

Insurance & Financial Group Inc.

JSJ

Inside Info

Winter/Spring 2007

The RETIREMENT Issue!

In This Issue:

- The Secret Gift
- Manulife Financial Introduces IncomePlus to Canada
- It's Never Too Early to Start
- Retirement Planning: Why Registered Isn't The Only Way to Invest for Retirement
- Tips for Retiring Well

WHAT ARE BABY BOOMERS WILLING TO SACRIFICE TO FUND THEIR RETIREMENTS?

- 69% willing to give up something
- 58% said they would give up a second property
- 51% would give up travel
- 46% said they would refinance or downsize their house
- 25% said they would give up a car
- 31% said they would give nothing up and work longer

*based on a BMO Financial Group Survey conducted nationally November 2006

"Federal Finance Minister Jim Flaherty begins 2007 with a gift for pensioners"

Pension income splitting could put thousands more dollars in your pocket every year and maybe allow you to retire earlier. Let's take a look:

If you have a single pension income of \$70,000 and can split this between your spouse/common-law partner and yourself you could increase your after tax income by more than \$5,000. By income splitting with the spouse/common-law partner who has no income in this case you both have an income of \$35,000, which creates a lower taxable income for both spouse and individual tax credits, which increases disposable income by \$5,400.

If you are still saving for retirement it might be time to review your planning to take into consideration this "secret gift". This tax change applies only to eligible pension income. While under age 65 the only income that can be split is income from a Registered PENSION Plan. After 65 you can split income from your RRSP as well.

Income splitting after 65 will also allow for Government Benefits to be dealt with differently. Assume the 2007 income threshold for Old Age Security benefits to be clawed back is \$63,511 (federal government web site calculation). The above example of the pension income of \$70,000 would have the OAS benefit "clawed back". The income splitting reduces the single income to \$35,000 therefore each recipient's income is now well below the threshold. **Wise planning to benefit from all that the government can give after years of giving to the government.**

This is good news for couples and you should discuss this with us to fully understand the ramifications and how this "secret gift" can help you.

The bad news is if you are single this does not apply.

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We appreciate your comments!

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MANULIFE FINANCIAL INTRODUCES GIF SELECT INCOMEPLUS TO CANADA! A way to guarantee your retirement income

You have probably seen the TV ad about IncomePlus, a new investment product from Manulife Financial. It has been played vigorously over the last few months, talking about guaranteed income and guaranteed returns. It tells how **"you can have your cake and eat it too."**

Well, the ads don't lie. IncomePlus is a unique product from Manulife that was introduced in Canada at the end of October.

Here are the highlights:

- Predictable and Sustainable Income for at least 20 years no matter how the markets perform
- Offers a guaranteed 5% bonus over the first ten years which can increase the total amount of guaranteed payments you receive
- Offers opportunities to "lock in" market gains
- Offers "creditor protection" of your assets within the plan
- Offers Investment choice and Flexibility
- Offers Estate Planning initiatives within the product

The features and benefits of IncomePlus work together to help allow you to invest for continued growth while being assured that your savings can provide a predictable stream of income to help fund your retirement.

If you would like to learn more about this unique product call or email us and we would be happy to discuss IncomePlus with you.

IT'S NEVER TOO EARLY TO START Getting Kids Off on the Right Foot

Many kids growing up today get little or no instruction in money management. It isn't part of our education curriculum in schools today, and many parents either don't feel it's important or don't know how to go about teaching their child the importance of money management. And with many adults today struggling with money management, kids can learn bad habits early on from their parents.

As a parent, do you provide your child with an allowance provided on a specific "payday"? Regardless of the amount, or how that amount is earned, an allowance is a valuable learning tool for kids. Set out with them what they can spend their allowance on, and what expenses you'll cover. That way they don't have to ask for money to buy that bag of chips or that new cd they want. They can learn the importance of a dollar, and how to save towards buying something they want. And parents, don't bail your kids out when they've blown their entire allowance. Let them experience the wait until the next "payday" without a penny to spend. Budgeting tools are vital in life, but so is the ability to save and invest beyond your own expenses. Teach your kids to set aside 10 per cent of every allowance they receive and treat it as an "investment". They'll be surprised how quickly it can add up, and will teach them early that setting money aside for emergency savings and retirement isn't a difficult task.

Ask us for more tools and exercises to help teach your kids valuable money management skills that will last a lifetime.

**Begin
Investing
Early:
Monthly
contributions
of \$20 starting at
age 15 can grow
to \$196,000*
by age 65.**
*at 8% rate of return

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RETIREMENT PLANNING:

WHY REGISTERED ISN'T THE ONLY WAY TO INVEST FOR RETIREMENT

Retirement planning can become a serious preoccupation for many individuals, especially as they pass age 50 and some of the family expenses begin to diminish (e.g. childcare, education expenses, etc.) Often at this time in life, individuals become aware that retirement is just around the corner. It should be noted that while many individuals start retirement planning early, those who seriously save early are in the minority.

The most important aspect of retirement planning, no matter when the planning actually starts, is to ensure adequate lifelong income. The fallacy of more retirement plans is to maximize contributions to registered retirement savings plans (RRSPs) without any consideration of the tax cost that could be created at retirement or the value of having a non-registered "cushion." This issue was raised in a recent article published by Statistics Canada.

The Statistics Canada article pointed out that the income generated by the conversion of RRSPs into income can carry a high marginal tax cost. The issue is that the additional income withdrawn from an RRSP (up to age 69), a registered annuity or a registered retirement income fund (RRIF) can reduce some valuable tax preferences granted under the Income Tax Act. The following are important tax credits that are affected by net income and therefore are directly impacted by a net income increase related to income derived from an individual's registered savings plans.

- The age tax credit is reduced at the rate of 15 cents for every dollar of net income in excess of \$30,270 (2006 amount).
- The old age security benefit is "clawed back" at the rate of 15 cents for every dollar of net income in excess of \$62,144 (2006 amount).

- The GST credit is based on the net incomes of both spouses or common-law partners. The credit begins to phase out once family income exceeds \$30,270 and will be eliminated where that income exceeds \$39,550.
- Provincial credits may also be affected.

For some individuals, the reduction in these credits can produce a higher marginal tax rate during retirement than the tax rate in effect when the funds were contributed to the registered plan. While this is not always the case, it is a concern for some. (Note, however, that due to the deferral of taxation of investment income in registered plans, the after-tax income can be higher compared to unregistered investments even if the tax rate on the retirement income is higher than the tax rate applicable to the contribution.) Caution should be exercised when undertaking financial projections to ensure that the loss of potential tax credits/savings is reflected when retirement income exceeds pre-determined thresholds and, for couples, it is important to maximize their combined after-tax income.

On the other hand, individuals do have the ability to adjust retirement income on an annual basis (subject, of course, to required minimum RRIF payments). The key is to carefully manage the annual withdrawal amount or any additional lump sum withdrawals to minimize the actual tax cost of the income. For example, if an additional \$5,000 is required in a particular year, it is important to understand the additional tax cost that may result from not only the additional income but also the loss of potential tax credits when income thresholds are exceeded. Individuals with annual earnings above these clawback ranges (from employment, investments, company pensions and Canada/Quebec Pension Plans) will only be

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taxed at their marginal income tax rate on additional earnings from individual registered plans.

An individual can save towards retirement with RRSPs, company pension plans or non-registered portfolios (owned personally or in a holding company). The two primary advantages of registered savings are the tax deduction for the contribution and no annual taxation during the accumulation period. With the tax incentive of deductible contributions and tax-deferred accumulation, registered vehicles can often accumulate more capital than non-registered portfolios.

However, registered vehicles are not without some disadvantages. One of the primary advantages of a non-registered portfolio over registered savings is that the investment income retains its character for tax purposes and could be taxed more preferentially than ordinary income (for example, as a dividend or capital gain). Another advantage is that an individual is not forced to begin to liquidate a non-registered portfolio at age 69. Even though a non-registered portfolio could generate taxable income on an annual basis, some of the income can be timed to minimize the current tax liability.

Planning for retirement income should not simply be a linear event, but instead incorporate a series of strategies that allow for optimization of after-tax income over the longer term. The creation of multiple pools of capital, some registered and some not, allows for flexibility to maximize the after-tax income available at the point of retirement and beyond.

Sources: CLU Comment
Number 238 – July/August 2006
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TIPS FOR RETIRING WELL

A collection of tips was provided in the December/January 2007 edition of *MoneySense* magazine by Gordon Pape, an investment and retirement author. At age 70, he considers himself far from retirement, but offers the following tips to enjoying a rewarding retirement:

- **Don't Carry Debt:** working a year or two longer is worth a stress-free, debt-free retirement
- **Do Plan Your Finances Early:** be realistic about your retirement goals, decide on your priorities, make a plan and stick to it. Retiring at age 60 is achievable if you begin saving early.
- **Do Plan RRIF Conversion in Advance:** start to gradually shift your RRSP portfolio into income securities before the mandatory conversion. Planning ahead enables you to take advantage of opportune investment markets.
- **Don't Overestimate Your Pension Income:** overestimating the funds available in an employer pension fund can hinder a realistic retirement plan. Get annual estimates from your human resources department.
- **Do Plan Your CPP Carefully:** examine the advantages of drawing Canada Pension Plan early, or not. Delaying can allow you to qualify for more money.

Sources MoneySense magazine published by Rogers media
December/January 2007 edition Volume 8, Number 7
Page S27, provided by Gordon Pape,
author of *The Retirement Time Bomb*, among many others
Visit: <http://www.buildingwealth.ca/> for more information.

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DEAR INVESTOR...

A LOOK BACK AT 2006... A LOOK AT WHAT'S AHEAD

Looking back on the investment climate for 2006, equity markets rewarded investors for the fourth straight year, with most world markets recording healthy gains. Continued low interest rates, the growth of emerging market economies and general optimism among investors and consumers alike helped to keep share prices strong, while bond yields remained low. The Canadian loonie hit a 28-year high relative to the U.S. greenback in May, but both dollars weakened relative to the euro and other world currencies as 2006 wound down.

In Canada, the S&P/TSX Composite Index declined sharply from May to June, but recovered to end the year with impressive gains. For the year, the index was led higher by the materials sector, as mining companies benefited from high gold and other metals prices, mergers and acquisitions and solid global growth. Technology and financial services were the next best-performing sectors. The energy sector also made gains, but they were modest relative to previous years, as oil and gas prices cooled in the second half of the year.

For Canadian investors, one of the biggest jolts of 2006 was the federal government's surprise Halloween announcement that the tax advantages of income trusts would be eliminated by 2011. The trust market suffered an immediate sell-off in the days that followed as income-hungry investors turned to dividend-paying shares. Though trust prices have since made a partial recovery, the sector faces a number of challenges as it restructures over the next four years. In the U.S., stocks mustered a sustained and broad-based rally in the latter half of the year after a choppy first half, with the energy, telecommunications, materials and utilities sectors all making solid gains. Although the important U.S. housing sector was hurt by rising interest rates in 2006, overall corporate earnings remained robust and companies are flush with cash.

Looking ahead, many economists believe that the Canadian and U.S. economies have entered a period of slower growth, but that after this pause, economic growth could re-accelerate in late 2007. Many analysts also see the potential for interest rate cuts this year, which would be positive for bond and equity markets. Strong economic growth in Europe, China, India and other markets, meanwhile, is expected to support global equity markets. As we start a new year, our focus is on portfolio planning and investing before the March 1 RRSP deadline. I will be contacting you soon to set up an appointment. In the meantime, if you have any questions or concerns about your investment portfolio, please do not hesitate to call.