PORTFOLIO ADVISOR

Summer 2015

Kelsch Ferrier Wealth Management Group

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Making a Difference

To many of us, it will come as no surprise to learn that Canadians believe strongly in giving back to communities, causes and organizations that are important to them. Over 40% of us participated in some form of volunteer work in 2013, and nearly twice that many (82%) made a financial donation, according to a new report published by Statistics Canada.

But there's more than one way to do what feels right. For many Canadians, philanthropy has become an increasingly important part of overall wealth planning. What's more, Canadians are looking for ways to "do good while doing well" when investing their wealth.

Read on to learn more about the variety of ways you can build wealth, pass it on and potentially minimize tax – all while making a difference in your community and the world around us.

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1 Thoroughly re-evaluate your financial plan

A good starting point for getting your retirement back on track is creating or updating your financial plan. Not all financial plans can truly address the nuances of your personal financial situation, so make sure you choose a plan that's up to the job. You might find that a basic financial plan that made sense 10 years ago simply doesn't address the complexities of your current financial situation.

In this first step, you take a close look at your current financial situation, your retirement goals, and your retirement savings strategies, all of which will help you answer that all-important question: "Will I have enough for the retirement I want?"

SEVERAL VARIABLES COME INTO PLAY

› Your savings

Your plan should take into account all of your savings, including your Registered Retirement Savings Plan (RRSP), employer pension if you have one, and any non-registered savings. It should also tell you whether you're saving enough each year and whether you're getting enough growth on your savings.

› Retirement age

While many people still look forward to an early retirement, many others are looking forward to working well past age 65, and not just for financial reasons. Longer life spans, improved health, a desire to stay active, and a need to retain a sense of purpose are among the many reasons why people are working longer.

› Expected retirement expenditures

Some financial planners suggest you will need 60-70% of your pre-retirement income to maintain your standard of living during retirement. However, as this number can vary widely, it's best to analyze your particular situation to arrive at a more accurate number.

› Expected retirement income from all sources

Consider not only your RRSP/employer pension, but also your non-registered savings, government benefits, possible inheritances, and earned income (e.g. from part-time work, consulting, royalties, etc.).

› Longevity of savings vs. life expectancy

People are living longer thanks to healthier lifestyles, improved health-care, and medical advances. At age 65, you can now expect to live for roughly another 20 years on average (slightly longer for women than men). You will want your savings to last at least this long, and probably longer, unless you have a specific reason to expect a shorter life span.

› Strategies

A key part of the financial-planning process is assessing various strategies to boost your savings, reduce taxes, enhance your after-tax income, and potentially create more wealth to pass along to your heirs. We will discuss some of these strategies in Step 2 – Put super-strategies to work for you.

How much is enough?

A debt-free couple, Mr. and Mrs. Berkenstock, intend to retire at the same time, at age 65. Being in good health, they both expect to live at least 20 more years. They currently earn $200,000 before taxes. They feel $125,000 a year will be adequate for the first 10 years of retirement and $95,000 for the rest of their retirement.

So how much will they need to have saved when they retire?

In total, they will need roughly $2.2 million (pre-tax) for their living expenses in the 20 years after retirement. However, as they can still expect 5.5% annual growth on their savings in retirement, they will need less than this, even after adjusting for 2.5% annual inflation and adding a safety margin of 10%. In addition, they are entitled to full CPP and OAS benefits, reducing the amount they will need to save by about 60%. Once all the numbers are crunched, Mr. and Mrs. Berkenstock decide they should have at least $1 million tucked away (divided approximately 50/50 between their registered and non-registered accounts) when they retire at age 65.

Source: RBC Dominion Securities

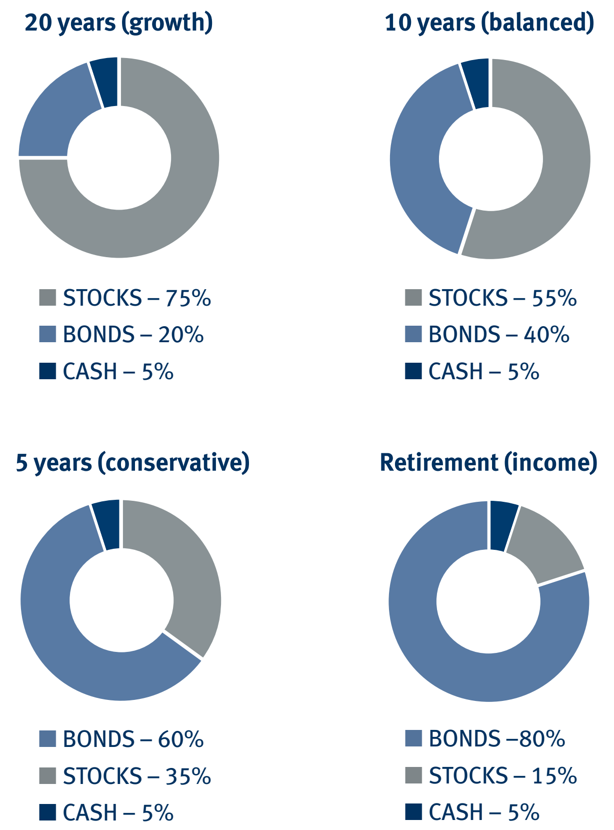
2 Put super-strategies to work for you

Of course, it's fine and great to say you will need to save such-and-such an amount for your retirement, but what you also need are some strategies to help. In creating or updating your financial plan, many different strategies should be evaluated, the most promising ones identified, and where possible the impact of adopting them quantified. Here are just a few:

REALIGN YOUR ASSET ALLOCATION WITH YOUR LIFE STAGE

Generally, the closer you get to retirement, the safer you should play it, gradually moving from a portfolio favouring stocks to one more evenly divided between stocks and bonds and finally to one favouring bonds. But on the other hand, you don't want to play it too safe, even once retired, as you still need some growth to ensure the longevity of your savings.

ASSET ALLOCATION FROM NOW TO RETIREMENT



MAKE THE MOST OF YOUR RRSP

It's tough to beat the tax advantages offered by your RRSP – so you should make the most of them. Here are some tips:

› Keep it topped up

It's easy to let the RRSP deadline come and go while you're focused on other things. Setting up a Pre-Authorized Automatic Contribution Plan can help. And if you have any available contribution room from previous years, catch up as soon as possible.

› Contribute to a spousal RRSP

If you expect to have higher retirement income than your spouse, you can contribute to a spousal RRSP to help even out your retirement incomes. Because of Canada's marginal tax rates, a couple earning similar incomes generally pays lower combined tax than a couple where one spouse earns all the income. With recent tax changes, you can now divide all of your regular pension income (including RRIF income) up to 50/50 with your spouse for tax-reporting purposes. However, a spousal RRSP doesn't have this 50/50 cap – you could for example make 100% of your RRSP contributions to a spousal RRSP. This makes it still useful for income splitting over and above the new tax rule, especially if you will have significant non-pension retirement income that you can't split with your spouse.

› Continue contributing even if you're semi-retired

So long as you're still receiving some earned income, you can continue contributing to your RRSP until December 31 of the year in which you turn 71. You can also continue contributing to your spousal RRSP until your spouse turns 71 – even if you're older.

› Delay converting your RRSP for extra tax-deferred growth

If you don't need the income from your RRSP, wait until the year you turn 71 to convert it. This way, you allow your RRSP to continue growing on a tax-deferred basis. Then, when you do start taking income, take only the minimum from your RRIF, and draw the additional income you need from less tax-advantaged sources.

› Remember the "forgotten" RRSP contribution

If you are still generating RRSP contribution room, you can make two final RRSP contributions before you convert your RRSP into an RRIF. The first is your regular RRSP contribution, based on your previous year's earned income. The second is a slightly early RRSP contribution, based on your current year's earned income. Because you have to make it early (before you convert your RRSP), you will be assessed a minor penalty for an "excess" contribution. However, the tax advantages should more than compensate for this.

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INVEST BEYOND YOUR RRSP

Following are some tax-efficient investment strategies that can help you save beyond your RRSP – whether you're trying to rebuild your savings after the financial crisis or simply need to save more to maintain your lifestyle in retirement.

› Invest surplus assets though a tax-advantaged life insurance policy

Investment income earned within the policy is tax-deferred, just like an RRSP. If required, you can also use the policy as collateral for tax-free bank loans, which are repaid with the insurance proceeds when your estate is settled. The balance goes to your beneficiaries as a tax-free death benefit.

› Transfer income exposed to your high tax rate to family members with lower tax rates

One way you can do this is with the Spousal Loan Strategy, where you loan assets to your lower-income spouse at a certain interest rate prescribed by the Canada Revenue Agency (CRA). Your spouse invests these assets and, so long as your spouse pays you the annual interest, the investment income is taxed at their lower tax rate. Currently, the CRA-prescribed rate is at historic lows, making this an opportune time to consider this strategy.

› Earn tax-free income with a Tax-Free Savings Account (TFSA)

Each adult member of your family can contribute up to $5,000 annually to their TFSAs. In just five years, a family of four could shelter $100,000 from taxes.

› Make greater contributions than you would to an RRSP with an Individual Pension Plan (IPP)

Designed for incorporated professionals and owner/managers, an IPP can boost your retirement income, plus your contributions are tax-deductible to your corporation.

› Adopt tax-efficient strategies for your non-registered savings

For example, given that interest income is fully taxable, while Canadian-source dividends receive preferential tax treatment, you could allocate more Canadian dividend-paying investments to your non-registered accounts.

3 Reality-check your retirement goals

You've thought about the retirement you want, considered smarter ways to save, and crunched all the numbers. Now it's the moment of truth: Will you have enough to achieve your retirement goals? Hopefully, the answer is yes. But if not, it's time to start asking some of the tougher questions:

- › Can you reduce your spending now in order to save more for retirement?
- › Can you utilize assets intended for your estate for your retirement instead?
- › Would you rather delay your retirement or spend less in retirement?

By going through the financial-planning process, you can hopefully avoid having to make some of these tougher decisions – or at least make the decisions a little easier by identifying strategies to improve your financial situation.

Everything you need to know about your RRSP

- › The three key tax advantages – and how to optimize them
- › Determining how much you can contribute
- › Which type of RRSP gives you more investment choice
- › Choosing the right RRSP maturity option for you

Ask us for your complimentary guide to RRSPs.

We would be pleased to assist you with the financial-planning process – whether you need help getting your retirement back on track or simply want to make the most of your situation.

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