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Integrity Competence Service

October Client Communication

As our September client communication was centered around the resurgence south of the border and our bullish outlook on the U.S., we offer this month a more general commentary on wealth management and financial planning issues.

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RRSP

For 2013, the annual contribution limit is based on 18% of last year's earned income to a maximum of $23,820. This will increase to $24,720 in 2014 (less a pension adjustment if applicable). Unused RRSP room is carried forward.

TFSA

For 2013, the annual contribution limit for TFSAs is $5,500. After 2013, the annual amount will be indexed to inflation. If you have not already established a TFSA, the room available to you in 2013 is $25,500.

We view the TFSA as an excellent complement to RRSP investing. Although we receive a tax deduction on RRSP contributions, money withdrawn is taxable. TFSA contributions are not tax deductible but withdrawals are tax free. From an income and tax planning perspective, in later years we would recommend deferring registered money withdrawals and accessing TFSA money first.

This strategy is similar to accessing open investments before accessing registered money. Income received from an open investment account is largely (if not 100%) considered return of capital and therefore not taxable initially.

In previous newsletters we have said that the TFSA should not be viewed as just a savings account, ***but a tax sheltered investment account*** with a wide range of investment options.

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TFSA as an Estate Planning Tool

For parents with excess cash flow or assets that ultimately will be passed to children or grandchildren, the TFSA can be a simple, yet highly effective strategy to transfer assets in a tax efficient manner.

Banwell Financial simply sets up the TFSA in the appropriate name of the child/grandchild and the parents fund this accordingly.

The 30 day challenge!!

Here is an exercise that is simple in concept, yet difficult to follow and implement. Over a 30 day period, write down daily expenditures of cash, comparing the total at the end of the month to your net monthly inflow of cash.

This brings to mind the old rule of…"pay yourself (RRSP, TFSA) first as part of monthly expenses."

This is definitely a reality check exercise that will identify positive or negative cash flow while at the same time highlighting how much the daily fix of your favorite vice is costing you!!

Important note

From our experience one of the toughest challenges for individuals (no different than a business) is managing cash flow. ***How much is coming in and how much is going out?***

This may sound incredibly basic and obvious, but in reality this ever changing movement of money can become quickly out of balance, unfortunately resulting in negative cash flow.

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Registered Educational Savings Plan (RESP)

The lifetime maximum contribution for an RESP is $50,000 per beneficiary. There is no annual maximum and Human Resources Canada offers a 20% grant on the first $2,500 contributed each year (per beneficiary) up to a maximum of $7,200.

An RESP can be established by non-parents and can also be a simple yet highly effective estate planning strategy for pushing money into the future generation with attractive grant funding.

Similar to the RRSP, a wide range of investment strategies are available…

Longevity Risk

Compared to previous generations, both male and female Canadians can expect to live longer lives and could spend as much time in retirement as they did working. The tangible risk of longevity is not having sufficient income to support a desired standard of living and drawing down invested capital.

The probability of a healthy 65-year old living until…

Age	Single Female (%)	Single Male (%)	At least one member of a couple (%)
70	96	93	99
80	81	71	94
90	44	33	63
95	23	16	36

Did you know?

Federal provisions provide creditor protection to all RRSPs, RRIFs and DPSPs in the event of bankruptcy only, and do not protect contributions made in the last 12 months.

Source: Annuity 2000 Mortality Table, Society of Actuaries

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These numbers are particularly daunting for investors who are holding GICs or cash as a long term investment strategy. Most traditional fixed income strategies today do not produce the necessary income/growth to protect against inflation eroding our purchasing power.

Effects of Inflation on $1,000

Number of Years	0%	1%	2%	3%
1	$1,000	$990	$980	$970
10	$1,000	$905	$820	$676
20	$1,000	$820	$673	$456

Our recommended, globally diversified yield producing portfolios are an effective income producing strategy for conservative investors.

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We would be pleased to meet personally, or discuss over the telephone how the various tax sheltered accounts may be combined to provide you and your family with the most advantageous approach to investing and managing your money.

We sincerely believe there are no trivial questions when it comes to your money and consider it our responsibility to ensure you have complete understanding of how these various strategies may benefit you.

Our entire team wishes you an enjoyable autumn.

"…has created a condition where the average Canadian isn't keeping up with the cost of filling their grocery carts, filling their cars and heating their homes.

Derek Holt
Senior Economist
Scotia Bank