Compliments of: ***Ralph Vandervoort,*** ***C.H.S., C.L.U., Ch.F.C.***
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THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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FOCUS ON INSURANCE

A cost-effective way to protect your family's future

We wouldn't dream of driving without fastening our seatbelts. We wear bike helmets when we cycle. And we always pay attention during the pre-flight safety announcements. We know these things are going to protect us, so we do them almost automatically.

Term insurance is similar in a lot of ways. It provides an affordable, flexible way to safeguard some of the things that truly matter most, such as:

1. A stay-at-home parent. While the kids are young, the cost of replacing everything a stay-at-home parent does can be astronomical. On the positive side, kids are rarely dependent forever, which means that a 10- or 15-year policy can be a cost-effective way to protect your family's way of life during these critical years.

2. Your kids' education. By ensuring there's enough money to send the kids to post-secondary school, you're not only protecting their future, you're securing the dreams you have for them. The term you'd need for this policy would depend on the age your kids are when you take out the policy and how long you think they'll be pursuing their education. You may want to choose a term that will allow for an extended degree or apprenticeship program.

3. Your family's home. If something were to happen to you, your family could use the tax-free benefits of your life insurance to cover mortgage payments, ensuring your family could stay put during a time of emotional upheaval.

Have your needs changed? To make sure you have enough coverage to protect your family, call us today. ■

Mutual funds for the brave new world

The world is in motion — physically, economically, and politically. Here at home, we've just elected a new prime minister, and the U.S. will be going through its election process come November.

As if to further affirm that change is afoot, growth in the investment markets seems to be shifting away from the developing world and back toward the more stalwart economies of Europe, North America, and Asia.

But there are many shifting factors that can affect investment markets — and investment decisions. For example, lower commodity prices, especially oil, may have an impact on the economic growth of oil-producing countries (including Canada).

So how do we navigate this brave new world? Step one is to make sure your portfolio is calibrated to capitalize on the rich tapestry of global opportunities.

Opportunities abound

In the United States, even the possibility that the Federal Reserve (the Fed) will raise interest rates in 2016 isn't dampening investor enthusiasm. Rather, it's akin to taking the training wheels off a bike: If the Fed raises rates, it believes the economy can grow with-out fueling inflation and without intervention.

For the U.K., the Organisation for Economic Co-Operation and Development (OECD) expects the positive growth established in 2014 to gain pace through to 2016. Among positive indicators are wage growth and rising consumer demand.[1]

Meanwhile, the eurozone continues to recover from the turmoil in Greece. There is even optimism that the refugee crisis could usher in a sustained period of economic growth. While there are short-term costs to providing immediate necessities, the migrants are generally young, able-bodied, and capable of filling the gaps in the current European labour force.

Even Japan is beginning to see increased traction from its ongoing fiscal stimulus measures, which include labour market reforms and higher wages. In addition, ongoing weakness in the yen is positive for exporters.

There's a fund for that

There are three ways mutual fund investors can gain crucial exposure to these potential-rich economies.

1. Broad-based global equity funds. Broadly diversified global funds give us a way to capitalize on "big picture" prospects for the overall global economy. The fund manager and research team determine the countries, companies, and currencies with best prospects and invest accordingly.

2. Region-specific funds. For investors keen on specific economies, these funds can be a gateway to opportunity. Options range from single-country funds (U.S. growth, for example) to entire regions (such as Europe).

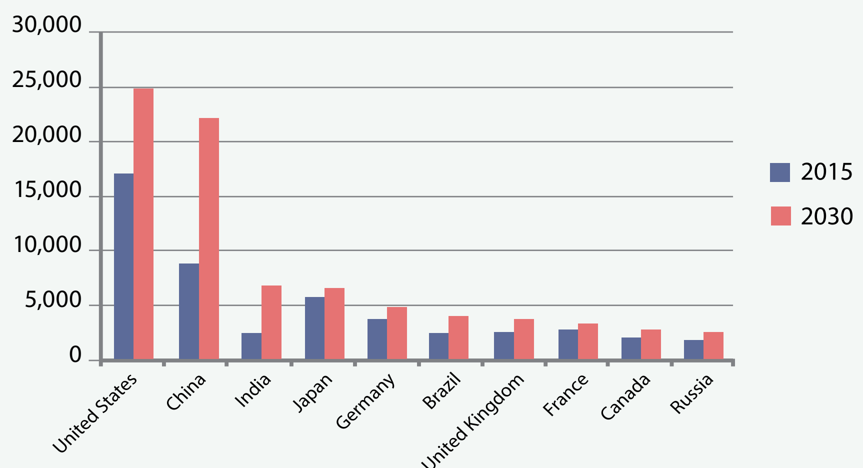
3. Sector-specific funds. Rather than focusing on geography, you might prefer a fund that focuses on a specific industry sector. Choose from funds that concentrate on infrastructure, pharmaceuticals and health care, IT, financial services, agriculture, green/environmental companies, and numerous others. All of these funds can help shield you from home-country bias and excess exposure to our own commodity-dependent economy.

As with all investments, we'll want to ensure any new additions to your portfolio dovetail with your existing holdings and are appropriate for your time frame and tolerance for risk. ■

1 OECD, Economic outlook, analysis and forecasts, November 2015

A lot can happen in 15 years

Fifteen years can pass in just about the blink of an eye; ask anyone whose child is about to graduate high school. The chart below shows projected GDP for the world's 10 largest economies in 2015 and 2030.



Real GDP in billions of 2010 U.S. dollars. Source: US Department of Agriculture.

ESTATE PLANNING

Protect your TFSA

Most of us know about the importance of designating qualified beneficiaries for our Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs). But what about your Tax-Free Savings Account (TFSA)? You can — and should — take steps to protect those assets in much the same way as your other registered plans.

The first thing to note is that the value of the TFSA at death is paid out, tax-free, no matter who receives it: your spouse, your child, a friend, your estate. But there are additional steps you can take to safeguard more of your plan's assets.

Name your spouse as successor holder. When you name your spouse as the successor holder of your TFSA, the plan assets can transfer directly — and intact — to your spouse's TFSA. The plan's securities don't need to be sold, there are no tax implications, and the contribution doesn't affect your spouse's own TFSA contribution room. As well, the capital in the TFSA will continue to accrue on a tax-free basis and there's no income tax upon its eventual withdrawal.

Designate a beneficiary. If you don't have a spouse (or don't want the assets to pass to your spouse), you can name a beneficiary, such as one of your children. That person's ability to direct the TFSA inheritance to his or own TFSA will depend on his or her contribution room.

If you don't designate a successor holder or a beneficiary, the full value of your TFSA will become part of your estate. While the value at death is tax-free, the amount may be subject to probate fees depending on your province of residence. Note also that any growth within the TFSA between the time of death and the time the TFSA is formally closed or transferred will be taxed as ordinary income unless you name your spouse as successor holder.

As with all beneficiary designations, it's a good idea to review your TFSA designation regularly. In addition, you may want to seek professional tax advice to ensure your assets pass as you expect. ■

INVESTMENT PLANNING

Investment options for kids or grandkids

You may have been shocked at just how much your kids raked in over this past holiday season. Clearly, giving cash in lieu of "stuff" is becoming more commonplace. Between those gifts and extra hours on the job in December, your young tycoons might be sitting on a sizeable sum. What can they do with that money besides fritter it away? They can invest it (or at least some of it).

Mutual funds are ideal in these situations because they offer instant diversification, you don't need any investment experience, and there's no need for ongoing management. There are many funds with brands that youth will recognize and may already support with their purchasing power.

And unlike a bank account, the balance isn't connected to their debit card. Needless to say, this reduces the likelihood that their investment will be spent at the mall or online.

If your young person is over the age of majority, he or she can hold that mutual fund in a TFSA and enjoy all the same tax-saving benefits you do.

If your youth is a minor, you'll need to open the account "in trust" for him or her. Interest and dividends earned in an in-trust account will be attributed back to you for tax purposes, but capital gains are not. If capital gains are realized down the road, they'll be taxed in your child's hands, at a rate that's probably much lower than your own.

If you're looking at a significant amount to invest for your child, you may want to consider setting up a formal trust. The benefit here is that you get to dictate the trust's parameters, such as when the beneficiary can access the funds or how they can be spent. Note, however, that there would be setup fees as well as ongoing expenses in administering the trust.

We'd be happy to explain your options and help you make the choice that's best for you and your child. ■

In line for a pension? Take it to the max, with life insurance

According to recent Statistics Canada figures, almost 38% of all Canadian employees will be in line to collect some kind of pension at retirement.[1] Even if you're not expecting a pension, you might be offered an early retirement buyout or golden handshake.

Should you find yourself in any of these situations, you'll have many decisions to make around how and when to receive pension payments. With advance planning and specific instructions, you can make sure that both you and your partner receive pension income for life.

Decision time

Depending on your pension or package, you'll have to sign off on at least two things: how it's to be invested and if you want the income to be guaranteed.

Your investment options will depend on the pension or the package, whether it's locked in or not, and how it's currently invested. You might have the choice of taking an annuity or moving the money into your own Registered Retirement Income Fund (RRIF) or Life Income Fund (LIF). You may also have the choice of starting to receive the income right away or deferring it until you actually retire.

Many pensions are paid out in the form of an annuity. If so, you'll have to decide if you want your income to be guaranteed for as long as you live or for as long as both you and your spouse are living. If you choose an annuity with no guarantees, your payments will be larger, but they will stop with your death.

As an alternative, you could choose a "joint-and-last-survivor" option. Payments will be lower, but both you and your spouse will have guaranteed income for life. The downside here is that the decision is irrevocable, so even if one of you passes away after receiving only a few payments, the surviving spouse is stuck with lower payments for life. In addition, once you have both passed away, the payments simply stop. Your estate gets nothing.

There's a third option, however, that may enable you to maximize your income now and leave more for your loved ones.

A different approach

With this approach, you choose the larger "my life only" income option. Then, use a portion of each payment to cover the premiums on a life insurance policy naming your spouse as beneficiary. You can name an alternate beneficiary as well, perhaps your children, a charity, or your estate, in case your spouse predeceases you.

Among the many benefits here is that it doesn't matter which of you outlives the other. If your spouse dies first, you'll still receive your full pension income. If you die first, your spouse will receive the tax-free lump sum from the insurance policy. You'll get maximum benefits from your pension plus the security of knowing you've protected your spouse and your legacy.

Whether you're offered a package or a pension, you'll need to make many important decisions. We can work with you to secure the income you and your spouse need today and throughout retirement. ■

1 Statistics Canada, *The Daily*, "Pension Plans in Canada", as of January 1, 2014.

The best retirement investment you've never heard of

When it comes to retirement income planning, annuities can play a key role, providing guaranteed income for life. But not all annuities are the same, and there's a less well-known solution that can provide significant benefits in certain situations.

It's called a deferred annuity. Like a traditional annuity, you buy it with a lump sum and the payments are guaranteed for life. Unlike a traditional annuity, you buy it years before you start taking payments. This makes it a bona fide contender if you come into a windfall such as an inheritance, or a golden handshake that you don't need right away, or if you have maturing investments for which you'd like to take a "set it and forget it" approach.

One of the biggest advantages of a deferred annuity is that your capital is invested and has the chance to grow before being depleted by your income stream. This growth is entirely tax-free, regardless of whether you purchase the annuity with registered or non-registered funds.

There are potential tax benefits, too. If you purchase the annuity with non-registered funds (called a "prescribed" annuity), the interest portion is spread out equally over the length of the annuity, which can help reduce taxation.

Like all annuities, a deferred annuity is not subject to market fluctuations or vagaries in interest rates. When you buy it, you know exactly how much your payments will be and how long they will last.

If you'd like to explore the benefits of deferred annuities, please call us. ■

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. The indicated rate[s] of return is [are] the historical annual compounded total return[s] including changes in unit value and reinvestment of all distributions and does [do] not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing. This newsletter has been written (unless otherwise indicated) and produced by Ariad Communications. © 2016 Ariad Communications. This newsletter is copyright; its reproduction in whole or in part by any means without the written consent of the copyright owner is forbidden. The information and opinions contained in this newsletter are obtained from various sources and believed to be reliable, but their accuracy cannot be guaranteed. Readers are urged to obtain professional advice before acting on the basis of material contained in this newsletter. Readers who no longer wish to receive this newsletter should contact their financial advisor. ISSN 1205-5840