Lara Austin's

June/July 2012

MindingMoney

Lara D. Austin
B.A. (Hons.), CIM, FMA
Investment Advisor

250-334-5600
lara.austin@rbc.com
www.LaraAustin.com

RBC Dominion Securities
777A Fitzgerald Avenue
Courtenay, BC V9N 2R4

For the friends and clients of Lara Austin of RBC Dominion Securities

May offered...

An unusually turbulent roller coaster experience in equities. Equities are represented by companies operating in Canada, U.S. and the rest of the world. When you choose companies who have large operations (large cap) and diversified operations (multiple products or services) and you ensure that enough different categories (i.e. resource, financial, consumer discretionary) are covered in your investment choices, you generally have protected yourself enough to see through the rough times. Investors who are impatient or forget these three aspects of investing often find themselves in trouble.

Rough times can come in many forms. Political instability, credit market instability, regular economic fluctuations, not to mention investor euphoria and capitulation are factors can cause a stock price to soar and falter.

So why do we bother with investing in equities? Most of us aren't greedy people. Most of us would love to nix that frustration from our lives. The answer is INFLATION. Most safe investments can't keep up. Historically real estate, equities and gold are a good hedge (protection) against inflation. However, real estate and gold do not offer much liquidity. (i.e. you can't 'cut off a portion' to pay for groceries).

If you have ever watched Looney Tunes cartoons with your children or grandchildren, a great example of how economics works is the vintage production *By Word of Mouse* released in 1954. Directed by Friz Freleng, with voice work by Mel Blanc, the story centers around a European mouse, Hans, from the town of Knockwurst-on-der-Rye, who visits his American cousin, Willie, in New York City. The two mice visit an economics professor (also a mouse), who provides a simple but effective illustration showing the connections between competition, mass consumption, profits and economic growth. It is worth finding this cartoon online and having a watch – it removes some of the mystery!

I love to find new and interesting ways to help my clients and readers understand investing and financial management. Watch for a new series of ads in the local papers with an invite to visit my Article Vault for more in-depth (longer) articles on a variety of subjects. The Vault contains some really great stuff that is too long to fit in my little newsletter. Clients may request a hard copy of these articles to be mailed if they don't have access to the internet. In this issue, we are covering topics that include possible changes to the Power of Attorney Role and a better understanding of Public Pensions.

As always, I'm available for regular reviews through the summer. I'm happy to squeeze in a review meeting between your visits from releatives and your summer travel adventures. Please call us to arrange and appointment or an initial consultation meeting.

Lara D. Austin

Power of Attorney Changes May Be Coming

By Leanne Kaufman, Estate Planning

On December 6, 2011, Queen's Park passed first reading of Ontario's Bill 21, the Protection of Vulnerable and Elderly People from Abuse Act (Powers of Attorney), 2011. As it has only passed first reading, the Bill is not law, and will not be unless it passes two more readings, goes through committee and ultimately receives Royal Assent, (reminiscent of *School House Rock's* "I am Bill, I am only a Bill…"). However, if this Bill makes it all the way to law, it will change the duties of persons appointed to care for the property of others under a power of attorney in Ontario. (In Ontario, as in many other provinces, a person appointed under a power of attorney is called an "attorney," but despite the potentially confusing name, an attorney does not need to be a lawyer, and can be anyone who legally qualifies.)

There are two particularly noteworthy features of the Bill. First, it introduces an unprecedented requirement that an attorney provide an annual accounting to the Public Guardian and Trustee (also known as the PGT, which is an office of the Ministry of the Attorney General) and, if requested, to the grantor (the person who appoints the attorney). The information to be reported includes the assets and liabilities of the grantor, and the compensation taken by the attorney.

Second, the Bill requires the PGT to create a register of attorneys. The registry will contain specific information if the grantor chooses to provide it, including the name and address of the grantor and the attorney, any restrictions on the attorney's authority, the date the attorney's authority took effect and the persons to whom the grantor authorizes the PGT to disclose information. That information can then be shared by the PGT (for a fee) with certain members of the grantor's family, and the people authorized in the power of attorney. This is a voluntary registry so many people may not choose to take this step (which may make it difficult for the annual accounting requirement.)

As the name of the Bill suggests, the motivation behind these proposed changes seem to relate to the ongoing movement towards the protection of seniors and other vulnerable adults who might otherwise be at risk of financial abuse by an attorney (or someone purporting to be an attorney). Unlike probated Wills, powers of attorney are not public documents, so family members or other interested parties may not be able to readily find information regarding who a relative or loved one has appointed to manage their affairs when they are no longer capable of doing so themselves. The creation of a registry would create more transparency in this regard, but only to the extent that people choose to provide the information to the PGT.

Further, requiring annual reporting to the PGT creates accountability on the attorney to validate fulfillment of his or her duties to the grantor. Unlike the administration of an estate, where an executor's financial activity can be monitored by those with an interest in the assets, a power of attorney generally has no such monitoring (unless ordered by the courts or supervised by the grantor, if he or she is still capable of doing so). An attorney would also need to be prepared to account to the executor of the estate of the grantor upon death, but if the attorney is also named as executor, an accounting may only be required if requested by the beneficiaries or ordered by the courts. By forcing an annual accounting to the PGT, the attorney's activities may be monitored proactively, rather than relying on the grantor's beneficiaries or other interested parties to know and enforce their rights.

While these proposed changes might serve the intended purpose to protect vulnerable citizens, they will impose significant obligations on attorneys, who will need to be prepared. It has always been the case that attorneys needed to account if asked to do so by the courts or an executor, but it is rare that such a request is made. If this Bill becomes law, every attorney may be required to do so, annually (although the specific format that the information needs to be reported in has not yet been disclosed.) This will force more discipline and rigour around the activities of an attorney, which is of course the point, but with the downstream effects of making the appointment more time consuming, complex, and potentially expensive than originally contemplated for the attorney appointed.

Even if this Bill is not passed into law, it is critical for attorneys to understand their existing duties around accounting, and stand ready to do so if asked. Professional advice and administrative support is available to assist when required.

It is important to note that this law, if passed, will only be applicable in Ontario. It is not uncommon, however, for other provinces to pay attention to new laws, and often implement something similar in their own jurisdictions. If you are an attorney and have questions regarding your duties, or you are concerned as a grantor, competent legal advice is essential before taking any action.

Leanne Kaufman, LL.B, LL.M is the Vice President, Professional Practice Group, RBC Wealth Management and author of The Executor's Handbook, 4th Edition, published by CCH Canadian Ltd. ***rbctru@rbc.com***

How Much Is That Pension In The Window?

Mary and Bob are preparing for retirement and want to know what their incomes will look like at that time. Bob has worked as a government employee for most of his working life and Mary started her own home based business after raising their three children. They start by looking at their public pensions.

They request their Statement of Contributions from the tollfree number at Service Canada. Bob notices that he has made the maximum contribution for most of each of his working years, and with the eight-year drop out provision (to remove low contribution years) he achieves the full payment of $980 per month. Mary's contributions have been lower over the years but realizes that her statement doesn't reflect the seven-year childrearing dropout provision for each child. That will be computed when she applies and increase her monthly pension accordingly, however her CPP will reflect the 2011 average payout that Pensioners are receiving of $502 per month. CPP was only designed to pay out around 25% of Yearly Maximum Pensionable Earnings (YMPE), which for 2011 is $48,300, set at $12,075 for 2011. It was never designed to be fully relied upon in retirement.

Bob and Mary have resided in Canada for all their working years and are both therefore eligible for full Old Age Security at age 65. It pays $524.23/month each (as of March 2011). This pension is based on residency - not contributions.

So far, family pension income at age 65 is $2,530.46/month. Taxable, but indexed to inflation.

Next come private pensions. It is estimated that only 40% of Canadians are covered by a private pension plan. In the private sector alone, only 27% of employees are covered by some type of pension plan. The trend is pointing to fewer Defined Benefit (DB) plans in future years. Bob's Pension is expected to be $35,000/year. This was calculated based on his years of service and his last five years of earnings. This amount will be indexed for inflation and will pay for both his and Mary's life.

Mary has no private pension and no savings. She wonders what she would have had to save if she wanted to have $35,000/year for life. At the current "risk free" rate of 2.3% (think average on five-year GIC ladder or five-year Government of Canada Bond), she would need just over $1,500,000. This may not be the most fair comparison; risk free money is paying the lowest levels in 60 years and many investors including the pension plans themselves take on slightly more risk to obtain better returns. In addition, Mary's estate would get to keep the capital if she died, whereas Bob's pension disappears when both he and Mary have passed away.

How much would Mary have to contribute to her savings to accumulate $1,500,000? If she saved $12,000/year for 40 years (age 25 to 65) at a taxfree 5% compound return, she would achieve her goal. Another way to look at this is, if Bob was earning the Median Family Income (as reported by the 2009 Quality of Life Report) for the Comox Valley of $38,351, his pension expressed in today's dollars would reflect a yearly bonus of $12,000/year, or a 20% savings rate on the combined amount. Coincidentally this is the same savings rate "The Wealthy Barber" recommended in his revised book in 2011!

All in all, Bob and Mary are comfortable that their pensions in retirement cover their base spending needs (after taxes). What they save on their own is 'fun money.' Many people, however, haven't taken the time to understand their public and private pension resources and how they fit into their retirement plans, and start doing this math many years too late. The new Family Snapshot Program at RBC DS can help you and your adult children better understand your options.

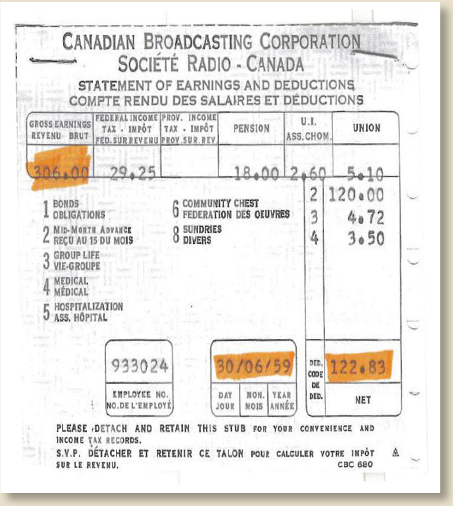
Watch for this ad in your local paper. TIP: A password is needed for the ARTICLE VAULT!

Picture of the Day - a MONTHLY Paycheque from 1959!

The inflation rate in Canada was recorded at 2.00 percent in April of 2012. Historically, from 1915 until 2012, Canada Inflation Rate averaged 3.2500 percent reaching an all time high of 21.6000 percent in June of 1920 and a record low of -17.8000 percent in June of 1921.

Inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The most well known measures of inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

Although inflation is low right now, this serves as a warning that inflation can have a huge impact, even at a relatively low average level. One way you can protect yourself from inflation is to invest in assets that provide some protection against in inflation like our personal real estate and equities.



CANADIAN BROADCASTING CORPORATION
SOCIÉTÉ RADIO - CANADA
STATEMENT OF EARNINGS AND DEDUCTIONS
COMPTE RENDU DES SALAIRES ET DÉDUCTIONS

GROSS EARNINGS REVENU BRUT	FEDERAL INCOME TAX · IMPÔT FED. SUR REVENU	PROV. INCOME TAX · IMPÔT PROV. SUR. REV.	PENSION	U.I. ASS. CHOM.	UNION
306.00	29.25		18.00	2.60	5.10

1 BONDS OBLIGATIONS
2 MID-MONTH ADVANCE REÇU AU 15 DU MOIS
3 GROUP LIFE VIE-GROUPE
4 MEDICAL MÉDICAL
5 HOSPITALIZATION ASS. HÔPITAL
6 COMMUNITY CHEST FEDERATION DES OEUVRES
8 SUNDRIES DIVERS

2	120.00
3	4.72
4	3.50

EMPLOYEE NO. NO. DE L'EMPLOYÉ	DAY JOUR / MON. MOIS / YEAR ANNÉE	DED. CODE DE DED.	NET
933024	30/06/59		122.83

PLEASE DETACH AND RETAIN THIS STUB FOR YOUR CONVENIENCE AND INCOME TAX RECORDS.
S.V.P. DÉTACHER ET RETENIR CE TALON POUR CALCULER VOTRE IMPÔT SUR LE REVENU.
CBC 680

This paystub was brought to me by a client. He noted that in 1959 a new house cost $10,000. Based on 22 work days a month, he brought home $13.90 a day or $1.74 per hour. A great illustration for those children and grandchildren just entering the workforce now. Thank you Cliff.