Helkie Financial

THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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Insurance products, including segregated fund policies are offered through Helkie Financial and Insurance Services Inc., and Jim Helkie and Lee Helkie offer mutual funds through Quadrus Investment Services Ltd.

FOCUS ON INSURANCE

Do you still need life insurance as you age?

Many people with young families meet their life insurance needs through term insurance. It's affordable and takes care of protection for your family until the kids are on their own.

But for those starting to enjoy the empty nest, with the offspring now self-supporting, is life insurance still required?

Your financial needs evolve as you continue through the wealth accumulation years, prepare for retirement on the horizon, and enjoy your retirement years. Tax and estate planning — for people of all income levels — become integral elements of your financial plan. And permanent life insurance is a key tool for tax and estate planning.

Permanent life insurance proceeds may become the legacy you leave for your heirs. When you think about it, it's an estate that's created from the moment you pay your first premium.

The proceeds can be used to cover the tax liability on your estate assets, such as the balance of your Registered Retirement Income Fund (RRIF). Or, if you have an unshared asset going to one child, like vacation property or your business, life insurance proceeds can become the inheritance for another child to equalize the estate.

It can even be a tax-advantaged investment vehicle. With tax-exempt life insurance such as whole life or universal life insurance, you can take non-registered investments, allow them to grow tax-deferred in the savings or investment component, and leave the accumulated wealth for heirs tax-free.

We can tell you about other uses for permanent life insurance and compare this vehicle to other solutions for tax and estate planning. ■

Are you a victim of 'home bias'? Don't ignore global equity funds

MUTUAL FUNDS

Having a bias for your home country is, ironically, truly global, especially among investors. Mutual fund and equity investors alike all around the world tend to shy away from "foreign" markets, preferring to stick to the funds that are close to home — a phenomenon that's known as "home bias" or "domestic bias."

It's no mystery that there's comfort in the familiar. The question for mutual funds investors is this: what does home bias do to your mutual fund portfolio? Are these investors actually going to get closer to their goals with this approach, or are they missing out?

Blame Canada

For Canadians, there's an even bigger explanation for home bias — performance. From 2003 to 2012, the S&P/TSX Composite Index outperformed the S&P 500 in seven of 10 years. But as disclaimers warn, past performance is no guarantee of future performance. In 2011 and 2012, the S&P 500 outpaced the S&P/TSX Composite. It is interesting to note that as of December 31, 2012, the Canadian Pension Plan (CPP) Investment Board did not show domestic bias, instead holding 82% of the CPP Fund's equities in markets outside the Great White North.

To illustrate the risks of domestic bias and the opportunities presented by exposure to global equity funds, let's compare the strategies of two mutual fund investors, Ian and Marie.

Ian has always trusted Canadian equity mutual funds for almost all of his equity holdings.

Marie takes a different tack. Her equity mutual funds are diversified across Canadian, U.S., and international markets — and her plan is based on her tolerance for volatility, her investment goals, and her time horizon.

Expand those horizons

Ian believes he's playing it safe by focusing on Canadian equities, but he is limiting his investment opportunities — the Canadian market capitalization represents only about 5% of that of the world. He's not only sacrificing diversification by geographic region, but also by sector. Nearly 80% of the benchmark S&P/TSX Composite is composed of only three sectors — energy, financial services, and materials. And what if Ian wants the security of large caps? Canada is home to only 11 of the world's largest 500 companies.

Marie, on the other hand, gains all of the benefits of diversification by geographic region, sector, and market capitalization. She has the opportunity for higher potential returns through exposure to the best-performing markets. Marie decreases risk because she spreads out her investment dollars over a variety of markets. Also, over time, diversifying tends to smooth out the highs and lows of her overall portfolio performance.

Is your portfolio constructed to take advantage of equity opportunities around the world? Together, we can make sure your investments are well-diversified globally, without domestic bias or overemphasizing any one geographic region or sector. ■

Don't play follow the leader

Imagine this. It's the first week of January 2012, and an eager investor is searching for a new place to invest a holiday bonus. She sees that the Emerging Markets Equity Index dropped 16% in 2011, and decides to avoid that "loser" index by keeping her bonus out of her emerging markets equity fund.

As it turned out, if our eager investor had chosen emerging markets, she would have enjoyed a gain of 16% in 2012. Welcome to the tricky world of predicting leaders in global equity performance, where pundits try to pick what's hot and what's not. The key? Don't get pulled into the game.

Take any year, and you'll find that the market leader in equity returns tends to be a different country or region — and nobody can consistently guess which geographic market will be next year's leader — or loser.

So how can individual mutual fund investors be sure to include the world's outperformers in their portfolios? Not by guessing, that's for sure. Think diversification, think about trusting your long-term plan, and think about discussing with us mutual funds that contain equities from different markets around the world.

Top equity regions in the past four years

The "winning" region is typically different from year to year.

2009	2010	2011	2012
Emerging Market Equities 51.6%	**Canadian Equities 17.6%**	**U.S. Equities 4.6%**	**Emerging Market Equities 15.6%**
Canadian Equities 35.1%	Emerging Market Equities 12.7%	Canadian Equities -8.7%	Foreign Equities 14.7%
Foreign Equities 11.9%	U.S. Equities 9.1%	Foreign Equities -10%	U.S. Equities 13.4%
U.S. Equities 7.4%	Foreign Equities 2.1%	Emerging Market Equities -16.4%	Canadian Equities 7.2%

Canadian equities: S&P/TSX Composite Index U.S. equities: S&P 500 Foreign equities: MSCI EAFE Index
Emerging markets: MSCI Emerging Markets Index
Source: Morningstar

Does your child have a summer job?

When your son or daughter gets a summer job or a part-time job during the school year, he or she may be wondering if it's necessary to pay income tax. Thanks to the federal basic personal amount of $11,038 plus any applicable tax credits, your child may not owe a dime.

While working teens don't need to file a tax return if they don't owe tax, there are reasons to file anyway. Here are just some of the benefits to doing so.

Your teen may:

1. Build RRSP contribution room. By filing a tax return and recording income, your daughter or son builds Registered Retirement Savings Plan (RRSP) contribution room that can be used for future contributions and tax deductions.

2. Get a tax refund. Did the employer withhold income tax from your child's paycheques? By filing a tax return, your child can get a refund of the amounts deducted.

3. Qualify for the GST/HST credit. Your child needs to file a tax return to qualify for the GST/HST credit. The quarterly amount is payable if your child is 19 or over; no income is required to qualify.

4. Receive student tax credits. Post-secondary students are eligible to receive tax credits for tuition fees, education amounts and textbooks, provided they file a return. When the student doesn't owe tax or even has no income, the credits can be carried forward until they can be used or transferred to an eligible family member to use that year.

Let your children know they should save their pay records and take advantage of these benefits. And if your son or daughter is 19 or over, or a post-secondary student, remember that no income is needed to file a return and benefit from the GST/HST and student tax credits. ■

Giving while living

Your will probably spells out which assets are going to which children or grandchildren. But is that the best strategy for your situation?

For some families and situations, it's worth exploring beyond the most common estate planning strategies of leaving assets to your heirs through a will. Here are some advantages to giving assets now.

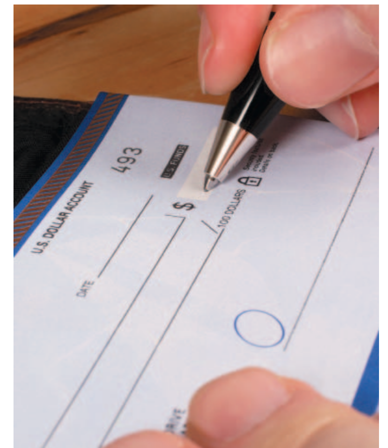
Tax advantages

For certain cases, and for certain amounts of money, giving while living may better suit both the giver and the recipient.

- **No tax on cash gifts.** Giving while living can make a lot of sense in many situations, especially since there's no tax on gifts of cash in Canada. No tax to you, no tax to the recipient.
- **Earned income on a gift to a minor child is taxed to you.** If you give an investment to a minor child, any interest or dividends it generates will be taxable to you until the child turns 18. Capital gains however, are taxable to the child.
- **Capital gains on gifts are taxed in your hands.** If you are giving the family cottage to your child, doing it now can be a smart move tax-wise. If you are ready to hand over responsibilities for maintenance and upkeep, you may want to give (or even sell) the property to your children right now. The transfer may trigger capital gains taxes on any gain in the property's value to date, but future capital gains will accrue to the children. Make sure you discuss these strategies with a tax advisor, as they can be complex.

Benefits may go beyond the financial

By giving now, you are able to see your children or grandchildren benefit from your gift — a meaningful advantage over leaving an inheritance. You'll have the satisfaction of watching them meet life goals more easily and enjoy a better quality of life.



You may also eliminate any delays that may be caused through administration of the will, and reduce probate fees and potential executor fees (note that probate fees are not a factor in Quebec and are minimal in Alberta and the three territories).

In some cases, there's reason to distribute funds privately. A will is public, but funds given now can be transferred with discretion.

Unfortunately, heirs are sometimes known to disagree over the way estate assets are distributed. If you plan on giving now, you will be there to help settle any issues and avoid conflicts among siblings.

The concerns

If you give a gift now, you relinquish all control over the gift and you may not approve of the way it's being spent or managed. And you'll be here to watch it all!

What if something completely unforeseen happens — such as the economy suffering a deep recession or you developing a costly illness? You must be absolutely certain that you will not need the funds.

Talk to us as well as your tax advisorwhen you're thinking about estate matters. We can help you determine whether it's best to give an inheritance through your will, give while living, or use a combination of the two. ■

Looking for the security of guaranteed retirement income?

You don't want to spend your retirement worrying how the financial markets are doing and how that's going to affect your income. In addition to a Registered Retirement Income Fund and any government benefits, there is a strategy to consider for annual income that's guaranteed.

If this was the old days of the 1980s' double-digit interest rates, you could simply rely on income from Guaranteed Investment Certificates (GICs) to boost your income. But in today's low-interest-rate environment, GICs don't pay all that much, and, to make matters worse, GIC interest income is fully taxable when earned outside a registered plan.

The term-certain annuity strategy

A term-certain annuity (TCA) can be the ideal solution in certain situations, such as when you want to arrange in advance for a stream of income or payments. It can be appropriate whether you're just about to retire, you're well into retirement years, or anywhere in between.

But the term-certain annuity is not the usual life annuity you may be familiar with. A TCA is a contract under which you transfer a lump sum to a financial institution, which pays it back with interest over a specified time. The interest rate is locked in when the contract quote is issued.

Because of the way the annuity is taxed, this solution is much more tax-efficient than a regular non-registered, interest-bearing investment. Each monthly payment you receive from the TCA is a combination of interest and the principal you used to make the purchase.

The interest is spread out evenly over the term of the annuity and represents a relatively small portion of each payment. You pay tax only on the interest. How much tax do you pay? Well, it all depends on the amount of the annuity, your age, and annuity interest rates at the time you make your purchase.

It's not for life: a caveat

It's important not to confuse term-certain annuities with life annuities. While they both provide a regular income stream for a period of years, there are some key differences:

• **Limited duration.** Unlike life annuities, which pay income for as long as you live, the payments under a TCA run only for a fixed period. "Term certain" describes the time period for which you receive guaranteed income — 10 years is a common term.

• **Estate planning.** If you die before all the TCA payments have been received, your beneficiaries will receive the remaining payments as they're due, or a lump-sum equivalent. Life annuities, on the other hand, have no estate value. Your heirs will get payments only if you purchase a guarantee period.

If you're interested in pursuing this strategy for supplementing your retirement income, or to provide cash for another purpose for a period of time, talk to us. ■

Need control of a legacy?

Do you have a child, grandchild, or other heir you feel would be better off receiving their inheritance in a series of instalments? A trust isn't the only choice. In some situations you may want to consider an annuity settlement.

This strategy begins with naming your heir as the beneficiary of an annuity. According to your instructions, gradual payments would be made to your beneficiary for a specified period, or for the rest of their life.

This inheritance bypasses your estate, which eliminates probate (only applicable in some provinces) and estate fees and avoids any delays in administering a will. And you can use this strategy for minor children and beneficiaries with a disability by designating an individual who'll manage the instalments on their behalf.

An annuity settlement strategy is simpler to set up than a trust, requires less management, and has no fees. However, a trust gives you greater control.

The annuity settlement strategy can meet your needs when you want a solution that's easy, cost-effective, and you're content with the payout. But the strategy has its trade-offs. It's not meant to be flexible. The income is fixed, with payments based on prevailing rates when the strategy is set up. Also, the beneficiary cannot access funds in case of an emergency — trust assets, on the other hand, may be available.

If you're interested in a trust or annuity settlement strategy, we can help you determine which option best suits your wishes and your situation. ■

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