FEREBEE WEALTH MANAGEMENT
Spring / Summer 2013 Newsletter

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Spring is in the air

Spring has sprung and along with it the market seems to have the behaviour of our spring weather. The global economy continues to heal and risk appetite around the world appears to be reviving.

Inflows into the market during the start of this year were higher than any previous year. The U.S. housing crisis seems to now be behind us and employment is improving, albeit slowly. Although economic momentum has flattened out in recent weeks and consumer and business confidence has been more subdued than we had hoped, investors appear to be looking past the immediate threats and focusing on the many positive developments that have occurred since the financial crisis. This will lay a base for sustained, balanced growth in the future.

This week the Bank of Canada held the benchmark interest rate at 1%, which has been nearly three years now, with no sign that it will change anytime soon. It is not the lowest rate on record - for a stretch in 2009 and 2010 it went down to 25 basis points, however it is certainly one of the longest periods that it has been kept at this rate.

Over the last few months, we have been discussing online statements with clients that are not interested in receiving paper copies any longer.

If you would like to “go green” please give Stephanie a call and she can set you up with online statements. We do keep a copy of all of your statements and confirmations on our database for years, so you can still get the odd paper statement that you may need if you do switch to online statements.

Is a Testamentary Trust right for you?

For families concerned about intergenerational wealth transfer, a testamentary trust is an indispensable tool.

A testamentary trust is a type of trust established through your Will that enables you to give assets to your beneficiaries with certain conditions that you have specified, while providing them with income tax advantages.

In a trust, you specify an amount of money or other property to be held for a specified period for beneficiaries you have identified and on the terms directed by you. For example, you may wish to leave your children a portion of your estate, but you may feel that they should not receive their inheritance until they are old enough to manage it responsibly. Through your Will you would direct your chosen trustees to hold and invest the inheritance in a trust for your children until they reach the age that you have specified. Alternatively, you can give your trustee full discretion on the amount and timing of trust distributions to the beneficiaries.

Testamentary trusts are generally created with assets passing through one's estate. Therefore, probate taxes (negligible in Alberta and Quebec) will likely have to be paid. However, there will be no probate tax for a properly structured testamentary trust funded with insurance proceeds.

Testamentary trust vs. outright inheritance

One of the major benefits of establishing a testamentary trust is the annual income tax savings for the surviving beneficiaries. These income tax benefits are not available to beneficiaries who receive outright inheritances. Taxable income earned in a testamentary trust can be subject to the same graduated tax rates as an individual taxpayer and then paid out after tax to the beneficiary.

Since the income earned within a testamentary trust can be taxed on a separate tax return at graduated tax rates (although the basic exemption is not allowed), an income-splitting opportunity arises for each beneficiary.

Assume an adult child is in the top marginal tax bracket of approximately 46% (varies by province). Upon the parent's death, this child is expected to receive an outright inheritance of approximately $500,000. Further assume that this inheritance will be invested by the child and will produce annual taxable income of 5% or $25,000 per year. The after-tax income earned this way would only be $13,500 – compared to $19,000 if the inheritance had been transferred to a testamentary trust and taxed at graduated rates instead.

If you intend to have your assets pass through your estate so they can fund a testamentary trust, then the use of Joint Tenancy with Rights of Survivorship accounts (not applicable in Quebec) may not be appropriate. You may also need to restructure beneficiary designations on registered accounts. Furthermore, if you are a high-income earner and you have elderly parents that you know will be providing you with an inheritance, consider speaking to your parents about the benefits of including a testamentary trust provision in their Will.

Not just tax benefits

In addition to the tax benefits, there are many reasons why a testamentary trust may be advantageous. A testamentary trust provision in the Will can make sense in the following scenarios:

- Individuals in second marriages
- Disabled or minor beneficiaries
- Parent is concerned about spendthrift beneficiaries
- Parent is concerned about inheritance being accessed by son- or daughter-in-law
- U.S. citizens
- Beneficiaries are high-income earners or will receive a large inheritance

Protecting your Wealth with Insurance

Protecting Your Wealth with Insurance

By John W. Hamilton

Like most Canadians, you want to be free of financial worry. That means knowing you will have enough money to live comfortably in retirement and potentially leave something for your family in your estate.

Unfortunately, without proper planning, the value of your assets could be reduced by a hefty tax bill. Your estate may not have enough liquid assets or cash on hand to pay this bill and your heirs may have to decide which assets to sell in order to fulfill the obligation.

Upon passing (if you are unable to roll over assets to your spouse), registered assets, as well as gains on non-registered investments and property (excluding your principal residence), will be included in your income in the year of death. While the tax bill may be relatively low today, it may increase over time as your assets increase in value, so your family is not only inheriting the assets, but also the tax bill.

An Effective Solution

There are strategies using life insurance to help your family when the time comes to settle your final tax bill. Once integrated into your overall financial plan, these strategies will help to protect the value of your assets and provide your heirs with the funds necessary to pay the taxes due when you pass away, all for just a fraction of the potential tax bill. Traditionally, we view life insurance as a means to replace lost income or to provide money for final expenses like a funeral. However, permanent life insurance may be valuable as a financial planning tool in other ways, especially for families with more complex financial needs.

Three Types of Permanent Insurance

• Term To 100: Basic insurance coverage that lasts your lifetime.

• Universal Life (UL): Combines the security of insurance coverage with the growth opportunity of a taxsheltered investment account that is managed by the policyholder to achieve long-term estate growth.

•Whole Life (WL): Generates long-term growth by crediting policy dividends, which are largely created by the performance of a diversified investment portfolio managed by the insurer's professional money managers. It is a product intended to maximize estate values with the help of a managed investment approach.

There are several differences in the mechanics of Whole Life and Universal Life insurance, but in the end, they may both be used for either personal or corporate planning needs. They may also offer a tax-deferred accumulation of wealth and a tax-free benefit payable to your heirs.

The use of permanent life insurance provides the ability to manage your tax risk today and in the future. It is important to keep in mind that you must medically qualify for coverage in order to purchase life insurance and implement this type of strategy. The insurance premiums relative to the benefit make it an extremely cost-efficient method of covering your future tax liability.

Selecting the right insurance solution for you will depend on your objectives and investment style. Whether your needs are simple or complex, there is a solution for you. We will analyze your situation, determine your needs and implement a strategy that is right for you.

Please contact Natalie if you are interested in getting more information on life insurance and how it fits within your overall wealth plan.

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Here is how to protect yourself against E-mail fraud.

As criminals become more sophisticated, email fraud is increasing.

Often, fraudulent emails are designed to appear to be from legitimate companies, such as RBC, in order to trick you into divulging personal information.

Typically, these emails ask you to confirm personal information by clicking links or opening attachments that lead to phoney websites asking for your account number or online banking password.

How to Recognize and Protect Yourself against Email Fraud

- Be suspicious of emails requiring "immediate action" and warning that your accounts will be closed or your access restricted if you don't reply.
- Beware of all unsolicited emails requesting personal information, even if you recognize the name of the sender.
- Watch out for emails with spelling and grammatical errors.
- Never click on a link in an email you suspect may be fake.
- Verify instructions with a trusted source other than the email before clicking a link, wiring money or calling a number.
- Choose more secure email account passwords using a mix of numbers and uppercase and lowercase letters.
- Install anti-spam, anti-spyware and anti-virus software on your computer and regularly check for software patches and updates.

Learn more about how to protect yourself against email fraud at www.rbc.com/privacysecurity/ca.

KEY DATES

June 3rd - June 7th - Natalie in Terrace/ Smithers

On a green note if you would like to receive this newsletter by e-mail contact please Stephanie.

If you know someone who would like to receive this newsletter please contact Stephanie at stephanie.frey@rbc.com or (250)770-1204