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The Francis Forum

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I want to wish everyone a very Happy New Year and I hope that 2007 finds you all safe, healthy, and happy. It seems like 2006 went by so quickly and before we know it spring-time will be upon us. So let's do some pre-spring preparations to ensure we are ready for the Easter bunny.

Janet will be contacting you to setup a time to meet to review how we did in 2006 and to do some much needed portfolio rebalancing due to the strong performance we had last year. RRSP's are a given, so we can discuss top ups if need be. Most importantly, we can discuss your priorities for 2006 and beyond and update your financial plan.

I look forward to talking with you all soon and as usual 'Please do not keep us a secret'!! We are always here to help

Yours very truly,

Duane

Are your contributions rising to meet the new RRSP limit?

The maximum Registered Retirement Savings Plan (RRSP) contribution limit has risen again under a pre-set schedule. The limit for 2007 is $19,000, and it will continue rising by $1,000 a year until 2011, when it will be indexed to the growth of the average national wage.

To take advantage of these increased limits, you may need to develop new savings strategies.

Make it automatic. It's easier to set aside money every month, or biweekly, than to try to come up with a lump sum. Arrange to have a set amount withdrawn automatically from your bank account and deposited into your RRSP. This also eliminates any temptation you may have to spend the money instead.

Don't forget. Your contribution limit may also include any unused amounts carried forward from previous years — if so, use it up as soon as you can, so you can benefit from the tax deduction and tax-deferred growth. And remember to increase your RRSP contributions whenever your income rises — whether because of a salary increase or because of reduced expenses.

Other options. Consider these possible sources of contribution funds:

- **Unexpected lump sum.** Contribute a bonus, overtime pay, inheritance, or other windfall.
- **Holdings outside RRSP.** Consider contributing non-registered investments. This "in kind" transfer may trigger capital gains tax, but the tax benefit you get by contributing may cover it.
- **Borrowed funds.** RRSP loans are generally available at favourable rates, especially if secured by your home.

Any new financial strategy — savings or otherwise — always benefits from the advice of a professional. ■

Big U.S. market is impossible to ignore

The U.S. economy has faced some challenges over the past year or so, but U.S. investments still offer lots of long-term benefits to Canadian investors. And mutual funds are an excellent way to invest in our neighbour and largest trading partner.

Big by every measure

The U.S. has the world's largest and most dynamic economy. The same goes for its stock market — the world's largest, most diverse array of companies, large and small. Many of the world's leading multinational corporations are U.S.-based. By investing there, you're actually obtaining exposure to economic growth and currency diversification all over the globe.

The U.S. is also a world leader in stock market regulation and corporate disclosure. And its individual stock exchanges — mainly the New York Stock Exchange and Nasdaq — lead in trading volume.

Of note for Canadians

The wider and deeper make-up of the U.S. market is especially important for Canadians since our own stock market is heavily concentrated in just three sectors: financial services, energy, and raw materials. We have little to choose from in such areas as technology, consumer goods, and manufacturing.

Consider currency

Including U.S. investments in your portfolio also helps to protect you from the possibility that the U.S. dollar will gain value against our loonie. While the Canadian dollar is very strong now, historically that hasn't been the case.

Since it's almost impossible to make accurate long-range predictions about future currency movements, it may be beneficial for you to hold some U.S.-dollar-denominated investments — especially if you travel frequently to the U.S. or are perhaps planning to retire there.

Why mutual funds?

Investing in the U.S. through mutual funds offers many advantages:

- **Professional selection.** Picking winning investments from the more than 6,000 listed companies in the U.S. is no easy task. Professional mutual fund managers have access to vast research resources. Many rely on proven, disciplined approaches to find the best potential performers.
- **Economies of scale.** Because of their size, mutual funds typically pay far less than individual investors for currency conversion and brokerage fees.
- **Convenience.** Mutual funds are easy to invest in. Many are available with initial minimum investments as low as $100. And you don't have to worry about the complexities of the U.S. withholding tax on investment earnings — the fund does that for you.
- **Liquidity.** Most mutual funds offer daily redemption at the unit price at the close of trading for that day. With stocks, on the other hand, you might have difficulty selling at the price you want, or even selling at all, if the stock is not widely traded.

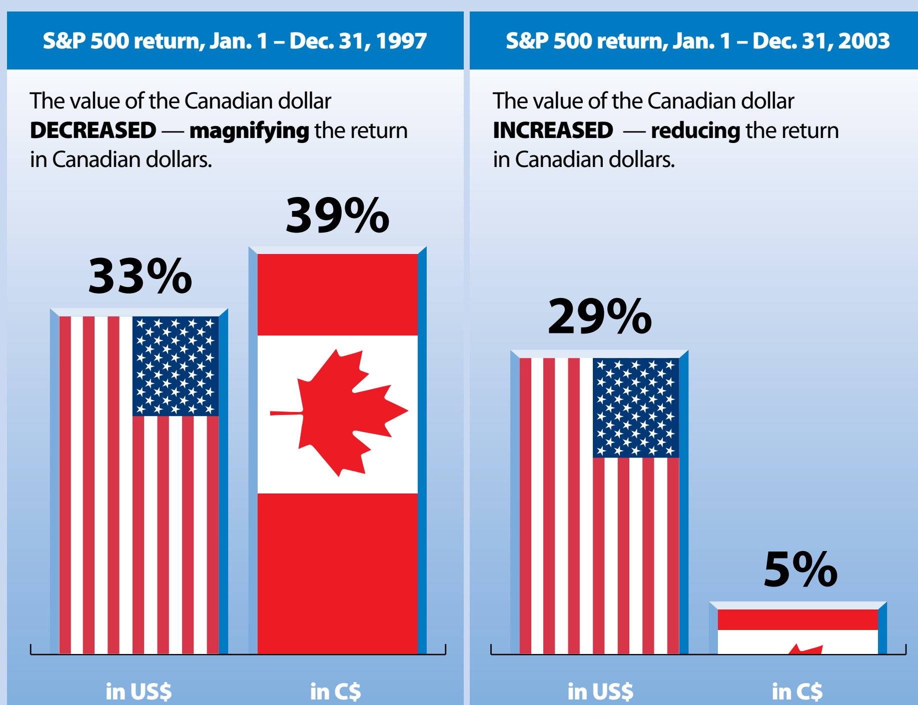
Are you already there?

If you're considering bumping up your portfolio's exposure to U.S. investments, first take into account how much you may already have. Many "Canadian" equity funds hold some foreign content, which might include U.S. companies. And certain Canadian-based companies have large operations south of the border.

With professional advice, you can determine the optimal U.S. allocation for your portfolio and the best mutual funds to provide it. ■

The currency effect

WHEN YOU INVEST outside of Canada, two key variables will affect your return — whether the price of the security goes up or down, and whether the Canadian dollar gains or loses value in relation to the currency in which the security is denominated.



Source: Bank of Canada, S&P, Morningstar Canada

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

RETIREMENT PLANNING

Could this new rule boost your retirement savings?

Alberta recently changed its legislation to allow people with Life Income Funds (LIFs) and Life Retirement Income Funds (LRIFs) under its jurisdiction to unlock up to 50% of their money and roll it into a regular Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). Registered plans offer more flexibility in terms of investment choice and withdrawal decisions.

This is an emerging trend among the provinces. Saskatchewan, Manitoba, and New Brunswick also allow unlocking. Ontario, Quebec, Alberta, Newfoundland, and Nova Scotia have special provisions that permit extra withdrawals for low-income retirees and those experiencing financial hardship. Those who've left Canada can unlock federal, Alberta, British Columbia, New Brunswick, and Quebec plans if they qualify as non-residents for tax purposes. ■

FINANCIAL PLANNING

To do: your RRSP checklist

Contributing to an RRSP is one of the easiest ways to save for retirement. This short checklist can help you maximize your RRSP contribution for the year.

✓ **Deadline.** March 1, 2007, is the last day to make a contribution you can claim on your 2006 tax return.

✓ **Contribution limit.** You may contribute up to 18% of the income you earned in 2005 to a maximum of $18,000, plus any previously unused room, and less any pension plan contributions.

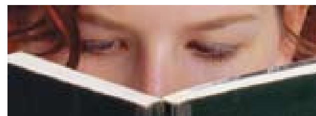
✓ **Your personal limit.** Your personal RRSP contribution limit is shown on your 2005 federal Notice of Assessment. ■

ESTATE PLANNING

Ensure your estate plan protects your RESP

A Registered Education Savings Plan (RESP) is a special gift to build for a child or grandchild. As a parent or grandparent — and the RESP sponsor — you'll want to make sure that gift is passed on as intended in the event of your death.

When two spouses are joint subscribers, the surviving one will take over the RESP. But what if there is no joint subscriber? In that case, the subscriber's will should name a replacement and specify whether contributions already made should go to the estate or be used for the child's education. Otherwise, anyone can become the replacement subscriber simply by contributing to the plan. ■



FINANCIAL CLASSROOM

your guide to the basics and how to benefit

Source deduction waiver

Why wait a year or more to reap the tax benefits created by a Registered Retirement Savings Plan (RRSP) contribution or other tax breaks? Consider requesting a source deduction waiver.

What it is

With every paycheque, your employer is required to deduct a certain percentage and remit it to the Canada Revenue Agency (CRA), or Revenu Québec, towards your income tax for the year. But when you also have significant tax deductions, such as RRSP contributions, sizeable charitable contributions, deductible investment loan interest, rental losses, or child-care expenses, the amount deducted may not accurately reflect what you'll actually owe by the end of the year.

If you can demonstrate to the CRA or Revenu Québec that you are, in essence, overpaying, it will issue a source deduction waiver that permits your employer to deduct less tax.

How it works

To apply for the waiver, submit form T1213 to the CRA (www.cra-arc.gc.ca) and, if applicable, form TP-1016 to Revenu Québec (www.revenu.gouv.qc.ca/eng). You can download the forms from their Websites.

If your tax account is in good order, officials calculate the projected tax savings and authorize your employer to reduce your withholding by that amount. Note that you have to apply for the waiver annually; it doesn't carry over from one year to the next.

Why it matters

While you might enjoy getting a tax refund, what it really means is that the government has had the use of your money — interest free — throughout the year. With the money in your pocket instead, you can put it to better use, such as contributing it to your RRSP, paying down debt, or investing.

How would a job change affect your financial plan?

A recent survey found that 44% of people who change jobs seek the advice of financial planners and investment advisors. No wonder — sound advice can make a difference at this key time.

Employment income is the fuel that drives most people's financial planning, so it makes sense to engage in a professional review of your plan when changing jobs. A new career often involves a change in income, earnings prospects, and retirement savings arrangements. Here are some key areas to consider.

Maintain a safety net. Most employees are covered by group medical, dental, disability, and life insurance. The healthcare coverage ends when you leave your job, and the disability coverage probably ends too. Usually, the life insurance can be converted to an individual policy, but at a much higher cost.

If you're moving to a new employer, your benefits might be better — or worse. Consider negotiating better benefits as part of your compensation package.

If you've been downsized, however, or are striking out on your own, you might find yourself without any benefits. If your spouse is employed, you may qualify for coverage under his or her group plan. Otherwise, you may need to purchase individual policies to provide the protection you and your family need.

Revisit your retirement strategies. If you participated in an employer-sponsored defined-benefit pension plan and you are leaving your job before retirement age, in most cases you will receive a pension adjustment reversal (PAR). The PAR creates a one-time boost in the amount you can contribute to your Registered Retirement Savings Plan (RRSP).

If you receive a retiring allowance from the employer you're leaving, you may be able to take advantage of a special tax-free rollover. Basically, you can contribute to your RRSP up to $2,000 for every year or part-year of employment prior to 1996. You can roll over an additional $1,500 for every year or part year prior to 1989 in which you didn't participate in a company pension plan. These contributions are over and above your regular contribution limit.

Focus on your family budget. The effect of your new career on your family's cash flow will depend on your situation. If you're earning more, you may have more available to contribute to your RRSP or to invest, or you may be able to take on more investment risk. However, depending on the nature of your new job, your employment-related expenses may go up too. For example, you may have to commute further, or invest in a new wardrobe.

If you've made the move to self-employment, it may take a while for your new business to become established and begin to turn a profit. In that case, you will need cash flow from other sources to meet your ongoing living expenses.

If you're thinking of changing jobs, be sure to consider all of the potential financial implications. With input from a professional, you can find solutions and feel confident you're making the best decisions for you and your family. ■

Check your return for red flags

SOON IT WILL be time to file your taxes. Some things catch the tax department's attention. If these apply to you, accuracy can help you avoid problems or an audit.

1. Inaccurate capital gains or losses. Capital gains and losses are calculated as investment proceeds minus your adjusted cost base (ACB). Many people forget that the ACB is the average price paid for shares or mutual fund units. So if you invested on different occasions or had distributions reinvested, your ACB is likely to be different than the price at which you first bought the investment.

2. Deductible investment carrying charges. Keep accurate records of the deductible interest paid on investment loans and how those loans are used.

3. Province of residence. Your tax bill is based on your primary residence on December 31 — not where you have a secondary residence or some other attachment.

4. Charitable donations. Assessors routinely review large gifts of more than $25,000. They pay particular attention to packaged plans that issue tax receipts for more than the donor's outlay.

5. Foreign tax credits. The CRA is reportedly paying more attention to tax-treaty claims concerning foreign-source employment and investment income.

6. Child-care expenses. Be sure to get receipts and claim only qualifying expenses. For a list of what's eligible, see IT-495R3 on the Canada Revenue Agency Website at www.cra-arc.gc.ca.

Professional tax advice is recommended when preparing your tax return. ■

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus carefully before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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