TRINITY WEALTH PARTNERS

QUADRUS
Quadrus Investment Services Ltd.

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Money Wise!

SUMMER 2013

Compliments of: Rick Irwin, CFP, CLU
Investment Representative

Market Watch

From Rick Irwin

This past quarter saw a fair bit of volatility in the stock and bond markets towards the end of the period as markets reacted to the US Federal Reserve Boards "across the bow" warning that the monetary stimulus would not continue forever. The Fed subsequently calmed down fears of an overly aggressive foot on the brakes and markets generally reversed the losses in July. Year-to-Date we have still experienced solid gains despite the "wall of worry."

The gains have not been uniform. The US stock market has easily out-performed the Canadian market year to date, continuing a trend that has been in place since 2011. The US market has reached new all time highs, while the Canadian market is still close to 15 percent below its highs.

With foreign markets out-performing and eventual rising interest rates being negative for bonds, it may be a good opportunity to review your current holdings and see if you should be adjusting the mix, particularly if you have investments administered elsewhere such as a Group RSP or defined contribution pension plan. It may be that sufficient adjustments have already been made and additional "tweaks" may over-commit you to certain investment classes. For example, many Canadian equity funds have moved as much as a third of their holdings to foreign content, largely the US. And many bond funds (or bond holdings within balanced funds) have already moved a fair bit of their mix to types of bonds that are less sensitive to rising interest rates.

Company News

From Natalie LeBlanc

We'd like to announce the recent addition of a new financial advisor, Paul Tattrie, to our team. Paul has been in the financial planning industry for almost 35 years, and has chosen to partner with Rick as part of his eventual succession plan, sometime over the next 6 months to two years. We are happy to welcome his clients to Trinity Wealth Partners.

For our new clients, we hope that you find this first newsletter to be helpful and informative. Our goal is to get you thinking more about you and your family's finances as they relate to your present situation and long term goals. From education savings, to retirement planning, to estate planning, there are many pieces to bring together in creating a holistic financial plan.

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Manulife One

From Melissa Allan

Are you looking to buy a new home or perhaps your mortgage is up for renewal soon? If so, you should consider Manulife One as an option .

Manulife One is a unique all-in-one account that allows you to combine your mortgage, personal loans, and line of credit with your income and short term savings. This could save you thousands of dollars over the life of your mortgage helping you to become debt-free years sooner.

Lenders typically charge you more interest on loans than they pay you on the balance in your bank account. Depositing everything into one account helps you save on the interest costs. In summary, every deposit reduces your overall loan balance and you benefit from lower interest costs. You have one interest rate for all debt which is competitive to the banks mortgage rates but typically much lower than an unsecured personal line of credit or other personal loan rate.

Even if your mortgage is not up for renewal anytime soon depending on your interest rate, it may still be beneficial for you to consider a Manulife One account. Many major lenders will require that you pay the greater of three months' interest on your mortgage, or an amount called the interest rate differential (IRD). That's the difference between what you would have paid in interest and what the lender can make at current rates for the remainder of your mortgage term.

Manulife has a current promotion that is running until October 8th, 2013 where they credit you $750 cash back once your new Manulife One account is opened! Note, to qualify the account must be a first position mortgage with a minimum initial borrowing limit of $75,000.

I don't necessarily recommend this account for everyone. There are monthly fees to consider as well as your lifestyle as some people find it harder to pay down their Manulife One accounts since it is in theory a big bank account. I simply recommend you consider it as an option as we have seen it work well for many clients and there are others who it just didn't make sense for.

If you want further information, please give me a call!

Cheers, Melissa

Retirement Planning

From Rick Irwin

Whether retirement is imminent, or still many years away, it's never too early to sit down and start mapping out a retirement income blueprint. Part of this exercise involves pulling together all of your available future income streams from various pensions and determining what these would produce on their own. If you are fortunate enough to have a work pension, is the future income variable and therefore based on the sum of deposits into the plan and the performance of the markets (Defined Contribution) or is it a fixed formula based on best career average earnings and years of service (Defined Benefit)? More and more Defined Benefit plans are the exclusive realm of government as increasing numbers of private employers are choosing to shift the responsibility for providing a set level of retirement income to the markets, and thereby off-load risk onto the employees.

Even if it is a Defined Benefit plan, you need to access what the indexing (annual inflation adjustment) is. Some plans have full "indexing", to the CPI

Retirement Planning (Continued)

(Consumer Price Index) which is the most common gauge of the increase of cost of living and the determinant by how much government benefits, like OAS and CPP, are increased. It is becoming more common, however, for plans to have partial, or limited indexing. Examples would be only 50 percent of CPI, or CPI increases up to a maximum of 2 percent. This erosion of purchasing power may not be a huge factor in the early years but over time it can really eat into your income and should be factored into the equation when determining inflation-adjusted retirement income.

Another factor is whether the inflation adjustment is discretionary, which it is for many plans; contingent on the funding status of the plan. The recent long stretch of flat stock market returns, combined with extremely low interest rates on bonds, have left many plans in such an under-funded status that future indexing is questionable.

Its also important to know if, and how, your plan "integrates" with government benefits like CPP and OAS. Defined benefit plans typically pay a "bridge benefit" to carry the pensioner to age 65, when normal CPP starts. The bridge benefit is equal to the amount that CPP will pay at age 65. When normal (unreduced) CPP starts at age 65, the bridge benefit falls off and the pension income should be more or less the same before and after. But if you chose early CPP, when the integration happens your combined pension will be lower. It's also important to consider the new rules around CPP and OAS and how this may impact your future entitlements.

Of the items discussed above, other than the timing of when to take CPP, you have little control about these inputs to your retirement income. The other two inputs are more within your control; how much investments play into the equation and what sort of lifestyle you envision in retirement.

Typical retirement planning calls for setting a goal of being able to replace 70 percent of your current income. The idea here is that with source deductions being considerably lower (CPP, EI, pension and RSP contributions now removed from the equation) and possible lower tax rates on a portion of the income due to pension income splitting, for many people a 70 percent replacement ratio may put them at or close to what they were netting pre-retirement. This is only a rule of thumb however and does not take into account desired retirement lifestyle, which is entirely individual. Some retirees are content to stay close to home, gardening and golfing and living modestly while others may have a bucket list of exotic travel destinations to cross off. While the 70 percent rule of thumb might make perfect sense for many retirees, its not necessarily the right benchmark for everyone and a far better starting point for this exercise is to envision would your retirement lifestyle will look like and what that will cost, in today's dollars and work backwards from there.

As you can by now hopefully appreciate, there are a lot of moving parts in this equation. Once you have thrown in all the known inputs into the mix (fixed income pensions) and made an estimate for desired income in today's dollars, the next step is to add in the current value of your investments, expected future contributions pre retirement, and a conservative rate of return both pre and post retirement.

There are other factors that might materially impact the bottom line, such as selling the family home and down-sizing, the sale of a business or an expected inheritance. Generally these can be factored in but maybe are not wise to include in the core plan. Some times you just down-size the square footage of your home, for example, not the price tag. Or business conditions might change and your business may sell for less than you anticipate. Or extended health expenses may drain down an expected inheritance. An alternate plan could be drafted should these additional infusions of retirement income come to be, but they should not be part of the income engine that will drive core retirement income needs.

Hopefully this article summarizes some of the main variables that go into the retirement income planning exercise.   There may be a little homework on your part to pull all the missing pieces together but once you do I'd be more than happy to sit down and start working on some numbers!

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Ailing Parents and the Financial Impact

Although your most important concern at this point is the illness of your parent and hopefully seeing them returned to health, it is still important to appreciate the financial implications of your parent's death. One of the main concerns of people with ailing parents is to ensure that there is enough money to pay for the care that they need. Basic essential medical expenses are covered by government plans, additional expenses such as in home or residential care can be substantial. It's often very overwhelming for the children and something that many of us have faced already or will likely face in the future. We recommend speaking with your parents now, while they are healthy and figuring out how you're going to deal with this when the time comes.

Some of the questions you need to ask are:

Are they able to self fund? Do they have Government pensions and /or Insurance? Do you know where to find everything?!

Do they have a will, Power of Attorney, Personal Care Directive? If not, we recommend you work with them to get one ASAP. If they have these documents and they are very outdated, it wouldn't hurt to have a lawyer update these documents as well. Keep in mind, every province has slightly different laws so a will taken out in Ontario 30 years ago may not be valid in Nova Scotia, etc. You want to ensure the Will is valid, and well structured and your parents wishes are met.

Other considerations are tax issues. If your parents are legally capable, they should fill out a tax form T1013 appointing someone to act on their behalf whether it's a loved one or their tax provider. Otherwise, a power of attorney is required to inquire on anything.

We see people faced with illness every day, some have had these discussions with their family and some haven't. It's never an easy discussion but it's inevitable that it's a discussion you need to have!

We have a lot of literature in our office with estate planning kits, etc. If you're interested in any of this information, please let us know as we would be happy to send information out to you.

A referral is the best compliment that a client can give. Many thanks to all our clients who have referred us over the past year!

1095 Bedford Highway
Bedford, Nova Scotia B4A 1B7
Phone: **902-835-1112**
Fax: **902-835-3663**
Toll-Free: **877-404-1112**

TRINITY WEALTH PARTNERS

info@trinitywealthpartners.ca
www.trinitywealthpartners.ca
Twitter: **@WealthTrinity**