

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2014 NEWSLETTER

Carl Eppstadt, Financial Planner, CLU, CHFC, CFP, CHFS

Julie Westall, Financial Planner, CFP, CIM, FDS

Kristin Eppstadt

Carl's Comments

When it comes to saving and retirement planning, parents and grandparents please be cautious of what you say because you may have much more influence than you realize. I encourage you to mentor the next generation that saving for ones future is always the right thing to do.

In my experience, it is sometimes forgotten that RRSP and RRIF income is fully taxable when withdrawn. For some, this fact even comes as a shock which may feed a common misconception I hear from young people. Some people think that there are no benefits from RRSP's because they have to pay taxes when funds are withdrawn down the road. We can walk you through the significant tax deductions and benefits of RRSPs, and put these misconceptions to rest.

With RRSPs you can:

- Defer taxes (it's like an interest free loan from the government).
- Grow and compound your savings tax-free until withdrawn.
- Save taxes by structuring withdrawals to occur when you are in a lower tax bracket.
- Take advantage of income splitting to reduce taxes.
- Use as your own pension plan (several employers are steering away from corporate defined plans).
- Use as an incentive to save and build good financial habits.

RRSP's may not be for everyone, but it is important that investors understand the benefits and their options.

I have been in the financial planning business for over 35 years and can help you plan the most effective way to defer taxes, deflect income to a lower tax bracket or change the type of income (i.e. capital gain, return of capital, dividend or interest) to a more tax efficient form. In my view, RRSPs have always been at the forefront in tax deferral and remain one of the best ways of accumulating wealth.

Getting Your Maximum CPP

If you stayed home to raise a child you may be eligible for the Child Rearing Dropout (CRDO) provision of the Canada Pension Plan (CPP). This provision lets you exclude the years you were at home or working part time to raise children under the age of seven.

What does this mean? Excluding periods where earnings were less than one's "average lifetime earnings" will increase the amount of your retirement pension benefit. It may also help meet eligibility requirements for disability or survivor benefits.

The CRDO is not automatic and must be applied for using form [ISP 1640](#) in conjunction with applying for a CPP benefit. If you already receive benefits, you are still eligible and will receive benefits retroactively.

There are some caveats to this program. For example:

1. If both parents shared time away from work and stayed home to raise children.
2. If the primary caregiver was the father but the mother received the monthly Child Tax Benefit, the mother must give consent in order for the father to qualify for the CRDO.
3. In the event of a relationship breakdown, Division of Unadjusted Pensionable Earnings (CPP splitting) may occur. Pair this with the CRDO provision and one party will most certainly be advantaged over the other. The intended "equalization" does not occur because the CRDO happens after CPP splitting.

Contact Service Canada directly at 1-800-277-9914 for more information or to request an estimate of your CPP pension benefit.

RDSP: A Key Funding Program for Individuals with Disabilities

A Registered Disability Savings Plan (RDSP) is a special savings plan to help Canadians with disabilities and their families. Like an RESP, investment growth is tax deferred and significant government saving incentives may be available. To qualify you must be eligible to claim the Disability Tax Credit ([form T2201](#)) and be under 59 as of Dec 31st.

To encourage long term savings, the federal government will match contributions with grants of 100%, 200% or 300% up to \$3500 annually. In addition the plan may also be eligible for a bond worth up to \$1000 annually. Depending on family net income, a \$1500 contribution could be worth \$4,500 in grants and bonds combined (see tables below). If a parent or grandparent has money in their RRSP or RRIF after they pass away, that money can roll over into a RDSP tax-free. This money won't qualify for grant matching

but is a method to fund the account and possibly have taxes paid at a lower rate.

Canada Disability Savings Grant (CDSG)

Family net income* up to \$87,123	Family net income* over \$87,123
300% on first \$500 (maximum of \$1,500)	100% on first \$1,000 (maximum of \$1,000)
200% on next \$1,000 (maximum of \$2,000)	
Example: A \$1,500 contribution generates \$3,500 CDSG	Example: A \$1,000 contribution generates \$1,000 CDSG

*Indexed

Canada Disability Savings Bond (CDSB)

Family net income* up to \$25,356	Family net income* from \$25,356 - \$43,561	Family net income* over \$43,561
\$1,000 per year	Portion of \$1,000 based on a formula	\$0

The net family income calculation depends on the disabled beneficiary's age. For a beneficiary under 18, the parent's family income will almost always be used. When a beneficiary turns 19, their own income (including a spouse's) is used. At age 19, it is very likely a beneficiary will qualify for the full \$1000 bond.

Other savings arrangements may include disability trusts (typically for assets under \$100k) and Henson Trusts (typically for assets greater \$100k). Henson Trusts, like RDSPs do not affect Ontario Disability Support Program eligibility.

RDSPs can only be opened through certain financial institutions. To open an account or if you know someone who may benefit from this program and would like more information, contact us.

Source: <http://www.cra-arc.gc.ca/tx/ndvdlst/tpcs/rdsp-reei/cdsg-eng.html> & Advisor's Edge. June 2014 page 28-29.

New OAS Rules. When Are You Eligible?

If you were born after April 1958, the chart below shows the age you will become eligible for OAS under the new rules.

If you were born before March 31, 1958, you will not be affected
 If you were born between April 1, 1958, and Jan. 31, 1962 will have an age of
 eligibility between age 65 and 67. See the chart below for more details:

OAS/GIS Age of Eligibility by Date of Birth					
Month of Birth	1958	1959	1960	1961	1962
Jan.	65	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo
Feb. – Mar.	65	65 + 6 mo	66	66 + 6 mo	67
Apr. – May	65 + 1 mo	65 + 7 mo	66 + 1 mo	66 + 7 mo	67
June – July	65 + 2 mo	65 + 8 mo	66 + 2 mo	66 + 8 mo	67
Aug. – Sept.	65 + 3 mo	65 + 9 mo	66 + 3 mo	66 + 9 mo	67
Oct. – Nov.	65 + 4 mo	65 + 10 mo	66 + 4 mo	66 + 10 mo	67
Dec.	65 + 5 mo	65 + 11 mo	66 + 5 mo	66 + 11 mo	67

The subject of “the clawback” frequently comes up in our financial planning meetings. If your net income is maintained under \$70,954 (adjusted annually for inflation), you should get full OAS benefits. According to Human Resource Development Canada, only about five percent of seniors receive reduced OAS pensions, and only two percent lose the entire amount.

Source: Jim Yih Blog. Three Big Changes to OAS.

Make Your TFSA Work!

What’s inside your TFSA? When we speak to prospective clients it is clear that there remain misunderstandings regarding TFSA rules and more specifically what investments are allowed inside TFSAs. Don’t be fooled by the title. Most investments can be held in Tax Free ‘Savings Accounts’.

Data from the Royal Bank of Canada shows its own clients have 44% of holdings in a high interest savings account and 21% in low rate GICs. Why would you want to earn 1.5% tax free when there’s potential to earn 5% or 6%?

If a 30 year old put away \$5500 annually until 65, the savings would amount to \$192,500. At 1.25%, this equates to \$240,000. If the same investment earned a conservative 5%, it would grow to just under \$497,000.

In most cases and where appropriate, we encourage our clients to invest for the longer

term in TFSAs and regard these plan types as a true investment account. The key to a successful TFSA strategy or any investment strategy is to know your long-term objectives for those funds.

Source: Financial Post. Are Canadians giving up on big gains in their TFSAs? June 15, 2013

How to Really Read Your Notice of Assessment

It may seem obvious but it’s often not, so please check your notice of assessment (NOA). At the bottom of the first page there is a section titled “Your 2014 RRSP Deduction Limit” or part (A). There is also part (B) that is at the very bottom of that page that shows “unused RRSP contributions available”. This is where you must be careful. The amount in (B) must be subtracted from (A) and result in a positive number. If not, you will have over-contributed. There is a \$2000 lifetime over-contribution limit so there is some wiggle room if you’ve over-contributed up to that amount. Anything more and you will have to fix it and pay tax on the excess.

You may be wondering why there is a value in part (B). This amount is from contributions made in a prior year that have yet to be claimed. This occurs either because you had insufficient contribution room or because it makes more sense to contribute in a later year and get more ‘bang for your buck’. In our opinion, the NOA is long overdue for a facelift. If you have any questions on your NOA, please call the office.



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FFPG FUND REPORT

Compounded to May 31, 2014



Fund	YTD % (June 10/14)	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY					
BMO Growth & Income Advisor	7.02	14.93	6.58	14.47	9.77
Fidelity Canadian Growth Sr. B	6.25	27.05	16.44	15.78	8.59
Dynamic Small Business Sr. A	7.45	13.36	7.07	15.41	13.82
Sentry Canadian Income	6.98	16.53	11.82	17.14	12.26
Fidelity Dividend Plus Sr. B	4.88	7.73	5.16	14.95	n/a
Fidelity Canadian Large Cap Sr. B	4.26	20.30	16.23	18.26	12.81
Front Street Growth Sr. B	19.50	21.77	-11.52	10.02	9.20
IA Clarington Cdn. Conservative Equity Sr. A	8.99	14.61	6.37	11.39	7.80
IA Clarington Strategic Equity Income Sr. A	7.34	16.52	n/a	n/a	n/a
IA Clarington Canadian Small Cap Sr. A	8.06	31.40	18.31	19.26	11.08
IA Clarington Focused Cdn. Equity Cl. A	5.74	10.32	n/a	n/a	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	0.05	18.63	4.16	10.16	7.09
Fidelity Small Cap America Sr. B	-2.23	23.69	22.17	23.07	7.36
Mackenzie Cundill Value C	1.13	14.56	8.09	10.87	4.78
Mackenzie Cundill Recovery C	5.97	0.14	-1.29	7.06	5.79
BALANCED FUNDS					
AGF Monthly High Income MF Series	6.08	13.06	6.04	13.30	n/a
CI Signature Canadian Balanced Cl. A	5.91	12.82	5.92	8.67	7.49
Dynamic Power Balanced Sr. A	3.40	13.68	2.58	6.71	7.48
Dynamic Value Balanced Sr. A	5.50	13.08	5.31	8.86	8.17
Fidelity Monthly Income Sr. B	4.58	9.71	7.63	11.69	8.56
Fidelity Canadian Balanced Sr. B	5.68	13.85	6.66	9.13	7.42
Fidelity Income Allocation Sr. B	5.05	8.38	7.12	12.24	n/a
IA Clarington Focused Balanced Sr. A	4.32	10.20	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced C	4.34	13.84	8.32	12.46	6.30
ALTERNATIVE FUNDS *YTD for Arrow is June 6/14					
Vertex Fund Class B	5.48	13.51	4.52	15.09	11.12
Arrow High Yield Class A	3.80	5.20	3.30	7.70	n/a
Arrow Raven Rock (1) Class A	6.00	7.30	5.70	n/a	n/a
Arrow Curvature Mkt Neutral Cl A (capped)	2.00	6.60	6.50	0	0

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201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. www.futurefinancial.com