

# Well-Advised



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The arrival of spring, also known as tax-filing season, brings a convenient opportunity to "spring-tune" your finances.

In addition to your income tax return, it's a chance to review all your savings and investment plans to keep you on track and better position your portfolio for any inclement weather ahead.

Let's plan to get together soon to make sure you benefit from all the professional advice, tools and resources available. We can help make sure you're not missing out on any planning opportunities in context with your goals.

## Wondering how much you need to retire?



**T**o know how much income you will need in retirement, the first step is to think about the retirement you want. When you have a clear picture in mind, you can begin estimating your desired retirement income and keep your investment strategy on track to achieve your goals.

You may have heard guidelines about determining your retirement income goals, such as requiring 70% of your pre retirement income to maintain your current lifestyle. However, general rules don't apply to everyone. The amount you need during retirement is as unique as you are.

More than anything else, your retirement lifestyle choices affect your retirement needs. Here are four factors you should consider:

**1. Will you stay or will you go?** Income needs will be quite different depending on whether you plan to travel or to stay home to pursue interests such as learning a new musical instrument or volunteering for community organizations.

**2. Home sweet home.** Where you live is

a significant determining factor. Will you stay in your current home or downsize? Will you buy vacation property, spend winters down south, or even move to another country?

**3. To work or not to work.** Do you plan on working until around age 65 or retiring early? Or are you planning to remain in the workforce past age 65? Many retirees choose to work for social reasons or to remain productive, and not just for financial reasons.

**4. A lasting legacy.** Determine your personal financial obligations and wishes, such as:

- providing financial support to family members;
- leaving an inheritance; or
- making a significant bequest to a favourite charity.

Once we have a good idea of the kind of retirement you desire, we can determine the savings and income you will require. Together, we can keep your investment plan on track to secure the retirement you envision. ■

# Spousal strategies for saving tax



**E**ffective strategies for saving tax for married or common-law spouses require careful planning — you can't simply hand money over to the lower-income spouse. Here are five legitimate income-splitting strategies you can use with your spouse or common-law partner.

## 1. Pension income splitting

An individual 65 or over can split up to one-half of eligible pension income with his or her lower-income-earning spouse. Eligible income includes payments from a Registered Retirement Income Fund (RRIF), Life Income Fund (LIF) and Locked-in Retirement Income Fund (LRIF), registered pension

plan, or a lifetime annuity. If you are under 65, only lifetime annuity payments from registered pension plans are eligible for income splitting.

## 2. Spousal RRSPs

Spousal RRSPs have three main benefits:

- Withdrawals can be made from a spousal RRSP at any time (although withdrawals of contributions made within the previous two calendar years would be taxed in the hands of the contributor).
- While pension income-splitting rules allow you to split up to one-half of eligible pension income, you can use a spousal RRSP to split a greater percentage.
- If you are over age 71 and have earned income, you can contribute to a spousal RRSP, if there is eligible contribution room, until the end of the year your spouse turns 71.

## 3. Lower-income earner invests

When you and your spouse are both working, but in different tax brackets, if the spouse earning the higher income pays the bills and household expenses, the lower-income spouse can then use his or her capital to make non-registered investments.

This way, investment income is taxed at the lower marginal tax rate. You should have separate bank accounts when using this strategy.

## 4. Spousal loan strategy

The spouse earning a higher income can give a loan to the lower-income spouse to invest in a non-registered account.

A prescribed rate is set by the government for such a loan and it's currently 1%, the lowest it has ever been. Interest owed on the loan must be paid annually within 30 days after each year-end to keep the arrangement valid. The loan can be made in any amount, and tax on investment income is paid at the marginal tax rate of the spouse who invests the funds.

## 5. Hiring your spouse

If you own a business or are self-employed, you can hire your spouse as an employee. The position and work must be legitimate and the salary reasonable. When you use taxable income to pay your spouse, the salary will be taxed at the lower rate of your spouse's tax bracket, reducing the family's overall tax bill. This strategy also offers other benefits:

- Income paid to your spouse is a deductible business expense, reducing the income tax of the company or owner.
- The earned income builds up your spouse's RRSP contribution room (reducing tax even further if a contribution is made with the earnings).

We can help you keep more of what you earn. Ask us for more information on these tax-saving strategies. ■

## Tax-filing tips for couples or families

As you prepare for the tax-filing deadline, here are some tips and reminders for credits and deductions that are sometimes overlooked.

**Child care expense deduction:** In claiming all qualifying expenses, be sure to remember day camp and summer camp costs. If you have expenses that don't qualify for the deduction, check to see if they qualify for the children's fitness tax credit.

**Tuition and education tax credits:** Are these credits not needed for the post-secondary student's return? A supporting parent or grandparent can use

the tuition fee and education tax credits.

**Charitable donation credit:** You can pool both spouses' contributions on one tax return to increase the amount qualifying for the 29% federal credit.

**Medical expense credit:** You can choose any 12-month period ending any point in the tax year, to include the most medical expenses (not previously claimed). Also, you can pool expenses on the return of the lower-income spouse if that results in a larger credit.





## Diversification makes a world of difference

### Different ways to diversify

There are three primary ways to diversify globally: by geographic region, industry sector, and market capitalization.

**Geographic region.** By investing globally, you can participate in the world's leading stock markets — though it's impossible to know from year to year which one will rise to the top. In the past 10 years, the top-performing nation changed almost every year. Canada has been among the top three nations only once in the past 10 years.

**Industry sector.** Investing globally also enables you to build a portfolio well diversified by sector, which can be difficult if you focus only on Canada. The Canadian stock market is concentrated on three sectors — energy, financial services, and materials — which represent about 75% of the S&P/TSX Composite Index.

If you want to include the health-care sector, for example, it represents only about 2% of the Canadian market, but accounts for more than 10% in overall global markets.

**Market capitalization.** Diversifying by market capitalization is especially

strengthened through global investing. For example, if you want to invest in some of the world's largest and most attractive companies, you must simply look beyond Canada's borders. This especially applies to large-cap companies in the growing industries of health care, information technology, and consumer products. Of the largest 500 companies in the world (based on revenue) only 11 are based in Canada.

### How to invest

For many investors, actively managed mutual funds are the optimal way to participate in global markets. Mutual funds provide professional investment management and diversification, especially important in foreign markets. They are also convenient for investors.

Over the long term, a globally diversified portfolio has historically outperformed a portfolio invested primarily in the Canadian markets, while also lowering risk.

Investing when our dollar is strong — like now — provides greater buying power in global markets, making global investing even more inviting. ■

The Canada Pension Plan (CPP) Investment Board knows how important it is to invest beyond Canada's borders. The CPP Fund holds 73% of its equity portfolio in markets outside of Canada — and this from an organization whose mandate is “to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing returns without undue risk of loss.”

CPP Fund equity managers have confidence in the benefits of global diversification and resulting performance. In 2010, the CPP Fund posted an annual return of 14.9%, producing investment income of \$16.2 billion.

### Global opportunities

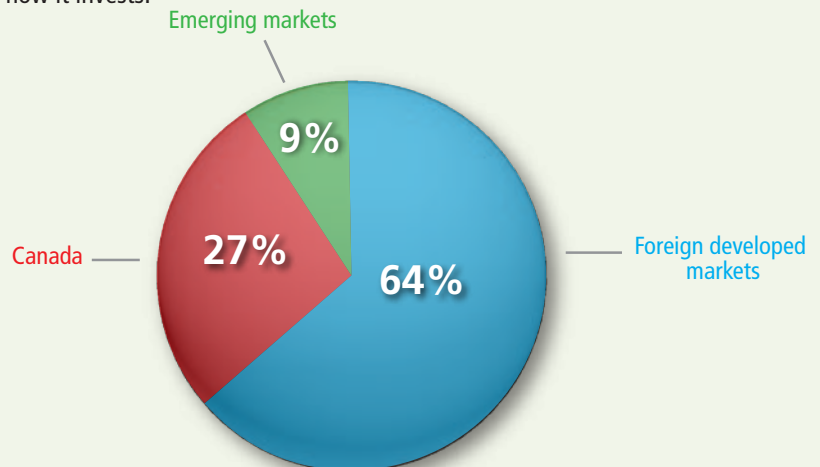
Many people feel safer investing in their own country, thinking they'll be exposed to greater risk if they invest in foreign markets. They choose companies at home that they know, and they may believe they're achieving a well-diversified portfolio. It's called domestic bias, and investors worldwide are prone to this practice.

But Canada represents only about 3% of the world's equity market capitalization. You simply miss out on too many opportunities if you limit yourself to the Canadian stock markets. Even if you expand your equity investments beyond our border to include the U.S. stock markets, you are still missing out on almost half of the world's investment opportunities.

Look at emerging markets, for example. Many investment experts believe that markets such as China, India, and Brazil have more growth potential in the coming years than developed nations, largely owing to their growing economies, large labour pool, competitive wages, and expanding domestic demand. Wouldn't you want some exposure to such an investment opportunity? The CPP Fund holds almost 10% of its equity investments in emerging markets.

## CPP assets embrace global diversification

Equity investments in the CPP Fund show great geographic diversification. Here's how it invests:



Source: CPP Investment Board, 2010. As at Dec. 31, 2010.

# How to plan for possible long-term care

Imagine that a retired couple is enjoying life to its fullest and spending quality time with friends and family. They have enough money to live on comfortably and have earmarked a significant amount of funds to leave as a legacy to their children.

But then one spouse develops an illness requiring 24-hour care in a long-term care residence. Now, literally tens of thousands of dollars every year are spent on long-term care not covered by government plans or insurance.

Developing a critical illness or ill health requiring long-term care can have significant financial consequences, eroding or even depleting your investment capital and estate. However, insurance coverage can protect your financial health.

## Two types of coverage

Long-term care insurance covers the costs of home care or a long-term care facility if you lose the ability to properly care for yourself and need help with daily living. With Canadians living longer, the chances increase that at some point you may require special care.

Consider these statistics: More than 40% of seniors will spend time in a nursing home or long-term care facility<sup>1</sup>; for a couple over age 65, there is a two-out-of-three chance that at least one spouse will go to a long-term-care facility.<sup>1</sup> Keep in mind, these statistics reflect only long-term care facilities. Many more Canadians are at home paying for personal care, meal preparation, supervision, nursing, and occupational therapy — costs covered by long-term care insurance.

Critical illness insurance is equally important. It pays a lump sum if you suffer a heart attack, develop cancer, or have



a stroke. Some policies cover as many as 20 or more critical illnesses and medical conditions. With the insurance payout, you will not need to touch your savings to pay for such costs as modifying your home or paying for out-of-country treatment or professional nursing care.

## Protecting yourself

No one wants to think they will suffer a critical illness, yet just about everyone knows someone who has been diagnosed with cancer, heart disease, or stroke. The facts bear this out:

- One in three Canadians will develop some form of cancer.<sup>2</sup>
- One in four Canadians will contract some form of heart disease or disease of the blood vessels or is at risk for stroke.<sup>3</sup>

Long-term care insurance and critical illness insurance are complementary, with each product protecting you against a different set of health risks.

We can help you determine the coverage that suits your situation and tell you about ways to purchase insurance with cost effectiveness in mind. ■

<sup>1</sup> The council on Aging of Ottawa, Long Term Care Insurance in Canada, 2008

<sup>2</sup> Canadian Cancer Society

<sup>3</sup> Heart and Stroke Foundation of Canada

# Protect your registered plan

For a great many Canadians, their Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) is their most significant estate asset — but it can also be their estate's largest potential tax liability.

Upon death, registered assets can be passed along tax-free to the surviving spouse, but those assets are considered taxable income on the final tax return when the second spouse passes away. Usually that means your heirs will be paying tax on it at the highest marginal rate, so up to half of the assets could go to taxes.

But there is a way to protect your RRSP or RRIF assets: life insurance. Using funds not required for retirement expenses, consider purchasing a life insurance policy on your life or a joint policy on the lives of you and your spouse, and name your heirs as beneficiaries.

The policy should have a face value equal to the estimated tax liability. That way, the insurance proceeds offset the tax liability, and the net effect is that your beneficiaries receive an amount equal to the full value of your RRSP or RRIF.

Life insurance is more effective than saving in a non-registered account to fund the tax liability, as life insurance proceeds are paid to beneficiaries tax-free.

We can help minimize the tax liability on your registered assets or overall estate.

Please talk to us and find out how life insurance could be a solution in your unique situation. ■