

RBC Wealth Management Canada

PERSPECTIVES

A Global State of Mind

What you need to know about diversifying globally

PLUS:

- Buying a vacation property south of the border
- Factoring in a U.S. currency outlook



RBC Wealth Management



From the Desk of the CEO

Welcome to the second issue of RBC Wealth Management Perspectives.

We are very pleased with the tremendous feedback that we received on our inaugural issue and look forward to continuing to present topics that interest you most when it comes to the management of your overall wealth. As such, the articles featured in this issue directly reflect what you told us you wanted to see.

When thinking about your long-term goals, what do you envision? Ensuring that your family is taken care of, both now and in the future? Considering a second property in a warmer climate? Or perhaps you want to learn how to buy art? In this issue, we take a closer look at economic events impacting the world today to provide insight to help with your financial decisions tomorrow.

In light of current economic market uncertainty, it is more important than ever to plan today to safeguard your legacy for tomorrow. The articles “Creating a Will that accurately reflects your wishes”, “Using jointly held assets as an estate planning tool” and “The many lives of life insurance” explore insurance and wealth transfer strategies to ensure your assets end up in the hands of the intended beneficiaries as efficiently and effectively as possible.

With our evolving global marketplace, opportunities to invest outside Canada are becoming increasingly more attractive. The article “A global state of mind” highlights current investment trends that support the case for ‘going global’.

Shifting focus closer to home, the articles “Factoring in a U.S. currency outlook” and “Buying a vacation property south of the border” examine how the current macroeconomic climate is having an impact on the U.S. dollar and how Canadians are taking advantage of favourable prices and a strong Canadian dollar by buying U.S. real estate. However, as the article “Understanding your U.S. residency status” stresses, Canadians should be aware of how much time they spend in the U.S. for it could create U.S. tax and reporting obligations on income.

Similar to purchasing real estate in the U.S., when it comes to the world of art collecting, it pays to do your research. The article “Bottom line on art: Buy what you love. Love what you buy” looks at the importance of being patient when discovering your artistic taste and making your first purchase.

Once again, I encourage you to contact your RBC Wealth Management advisor about the topics featured in this issue and to explore other ways to address your various wealth management needs and goals.

David Agnew
CEO, RBC Wealth Management Canada



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Creating a **Will** that accurately reflects your wishes

TOP TEN THINGS that RBC Will and Estate Consultants look for when reviewing Wills

Many people avoid thinking about estate planning. It reminds them of their mortality and involves considering subjects that may seem unpleasant and somewhat remote from the immediate priorities of day to day living. If you'd rather not contemplate what will happen to your assets when you pass away and whether you have provided adequately for family members, you're not alone.

Even when you have taken the time to consult legal and accounting professionals to set up an estate plan, draft a Will and consider the most effective strategy for the ownership of your assets and how to pass them to your heirs, critical issues can get missed. An effective estate plan involves much more

than drafting documentation. Estate planning professionals encourage their clients to consider a host of practical matters. These can include the intricacies of relationships between family members, the potential complexities of estate administration, tax, corporate ownership and family law issues.

You may be surprised by some of the scenarios RBC Wealth Management Services' Will and Estate Consultants discover when they're conducting estate planning reviews with clients. Their goal is to ensure that the client's planning incorporates the current law and accurately reflects their wishes. So, does your estate plan accomplish what you set out to do, in a practical and tax-effective manner? Consider the following Will drafting pitfalls.

Does your Will distribute the residue of your estate?

1 People forget to name the beneficiaries who will receive the residue of their estate. In general terms, 'residue' is defined as those assets left in your estate when debts have been paid and specific assets have been distributed. If you forget to name beneficiaries to receive the residue of the estate, those remaining assets could be distributed according to the rules of intestacy in the province or territory where you live. This may mean that family members who you didn't intend to benefit could receive a share of your estate.

Have you left assets to your spouse in your Will if he or she survives you?

2 If you don't provide for a surviving spouse in your Will, your spouse may be entitled to apply for compensation under the applicable provincial or territorial law. In Ontario, for example, this is called an 'equalization payment'. The benefit to which your spouse will be entitled and the time period within which he or she can apply varies by jurisdiction. If you don't leave assets to your surviving spouse in your Will, even inadvertently, you could expose your family and your estate to the expense of taking legal action to remedy this situation. This can cause delay in administering the estate and distributing the assets, and you may not be taking advantage of some of the tax deferral opportunities that are available when you leave assets to your spouse.

If certain trust provisions in your Will are drafted

3 **inappropriately, you could be accelerating the payment of capital gains tax.** This could happen, for example, in the wording of clauses intended to create a spousal trust in your Will. To qualify as a spousal trust, only the spouse can receive income or capital from the trust during the spouse's lifetime. The trust is created for the benefit of the spouse, so assets going into the trust are valued at the deceased person's original cost rather than the fair market value of the asset at the date of death. This means that no capital gains tax is payable when the trust is created. If the trust allows other individuals to receive income or capital from the trust during the spouse's lifetime, a non-spousal trust will be created and capital gains tax may be payable on the assets going into the trust, rather than being deferred until the time of the spouse's death. A review of your estate plan can be invaluable in helping to discover where inappropriate drafting can have unintended tax consequences.

Have you considered whether U.S. estate tax could have an impact on your estate?

4 If your estate could be exposed to U.S. estate tax, it's important to obtain professional tax advice on this aspect when you're setting up your estate plan. Your potential exposure to U.S. estate tax could depend on a number of factors including the nature and location of your assets, the value of your worldwide assets, your U.S. tax status and the planning you undertake during your lifetime. There are strategies that can help you minimize your exposure to U.S. estate tax. By reviewing your estate plan regularly, you can ensure that you're up to date with changes to legislation and the current exemption thresholds. If you don't consider U.S. estate tax implications as part of your estate plan, you could be exposing your estate to additional tax liability and reducing the inheritance that your heirs will receive.

Strange as it may seem, people sometimes attempt to leave assets

5 **that they don't own to their beneficiaries.** This could be the case if you transfer a property into the name of one of your children but continue to live there. Or, you may forget that you've placed assets in a joint account with a right of survivorship and include those assets in your planning when you're preparing your Will. Those assets, in most cases, will pass to the surviving joint tenant on your death and won't form part of your estate. *For more information, see the following article on 'Using Jointly Held Assets as an Estate Planning Tool'.* When you're planning, consider the assets that will pass outside of your estate and don't include them in your Will.

Have you considered whether the gifts you make to your children

6 **could end up in the hands of a daughter-in-law or son-in-law?** It may not be the first thing you consider when you're planning your Will, but it's a scenario that can occur. Consider including a 'survivor clause' requiring that the beneficiary must survive you by a period of time in order to inherit. If the inheriting child passes away shortly after your death and you haven't included a 'survivor clause' in your Will or have named a contingent beneficiary, the bequest you have made could pass to your child's estate to be distributed according to the terms of their Will. This could mean that the asset in question passes to their surviving spouse.

Here's an additional point to consider. Although the inheritance your child receives may be protected from division under family law legislation in the province or territory where they live, it may be possible to include language in your Will to protect the income produced by the inheritance from division in the event of the breakdown of a marriage. You may be able to avoid having assets pass to unintended recipients by including appropriate wording in your Will, where possible. ►

Have you appointed executors or trustees who will work

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well together? If you appoint family members, for example, your children, as co-executors or co-trustees, consider whether they are likely to work well together. If the individuals you have appointed don't get along, consider appointing other relatives, friends or professionals to act on your behalf. The estate administration and trust administration process can be long and involves numerous potentially demanding tasks. Lack of cooperation between your executors or trustees can cause unnecessary delays and increase expenditure. If siblings don't get along, consider this before naming one sibling as trustee of the other's trust fund. This can help reduce the possibility of conflict between family members.

It's important to understand the tax implications that will

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arise as a result of your planning. For example, if you leave the family cottage to one of your relatives, that individual will receive the property but any tax that becomes payable, as a result of the deemed disposition at fair market value at your death, will be paid by the estate. This potential tax liability could affect what your other beneficiaries will receive from your estate. Consider whether there will be sufficient liquidity in the estate to pay tax or other liabilities and plan accordingly.

Have you thought about what your beneficiaries will do if you

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leave them private company shares? You may know that you are generally deemed to have disposed of your capital property, including any private company shares, at fair market value on your death.

However, you may not know that double taxation issues can arise. Your estate pays tax on the deemed disposition on your death and then, if the surviving shareholders decide to wind up the company, the corporation may pay tax on the sale of the assets, followed by more tax payable by individual shareholders when the proceeds are distributed to them. You can avoid this issue by leaving shares to a surviving spouse. Another way to mitigate the tax impact is to have the shares sold by your estate, rather than the corporation, if a buyer can be found. If you own private company shares, for example, shares in a holding company, give some thought to this kind of post mortem planning when you're considering your estate plan.

Designing and implementing an estate plan can be a daunting

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prospect. Don't wait until the last minute to put Wills and Powers of Attorney in place. It is worthwhile to give thought to the range of planning decisions that you need to make well ahead of



time so all the available options can be considered. If you leave the planning to the last minute, before a scheduled surgery or before you leave on vacation, it can be overwhelming and you may be under too much pressure to thoroughly investigate and implement the necessary changes. Remember that you may not always have the mental capacity to change your estate plan or execute a Power of Attorney (called a mandate in Quebec). Put these elements in place while you have capacity to do so.

These are just a few of the common mistakes that can happen when you're preparing your estate plan. Keep your various professional advisors apprised of the planning you are putting in place. That helps ensure that your investments and beneficiary designations work in concert to help you achieve your overall estate planning objectives. ■

USING **JOINTLY HELD** ASSETS AS AN ESTATE PLANNING TOOL



You may be familiar with a strategy that is frequently used to reduce the potential impact of probate fees, also known as estate administration tax, on your estate at the time of your death. An individual adds another person to an account to hold the assets in that account as joint tenants with a right of survivorship, or transfers assets to a joint account with the intention of holding the transferred assets on those terms. This strategy is frequently used, in provinces and territories outside of Quebec, between family members and often between parents and their adult children.

If you've come across this strategy or if your professional advisor has suggested this kind of planning, you are probably under the

impression that on the death of either joint tenant, the assets in the account will pass to the surviving joint tenant through the right of survivorship, without passing through the estate of the deceased person or attracting probate fees.

Two decisions by the Supreme Court of Canada in 2007 have had an impact on the potential effectiveness of this strategy. To summarize, depending on the circumstances, the assets in the account may not pass to the surviving joint tenant through the right of survivorship. Instead, the surviving joint tenant may be deemed to be holding the assets in trust for the estate of the deceased person. This is called a 'presumption of a resulting trust'. These Supreme Court decisions have also changed ►

USING JOINTLY HELD ASSETS AS AN ESTATE PLANNING TOOL

the potential tax implications of transferring assets to a joint account and raise the question of whether or not this planning technique will succeed in helping to minimize probate fees.

Parents frequently place assets in a joint account with an adult child or children as an estate planning technique. If you have done this, or are considering implementing this kind of planning, give some thought to whether there are other family members or potential beneficiaries who may dispute the ownership of those assets. If this is a possibility, the joint tenant you named may have to provide evidence to show that you intended to gift the assets to him or her or risk the assets becoming part of the estate and being distributed according to your Will. This may defeat your intention in passing assets to certain beneficiaries and may not achieve your goal of avoiding probate fees.

If you decide to put this kind of planning into place, there are ways to help ensure that your assets end up in the hands of the beneficiaries you intend. You will need to provide sufficient evidence to show that you intend to gift the balance of the assets in the joint account to the joint account holder on your death. You can do this at the time you create the joint account or at any time before your death by preparing a memorandum. This document will indicate whether you want the assets gifted to the surviving joint tenant on your death or whether the surviving tenant will hold the assets in trust for your estate. If you have already opened the joint account, you can still prepare a memorandum making your intentions clear. This can be presented as evidence if there is a dispute as to the ownership of the assets in the joint account and can help to save your heirs legal fees. Your

professional legal advisor can suggest the appropriate wording for the memorandum if necessary and may suggest storing it in the same location as your Will.

In the event of a dispute, the court may consider other factors in addition to your written statement of intentions. These may include the way in which you managed the account during your lifetime. Did you give all the trading instructions and report all the taxes? Did the joint tenant demonstrate any control over the assets or initiate transactions? These are generally questions of fact but they're not necessarily conclusive evidence as to ownership.

The Supreme Court decisions have also changed how we interpret what happens, from a legal and a tax perspective, when you add a joint account holder or transfer assets to a joint account. You have options as to what you intend when you make this decision and the tax consequences that could affect your choice. For example, if you intend to add an adult child to a joint account, making them a joint tenant with the right of survivorship, you may wish to transfer the legal and 'beneficial' ownership of the assets immediately. This might be the case if you wanted the new joint owner to have full access to the funds in the account right away. From a tax perspective, you would recognize a disposition of a proportionate amount of the account to the child. For example, if you added one child to the account, you would be deemed to have disposed of half the account to that child and this could result in a taxable capital gain or loss. Both the joint holder and yourself would each report half the interest, dividends and capital gains realized in the account for tax purposes going forward. At the time of your death, the assets would transfer automatically to the surviving joint tenant and, as the assets would not form part of your estate, the value of those assets would not be included when calculating the probate fees payable on your estate.

Here's another possible scenario. Many parents wish to add their adult child or children as a joint tenant but they only wish to transfer the right of survivorship, not the assets in the account. If you are considering adding



USING JOINTLY HELD ASSETS AS AN ESTATE PLANNING TOOL

a child to an account, purely for estate planning purposes, this solution may appeal to you. You would retain the beneficial interest in the assets during your lifetime and there would not be a disposition for tax purposes when you add the child to the account. As you haven't transferred the beneficial ownership to the new joint tenant, you continue to report all the investment income and capital gains that are generated in the account on your tax return. As with the first option we discussed, the assets would automatically transfer to the surviving joint tenant when you die and the assets would not be included in the estate for probate purposes.

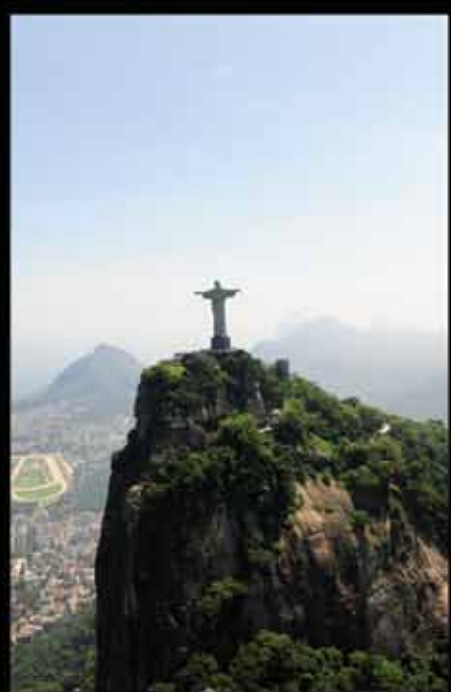
The third situation to consider, as a result of the Supreme Court decisions, is the scenario we described earlier, when the parent adds their adult child to their account as joint tenant but does not transfer a beneficial interest to the joint tenant or intend to gift the right of survivorship. Although many people wish to avoid immediate tax consequences when they add a joint tenant to their account, most intend the assets to pass to the surviving joint tenant on their death. It's important to understand that in this case, the assets would form part of the parent's estate and be distributed according to the terms of their Will. From a tax perspective, the disposition occurs when the parent dies and the assets in the account are included in the probate calculation. You may not foresee this outcome when you add one of your adult children to your account but it can occur, particularly if there is a dispute between family members about your intentions. A memorandum that expresses your intentions clearly can help prevent an outcome that you didn't intend.

If you live in a province or territory outside of Quebec, your professional advisors may suggest holding assets in joint names with one of your children as part of your estate plan. Some advisors, however, are reluctant to recommend this kind of strategy. The principal concerns are that you could be exposing your assets to the claims of your children's creditors



and potential future matrimonial disputes. Consider all the implications carefully and protect your assets by making your intentions as clear as possible. If your number one concern is avoiding probate fees, check the probate fees in the province or territory where you live and estimate how much you are likely to save. Is it enough to justify the risks involved?

If controlling access to your funds is a concern for you, ask your RBC advisor to advise on the account options available. Joint accounts can be set up so that either joint tenant can authorize transactions and make withdrawals or with the added protection that two or more signatures are necessary. The requirement for two signatures may help protect your funds from a joint tenant who wishes to make withdrawals without your knowledge but it will also restrict your access to your assets. Your estate plan should meet your needs during your lifetime and reflect your wishes after your death. Ensure you are informed about the potential risks of using a joint account as an estate planning tool and ask your legal professional whether it will help you achieve your objectives. ■



A GLOBAL STATE OF MIND



A changing world offers robust investment opportunities





A GLOBAL STATE OF MIND

Canadian investors continue to be cautious when it comes to diversifying globally, and it's not hard to see why. With one of the strongest currencies and the highest performing equity markets in the developed world – being invested in Canada over the past few years has generally paid off in spades.

But looking back just over a decade ago, it was a very different story. The year was 1999. The 10-year global and U.S. equity returns were 13.3 percent and 21.9 percent respectively versus Canadian at a relatively weak 9.6 percent¹. The government-imposed foreign content limit on Canadian RRSPs was a meager 20 percent. Investors lobbied passionately to remove this limit so they would be allowed to gain exposure to the seemingly endless return potential of global markets.

Fast forward 12 years and now the tables are turned. By almost every measure, the Canadian 'home bias' has reached epic proportions. Despite the elimination of foreign content limits in 2005, a recent Environics study shows wealthy Canadians have just 15 percent foreign content equity exposure². This low figure indicates that many investors are ignoring an opportunity poised for growth. In fact, with our strong dollar, bargain-level valuations globally, and the chorus of talking heads forecasting super-sized growth in many overseas and emerging markets – the case for 'going global' is arguably as strong as ever.

In particular, three global investment trends: 1) the transformation of emerging nations, 2) the effects of an aging global population and 3) the expanding information ►



technology sector and the changing habits of technology consumers are powerful themes that support the go-global rally cry. Each theme holds investment implications that are expected to be felt across the globe for decades. The following examines the opportunities that could be derived from these shifting landscapes and why investors, in order to access the full spectrum of these long-term investment opportunities, will need to start looking outside the Canadian investment box, and begin investing with a global state of mind.

Nation building

The growth of emerging markets has been headline news for some time in the investment world, but in order to understand the scale and importance of this growth, a deeper look – beyond the headlines – is necessary.

Rapid urbanization in emerging markets is expected to translate into a tremendous increase in infrastructure across the developing world over at least the next two decades. As shown on the chart below, over the next 15 years, China is expected to build some 50,000 skyscrapers, 170 mass transit systems and pave 5 billion square metres of road. For each of the next 20 years, India will need to build commercial and residential real estate space equivalent in size to the city of Chicago. Similar

trends can also be identified across many emerging markets, including high population nations such as Indonesia.

This rapid pace of urbanization is being coupled with strong growth in the number of middle class consumers, steady growth in overall populations and a substantial increase in wealth as measured by gross domestic product (GDP). Together, these factors point to a number of long-term investment opportunities:

- This massive increase in infrastructure will continue to support steady and sustainable global demand for the material and energy sectors.
- Wealthier consumers and larger populations will increase demand for the consumer staples sector that includes food and household products, as well as significantly increase demand for healthcare services.
- Increasing wealth among the growing middle class will also drive demand for consumer discretionary items such as automobiles (China is now the world's largest car market), electronics, telecom services and luxury goods.
- Rising prosperity will transform financial services in these financially underserved regions.

China's expected growth through 2025
221 Chinese cities will have over one million people living in them – Europe has 35 million today.
5 billion square metres of road will be paved.
170 mass-transit systems could be built.
40 billion square metres of floor space will be built in 5 million buildings.
50,000 of these buildings could be skyscrapers – the equivalent of constructing up to 10 New York Cities.
5 – the number of times which GDP will have multiplied by 2025.

India's expected growth through 2030
91 million urban households will be middle class, up from 22 million today.
2.5 billion square metres of road will need to be paved.
7400 km's of mass-transit systems will need to be constructed.
\$1.2 trillion of capital will be needed to meet projected demand in India's cities.
700-900 million square metres of commercial and residential space needs to be built – equivalent to one Chicago every year.
5 – the number of times which GDP will have multiplied by 2030.

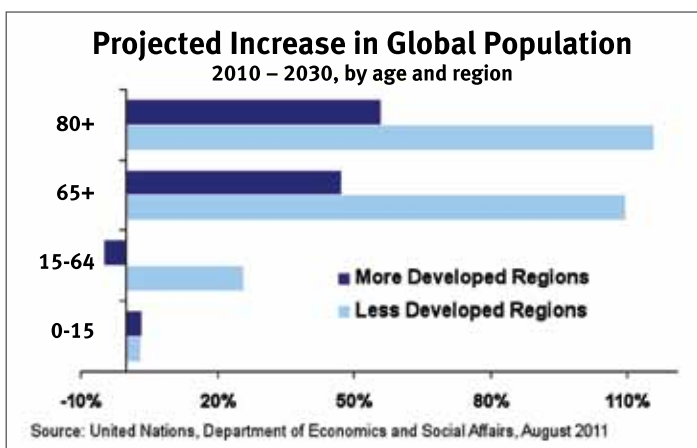
Data source: McKinsey Global Institute, China, February 2009, India, April 2010



The world is growing up

Thanks in part to medical advancement and global economic development, the world's population is getting older. In developed nations, Baby Boomers, who began turning 65 in 2011, will help push the 'over 65' population up by close to 50 percent over the next two decades. In emerging markets, the number of seniors will more than double over this same period (see chart). For investors, the financial and economic effects of this population shift will span the globe and present a number of important global investment opportunities.

Healthcare: The average Canadian senior spends from two and a half to eight times as much on healthcare as those aged 15-64 (see table). Across the globe ratios are often similar and in developed economies healthcare represents a very significant percentage of



Age Bracket	Average Spending
15-64	\$ 2,286
65-69	\$ 5,828
70-74	\$ 8,078
75-79	\$10,898
80+	\$18,160

Source: Canadian Institute for Health Information, National Health Expenditure Trends, October 2010. Spending represents 94.3% of all government healthcare expenditures.

total spending – as high as 16 percent (in the U.S.) according to the Organization for Economic Co-operation and Development.

An aging global population should mean an already powerful tailwind for the healthcare industry will continue to accelerate as the number of seniors aged 65, 80 and 100+ grows rapidly. As the world's leading pharmaceutical and health care service providers see increased demand for their products, exposure to healthcare markets across the globe may bring compelling investment opportunities.

Financial Services: In developed markets Baby Boomers control immense wealth and spending power. In the U.S., this generation is expected to command almost 60 percent of net wealth and 40 percent of consumer spending by 2015 – though they represent only about 25 percent of the total population. With much of this generation expecting to 1) self-fund retirement, 2) maintain a high standard of living throughout old age and, 3) pass their wealth on to their children, there are meaningful opportunities for leading asset managers, financial advisors and insurers that cater to these needs. Those providing wealth management in emerging markets will see even greater demand growth as the age 65+ market more than doubles over the next two decades.

Consumer Products: As people enter retirement their spending patterns will eventually change. Although today's retirees are looking to maintain their pre-retirement standard of living and activity, the reality is some may not be able to afford it, while others may eventually simply slow down. The end result is a likely increase in the proportion of income dedicated to their basic needs – consumer staples such as food, clothing and housing – and a potential decrease in income directed toward discretionary spending, such as luxury goods and services. While the growth in middle income households in emerging markets will make up for some of the potential drop in discretionary spending among the aging global population, for investors, opportunities in consumer staple companies should remain very compelling, while opportunities in discretionary product and service providers should be closely scrutinized. ►



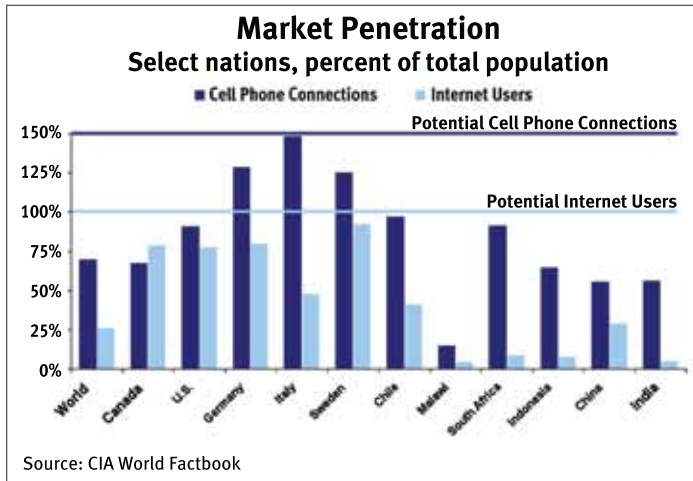
The information age

Putting a cell phone, laptop and internet connection into the hands of consumers across the globe remains an important source of growth potential for the information technology (IT) industry, but IT today encompasses a lot more. It is now a critical component of global infrastructure and also plays an important role in the media industry and consumer market. Companies that continue to penetrate and service untapped markets, apply technology beyond its role as a communication tool and build the infrastructure to ensure the whole system continues to operate smoothly are positioned to be the global leaders of tomorrow.

Untapped markets

While many global consumers have the ability to access the full range of information and communication technology, actual market penetration is nowhere near its potential. Of a world population that has reached seven billion, only about two billion people currently access the internet. With market penetration well over 90 percent in several countries today, and assuming this number represents the full potential of the global market, internet usage still has the potential to grow more than three-fold.

The cell phone market has reached almost five billion connections globally. At first, it may seem this market has less room to grow.



But market penetration has reached up to 1.5 phones per person in some markets – as many individuals now own more than one cell phone (work, personal, etc.). This suggests the global market still has room to almost double – as many as five billion new connections could be added in the coming years.

As shown in the chart and table below, even markets such as Canada and U.S. still have room to grow before they reach full market penetration, while many developing markets remain virtually untapped.

Infrastructure and Technology: As the globe continues to get connected, those companies that are successful in providing the remaining five billion potential consumers on the planet with the infrastructure (cell phone towers, satellites, cloud and wire networks) and/or the personal devices that keep them connected will make compelling investment opportunities.

Media: Technology has resulted in an ongoing evolution in the media industry – declining print, more competition for the viewer’s eye and a highly personalized media experience (YouTube, Facebook, etc.) being some of the important examples. As the world consumes media in new ways, the industry leaders will be differentiated content producers that successfully and profitably respond to this evolution in global interaction and media consumption.

Consumer Products: With the explosion in the ability to conduct online searches on a whim, today’s consumer is one that has come to expect a great deal of choice. It is more important than ever for retailers to build a compelling online

Market	Current Population	Current Cell Phone Connections	Potential New Cell Connections	Current Internet Users	Potential New Internet Users
Global	6.94 billion	4.85 billion	5.5 billion	1.82 billion	5.1 billion
Canada	34 million	23.1 million	16 million	27 million	7 million
U.S.	313 million	286 million	184 million	245 million	68 million
Indonesia	246 million	159 million	209 million	20 million	226 million
China	1.34 billion	747 million	1.26 billion	389 million	947 million
India	1.19 billion	670 million	1.11 billion	61 million	1.13 billion

Source: CIA World Factbook



experience that provides confidence in their ability to transact electronically. Providing this security, as well as the ability to evolve at the rapid pace of technology will help position these firms with a significant edge over retailers more reliant on brick and mortar operations.

Investing with a global state of mind

For investors, taking advantage of these opportunities lies in finding the companies that can build and maintain a competitive advantage within an evolving global marketplace. The companies that will emerge as tomorrow's global leaders will have strong brands and differentiated products. Their businesses will have access to both developed and emerging markets and exposure to the trends discussed. And importantly, their balance sheets will be strong and they will have steady earnings growth.

While it is true that Canadian companies are among the world leaders in mining and energy and the strength of our financial system has been impressive, the number of

international opportunities in other key industries leaves the Canadian market looking relatively thin. Virtually all of the world's most important companies within consumer products, healthcare, media, telecom services and technology lie beyond our borders.

To find the companies leading the way across this entire spectrum of opportunities, investors will need to move beyond the opportunity set available in the Canadian market and begin investing with a global state of mind.

Speak to your advisor today for more information on global diversification, including opportunities in the trends discussed and investment solutions for your portfolio. ■

1. RBC Dominion Securities, Canadian dollar returns, Jan 1, 1989 thru Jan 1, 1999. U.S. equities represented by S&P 500 Total Return Index, global by MSCI World Total Return Index, and Canadian by S&P/TSX Composite Total Return Index.
2. Financial Post, May 19, 2011, Environics defined wealthy Canadians as those with assets of \$250,000 or more.
3. McKinsey Global Institute, Serving Aging Baby Boomers.

What you need to know about diversifying globally

There are a number of important considerations when looking at global opportunities. First, look to global diversification as a way to lower overall portfolio risk and enhance return potential over the long-term. This will mean selecting the right asset class to complement the rest of your portfolio. An allocation to global fixed income and/or global equities may be the right fit for your portfolio.

When it comes to mutual funds, they can provide the global component of your portfolio with important benefits such as broad diversification and a focus on owning quality companies (and avoiding high risk companies) regardless of whether you choose to invest in global fixed income or equities.

It is important to note that 'Global' mutual funds will include

investments from across the world – including the U.S. and Canada, while 'International' mandates will generally invest in countries beyond Canada and the U.S. and may or may not invest within emerging markets – this will differ from fund to fund.

For those looking to invest specifically in emerging markets, fixed income opportunities can offer a relatively less volatile way to access these markets when compared to equities, while emerging market equities can offer better long-term growth potential.

Specialty funds are another option to consider. Look to funds that invest in specific market sectors that are poised for growth in the coming decades, for example, resource or technology focused funds.



Buying a vacation property south of the border



Canadians have been reaping the benefits of a strong Canadian dollar as they head south to take advantage of great shopping deals. But, what if your idea of cross-border shopping goes beyond clothes and electronics? More and more Canadians are investing in the U.S. real estate market as property prices in many parts of the country remain very attractive and our dollar continues to hold strong against its U.S. counterpart.

Looking to escape our Canadian cold, many snowbirds are seeking out their place in the sun in ever-popular states such as Arizona and Florida. In fact, according to the National Association of Realtors, 23 percent of international buyers were from Canada last year. In some popular markets, prices have fallen by 40-60 percent since the housing market crash. Demand has been so strong that realtors have even found themselves catering primarily to Canadian clientele. Diane

Olson with Phoenix, Arizona based realty firm HomeSmart, says that 99.9 percent of her business is now selling to Canadians.

Personal or Investment?

While many people choose the southern U.S. for a second home or vacation property, others are taking advantage of the favourable prices and strong loonie to purchase investment properties. Both Diane in Arizona, and Shant Epreman with Pink Realty, based in Boca Raton, Florida, estimate that approximately half of their clients are purchasing for personal use and the other half are purchasing as an investment.

“We’re seeing a lot of younger investors now too,” says Shant. “They see the incredible value and are purchasing properties as rentals for investment income.”

Diane adds that some Americans simply can no longer afford to keep their homes, but they still need a place to live. Renting is a better option for them right now and she’s even seen some cases where a Canadian has purchased a home and the original owner becomes the tenant. She does warn that this is not a market for flipping houses. Investors looking for a quick return on their investment will probably be disappointed.

Shant also sees a lot of what he calls the ‘hybrid model’. Canadians buy a house or condo as a second residence, but only use it for a few weeks of the year. The remainder of the year they rent it out, bringing in enough income to cover the costs of maintaining the property.

Know what you are getting into

Both Diane and Shant agree – if a price seems too good to be true, it probably is. For instance, while short-sales may look attractive initially, they are often not worth the time and hassle. It can take six months or longer to close a short-sale deal and only a small percentage ever actually close. During that waiting time, an investor can miss out on a lot of other good opportunities. On the other hand, a regular sale can be completed quickly, sometimes in a couple of weeks. Foreclosures are also common, but Shant cautions that those types of sales are often also ‘handyman specials’.

Do your due diligence. There are many tax, insurance, legal and lifestyle issues to think about. Get to know the market before you buy. Although technology has made it possible to be ‘virtually there’ using computers and video, it’s still a good idea to physically visit an area where you are considering purchasing – particularly if it is for personal use.

Every city has different communities and every community

has different features. So, while the house may be fantastic, the location may not. You need to know what area is best for you. Do you want something close to the ocean, a golf course, shopping? Is it in the heart of the city or is it a suburb? Is there easy access to public transportation or is it right beside a busy highway? What’s the local crime rate? If you know the area in advance, you’ll be ready to make a quick decision when the right property comes up.

The same rule of real estate applies everywhere, location drives price. “How much you can afford will always dictate your location and the location will always dictate the price of any given property,” says Diane.

“It’s important that you feel comfortable with where you buy – not just in the home, but in the community,” adds Shant. “And, you should always try to find the best value property, within your price range.”

Get help

It’s wise to seek local professional advice. Not unlike desirable Canadian properties and locations, the sought-after homes can be snapped up in a day. You need to be prepared to act quickly and that may mean buying a property, sight unseen. That’s where having a good local real estate team is important. They already know what you want, where you want it and what you are willing to spend. Many also offer turn-key solutions – helping to identify homes in areas you prefer, aiding with the purchase, recommending local contractors for renovations and then finding and managing tenants if you plan to rent.

Local professionals can also help navigate the ins and outs of the U.S. real estate system which is different than our system in Canada. They can guide you through such things as land title transfer processes and withholding tax laws. They should also ensure you have a complete understanding of all your costs – taxes, maintenance, insurance, etc. – before you put an offer in. Some states have lower tax and insurance rates than others, and, they can guide you through any potential local hurdles. For instance, if you’re looking at a condo in Florida, although anyone can purchase a condo, condo associations wield the power to accept or deny anyone moving into the community if you do not meet their criteria. As well, some places have rules about only using U.S. citizens to do repairs or renovations on houses in that area.

In addition to your local team of experts, you should also have a good cross-border tax accountant and lawyer to advise you through the process. ■



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Factoring in a U.S. currency outlook

The second factor is interest rate differentials. Historically, as interest rates rise, that tends to drive up a nation's currency relative to other countries. This has been evident in the last year. As Canada has begun to raise interest rates, we've seen our dollar increase, whereas the U.S. has held their interest rates steady. In fact, a currency may actually appreciate simply on speculation that interest rates are going up. "It doesn't even take a decision by the Bank of Canada," explains Mark. "If the investment community starts thinking interest rates are going to rise, the dollar may follow before the rate hike actually happens." When considering the U.S. currency outlook, it's important to note that the U.S. Federal Reserve has committed to keeping interest rates steady through 2013. If they hold to this plan, and if Canada's interest rates move higher over the next 12 months, it's unlikely the U.S. dollar will appreciate significantly in the near-term relative to the Canadian dollar.

From a longer-term perspective, another factor influencing the currency outlook is the economic health of the country's balance sheet. As we've watched the fiscal situation deteriorate over the last few years in the United States, we've also seen its dollar drop. Assuming the Government does take steps to improve its balance sheet, we may begin to see the U.S. dollar gradually appreciate over the next five to ten years.

Overall, it's unlikely that the Canadian dollar will decline dramatically relative to its American counterpart in the near future. In fact it may actually strengthen in the next eight to ten months. On top of that, although the U.S. government does want to stimulate the housing market and may soon be introducing programs to that end, realistically it will be at least another year before prices begin to recover significantly.

So, for the Canadian investor with an eye on some prime American real estate, the next few months may offer a good opportunity to consider cross-border shopping. ■

Your interest is piqued. At home, the leaves are falling, there's a chill in the air and winter's around the corner. South of the border, housing prices are low, our dollar is strong and in many southern states, it's still warm and sunny. All factored together, buying a piece of property in a warmer climate certainly looks appealing right now. But what about a few months from now?

In addition to a solid understanding of the U.S. real estate market, a savvy investor needs to consider the U.S. currency outlook, both in the short and long-term. Generally, two key factors have been seen to largely influence the U.S. dollar. Firstly, risk aversion in the markets. According to Mark Bayko, Portfolio Advisor – U.S. Equities, at RBC Dominion Securities, this correlation has been notable since the recession of 2008-2009. Generally speaking, when investors' appetite for risk is low, the U.S. dollar tends to rise. But, when investors' appetite for risk is high, the U.S. dollar tends to fall. At present, risk appetite has declined meaningfully given issues in Europe and concerns about the growth outlook. As a result, we have recently seen the U.S. dollar strengthen relative to most currencies.

Understanding your U.S. residence



Residency status



If you are a Canadian resident who spends a significant amount of time in the United States (U.S.) every year, you may be surprised to know that your presence in the U.S., even if you are only there on vacation, could create U.S. tax and reporting obligations on your worldwide income if your U.S. residency status is 'U.S. resident alien'.

To determine your U.S. residency status, the Internal Revenue Service (IRS) applies the substantial presence test. This test uses the average number of days you were present in the U.S. during the past three years, beginning with the current year.

Depending on your circumstances, as a Canadian resident you may be able to avoid the status of U.S. resident alien and the requirement to file a U.S. resident tax return. To ensure you understand your potential liability for U.S. tax, here's a summary of how the U.S. tax rules may affect you.

The U.S. imposes income taxes based on either U.S. citizenship or U.S. residency status. U.S. citizens and U.S. resident aliens are taxed on their worldwide income. U.S. non-resident aliens are taxed only on income from U.S. sources. A U.S. resident alien is a non-U.S. citizen who is either a U.S. green card holder or meets the substantial presence test. So, if you don't hold a green card, but spend time in the U.S. every year, it's important to determine whether you meet the substantial presence test. If you do, you will be considered a U.S. resident alien and be liable for tax in the U.S. This includes the obligation to file a U.S. tax return and pay tax on your worldwide income.

If you don't hold a green card and you don't meet the

UNDERSTANDING YOUR U.S. RESIDENCY STATUS

substantial presence test, you will be considered a non-resident alien and will only be taxed on income you receive from U.S. sources. This could mean that you will be required to file a U.S. non-resident tax return, depending on the type of U.S. source income you receive. For example, you must file a U.S. tax return to report wages you earned in the U.S., (whether or not U.S. tax was withheld at source), but not for U.S. source dividend income. Your U.S. tax obligations for U.S. source dividend income are generally satisfied by the U.S. withholding tax that is applied at source.

If you meet the substantial presence test and are considered a U.S. resident alien, you may still qualify for relief in two ways by claiming a 'closer connection exception' or a 'treaty exemption'.

If you meet the substantial presence test and spent less than 183 days in the U.S. in the current year, you can claim the closer connection exception and be considered a U.S. non-resident. This means that you can avoid the requirement to file a U.S. resident tax return and pay U.S. tax on your worldwide income.

You claim the exception by completing U.S. Form 8840 – the Closer Connection Exception Statement for Aliens – showing that you have a closer connection with Canada. This connection

is demonstrated by a number of factors including: the location of your permanent home, the fact that you have family located in Canada, a business located in Canada, personal property in Canada, licenses and memberships held in Canada and/or that you are registered to vote in Canada.

To claim the exemption, you can mail the form directly to the U.S. tax authorities or, if you are required to file a U.S. non-resident tax return due to the type of U.S. income you received during the year, you can file the form along with your U.S. tax return.

If you spent more than 183 days in the U.S. during the year, you cannot claim a closer connection exception but you may still be able to avoid having to file a U.S. resident tax return by claiming a treaty exemption under the provisions of the Canada-U.S. Income Tax Convention. The relevant provisions, called the 'treaty tie breaker rules', will determine the country where you are deemed to be resident for income tax purposes.

If the first treaty tie breaker rule demonstrates that you have a

ARE YOU A U.S. RESIDENT ALIEN?

You are considered a U.S. resident alien (other than a green-card holder) if you spend:

- › At least 183 days in the current year in the U.S., **OR**
- › You spend at least 31 days in the current year in the U.S. and you meet the substantial presence test:

Substantial Presence Test – formula

Add all the days you spent in the U.S. in the current calendar year;

Plus + 1/3 of the days you spent in the U.S. last year

Plus + 1/6 of the days you spent in the U.S. in the year before

If your total equals at least 183 days, you are considered a U.S. resident alien for U.S. tax purposes in the current year.

ARE YOU A U.S. NON-RESIDENT ALIEN?

You are a U.S. non-resident alien if you spend:

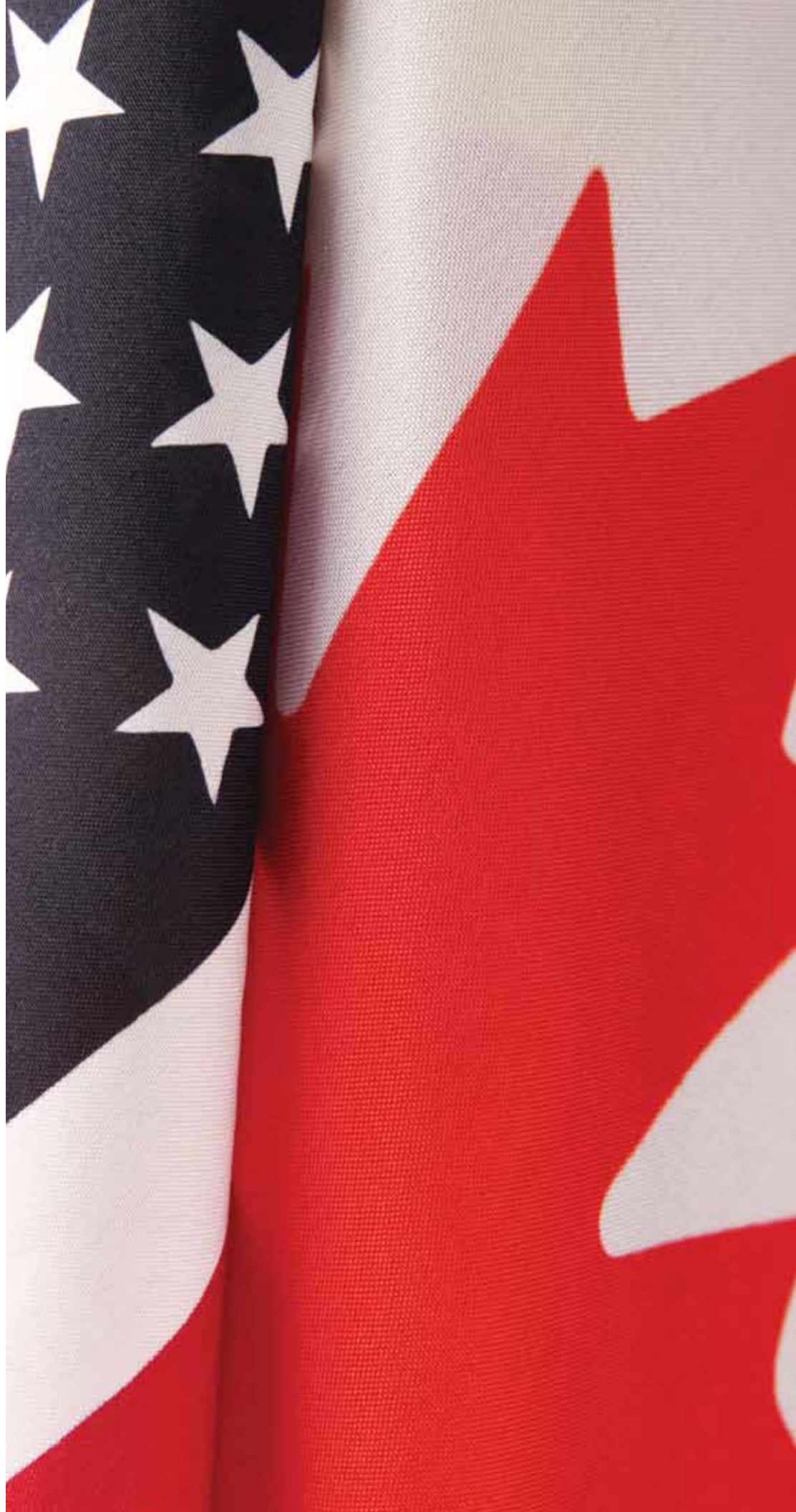
- › Less than 31 days in the U.S. in the current year, **OR**
- › At least 31 days in the current year but you do not meet the substantial presence test.



permanent home available for your use only in Canada, you will tie break to Canada. If you have a permanent home available for your use in both Canada and the U.S., you will then consider the second treaty tie breaker rule. This looks at your centre of vital interests. This means, the country with which your personal and economic ties are closer. If your centre of vital interests is closer to Canada, then, assuming you do not have these same ties in the U.S., you will be deemed to be a resident of Canada and thus deemed a non-resident of the U.S. under the treaty. This could be the case, for example, if your family is located in Canada, you are carrying on a business in Canada, your bank accounts, social memberships and religious organizations are located in Canada and you are registered as a voter in Canada.

If you are deemed to be a non-resident of the U.S. under the tie breaker rules, you would file a non-resident U.S. tax return and attach Form 8833, which is a treaty exemption statement. This indicates to the U.S. tax authorities that you are a resident of Canada and will report and pay U.S. tax only on U.S. source income.

Consider consulting a U.S. tax advisor who is familiar with Canada-U.S. tax laws to determine your U.S. residency status. He or she will be able to help you determine if your situation qualifies for relief under the closer connection exception or the treaty exemption and assist you in filing the U.S. documentation, if necessary. ■





you

decide whether you should rebalance before or after December 31 for tax reasons.

Also, make sure your asset allocation is still appropriate for your time horizon and goals. Consider being a bit more aggressive if you're not meeting your financial targets, or more conservative if you're getting closer to retirement. If you want greater diversification, try adding an asset class that tends to react differently to market conditions than your existing investments. Is there an investment that you have avoided in the past because of its high valuation? Check whether it's now selling at a more attractive price. Diversification and asset allocation don't guarantee a profit or insure against a possible loss, of course, but they're worth reviewing at least once a year.

Make lemonade from lemons

Now is the time to consider the tax consequences of any capital gains or losses you've realized this year. Tax considerations shouldn't be the primary driver of your investing decisions, but there are steps you can take before the end of the year to minimize the tax impact of your investing decisions. If you have realized capital gains from selling securities at a profit (congratulations!) and you have no losses carried forward from previous years, you can sell losing positions to avoid being

Just what you need, right? One more time-consuming task to take care of between now and the end of the year. But taking a little time out from the holiday chores to make some strategic saving and investing decisions before December 31 can affect not only your long-term ability to meet your financial goals but also the taxes you'll owe next April.

Look at the forest, not just the trees

The first step in your year-end investment planning process should be a review of your overall portfolio that can tell you whether you need to rebalance. If you've done well from one type of investment – for example, large-cap stocks – maybe it now represents a greater percentage of your portfolio than you originally intended. To rebalance, consider selling some of that asset class and using the money to buy other types of investments to bring your overall allocation back to an appropriate balance. Your overall review can also help

Top *year-end* investment tips



taxed on some or all of those gains. Any losses that exceed your gains can be carried back against capital gains realized in the prior three years or forward indefinitely to reduce your taxes in future years. Selling losing positions for the tax benefit they will provide next April is a common financial practice known as ‘harvesting your losses.’

Example: You sold stock in ABC company this year for \$2,500 more than you paid when you bought it four years ago. You decide to sell the XYZ stock that you bought six years ago because it seems unlikely to regain the \$20,000 you paid for it. You sell your XYZ shares at a \$7,000 loss. You offset your \$2,500 capital gain and carry forward the remaining \$4,500 to be applied in future tax years.

Time any trades appropriately

If you’re selling to harvest losses in a stock or mutual fund and intend to repurchase the same security, make sure you avoid triggering the superficial loss rules, which will prevent you from using the capital loss to reduce your taxable capital gains. A superficial loss occurs when you sell an investment to realize a capital loss, and you, your spouse or a corporation that you or your spouse control, acquire or reacquire the same investment 30 days before or after the sale, and still hold the identical investment 30 days after the sale.

Know where to hold ‘em

Think about the best investments to hold in a registered account and which might be better for taxable accounts. For example, investments generating capital gains and Canadian dividends are taxed at more favourable rates than interest income and foreign income. Consider purchasing interest-bearing investments, such as GICs and bonds that would otherwise be fully taxable at your marginal rate, within your RRSP, RRIF or your TFSA. ■

Three tips on year-end giving

- 1** You may be able to sidestep capital gains taxes and get a charitable donation tax credit by donating to charity securities that have risen in value but no longer fit your strategy.
- 2** If you donate an investment that’s worth less than you paid, you can use the loss to reduce your capital gains. After applying capital losses against any capital gains in the current year, you can carry the balance of the loss back three years or forward indefinitely to offset capital gains in future years.
- 3** If you own an incorporated business and donate to charity publicly-traded securities from the company, you may be able to receive a tax-free dividend through the use of the Capital Dividend Account.

**The bottom line
on art:**

Buy what you love.
Love what you buy.





When it comes to art, the bottom line is buy what you like. Art is as individual and unique as you are. Your art should reflect who you are and it should bring you joy every time you look at it.

Similar to investing, if you are new to the world of art collecting, you need to do your homework. Robin Anthony, Curator, RBC, stresses that it's important to take the time to look and learn, and to discover your artistic taste. Robin is responsible for RBC's art collection, consisting of approximately 4,000 pieces displayed in our offices nationwide. The RBC collection includes original Canadian paintings, sculptures and photography and was started in the early 1900s with small collections in Montreal and Halifax.

Learning about art

Robin cautions against making quick decisions or impulse buys when it comes to art. This is a surefire way to end up with a piece of art that a few months or years down the road, you tire of. Instead, take the time to learn about art and specifically what you like and don't like. Start with visiting museums. There are many wonderful places to view art across Canada. If you already know that you like a particular style, search out museums that have specific collections in that genre. For instance, if your interest is landscapes, the Art Gallery of Ontario in Toronto has an excellent collection. Many museums such as the Power Plant and AGO also offer speaker series which you can attend to learn more and meet other people with an interest in art. You may also want to become a member, attend new exhibits regularly and start meeting other art enthusiasts.

Commercial galleries are also a good place to start your



research. Visit their exhibitions for an opportunity to see and learn about different artists and begin to get a feel for what piques your interest. Museums and galleries give newcomers

an opportunity to experiment visually with different forms and styles of art. And, while a particular exhibit may not suit your tastes, it will give you a greater appreciation for how art is selected, as well as an understanding of what message the artist wants to convey. Visit as many as you can and ask questions about the art that interests you. Learn about the artist and the medium. Don't feel intimidated. Most gallery staff are more than happy to share their knowledge and help you get started. They can be a great source of information, so try to develop relationships with several galleries if you can.

Canadian Art Magazine is also a good source of information about the art scene in Canada as well as gallery and exhibition listings. The quarterly publication also has an extensive website, www.canadianart.ca.

Do a lot of looking before you buy. You can't figure out what you love unless you see a lot of different art, so see as much as you can. One thing to remember when buying art is that there is no rush. Take your time and find what you like. In fact, you may learn a lot about yourself in the process. ►

Learning about you

Robin encourages first-time buyers to select art that they enjoy. “You should like the art you choose for your home. It should challenge you and you should enjoy being surrounded by it,” Robin explains. “Don’t let someone else tell you what you should buy for your personal space.” Collect art that you can imagine yourself living with over time. It should continue to bring you pleasure long after you buy it.

On a similar note, art should be purchased for pleasure, not necessarily as an investment. “Don’t buy art with the intention of selling it. Buy it with the intention of enjoying it,” she adds. If you want to invest your money, there are probably better investment options than art.

Buying art

The process of buying art does not have to be difficult or intimidating. It also does not have to be expensive. Once you’ve done your research and you’re ready to make your first major purchase, there are a few avenues to choose from.

Certainly, commercial galleries are a good source. If you’ve been visiting galleries already, you’ve likely started developing relationships with some of them. Don’t hesitate to ask questions. Most galleries are very happy to help and you should feel no pressure to buy. It’s not uncommon to make several trips to a gallery before purchasing. If the gallery seems intent on a one-time quick sale, this may not be the place to be. Similarly, if the price seems too good to be true, it probably is. Again, research is important. Consider things like how long the gallery has been in business and if there are usually a lot of people there when you are, that’s also a good sign. Attend the Toronto International Art Fair that happens in October featuring many Canadian and International galleries and offers a speaker series.

Another interesting option to consider is purchasing from art students. While less expensive, it’s a great way to support a new artist and at the same time acquire a great piece of art. There are several art schools across Canada including the Ontario College of Art and Design in Toronto which offers an annual Graduate Exhibition in the spring, Emily Carr Institute of Art and Design in Vancouver, Concordia University in Montreal and the Nova Scotia School of Art and Design in Halifax.

Art auctions can also be a good place to go, particularly if you are looking for historical works. If purchasing art at auction, again, make sure you do your research beforehand. Ensure the provenance – who made it, where it came from and how you got it – is authentic. Also check carefully that the piece is in good condition and consider getting an expert opinion from someone such as an art advisor or art professor before you buy. Some

artists may be able to provide a certificate of authenticity. If the artist is no longer living, there may be certain marks, signatures or inventory numbers that can be used to authenticate the piece. And lastly, when you finally decide to buy, make sure you get an invoice detailing all the information about your new art.

Robin cautions against purchasing significant pieces of art when travelling. It’s an easy time to get caught up in an impulse purchase. For one, there are implications with importing art such as shipping and duty. And secondly, if you later learn that the piece you purchased is not what you thought it was, you have much less recourse once you have it home. Instead, if you see something you really like, get the gallery and artist details and then do your research, and possibly purchase from home.

When integrating your new art with other elements of your interior design, Robin stresses that it is really a matter of personal taste. Like the rest of your home, art is a reflection of you and it’s often best to let it speak for itself. In general, it’s good to identify a particular artist, style or theme that you like and build a collection around that in order to create a sense of unity.

Costs and budgets

Settling on a budget really depends on what your means are. The good news is that you can find good art at every price range. Pricing generally reflects the accomplishments of the artist. The more recognized the artist, the more expensive their work will be. To a lesser extent, medium also has some impact on price. For instance, if your interest is statues, you should be aware that bronze is always more expensive to produce.

Works by well-known artists can run in the tens or hundreds of thousands of dollars, however something by a lesser-known artist may cost as little as \$1,000. What’s important is not how much it costs, but how much enjoyment you get from it. Rather than buying several less expensive pieces, Robin suggests buying fewer, maybe one or two pieces per year, but the highest quality within your budget.

She also has a good suggestion for anyone with an interest in a particular artist whose works are beyond their budget. “That artist may have taught or influenced a younger artist who has picked up a similar style,” she explains. For instance Ian Wallace, a Vancouver artist well-known for combining photography and painting taught at the University of British Columbia where Arabella Campbell studied under him. Campbell went on to win the RBC Canadian Painting Competition in 2007.

Enjoy your art

You’ve done your research, you’ve discovered what you like, you’ve even made your first purchase. Now, sit back and enjoy it. ■

THE MANY LIVES OF LIFE INSURANCE

As time goes by, our priorities change. We may find ourselves wanting to share our good fortune with those around us, to show our support of the causes and institutions we believe in, to leave the world a little better than we found it. When goals such as these take shape, the life insurance policy that served us well in years gone by can serve us in an entirely new way when we make it a charitable gift.

Life insurance is a simple idea that takes many shapes. Its basic purpose, of course, is to provide cash to meet the needs of survivors at the insured person's death, and all policies provide this benefit. However, life insurance policies may also build up cash value that can be utilized for a variety of purposes. A particular policy may be intended primarily for *protection* through its death benefit, or it may be designed more for *investment* purposes through increasing cash value. Here are some general types of policies:

Term life maximizes the death benefit payable if the insured dies within a specified time, but it accumulates no cash value. Because it offers the most affordable protection, it is often the choice where there is a short-term need. For example where

young parents are concerned about security for their family in case of an untimely death as a means of income protection or to cover a mortgage or other debt obligation.

Whole life combines a death benefit with guaranteed cash value growth, and in some policies the ability to increase cash values through participation in policy dividends. Normally the premium and death benefit are fixed. It provides long-term family and estate protection but since there's a cash value, it may also be used as a savings plan for future income needs or for such expenses as children's education.

Universal life. These policies provide the same basic protection but also include an investment component which ►



THE MANY LIVES OF LIFE INSURANCE

allows for tax-exempt growth. Growth in the cash value will depend on investment performance – though there are guaranteed interest options. Premiums may continue throughout life or be suspended when sufficient reserves are accumulated to sustain the policy. Using investment guarantees may allow for large initial premium deposits to render future premium payments unnecessary.

Any of these policies can fill an important niche in one's financial plan.

As time goes by, our priorities change. We may find ourselves wanting to share our good fortune with those around us, to show our support of the causes and institutions we believe in, to leave the world a little better than we found it. When goals such as these take shape, the life insurance policy that served us well in years gone by can serve us in an entirely new way when we make it a charitable gift. In other cases, a new policy can be the key to achieving philanthropic goals. Here are some possibilities:

› **Give the death proceeds.** Marvin Holcomb no longer needs the \$100,000 death benefit from the policy he took out years ago when his family was young. So he decides to have a registered charity receive the proceeds payable at his death. When he dies, his estate will receive a donation receipt for the amount of the death benefit, resulting in significant tax savings on his final return. If the donation receipt exceeds 100 percent of his income in that year, the excess can be carried back to the previous year, and the 100 percent limitation will apply to that year's income as well.



› **Give the policy itself.** Nancy Helm, age 75, had almost forgotten her paid up \$50,000 policy until she began thinking about establishing an endowment with a registered charity in memory of her husband. She depends on the income from her other investments, but the insurance policy makes an ideal gift. Because she makes the registered charity the beneficiary and also the owner of the policy, her gift is irrevocable, and she receives a donation receipt for the fair market value of the policy, creditable up to 75 percent of her income (excess credit may be carried forward up to five years). Nancy's policy is paid up, but if premiums were still owing and she continued to pay them, she would receive donation receipts for those payments as well.

› **Give a new policy.** Ralph Swanson, in his mid-40's, would like to make a significant gift to a registered charity. He has no existing policy or assets to contribute but he does have some discretionary income, so he purchases a new \$100,000 policy naming the registered charity as both owner and beneficiary, and pays for it in ten annual payments of \$2,473 each. He receives a donation receipt for each payment and, assuming a combined federal/provincial tax credit of 40 percent, his annual tax saving is \$989. Thus his 'net cost' for each premium is \$1,484, and he makes a \$100,000 future gift for only \$14,840.

There are other ways, too, in which life insurance can enable a donor to make a significant charitable gift.

› **Using life insurance for wealth-replacement.** Marva and George Weiss, both age 60, want to contribute \$100,000 to a registered charity without diminishing their legacy to their children. Assuming a tax credit of 40 percent, they realize tax savings of \$40,000 over several years by making the gift. So they plan to use a portion of these savings to purchase a 'second-to-die' policy that will add \$100,000 to their estate when the surviving spouse dies.

› **Using annuity income to make a life insurance gift.** Maurice Laurent, 68 years old and in the 40 percent combined tax bracket, has \$100,000 in bonds and GIC's from which he receives after-tax income of \$200 per month. He uses this asset to purchase a prescribed annuity that provides him after-tax payments of \$655 per month. He then allocates \$335 of this increased cash flow each month to pay the premiums on a \$100,000 life insurance policy that he purchases in the name of a registered charity. He receives a gift receipt for every premium paid and, at his death, the insurance proceeds will be his gift to the charity.

These are just some of the ways in which life insurance can help you achieve your personal and philanthropic goals. ■

project 34

project 96

project 174

project 12

David Suzuki
Foundation

project 93

project 84

project 28

With help from the RBC Blue Water Project, the David Suzuki Foundation created “The St. Lawrence: Our Living River”, a program that aims to develop a deeper understanding of our interconnection with the St. Lawrence River in Quebec. Through peer-to-peer awareness raising, traditional media, social networking and local community mobilization, the Foundation will work to improve the health of the ecosystems and populations living along the river and mobilize citizens to implement sustainable water use practices.

Helping build a better future.

www.rbc.com/bluewater



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