Macdonald, Shymko & Company Ltd.

Fee Only Financial Advisors/Portfolio Manager

WEALTH MONITOR

WINTER 2011

CANADA PENSION PLAN - UPDATE ON CHANGES

In January, changes are coming for individuals between the ages of 60 and 65 who started collecting CPP benefits early (prior to age 65), but have since resumed work with eligible salary income over $3,500 per year. Under the new rules, CPP contributions will become mandatory up to age 65 (only for individuals with eligible employment income), even if they are currently collecting CPP benefits. (Under the current rules, CPP contributions stopped after the individual started receiving CPP benefits.) These extra CPP contributions will result in increased CPP retirement benefits in the future. This requirement becomes voluntary once the employee reaches the age of 65, at which point the employee must file a special election with Service Canada to cease any further CPP contributions. Employers of individuals who are 65 and older and are opting to continue to participate in the CPP, would also be required to contribute. There are also incentives for employees age 65 and older to continue making CPP contributions on their employment income, even if they already will qualify for the standard maximum CPP benefit. A "Post Retirement Benefit" allows individuals to qualify for higher CPP income above and beyond the standard maximum.

For individuals age 60 and over who are trying to decide on when to apply for CPP benefits, it is important to consider changes to CPP. Starting in 2012, individuals can apply to receive CPP early (prior to age 65) even if they continue working. However, the "early pension reduction" changes from 0.5% per month to 0.6% per month so that the CPP reduction for early benefits can be as high as 36% at age 60 (previous reduction maximum was 30%). On the other hand, delaying CPP after age 65 to as late as age 70 can now enhance future CPP benefits by up to 42%. Essentially, the penalties for early CPP have been increased, and the incentives for delaying CPP have been enhanced. Talk to your advisor if you have questions about your personal situation.

MSC wishes you & your loved ones a safe & joyous holiday

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B.C. FAMILY LAWS

The B.C. Government introduced proposed legislation on November 14, 2011 for the B.C. Family Act. The Act is more than 30 years old and deals with issues such as separation, divorce, child custody, etc. The goal of the changes is to modernize the laws and to establish a framework to encourage a less adversarial system. The biggest changes proposed will impact common-law couples: under current legislation, they are not obliged to split their property if their relationship fails. The *proposed* changes would require a split of assets for unmarried couples that have lived together for two years or longer, unless they create their own written agreements. If passed, it is expected to take 12 to 18 months to implement.

RRSP Limit For 2011

The maximum RRSP contribution limit for 2011 is $22,450, and the deadline for 2011 contributions is February 29, 2012. (For the 2012 tax year, the contribution limit will increase to $22,970.) However, individuals will need to refer to their 2010 Notice of Assessment to confirm their personal RRSP contribution limit for 2011.

Canada Best For Business

Forbes magazine recently ranked Canada as the best country for business, moving up from fourth spot in 2010. Issues noted were that Canada's economy has held up better than most, and the tax burden has been declining in recent years (ranked 9th in tax burden out of 134 countries, and noted the Ontario HST as a positive step…and also noted the BC HST (prior to the announcement to reverse this).

Dementia

If you know someone with dementia, you may wish to take advantage of the services offered by *The Alzheimer Society of B.C.* They offer educational programs to educate and empower people with dementia, their family and friends.

Information is available on their website: www.alzheimerbc.org

MSC News

- Clayton Brown joins MSC as a Financial Planning Assistant. Clayton has a Bachelor of Science degree from the University of Western Ontario and is a graduate of BCIT's Financial Management program and is working toward his CFP (Certified Financial Planner) designation.
- Gina Macdonald was quoted in the following *Vancouver Sun* articles:
  - September 22, 2011 - "Navigating Stormy Markets" - Advice to Boomers on how to minimize their risks (in light of the 2008 financial crisis and stock market volatility).
  - October 4, 2011 - "Protecting Your Money: Investing In Turbulent Times - With all the economic uncertainty - low bond yields, volatile markets and potential loss of capital - we asked the experts what investors Jane and John Doe should do".
- *Globe and Mail* Financial Facelift articles: Brinsley Saleken was quoted in the November 11, 2011 article, "Navigating Toward a Brighter Future"; Gina Macdonald was quoted in the August 26, 2011 article, "A Survivor's Tough Choices".

Top 10 Challenges Women Face

Mitchell Kauffman recently wrote an article in the *Financial Post* called "Top 10 Challenges Women Face". The general theme was that women should take hold of their financial futures since approximately 75% of women are eventually widowed. The top 10 challenges noted were:

1. Often put the needs of others, such as their children, ahead of their own financial needs
2. Spending money to compensate for emotional needs
3. Deciding whether to keep the mortgage or pay it off
4. Living in a home that is too large or expensive
5. Having no Estate plan, or outdated plans
6. An investment plan that does not focus on their own specific needs, financial situation
7. Being too aggressive or too conservative with investments
8. Holding investments too long (aversion to change and/or lack of ongoing review)
9. Seeking advice from someone that does not have the appropriate education, professional designations, experience
10. Withdrawing too much or too little during retirement

Of course, most of these challenges are faced by all individuals. At MSC, both spouses are encouraged to be engaged in the financial planning process, even if one spouse handles most of the daily financial activities.

POWER OF ATTORNEY LEGISLATION

The B.C. Government has updated the *Power of Attorney* Legislation for Adult Guardianship. The new legislation took effect September 1, 2011, and these provisions include amendments to the *Power of Attorney Act* and the *Representation Agreement Act*. The updated legislation provides clarity on the limits, restrictions and responsibilities of the appointed Attorneys/ Representatives. It also establishes clear guidelines/conditions that the donor must be able to meet (to determine their capacity) in order to be eligible to appoint an Attorney/Representative.

Overall, the focus of the legislation is to protect the "donor" by providing more clarity and limitations on actions of the designated "Attorney". Safeguards within the new Enduring Power of Attorney (EPOA) Laws include the following:

- The test for the capacity of the adult donor is now specified in the legislation
- Two witnesses are required when the donor/Attorney sign the documents (and if authority for Real Estate is included, must be a lawyer or notary to witness)
- "paid" caregivers not permitted as an Attorney
- Strict rules for gifting, loans and donations by an Attorney (unless specified in a new EPOA)
- Clear rules for "springing" EPOA (which take effect only when the donor no longer has capacity)
- Clear rules for beneficiary designations by Attorney
- Cannot mix assets (i.e., donor and Attorney assets can't change to joint)
- Attorney cannot delegate decision making (except investments); Attorney has a duty to keep records
- Attorney cannot be paid for their duties (unless specified in the EPOA)

If you have an EPOA in place, or you are the designated Attorney for a friend or relative, you should be aware of the updated rules and limitations. EPOAs that were in place prior to September 1, 2011 remain valid, though in some cases it may be appropriate to have a new document prepared to address specific issues.

U.S. CITIZENS IN CANADA

There has been widespread news coverage about the U.S. laws aimed at tracking down offshore assets held by U.S. citizens. The primary objective of the new rules was to target high net worth individuals that are evading U.S. taxes with large undeclared foreign assets in offshore tax havens and increase tax revenue for the IRS. However, the rules are so broad that they target families that have little or no ties to the U.S., and are far from rich. This is a concern for the many U.S. citizens living in Canada: the U.S. is one of the few countries that taxes U.S. persons based on "citizenship", not just based on residency; therefore, U.S. citizens living in Canada are impacted by the U.S. tax rules and financial disclosure rules. Many U.S. persons in Canada are not aware of the requirements and, thus, unaware that they may be breaking the rules. In some cases, people may even be unaware that they are "U.S. citizens" – they may have been born in the United States but have lived in Canada almost their entire life. While higher tax rates in Canada often result in no U.S. taxes owing for those filing U.S returns, the financial disclosure rules can result in significant fines and penalties for non-filers.

Related issues can also impact the investments that U.S. citizens in Canada should hold in their non-registered accounts. There are also new rules coming into effect in 2013 requiring Canadian banks/brokerages to share client information with the U.S. government. The bottom line is that this has created a great deal of anxiety for U.S. citizens and dual Canadian-U.S. citizens, and many individuals are worried about the potential for fines or penalties. Finance Minister Michael Flaherty recently spoke out about this situation and complained to the U.S. that many law abiding Canadians were being unfairly targeted. We will continue to monitor these events and can refer individuals to appropriate professionals for specific advice if needed.

TAX-FREE SAVINGS ACCOUNT (TFSA)

We are now three years into the Tax-Free Savings Account era, and there still seems to be a lot of confusion among Canadians about the rules.

In August, CRA sent out more than 100,000 letters telling holders of TFSAs that they appear to have over-contributed to the end of 2010 and may face a penalty.

Let's review the rules for TFSAs.

TFSAs became available in 2009 with a $5,000 annual contribution limit: it means that in 2011, every Canadian has up to $15,000 of contribution room if they have not contributed to a TFSA.

Unlike an RRSP contribution, there is no tax deduction for a TFSA contribution, but the income earned inside a TFSA is not taxable and is not included in the income calculation for government benefits such as the OAS claw-back.

The rules get tricky when money is withdrawn from the TFSA. While it is true that the withdrawals can be re-deposited into a TFSA, this cannot happen until the following year. This seems to be the biggest source of confusion among Canadians. **If a TFSA withdrawal is re-deposited in the same year that constitutes an "over-contribution".** This results in a penalty of 1% of the excess amount each month, for as long as the excess amount remains in the account, or until January 1st arrives.

It is a good practice to track your own TFSA contributions and withdrawals, as the information on the Notice of Assessment may be old and may not include recent contributions or withdrawals.

If you want to transfer your TFSA from one financial institution to another, the relinquishing bank typically charges a transfer fee in the range of $100 - $150. The way to avoid this transfer fee is to make your TFSA withdrawal in late December and to re-deposit it at the new financial institution in January when your TFSA room regenerates. This strategy only works if the TFSA asset is held in liquid cash, since the transaction fee for selling and repurchasing the assets may negate any savings in transfer fee. In that case, a direct transfer in-kind is the way to go.

Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. Throw off the bowlines. Sail away from safe harbour. Catch the trade winds in your sails. Explore. Dream. Discover.

~ Mark Twain

MSC recommends that you have a strong Financial Plan in place to keep you anchored, to ride out rough waters and stormy weather: you do not want to get caught without a life jacket when you go overboard and are forced to tread water!

WHAT'S AHEAD FOR MSC

- Our office will be closed December 26th and 27th and January 2nd. We look forward to seeing you in the New Year!
- MSC is pleased to offer the *Wealth Monitor* by email. If you prefer e-delivery, or if you'd like to share the *Wealth Monitor* with a friend or loved one, send us a message at newsletter@msc-feeonly.com.

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