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Money Wise!

CAQ Financial's Quarterly Newsletter

Quadrus Investment Services Ltd.

Compliments of: Rick Irwin, CFP, CLU
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Markets at a glance

Special points of interest:

- Market Commentary
- Contest!
- Health Insurance in retirement
- Estate planning
- Business Owner strategies for your children's education

I hope this newsletter finds you well. While it's not time to put away the shorts and sandals just yet, it won't be too long before my family is in the business of carving pumpkins and decorating our basement "haunted house." Hopefully you had plenty of time with family and friends to enjoy the fantastic weather we had this summer. I will miss it!

Markets continued their yo-yo action throughout the summer, rebounding quite strongly from their low point in the late spring. If we think of 2012 as a play divided into 4 acts, we see the first quarter of the year showing solid gains, which were wiped out by losses in the second part of the year. The third quarter saw a strong recovery, led by a sense that the European situation is showing signs of stabilizing and further financial accommodating on the part of the U.S. central bank.

As we enter the fourth "act" we should be optimistic that markets can continue to build on recent momentum. While China is showing some signs of slowing down, all across Asia and the other emerging markets growth remains strong as we continue the economic sea change of the Asian middle class being the biggest driver of global growth.

Many fund managers feel that U.S. stocks represent some of the most attractive value today. This is despite the so-called pending "fiscal cliff" when automatic spending cuts are triggered at the same time that current tax cuts cease. In November, the U.S. presidential race will be decided and politicians will (hopefully) be working together to manage through the "fiscal cliff" and keep economic growth moving forward at a healthy pace.

I appreciate that it has been very frustrating to navigate through these challenging markets, where there are so many factors that we cannot control. Year to date most funds are up middle single digits despite all the volatility and I am cautiously optimistic that the rest of the year will be positive. It will likely not be a smooth ride and there will be moments when we have to buckle in when turbulence hits. Overall I like the way the fund managers I deal with have their funds positioned, to both deal with both challenges and opportunities.

Are you smarter than an economist?

Yogi Berra said it best: "predictions are hard, especially about the future." The track record of the most prominent bank-employed Canadian economists shows that they have, on average, been accurate less than 50% of the time in predicting what the economy will do (as measured by GDP.) Yet there is no shortage of predictions.
I think it would be interesting to see how we stack up!
Where do you think the price of gold is going to be in the next 12 months? Or the Canadian dollar? If you are interested in participating, please return the enclosed survey. I'll revisit in a year's time and see how we did as a group. Prizes will be awarded to the winner in each category so good luck! -Rick

Pharmacare - Nova Scotia

I often get approached by clients and friends regarding health insurance in retirement and if people should consider taking out a private health & dental plan versus Pharmacare. My answer is never the same, as it really depends on the individual I'm speaking with and their current health situation. I thought it would be good to summarize each option in this article.

Pharmacare is a provincial drug insurance plan to assist seniors with the cost of their prescription drugs. The program runs from April 1st—March 31st each year and seniors are eligible to join this plan at age 65. A package will get mailed out to you a couple of months prior to your 65th birthday and you have 90 days to enroll from your date of eligibility.

The annual enrollment fee for 2012 is $424.00. This enrollment fee is paid each year however if you are receiving the Guaranteed Income Supplement (GIS) the enrollment fee is waived. In addition, you have to pay a co-payment fee at your pharmacy up to a maximum of $382 for the year. After this point, prescription drugs are then covered at 100%.

You do have the option to pay your co-payment up front for the year however if you don't incur $382 in prescriptions this amount is not refundable so I would only recommend pre-paying this amount if you are guaranteed to have over that in regular prescription drugs. Keep in mind, only prescription drugs that are approved by this program will be paid. You may have to pay more than the $382 co-payment each year if:

- You want the brand name drug and the generic name is available at a cheaper cost
- The drug you require costs more than the maximum approved cost under the program as costs do vary from pharmacy to pharmacy
- Your prescription drug is not covered by the Senior's Pharmacare program.

Fore more information please refer to:
http://www.gov.ns.ca/health/Pharmacare/seniors_pharmacare/seniors_pharmacare.asp

Private Health Care Insurance in Retirement

Most private health care plans are limited in their coverage. They can be designed to have 100% of prescription drugs covered but keep in mind, the better you design your plan the more it will cost and unfortunately, this coverage can be very expensive, especially in retirement.

The main reason this is so costly is due to the fact there are guaranteed acceptance plans which most people can transition to from their standard employer group benefit plan at retirement. Having said that, for those in elite health they may be better off answering a few medical questions to try and qualify for a better rate.

Keep in mind, no matter what company you look at, all of these products are built with a base minimum coverage such as ambulance and hospital coverage. You cannot just get a basic prescription drug plan so when comparing the costs to Pharmacare it's not really an apples to apples comparison.

When looking at Private Health insurance it is important to note that these plans are renewed each year and your rate can go up every year even if you have a good claim history as the insurers pool the rates based on usage for others in your age band. At age 65, coverage is limited and benefits that were built into the product such as life insurance usually reduce or terminate all together.

You can choose to be insured for dental work, travel insurance, vision coverage, along with other benefits such as chiropractors and massage therapy, etc.

My experience is that even if you pay for these additional options, most times you are still not getting reimbursed at 100% and you end up paying additional out of pocket expenses for your co-insurance payment not covered under the core plan.

I do feel it's important to have some coverage as I think we can all agree that eye glasses, prescriptions, etc…add up but I recommend that you do research before buying this plan and don't feel you need the best plan. Do the math and see if it makes sense, or call me. - Melissa

Estate Planning Considerations

One of what I consider to be the most important aspects of my job is to provide advice on estate planning matters. What will happen to your assets when you pass away? What can be done to ensure that your loved ones retain as much as possible of the estate value?

Estate planning is generally guided by three rational motivations:

1. Provide adequately for family members and/or other loved ones

2. Ensure that your estate is distributed in the most timely manner possible after your death

3. Lower taxes – during your lifetime and, equally important, for the beneficiaries of your estate

In addition, there are three emotional motivations that guide the estate planning process:

1. Knowing your loved ones are well looked after

2. Knowing that settling your affairs will not add more stress to those grieving for you

3. That your estate will be distributed the way you wish

The first step of course is to have a valid will. If your will hasn't been up-dated in some time it may be worth a review, to see if an executor needs to be updated or if your personal, or your family's situation has changed.

Secondly you may wish to review your financial accounts to ensure that any beneficiary designations are up-to-date and in agreement with the wording of the will. If you hold investment contracts that do not normally allow for named beneficiaries, such as GICs, stocks or mutual funds that are held in "non-registered accounts (ie not RRSPs/ RRIFs or TFSAs) you might consider changing these investments over to GIOs or segregated funds, which are comparable investment products offered by insurance companies, especially as you get older. GIOs and segregated funds offer specific benefits not available through non-insurance, non-registered financial products. These include the ability to bypass probate through naming specific beneficiaries, potential creditor protection and death and maturity benefit guarantees.

Another approach is to consider investing non registered funds into a form of life insurance policy that allows for over-funding. The investment gains inside the policy can be completely tax-free if they form part of the death benefit to your loved ones. Melissa has written about this in the past and would be more than happy to discuss in more detail.

Bypassing Probate

Probate is a court procedure for "proving a will", essentially establishing that it is the deceased's last will and confirming that the executor appointed in that will is entitled to take all steps necessary to administer the deceased's estate. Where a deceased has no will or the deceased's last will fails to appoint an executor, the court appoints a person to administer the estate.

Probating a will can be a timely process, with many documents to file and many steps along the way. It can also be quite expensive. In Nova Scotia for example, probate fees are $920.07 for the first $100,000 of the value of the estate and $15.53 per thousand after that. Let's assume an estate with a $400,000 investment portfolio and $350,000 worth of real estate (including the primary residence, which does count in the calculation of probate). Probate fees in Nova Scotia would be almost $11,000! Which is why so many wish to avoid incurring this final cost to their estate.

The easiest way to accomplish this is ensuring that all of the financial assets have named beneficiaries. If so, the assets bypass probate and flow directly to the named beneficiaries. This strategy works for insurance products, most Registered plans such as RRSPs, RRIFs and TFSAs. However, it does not work for all assets, including non-insurance non-registered investments, vehicles, and real estate. Often, use of beneficiary designations is usually only a partial solution, leaving some assets to pass into the estate where they are subject to probate. But simple steps can be taken to ensure that as much as possible of your estate can flow directly to your loved ones without going through probate.

As with any strategy, avoiding probate can't be the "tail that wags the dog" when it comes to investment and planning decisions...but it should be given due consideration.

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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!

Business owners: where paying yourself may not be the best plan: part one: RESPs

For many business owners and incorporated professionals, conventional wisdom has been to pay yourself a salary up to the point that RSP contributions can be maximized and then to tax the remainder corporately.

In 2012 that means that you would have to pay yourself almost $128,000 to generate the maximum RSP contribution of $22,970. While this large RSP deduction has reduced taxable income significantly, it still means that you would end up taking approximately $55,000 into income at the second tax bracket or higher and pay personal taxes of 30-40% on this income...a big price to pay for the privilege of earning the RSP contribution room, especially if you don't need the income for personal expenditures.

In addition to added personal income tax, as a business owner you have to pay double what an employee pays into CPP. This works out to $4,613.40 for 2012. Recent research by Jamie Golombek of CIBC illustrates the very low rate of return for a self employed or professional when one considers how much is paid into CPP over the years versus the income you get at the end.

While our personal tax rates are quite high, small business income tax rates are quite low. In Nova Scotia for example, starting in 2013, small business income will be taxed at just 14.5%. Anything that is paid out personally as dividends will attract additional tax, though at a much lower rate than salary, and the sum of the small business tax and personal tax is only a few percent less than if you had just taken salary.

So the benefits are marginal here...unless you can structure your investment-related outlays at the corporate level, not the personal. Here's an example

Let's assume that a self-employed individuals income requirements for lifestyle expenses are such that any further dividends received from their company would be taxed at 22% or higher. Does it really make sense to pay tax of 22% to invest in RESPs and get a government grant of just 20%, ie less than the tax you paid to make the contribution? Consider instead investing 85.5 cent dollars in an investment Holding Company in a fund you can earmark for the child's future education. By the time they are of university age you can pay them a tax free (to them) dividend and in the meantime save a lot of personal taxes.

In the end, it's not what you make, it's what you keep. I'll be covering a few other strategies for how the self employed can optimize investment strategies in the next issue.