

Money Wise!

CAQ Financial's Quarterly Newsletter



Quadrus Investment Services Ltd.

*Compliments of: Rick Irwin, CFP, CLU
Investment Representative*



Special points of interest:

- **CAQ Website finally launched!!!**
- **If you are going to be turning 60 in the next two years you should know about the changes to CPP**
- **New executive assistant joins the team!**
- **Having the right beneficiary designation on a TFSA can make a big difference upon estate settlement**
- **New gold fund launched**

It looks like another beautiful fall season is upon us, though it seems all too soon after such a fleeting summer. Despite the terrible weather, it was an eventful summer for Halifax residents, with Buskers, Tall Ships, and a multitude of concerts, including Paul McCartney, all jostling for attention.

As for the stock markets, things have steadily been improving since early March. There have been occasional stumbles, as would be expected, but overall the trend has been positive and we have already gone a long way to erasing the losses of 2008.

While the fall months are often our nicest weather-wise, September and October are not generally the best months for stocks. This may be especially true after the markets have had such a rebound in a short amount of time; we could see a pullback sometime over the next few months but this is far from certain! The managers I have spoken to feel that this is a possibility but are still convinced that the latter part of this year will bring further gains as markets continue to claw their way back.

Having a well-balanced portfolio certainly can help to mitigate the damage while things are rough but

should still enable you to capitalize on opportunities as they unfold. It is also important to ensure that you have the correct asset mix for your time horizon and risk tolerance.

if you would like to revisit your financial plan to see what impact the recent downturn has had on your situation I would be more than happy to review.

Business Update

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There are two big announcements this quarter: first, we **finally** launched the new CAQ Website. This has been in the works since early 2008 but the project was shelved as I shifted focus to deal with the volatile markets and new tax developments, such as the launch of the Tax Free Savings Account. Being without an assistant for several months this year didn't help matters either! At last, I am very pleased to unveil the new website, with many useful links, calculators and a broad range of financial information. The website will continue to evolve over the next few months with regular updates and a possible blog where I would provide regular commentary. Although Quadrus Investment Services Ltd. ("Quadrus") may have sent you a link for their website to access your mutual fund accounts I would really prefer if you would bookmark the CAQ site and login through there as I will be using the site as a communications tool. It's the same secure log in to view your accounts whether you go to Quadrus directly or indirectly through www.caqfinancial.ca but I would appreciate it greatly if you would change the link that you may have stored as a favorite to my website.

The second big piece of news is that, after an exhaustive search for the right person, I recently hired a new assistant, Amanda Roy. Amanda has been employed in the financial services industry for eight years, with experience in sales, marketing, customer service, and management. She gained invaluable inside knowledge from the 2 years she spent working as an Advisor Service Representative for Quadrus at their Head office in London Ontario and most recently was an insurance agent at State Farm in Moncton NB. As you can imagine, this background is proving incredibly beneficial to my company and her ability to morph into different roles as the company evolves will be a great asset. She recently moved to Nova Scotia when her spouse Zach, whose family is here, received a transfer and I am very happy to have her as part of the team and look forward to you meeting her the next time you are in the office.

New mutual fund offers direct exposure to Gold

Diversification has always been the key to achieving superior risk-adjusted returns and to achieve optimal diversification, a portfolio needs exposure to asset classes that behave differently. For centuries gold has been used as a measure of wealth, backing the paper currencies of almost every nation. Gold is viewed as a safe haven in times of financial upheaval or political instability and provides a solid hedge against inflation and currency devaluation.

There are many compelling reasons to own gold in a portfolio. But until very recently it has been difficult for the average investor to have direct exposure to physical gold bullion. Owning and

storing gold bars is not practical for the average investor and most precious metals-based mutual funds invest in the shares of companies that mine or distribute gold, not in physical gold. The problem with this is that gold-related equities tend to behave more similarly to other stocks in general in times of crisis than the price of actual gold.

The new Dynamic Strategic Gold Class provides exposure to gold equities as well as physical gold bullion and will strategically allocate between the two categories as market conditions warrant. It is one of the best ways for Canadian investors to obtain direct exposure to gold.



Proposed changes to CPP



While it hasn't exactly been headline news, on May 25, 2009 Finance Canada announced some rather significant proposed changes to the Canada Pension Plan that will, if made law, affect future retirees. The changes are proposed to take effect over a period of time from 2011 to 2016 and will affect anyone planning to retire after 2010.

The first proposed change, and one that is absolutely critical to be aware of if you are close to age 60, is that the penalty to draw CPP early (ie before age 65) will increase. Under the current rules, taking CPP at age 60 results in a reduction in CPP benefits by 6% per year, or 30% in total, over 5 years. Similarly, waiting to take CPP (as late as age 70) results in an increase of 6% per year or 30% more than if you took CPP at the normal age of 65. While taking CPP early means that you receive less per payment, you receive those payments for 5 more years and generally this has been viewed as a beneficial trade-off and most Canadians able to draw early have done so.

The proposed new rules, however, would decrease CPP benefits by 7.2% per year for every year you draw early which means if you begin to take your pension at age 60, your payments will be cut by 36%, not 30%.

On the flip side of this, if you draw CPP late, benefits will be increased, not by 7.2% per year as you might expect but by 8.4%. This means that if you wait until age 70 to take your CPP, the benefit payments will be 42% higher, compared to the 30% higher today. Under the new proposed rules, someone drawing 5 years early would receive 36% less for the entire time they draw benefits and someone who waited the maximum to draw would receive 42% more.

As you might expect, life expectancy plays a role here and whereas the decision to take CPP early or late under the old rules was fairly straightforward, the new proposed rules make the decision more challenging. As to the reason for the change, it may have to do with the number of Canadians drawing early CPP benefits being more than what was planned for, or it could be a reflection of the losses the CPP endured during this recent market drop.

There have been some positive developments as well. Another big proposed change is that if you want to begin to collect CPP prior to actually retiring, you no longer need to be unemployed for 2 months to qualify, as you do now. In other words, you can begin to collect CPP at age 60 even if you continue to work. This will be a huge benefit to many working Canadians where it may not have been feasible to arrange for a temporary leave of employment for the purposes of drawing CPP.

Another generally positive change being proposed (depending on your point of view) is that the government will require

contributions to CPP for every working Canadian up to age 65. This means that, unlike the current situation, even if you are already drawing early CPP you and your employer will still be required to pay in until age 65. Additional CPP contributions will be voluntary (on the employee's part) after 65 but if an employee chooses to pay into CPP after 65, the employer must match.

This flexibility will allow someone to collect early CPP to supplement their income as they transition to a lower paying job or part-time work, while still building new CPP benefits.

Finally, the actual calculation for CPP will change as well. Currently the lowest 7 years of earnings are deleted from the calculation. Under the proposed changes, the lowest 8 years will be omitted so that the benefits are not as weighed down by low earning years.

It is surprising that given the impact of these proposed changes, both positive and negative, for pending retirees that there has not been further attention paid to this issue.

If you feel this may impact you, or someone you know, we should talk. And if you are turning 60 next year, you should absolutely consider drawing early before the rules change.

Tax Free Savings Account 101: Beneficiary designations

Earlier this year the Canadian government reshaped the investment landscape by introducing the Tax Free Savings Account. As a compliment to the existing RRSP, this account has been popular with many Canadians for its flexibility and long-term tax saving potential. Unfortunately there is still much confusion about how the account actually works.

Basically, in a nutshell it is NOT just a tax-free bank account. It is an investment/savings vehicle and any investment that is eligible for an RRSP is eligible for a TFSA. You don't get to deduct contributions from income but the investments will grow tax-free (the one thing TFSAs share with RRSPs) and there is no tax to pay on withdrawals. Like RRSPs you can name beneficiaries for estate planning purposes...and this is where it gets even trickier.

Basically, it makes a big difference on whether you name your spouse as "beneficiary" or "successor owner." If you name your spouse as "beneficiary" he or she will receive the proceeds of your Tax Free Savings Account (TFSA) as a tax-free payment. But unless they have sufficient unused TFSA contribution room to invest the proceeds, the money will lose its Tax Free status. If instead you were to name them as "successor owner" then they would just take over as owner of your Tax Free Savings Account and the account would retain its tax free status.

Naming a spouse as beneficiary instead of successor owner is not the end of the world however, since the surviving spouse will still be able to make a one-time "exempt" contribution of the TFSA assets without requiring TFSA contribution room, provided it is done by the end



of the year following the year of death. Despite this provision, it is a lot cleaner to just name them as successor owner so they take over the account directly upon death.

Single Canadians do not have the option of naming a successor owner, though they can name a beneficiary. However that beneficiary does not have the ability to make an "exempt contribution" to their own TFSA so in order for inherited TFSA assets to remain tax free they would have to have sufficient personal contribution room.

If you have a Tax Free Savings Account, it wouldn't hurt to check and see if you named a beneficiary, or if you are married, if you named your spouse as successor owner .

Passing on the Family Cottage

Many Canadians spend the long Thanksgiving Weekend closing up the summer vacation home: putting boats away for the winter, shutting down water lines and cleaning out fridges and cupboards to keep the mice away through the winter.

Family cottaging is a great Canadian tradition - one that many people inherit from their parents or even grandparents.

If you are in line to inherit a family cottage, you should be talking to your parents now about their intentions and your desires. Passing down a family cottage or vacation home to children can become very complicated and, if not handled properly, can lead to sibling rifts

And family breakdowns.

Cottage owners need to get professional financial, tax and estate advice to ensure their wishes about the cottage are handled cost-effectively and as fair as possible to all the beneficiaries. If you are hoping to inherit the family cottage, you should be going to the meetings with your parents' advisors to ensure all these issues are covered:

1. Taxes. If the cottage is a second residence your parents' estate will have to pay taxes on any gain in value on the cottage when it passes down to you. With the large rise in vacation property values over the years, the tax bill could be substantial.



2. Insurance. One way to offset some of the tax hit could be through a life insurance policy covering the taxes when your parents pass away. You may want to get together with your siblings to discuss paying for the insurance policy premiums. It may be a way to share costs and minimize the tax hit when the property is transferred.
3. Transfer of Ownership. Who should the cottage go to? Do all the children use it equally? Will some of the children prefer to receive the proceeds from the sale, while others have a huge emotional attachment to it? Remember, as with most financial issues, the key to success is early planning and open communication.



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Handling a Retiring Allowance

When you leave your job, you may receive a termination and/or severance pay. When your departure is involuntary every jurisdiction stipulates how much notice you must receive. Commonly, the company will pay you in lieu of actually working through the notice period. This termination pay is considered employment income for tax purposes.

You may also be entitled to severance pay which is payment in recognition of service, seniority, etc. Currently, only the federal jurisdiction and Ontario have statutory minimum severance requirements. In other jurisdictions, severance is dealt with under common law based on precedent. As a common law issue, the exact amount of severance you are entitled to will be determined by the particular nature of your employment arrangement and circumstances of your departure.

Your payments can have tax implications so it is important to understand the choices you may have about when and how to take your severance. Employment law is a provincial/territorial concern so the rules vary across the country but some general statements can be made.

The timing of your severance payment may be important. When lump-sum severance payments are made, your employer is required to withhold up to 30% in tax (for payments over \$15,000). You will also be subject to any additional tax up to your Marginal Tax Rate which could be about 45%. Therefore, if you are leaving a job near the end of the year, you might ask your employer to defer the actual

payment to the subsequent year, thereby deferring the additional tax until the next tax year.

Retiring Allowance

A retiring allowance is a payment from your employer either in recognition of long service or as a payment due to involuntary job loss. Retiring allowances include severance pay and unused sick leave credits but do not include unused vacation pay or termination pay (in lieu of your notice period). Ordinarily, income received from an employer must be included in income in the year received. However, if money received meets the definition of a retiring allowance you may be able to postpone paying taxes on that income. The rules are quite specific but, in general, for each year or part year of service prior to 1996, you can transfer \$2,000 into an RRSP with no immediate tax consequences. You can transfer a further \$1,500 per year of service prior to 1989 when you were not part of a pension plan. You should speak to your advisor or accountant to determine if you are eligible to use the roll over. This transfer can certainly help save some taxes. The money you can roll over is not subject to any withholding tax either.

Using Your Severance

Severance can be extremely helpful to get you through a time when you do not have other income. Finding a suitable new job may take more time than you think and it is comforting to know that bills will be paid and family finances and savings will not be strained. However, you may find yourself in the fortunate position that you will be receiving a severance payment but have already lined up another job. In this case, the payments can be thought of as somewhat of a 'windfall' and available for personal use.

In any event, this is certainly a time for us to sit down together to determine what is the best use of your severance package.

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