

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2013 NEWSLETTER

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Carl's Comments

Markets around the world sold off sharply following Ben Bernanke's May 22nd comments that hinted he would begin tapering off the US's bond buying program. These comments surprised the markets creating uncertainty and volatility and as a result triggered a selloff in all asset classes including defensive stocks and bonds. REITs, utilities, energy infrastructure, telecom and financials were all affected which was something we have not really seen before – i.e. interest sensitive defensives leading the decline. Bernanke later clarified the subject stating that signs of an improving economy will result in a moderate pullback in the pace of monthly bond purchases to begin later in 2013 and end by mid 2014. This of course will all depend on unemployment and inflation data. In effect Bernanke is 'taking his foot off the gas', but is not yet 'applying the brakes'. In the event that the US economy rolls backwards, Bernanke has reserved the right to further increase QE.

We are in the midst of a correction as markets around the world readjust post financial crisis to repair their financial system and boost balance sheets. The US economy specifically is attempting to transition from an early cycle recovery to a mid-cycle recovery and this has historically been a choppy time for the markets. As we have already seen, the effect of tapering will result in increased volatility that is certain to be with us for a while.

As always, we welcome your feedback and are here to answer questions or concerns you may have. Have a great summer!

Delaying Insurance Protection?

Are you one of many who are putting off dealing with your life insurance? Studies suggest the following reasons that are preventing Canadians from getting the insurance protection they need.

76% - Have other financial priorities. What is more important than protecting your family and estate?

73% - Cannot afford life insurance. Some forms of insurance have never been cheaper. Your family may end up paying the price if you don't properly manage your affairs.

60% - Find it difficult to decide on the type of insurance to buy. There are numerous products and riders available. Talk to a life insurance professional for help.

58% - Find it difficult to decide on how much they need. Talk to a life insurance professional. Some insurance may be better than none and your needs will change over time. At minimum, a rule of thumb is 5 times your income.

Source: Manulife Advisor Focus Spring/Summer 2013 pg. 10



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Pension Income Splitting

Income splitting and sharing are not one in the same. If you earn *eligible pension income* you may be able to “split” this income with your lower income spouse by filing a joint tax election form annually with your income tax return. What qualifies as eligible pension income depends if you are over or under 65.

CPP/QPP and OAS are not eligible for pension income splitting however; you can elect to “share” or have up to 50% of your CPP/QPP paid to your spouse, provided you are both over age 60 and have completed CRA form ISP1002. See link below for details. <http://tinyurl.com/cppshare>

The Great CPP Debate

This question often comes up in our meetings; when should I take CPP? Since we don’t know how long we will live, this turns into a difficult question. If you take your CPP retirement pension early, (i.e. after age 60 but before 65) your pension will be reduced based on your age at the time your benefit begins. This reduction which is now 31.2% at age 60, will gradually change to a 36% reduction in 2016. If you take your pension after 65, you can increase your pension by up to 42% (at age 70) starting in 2013. There are factors other than one’s life expectancy that may influence this decision. For example, for tax reasons and so that income tested benefits are not affected, you may decide to delay CPP benefits. Alternatively you may want the extra money now as you plan to travel extensively in early retirement.

The chart at the top of the page shows how long you would need to live (i.e. breakeven age) to be in the same financial situation if you elected to take CPP at age 65, instead of taking it earlier, based on 2013 reduction amounts. Note that this simplified chart does not take into account time value of money.

For example, if you took CPP at age 60, you would have earned \$40,019.34 by the time you are 65. If you defer and collect CPP at age 65, in order breakeven, you would need to collect 125 months worth of CPP (age 75). If you live past 75, simple math shows you are better off waiting to collect CPP.

CPP Breakeven Point for Early CPP (2013 figures, rounded)

AGE	60	61	62	63	64	65
Monthly Income	\$667	\$730	\$795	\$859	\$923	\$987
Reduction	\$320	\$256	\$192	\$128	\$63	\$0
Advanced Income	\$40k	\$35.1k	\$28.6k	\$20.6k	\$11.1k	\$0
Breakeven (months)	125	137	149	161	173	
Breakeven (age)	75	76	77	78	79	

Source: <http://groupbenefitsonline.ca/taking-cpp-early-the-new-breakeven-points/>

Round 2 – The New OAS Debate

As of July 1st, you now have another decision to make. Those who qualify for OAS have the option to defer payments. For each month your payment is deferred, a premium of 0.6% will be added to your pension. Deferring for the full five years, could add 36% onto your pension. The new rules will also change the qualification age from 65 to 67 in 2023.

The chart below shows that if you start to receive OAS at age 65 (100%) vs. 70 (136%), you would have to live to at least 84 to collect the same payment in nominal dollar terms.

		Compared to alternate OAS “Start” Age				
		66	67	68	69	70
Age when you “Start” OAS	65	80	81	82	83	84
	66		82	83	84	85
	67			84	85	86
	68				86	87
	69					88
	70					

This simplified illustration does not account for inflation, time value of money, rate of return on amounts received, RRSP/RRIF income, OAS entitlement, marginal tax rate, tax credits, claw backs, age and life expectancy.

Source: AE Report May 2013. To defer or not?

Estate Planning – True or False?

Test your Estate Planning knowledge with these five true or false questions.

1. In Ontario, marriage revokes a will.
2. In Ontario, divorce revokes a will.
3. Holograph wills are valid in some, but not all provinces.
4. An executor may incur liability for distributing an estate too quickly or too slowly.
5. An executor is responsible for filing the deceased's terminal T1 return plus unfiled returns from prior years.

We are happy to advise you on any estate planning questions you may have.

Answers: 1. True 2. False 3. True 4. True 5. True
Source: AE Report May 2013, pg 9. Estate Planning Quiz

What's New from the Regulators

Currently when investors purchase a new mutual fund, the fund company is required to provide investors with a lengthy multi-page prospectus. Changes have been announced and by June 13, 2014, the delivery of the "Fund Facts" will have replaced the prospectus. Fund Facts are clear, two page documents that will make it much easier for investors to review key information including performance, risks and costs.



Teaching Kids About Money

Financial literacy is an essential skill. Like reading, writing and math, it can start very early in a child's life. It is encouraging that a recent survey showed 78% of Canadian parents having recently made efforts to teach their children financial management skills, albeit only 40% feel the lessons were successful.

Here are five tips that may prove helpful.

1. Turn coin and bill counting into a game. Make different stacks, add them and ask which is worth the most.
2. Three S's – divide allowance into Saving, Spending and Sharing. Sharing could be towards a charity.
3. Needs or Wants – Kids often want everything. Try breaking down the reason why they can't into needs vs. wants. For example, food is a need whereas a video game or candy is a want.
4. Set Goals – help create a savings plan to buy a new toy or for older children encourage them to earn more money, perhaps by doing more household chores.
5. Take the time to explain in simple terms why you save and the importance of paying off any debts as quickly as possible.

Source: Manulife Solutions. Spring/Summer 2013, pg. 27

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FUND REPORT

Compounded to May 31, 2013



<u>Fund</u>	<u>Volatility</u>	<u>YTD % (July 2/13)</u>	<u>1 yr %</u>	<u>3 yr %</u>	<u>5 yr %</u>	<u>10 yr %</u>
CANADIAN EQUITY						
BMO Growth and Income	M	2.28	13.48	10.68	4.55	10.30
Fidelity Canadian Growth	M	20.37	30.18	14.37	2.25	8.54
Dynamic Small Business	L-M	1.44	4.93	10.08	9.58	16.42
Sentry Canadian Income	L-M	8.06	15.13	14.46	8.10	13.49
Fidelity Dividend Plus	M	3.62	11.83	10.82	8.12	n/a
Fidelity Canadian Large Cap	M	20.27	24.72	17.18	6.94	12.80
Front Street Growth	H	-9.79	-6.41	-6.66	-5.10	11.66
IA Clarington Canadian Conservative Equity	L-M	0.42	11.63	8.53	3.18	7.72
IA Clarington Strategic Equity Income	L-M	7.94	16.65	7.24	1.65	6.55
IA Clarington Canadian Small Cap	L-M	15.66	23.64	14.33	6.22	11.64
Sprott Canadian Equity	H	-35.59	-28.05	-13.76	-14.74	5.74
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	M	6.95	12.17	4.52	-0.36	7.18
ROI Global Supercycle A	M-H	3.36	17.98	9.08	n/a	n/a
Mackenzie Cundill Value C	M	18.19	37.04	8.40	2.34	6.64
Mackenzie Cundill Recovery C	M-H	3.02	23.98	6.34	-1.08	9.52
BALANCED FUNDS						
AGF Monthly High Income	M	-0.26	9.69	7.80	5.60	n/a
CI Signature Canadian Balanced	L-M	3.42	11.43	6.16	3.27	7.69
Dynamic Power Balanced	M	-0.25	8.03	1.68	-0.28	8.05
Dynamic Value Balanced	L-M	7.04	18.24	5.43	3.28	8.31
Fidelity Monthly Income	L-M	5.57	11.77	9.69	6.38	n/a
Fidelity Canadian Balanced	L-M	3.17	9.43	6.80	3.26	7.07
Fidelity Income Allocation	L-M	4.00	8.56	8.58	6.43	n/a
IA Clarington Focused Balanced	L-M	7.74	n/a	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced	M	7.20	22.29	8.42	6.44	6.41
ALTERNATIVE FUNDS						
Vertex Fund	M	7.50	16.64	8.14	6.76	n/a
Arrow High Yield	L	0.50	8.30	5.40	7.40	n/a
Arrow Raven Rock (I)	L	0.50	7.54	9.7	n/a	n/a
Act II Long/Short	M	1.00	4.60	3.10	3.60	n/a
Curvature Market Neutral	L	3.40	5.30	7.40	n/a	n/a

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