RBC Dominion Securities Inc.

Westside Viewpoints

Summer 2015

ACCUMULATE PRESERVE TRANSFER

Front row: Michael Wilkie, Kate Wolfe

Back row: Clare Singh, Christy Dinning, Paul Wolfe, Michelle Lee

Paul Wolfe, FCSI, CIM
Portfolio Manager
Office: 604-665-0665
Prince Rupert: 250-627-4384
paul.wolfe@rbc.com

Michael Wilkie, BBA, FMA, CIM
Portfolio Manager
Office: 604-665-8480
michael.wilkie@rbc.com

Westside Wealth Management Group
of RBC Dominion Securities
2052 West 41st Avenue
Vancouver, BC V6M 1Y8

Fax: 604-266-1147
Toll-free: 1-800-641-5665

www.westsidewealthmanagement.ca

Services We Provide:

- Fee-based portfolio management
- Estate planning, financial planning
- Tax-exempt investment strategies
- Life, long-term care and critical illness insurance

Top 6 Retirement Savings Mistakes

Retirement planning is by no means an exact science as it requires a lot of assumptions about variables beyond our control, namely interest rates, market returns, and life expectancy. The best financial plans make reasonable assumptions and project best and worst case scenarios. Below is a short list of the most common retirement savings mistakes to avoid.

1. **Waiting Too Long to Start Saving and/or Saving Too Little**
   As a rule of thumb, you will need about 75 to 80% of your pre-retirement income during retirement, and the average person will receive about 40% of his or her "replacement income" from Social Security retirement payments. Surprisingly, some 36% of workers who participated in a 2014 survey by the Employee Benefit Research Institute reported that they had less than $1000 in savings. The sooner you start to save, the less you'll have to save, as a percentage of your yearly salary, over the course of your career.

RBC Wealth Management
Dominion Securities

Top 6 Retirement Savings Mistakes

continued from page 1

2. Altering Savings During Bear Markets

It can be very unnerving to watch your portfolio drop in value by more than the amount you are contributing to it each month. Many people who find themselves in that situation believe they are "throwing money out the window." Consequently they take a knee-jerk reaction and stop contributing at precisely the time they should actually be contributing more. When stock prices are low, expected returns are at their highest.

3. Putting Too Much Emphasis on Average Life Expectancy

By definition, life expectancy tells you only when, out of a large group of people, half will have already died. You have no way of knowing which group you will be in. Planning for a longer-than-average retirement, say five to 10 years longer than the average life expectancy, can help mitigate the risk of outliving your assets.

4. Retiring Too Early

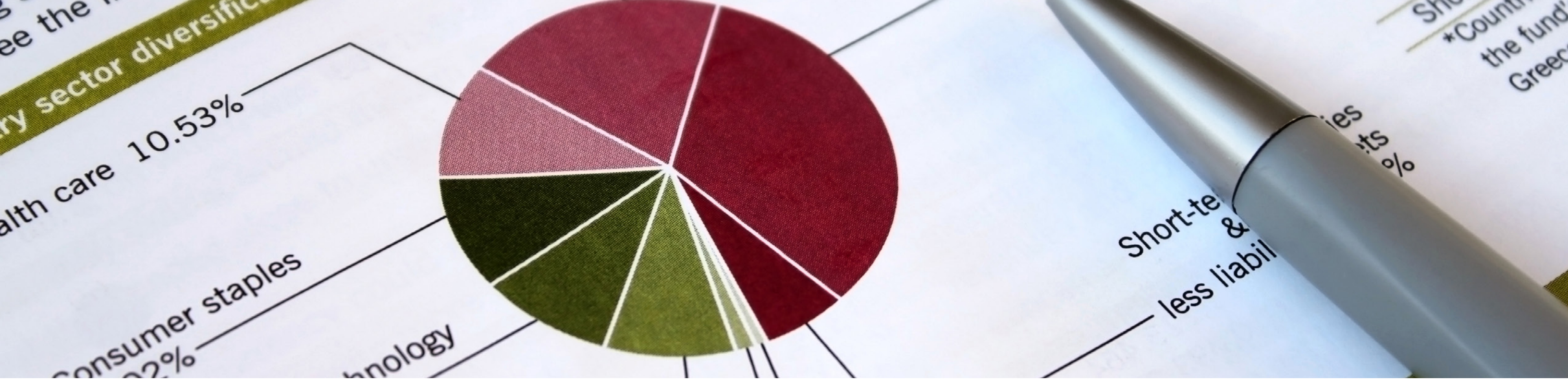
Many people are tempted to retire in their early 60's, but doing so can put considerable strain on a retirement portfolio, particularly for those who live into their 90's. By either working a little longer or taking on a part-time job during the early years of your retirement, you can delay or slow down the draw on your nest egg, giving your portfolio more time to compound.

5. Failing to Spend Prudently During Retirement

Many advisors and investors use the 4% Rule as a guideline to determine how much one can safely withdraw from a broadly diversified portfolio in order to make it last three decades. But with interest rates at historical lows there is increasing skepticism whether this long-held belief still makes sense. Some would suggest a rule that responds to realized market returns – in other words, if the market does well, you spend more and vice versa. One of the biggest mistakes retirees make is not curtailing their spending during bear markets in retirement or spending too freely during bull markets.

6. Providing Too Much Help to Grown Children

One of our favorite lines is, "If we don't fly first class, our kids will." While there is nothing wrong with helping your adult children with a mortgage or financing a new business, such generosity can come back to bite retirees in the long run. A good rule of thumb is if you are lending money to your kids, consider it a gift and don't expect (or depend on) getting repaid.



Return of Capital Explained

There is always a lot of confusion about Return of Capital (ROC) distributions – Are they taxable? How are they reported? How do they affect my adjusted cost base? This article is meant to explain what ROC means, the most common types of investment vehicles that may make ROC distributions to you, and the tax implications of such distributions.

As the name suggests, Return of Capital represents a return of all or a portion of your original invested capital. It offers a solution if you require a regular income stream from your investments, and provides three main benefits:

- **Tax efficiency** – income classified as ROC is not taxable in the year it is received
- **Cash flow stability** – portfolio managers often use ROC in order to produce a predictable monthly cash flow on investments
- **Tax deferral** – tax payments can be deferred until your investment is sold, helping to maximize your current cash flow and giving you control over when you pay the tax.

ROC Investment Vehicles

There are three main types of investments that could make ROC distributions: mutual funds, real estate investment trusts and limited partnerships.

Mutual Funds

ROC distributions typically occur when a fund's objective is to pay a regular set monthly or annual distribution. If the fund earns income (interest, dividends or realized capital gains) that is less than the regular set distribution, an ROC distribution is added to make up the remainder. This means that some of the fund's original capital is returned to you in order to cover the distribution.

Real Estate Investment Trusts (REIT)

A REIT is allowed certain non-cash deductions such as depreciation. These deductions result in a lower taxable income for the REIT, without reducing the cash available for distributions. This permits the REIT to make cash distributions to you in excess of its taxable income. Any distribution in excess of the REIT's net income represents ROC.

Limited Partnerships (LP)

The income that an LP generates less its expenses is known as its net allocated income. Any distribution you receive in excess of the LP's net allocated income represents ROC.

ROC Taxation

Although ROC distributions are not taxable in the year you receive them, it is important to understand the long-term tax impact. Any ROC distributions you receive reduce the adjusted cost base (ACB) of your investment for tax purposes, which will typically result in a larger capital gain or smaller capital loss when you eventually dispose of your investment.

If the ACB of your investment is reduced below zero during the tax year, the negative amount is deemed to be a capital gain in the year it arises. Any future ROC distributions will be taxed as a capital gain as well because you are getting back more than you originally invested.

Return of Capital and Old Age Security Benefits

Old Age Security (OAS) benefits and other government income are typically reduced if your income exceeds a certain threshold. Fortunately, ROC distributions are not considered taxable income so your OAS benefits will not be affected by them. However, when you do decide to sell your investments, OAS benefits and any other income-tested amounts, such as tax credits and other allowances, could be impacted by the potentially larger capital gain.

If you have any questions regarding ROC as it relates to your own investments, please do not hesitate to give us a call.

What's New with Our Team

Happy Anniversary, Christy!

On June 23, we celebrated Christy's 20th anniversary of working with the Westside Wealth Management Group of RBC Dominion Securities. That's right, since June 1995 Christy has been an integral member of our team, having developed deep relationships with clients and expertly managing the implementation of our portfolio strategies. We are very proud of Christy's accomplishments and really don't know what we would do without her. Congratulations, Christy!
Here's a photo of our team out celebrating.

Michelle's Go-Pro Selfie At Stunning Bryce Canyon, Utah

Cats Have a Way of Getting in Your Face

For all you cat lovers out there, you will appreciate this photo of our cat, Tatu, helping Paul out with his jigsaw puzzle.

Newsletter Editor: Kate Wolfe. If you like what we're doing please tell a friend, if you don't, please tell us. **kate.wolfe@rbc.com**