is so strong, should I sell everything outside of Canada and invest it here?” to “Since the Canadian dollar is overpriced, should I invest all my money in the U.S.?”

The answer to both questions is “No.” If you put all your money in one currency, you are changing strategies from being a long-term investor to being a speculator. Nobody can tell you the outcome.

There are ways in which you can protect yourself against currency swings. One of the most common is to buy an investment that is hedged against currency fluctuations. Many investment funds, such as the Cundill Value Fund, actually do hedge. Because of this, the fund’s value during this year has not changed much, whereas some of the good long-term global funds are down 10% to 15% because of the currency fluctuation. Hedging, however, can work both ways. If the currency strengthens against the Canadian dollar, it could work against you. A prudent and

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defensive approach would be to ensure that some, but not all, of your investments are hedged.

Another way of protecting yourself is to ensure that you are geographically diversified. It is worth remembering that Canada has only a small fraction of the world's stocks – less than 3% — and if you were to invest only in Canada you would have no investments in sectors such as pharmaceuticals, other healthcare products, infrastructure companies and technology companies. Investing in companies that do business around the globe does provide some built-in protection.

Should I increase my US purchases?

If you increase your U.S. purchases, you should remember that other costs are likely. First – with many purchases (except for e-trade and catalogue shopping), you have to go physically to the U.S. This takes time, increases transportation costs and possibly incurs duties that could more than offset your savings.

Big-ticket items, such as cars, could be an exception since there may be savings of between \$8,000 and \$10,000. However, many of the cars from the U.S. do not meet Canadian regulations because they lack anti-theft devices. Canadian buyers have had these cars impounded in the U.S. and not allowed in to Canada. Recently, government officials have partially relented and allowed the owners to drive the car home, but once there, it must remain in the garage. Canadian car prices have just started to come down and we are confident they will solve the cross-border issue. However, if you still want to buy a car in the U.S., remember, it will usually take several trips before you make the purchase.

Books and other items can certainly be bought online for less money (but watch for currency charges by the banks). In fairness to Canadian booksellers, they purchased many of their books at prices established months ago at the then

current exchange rates. Hence, they are stuck with these costs. Many of them are launching book sales and we believe it is just a matter of time before book prices will be the same in both countries.

Finally, it is a good idea to examine the real cost of buying in the US. I recently visited a liquor store in New York State and found the price of my purchase was really no different than it currently is in Canada.

What about the future?

Some pundits predict that the U.S. dollar could fall back to the \$0.85 to \$0.90 range. Others estimate that it could settle around \$1.10 to \$1.15. Still others say that the real value is \$0.95 - \$1.00. The real answer is nobody knows. What we can suggest is:

- If you are buying something out of the country, research it well in advance. Make sure documentation, such as warranties, is in place, find out about servicing and ask yourself, “Do I really need it?”
- If you are investing, be sure (as we have suggested for a number of years) that a large percentage of your investments are non-Canadian. There are some real bargains out there, just as there were some great Canadian bargains five to 10 years ago. Good investment managers will buy companies that will do well in spite of the high loonie.

Forward to 2008

While this newsletter will arrive after Christmas, we do hope you were able to enjoy the spirit of the season and enjoy a pause before you move into a meaningful 2008.

Again this year instead of cards, we have made a donation to the Yonge Street Mission in Toronto and to Dignitas International, a Toronto-based group doing some wonderful community-based AIDS work in Malawi.

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Circulation Enquiries: Julie Dunaiskis

Editorial and Consulting Enquiries: J. Christopher Snyder, CFP, RFP; Ian G. Johnson, CFP, PRP; Robert DeMelo, CFP; Fabio Ventolini, CFP, CDEA., Vicki Lungu, CFP

100 Simcoe Street, Suite 100
Toronto, ON M5H 3G2
Tel.: 416-364-0181, Fax: 416-364-5394
Toll Free: 1-800-665-0181
E-mail: info@eccgroup.ca