

Well-Advised



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With RRSP season here again, it's important to remember that planning for a secure retirement should be just one component of your overall financial plan.

Taking into account your near-term plans, such as financing a home renovation, or saving for your child's education, will ensure that your financial life and its many goals doesn't just start at retirement.

If you have other goals you'd like to be able to reach, please give us a call. We can talk about how your RRSP fits into your overall financial plan and how to make that plan keep working for you — from today, right through to retirement.

With today's choices, does an RRSP still make sense?



Recent reports in the financial media have questioned the ongoing value of contributing to a Registered Retirement Savings Plan (RRSP). The two supposed "threats" to the RRSP? The flexibility offered by the Tax-Free Savings Account (TFSA) and the favourable tax treatment that capital gains and dividends receive when they are held outside a registered plan.

The truth is that, for most investors, an RRSP remains the best choice for saving for retirement. Here's why.

A design with purpose

The RRSP was designed to help Canadians save enough for a comfortable retirement. The ability to deduct your contributions from your taxable income gives you a tax break — and an annual incentive.

The tax consequences of early withdrawals discourage you from using your RRSP for mad money or a vacation fund. Top that off with tax-deferred growth and it's clear why an RRSP should remain the cornerstone of your retirement savings strategy.

The TFSA, however, can also form part

of your retirement savings. While investments in a Registered Retirement Income Fund (wound down from an RRSP) offer tax deferral until withdrawn, TFSA withdrawals have no tax consequences.

However, the TFSA's annual contribution limit is just \$5,000 — which is, for most investors, well below their RRSP limit.

In addition, the TFSA's withdrawal flexibility can be useful for shorter-term goals, and is potentially too tempting for long-term goals like retirement.

Outside of a registered plan, interest, dividend income, and realized capital gains are all taxed differently. But by putting your RRSP money into several asset classes, you can lower the overall risk of your RRSP and help to keep your savings secure.

We're here to help

We will work with you to allocate investments among your RRSP, TFSA, and non-registered savings in a way that works best to achieve your retirement and shorter-term investing goals. ■

5 ways to pay less tax on your retirement income

Wouldn't it be nice if you could stop worrying about tax when retirement begins? You can't, of course, but by establishing your retirement income program early, you may be able to maximize tax efficiency and minimize headaches.

Here are five ways to help minimize tax on your retirement income, while keeping your overall plan on track.

1 Withdraw assets in the right order

Start with your Registered Retirement Income Fund (RRIF), only because you must withdraw a minimum amount every year. If possible, stick to the minimum. A RRIF is the least tax-efficient vehicle since withdrawals are taxable at your marginal tax rate.

Next, withdraw from your Tax-Free Savings Account (TFSA), the most tax-efficient vehicle because of tax-free withdrawals. Also good to know: TFSA withdrawals do not affect your eligibility for Old Age Security (OAS) and other income-linked government benefits.

Next, use the capital gains and dividend income generated by your non-registered equity funds, which receive favourable tax treatment.

2 Use a Systematic Withdrawal Plan

A Systematic Withdrawal Plan (SWP) is set up to provide a regular flow of income while maintaining or even allowing continued investment growth. It's most tax-efficient when used with non-registered balanced and equity funds, because of the favourable tax treatment of dividends and capital gains.

SWPs made up of "T-class" mutual funds offer a potentially more tax-efficient income stream. These plans are set up to provide regular income that is primarily return of capital (ROC), which is not taxed in the year of receipt. This means a potentially higher after-tax cash flow and could reduce the clawback of income-linked government benefits such as OAS.

T-class SWPs are advantageous if you have a large portfolio of non-registered growth investments because the payout amounts assume continued growth.

3 Split income with your spouse

The purpose of any type of income-splitting is to take advantage of one person's lower marginal tax rate, and since 2007, married and common-law couples have

been able to split eligible pension income. For individuals 65 and over, that means income that qualifies for the pension income tax credit, primarily RRIF payments (including Life Income Fund and Locked-in Retirement Income Fund), registered pension plan payments and lifetime annuities from registered plans.

For pensioners under 65, pension income that qualifies for income-splitting is more restrictive, but you can use a spousal Registered Retirement Savings Plan (RRSP) to split income if you plan on retiring before age 65.

4 Consider an annuity

With a life annuity, you make a single lump-sum purchase and receive guaranteed payments for life. You also receive a tax advantage when you purchase a "prescribed" annuity with non-registered funds — the annuity provides payments that are part interest, part principal, with the taxable interest portion spread evenly over the life of the annuity.

An insured annuity gives you the extra advantage of tax-free proceeds for your heirs upon your death.

5 Take advantage of tax-free rebalancing

While you are withdrawing retirement income tax-efficiently and while your investments continue to grow, you may find that your allocation among asset classes has shifted. By investing in corporate class funds, you will be able to rebalance across funds without triggering taxable dispositions.

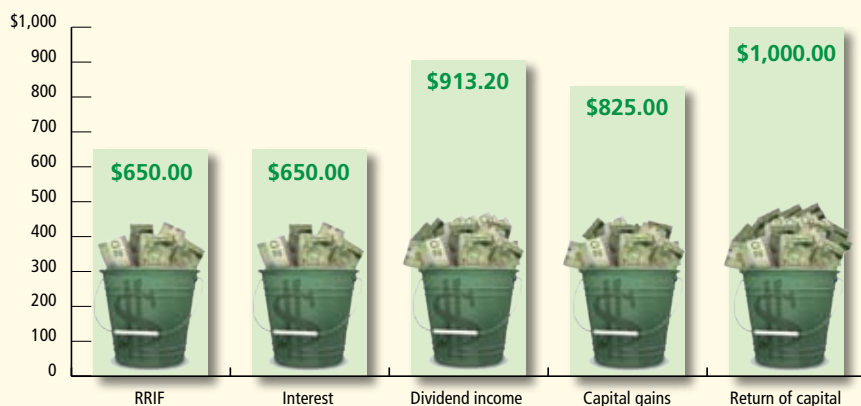
Planning begins now

Strategies for maximizing cash flow in keeping with your plans while preserving capital are central to managing your security and comfort in retirement. To achieve this, planning starts during your wealth accumulation years.

We are here to help you all the way through — from investment strategies during your income-earning years to income strategies during retirement. ■

It's what's left that counts

This chart shows what's left after tax on \$1,000 withdrawn from a RRIF and \$1,000 earned as interest, dividends, capital gains, and return of capital.* The example assumes a Saskatchewan taxpayer with a marginal tax rate of 35%, in 2010.



For illustration only. Actual tax rates will vary.

*Return-of-capital payments are not taxed in the year received but reduce the adjusted cost base (ACB) of your investment. Once the ACB is reduced to zero, payments are taxed as capital gains.

You can equalize your estate among your heirs



Leaving a legacy that's fair to all heirs is more easily managed if your estate assets are primarily investment funds and other liquid assets. But what if your situation is more complicated? Say, only one of your children is involved in the family business? Or all of your children want to inherit the lakeside acreage?

While equalizing your children's inheritances might seem to be an insurmountable challenge, it's possible. With careful, savvy planning, you can prevent a substantial amount of discord, and treat your offspring equitably. Here are some strategies that can be designed to suit some potentially challenging scenarios.

One child is running the business

Family businesses, family farms, and treasured vacation property are among the most common assets that call for an equalization strategy. The challenge comes from the fact that one doesn't typically have liquid assets

equal in value to the business or lakeside property to leave to another child.

For example, if you have a child who's already involved in running your business or farm operation, you will want to avoid liquidating business assets to equalize the estate.

A positive solution can be found with life insurance. This would allow you to name a non-active child as beneficiary so the insurance proceeds will become that child's legacy. The annual premium can be affordable, and the tax-free proceeds would be received by the child in a timely manner. In addition, because insurance proceeds are not included within the estate itself, they are probate-free.

Vacation property held in trust

Using a trust can be another solution. Let's say you have three minor children. None is ready to make a decision like wanting to inherit the family vacation

property. You can choose to have a testamentary trust established under your will so that a trustee can govern the use, timing, and ownership of the assets. The trust could hold the family vacation property (or life insurance policies or shares in your business) and the trustee can manage the distribution of estate assets in an equitable fashion and at the right time.

Communication is key

Drafting a will is crucial — but unfortunately does not guarantee that your wishes will be carried out as planned. Wills can be contested and assets tied up in the courts for years. So it's important that your heirs be equally content with their inheritance. The best way to ensure that this happens is through communication. Whether you talk to your children individually or arrange a family discussion, you want to arrive at a general agreement on how assets will be divided.

We can help you prepare a comprehensive summary of assets, listing each asset's current value, potential future value, and liquidity. This is a useful tool to give you a big-picture view for planning how assets would be most fairly distributed. If the nature of one or more assets presents a challenge, we can explore solutions.

You've worked hard to build your estate. We can help you with estate planning solutions that will give you the peace of mind of knowing that your heirs will be treated equitably. ■



Do you have an estate directory?

An estate directory? It may sound like a substantial,

leather-bound book, but it can be as simple as a piece of paper. Its purpose is to make important contact information easily available after you pass away. Preparing two different directories is ideal: one for your executor and one for your family members.

The directory for your executor should include:

- An inventory of assets
- Location of your will and tax returns
- Investment and bank account information
- Contact information for your financial advisor, insurance agent, accountant, lawyer and banker

The directory for family members should include:

- Any funeral instructions
- Life insurance information and contact details
- Contact information for your financial advisor, accountant, lawyer, and banker

How to navigate the retirement risk zone

In the old days of higher interest rates, it was easy to navigate the churning waters of the retirement risk zone — the five- to-10-year period that lies before and after your retirement date. You could drastically reduce equities when retirement approached and greatly increase your fixed-income investments and cash equivalents.

Today, the situation presents a bigger challenge: Low interest rates and our increased longevity call for more growth in our portfolio than in the past. A severe market downturn during that span can significantly erode your retirement portfolio and greatly reduce your retirement income. Fortunately, there are solutions to navigate the retirement risk zone safely.

Think safety net

Here are several smart strategies for navigating the retirement risk zone in the 21st century. They can be considered on their own or in combination, depending on your situation.

Gradually reduce portfolio risk, while maintaining growth. Instead of drastically reducing equities and sacrificing growth, you can gradually alter your investment mix over time. Every few years, for example, you could slightly decrease your equity holdings and increase your bonds and cash holdings by the same margin. Your portfolio evolves from a more growth-oriented mix to a more conservative mix, ultimately preserving your investment gains and generating income as you near and enter retirement.

Segregated funds offer protection of principal. Depending on the product, you

can typically choose 75% or 100% principal protection. This can act as a safety net, enabling you to maintain an investment portfolio oriented toward growth.

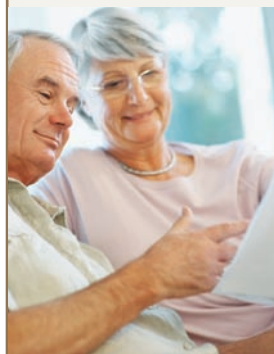
Consider a guaranteed retirement product. Certain segregated funds offer a Guaranteed Minimum Withdrawal Benefit that can guarantee an annual retirement income for life, based on a percentage of the funds you invest. You can choose the product just for retirement or start before, which offers a benefit: If you've made no withdrawals before retirement, you may receive an annual guaranteed bonus — even if markets plummet — that increases your annual income when retirement arrives.

Plan to draw income from secure holdings. This strategy applies to your retirement years, though you could establish the asset allocation earlier for safety. You dedicate a set amount of money market and highly conservative fixed-income investments to a pool from which you draw income for a specified period, for example two or three years. The rest of your portfolio holds equity and fixed-income investments providing growth and earnings designed to replenish the pool of secure holdings used to draw income.

We'll help you navigate

We can help you formulate solutions that suit your individual situation, your goals, your time horizon, and your risk tolerance. Talk to us so we can determine which strategy, or combination, will best take you safely through the retirement risk zone. ■

Is the spousal RRSP still of use?



Spousal RRSPs have long been used to split income during retirement. But pension income-splitting rules introduced in 2007 allow retired spouses to split up to one-half of any income that's

eligible for the pension income tax credit.

So the big question is whether spousal RRSPs are still useful. The answer is yes.

Split income before age 65. Before age 65, RRIF payments are not eligible for pension income-splitting; the rules apply only to lifetime annuity payments from registered pension plans. If you might retire before 65, a spousal RRSP can provide for eventual withdrawals to be taxed in the hands of the lower-income spouse before you turn 65.

Split more than 50%. You can split up to half of your pension income with your spouse. But what if you wish to split more? Using a spousal RRSP, you can transfer up to 100% of RRSP income to your spouse. The full amount of each RRIF withdrawal would be taxed in your spouse's hands.

Contribute past age 71. If you have passed the end of the year in which you turn 71, you can no longer have an RRSP. However, if you have earned income from rental property or working, you can contribute to a spousal RRSP until the end of the year your spouse turns 71. This way, you continue to reduce your taxable income.

Whether you have a spousal RRSP or are considering one, talk to us to determine how to best use it. ■

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