RBC Dominion Securities Inc.

Sandra Sparanese's
FINANCIAL FOCUS

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Views and opinions for the clients and friends of

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HAPPY SPRING/SUMMER TO ALL!

As we near the half-way point in 2014, it's a good time to reflect on what has happened during the year. The investment markets have continued to show positive returns in 2014, despite doom and gloom projections and the turmoil we have seen between Russia and the Ukraine. Interest rates have remained low and there seems to be less concern over when and how the U.S. will scale back on their quantitative easing stimulus program. Our RBC analysts continue to be cautious about this year, given the superior gains the market has delivered over the past 18 months. The focus will continue to be asset allocation and rebalancing portfolios based on personal risk tolerance levels.

I am happy to be taking on a new volunteer role this fall as a mentor with the UVIC Business School. I will have the opportunity to work with a 4th year Commerce student and provide advice and guidance as they look to enter the workforce after graduation. I am very excited about this new venture as most of my clients know that I like to "educate" and sometimes even provide "homework assignments", so I feel like I can put on my teaching and coaching hat when working with a university student.

During the last quarter, I have had the pleasure of meeting 6 new families that have been introduced to me from existing clients. I appreciate the trust that clients are placing with me by introducing me to others that may benefit from my financial planning and investment advisory services. Thank you so very much!

Wishing you a safe and happy summer,

Sandra

BUILDING YOUR WEALTH AND CONFIDENCE

At RBC Dominion Securities, we provide the expert advice, personalized approach and sophisticated solutions you need to build and protect wealth – all backed by the strength and stability of RBC, Canada's leading financial institution.

RBC Wealth Management
Dominion Securities

How to Avoid the Old Age Security (OAS) Clawback

Old Age Security started in Canada in 1952 and benefits were about $40 per month at that time. Today, benefits are $551.54 per month and indexed on a quarterly basis.

OAS is an income-tested pension whereby starting at $71,592 (for 2014) of net income per individual, $15 for every $1,000 earned up to $115,716 will be clawed back. It's important to note that only 2% of eligible OAS recipients end up with ALL of their income clawed back with net income over $115,716 after age 65.

OAS payments come out of current general revenues of our federal Government. We have all paid into the OAS plan through our taxes and it is important to maximize your ability to draw this pension as income without a clawback if possible.

Strategies that can help:

1. **Income split with your spouse**

   If you have a spouse handy, you have likely already discovered the tax benefits of income splitting. Pensions including CPP, private pension, annuity income, and RRIF income are all able to be split with your spouse for tax reporting.

2. **Take your CPP and maybe RRIF income early**

   This is one of those recommendations that varies based on one's personal circumstances. A financial plan can help you understand the consequences of early or late RRIF payments. Sometimes waiting until age 71 means losing more of your OAS benefit because of the RRIF minimum payment amount that starts at that time. Taking smaller amounts out of your RRSP or RRIF before age 71 can actually result in keeping more of your OAS after age 71, depending on the value of your RRSP or RRIF plan. CPP can be taken early at age 60 with a discounted value, or delayed until age 70 with an increase.

3. **Time when you trigger capital gains**

   If you are planning to sell an investment property, family cottage or non-registered investment portfolio, considering doing so before age 65. The capital gains that have acquired over the years are all due when the asset is sold. If it triggers a large taxable gain after 65, you may lose part or all of your OAS the following year.

4. **Look for tax efficient options**

   Maximize your Tax Free Savings Account in January of each year. If you have non-registered investments creating taxable income every year that you do not need for cash flow and spending, there are ways we can re-structure your investments to lower your taxable income each year, but not lower your overall rate of return. Corporate Class Mutual Funds allow the majority of gains to be held tax-deferred within the investment, rather than being distributed to you (and taxed) each year.

Financial planning strategies can help to avoid the OAS clawback.

UNDERSTANDING DIVIDENDS….
AND WHY COMPANIES OFFER THEM

A dividend is a portion of a company's earnings that is returned to shareholders. Dividends provide an added incentive (in the form of a return on your investment) to own stock in a company. Many companies – mature and young, large and small – pay a regular dividend to their stockholders.

Companies use dividends to pass on their profits directly to their shareholders. Most often, the dividend comes in the form of cash: a company will pay a small percentage of its profits to the owner of each share of stock. Dividends can be determined by a fixed rate known as preferred dividends, or a variable rate based on the company's latest profits known as common dividends.

Why do some companies offer dividends while others don't? For that matter, why do any companies offer dividends? The answer, naturally, is to keep investors happy. The companies that offer dividends are most often companies that have progressed beyond the growth phase. Regular dividends are paid out to make holding the stock more appealing to investors, a move the company hopes will increase demand for the stock and therefore increase the stock's price.

Dividend-paying companies represent a significant portion of the Canadian equity market and are typically well-established, soundly managed companies with stable businesses (for instance, banks in Canada). Dividends can also be an important part of a portfolio's total return, helping to offset losses in times of market declines, while boosting portfolio returns when markets are rising.

Mutual funds and ETFs also create dividend income through the dividend-paying stocks they are holding within their portfolios. This dividend income is flowed through to the unit holder of the fund or ETF on a monthly or quarterly basis. Dividends can either be paid out as cash or reinvested for a compound return.

GIC RATES

Did you know… every morning we survey 30 different banks, trust companies and credit unions across Canada to find the best GIC rates for you? It's our complimentary "rate shopping service" so you don't have to spend your time in search of the best offer.

GIC Rates as of June 2, 2014

1 Year 1.90 %

2 Year 2.05 %

3 Year 2.15 %

4 Year 2.30 %

5 Year 2.60 %

Rates are subject to change daily

ESTATE PLANNING

WHAT HAPPENS IF I DIE WITHOUT A WILL?

When a person dies without a Will it is called an "intestacy". As of March 31, 2014, the new *Wills Estates and Succession Act ("WESA")* came into force in British Columbia and it changed some of the rules around intestacy. One change is the establishment of a legislated order of priority of who may apply to be an Administrator of an intestate estate. The person willing to be appointed who ranks highest in the legislated priority would need to apply for a Grant of Administration. While procedurally it is a bit more complicated to apply for a Grant of Administration, once an Administrator is appointed, his or her authority is the same as an Executor's. After the estate administration is complete, the intestate estate will be paid out to the beneficiaries according to the distribution scheme set out in WESA. This scheme is different, depending on which of the Deceased's relatives have survived the Deceased.

If the Deceased dies leaving only a spouse, then the estate is paid to the spouse. If the Deceased dies leaving only children (note only natural and adopted children qualify), then the estate would be divided equally among the children. If the Deceased dies leaving a spouse and children, then the spouse receives the first $300,000 (or $150,000 if the surviving children are not children of the surviving spouse) and the balance is divided so that the surviving spouse receives one half and the surviving children share the other half equally.

If the Deceased leaves no spouse and no children, then WESA provides for a distribution scheme which is known as "Parentelec Distribution". Parentelec Distribution is too complicated to explain in this brief article, but basically the estate is distributed by "parent root" to a maximum of four levels of relationship. It is only if no relative can be found within the four levels of relationship to the Deceased, that the estate transfers to the Government.

While in some cases an intestacy will result in a distribution scheme in line with the Deceased's wishes, in many cases it will not, and in some it will result in catastrophic results (perhaps a topic for a future article). The benefits of having a Will, rather than relying on the rules of intestacy, include the ability to appoint an Executor of your choosing who will have immediate authority to seek information upon your death; whereas, without a will, your Administrator may turn out to be someone you would not have chosen. Also, in a Will you can provide specific gifts of real estate, personal property and specific cash bequests. You can also appoint a guardian of your choosing for your minor children, establish trusts for your minor beneficiaries, and delay the age at which your minor beneficiaries gain control of their inheritance.

Since the cost of preparing a Will is relatively low, it makes sense to do so and ease the burden on your family, while maintaining control over your estate.

Information presented by

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