CANADIAN INVESTORS' COURSE

Session 7 – Financial Planning Continued

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Janet Yellen Aug 25, 2016. I will raise interest rates at our next meeting … uh … maybe.

In this lesson we will discuss:

1. Insurance

2. Various savings programs/products

3. Tax savings financial products

1. Insurance

- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Critical Illness and Disability Insurance
- Annuities

Why Life Insurance?

A contract with an insurance company. In exchange for premium payments, the insurance company provides a lump-sum payment, known as a death benefit, to beneficiaries upon the insured's death. Typically, life insurance is chosen based on the needs and goals of the owner.

Paying final costs: life insurance policy benefits can be used to pay final expenses, including funeral or cremation costs, medical bills not covered by health insurance, estate administration fees or other unpaid obligations. Paying taxes the estate owes Federally and Provincially.

Paying off debt or replacing income: life insurance benefits can help replace your income if you pass away. Your beneficiaries can use the money to help cover essential expenses, such as paying off a mortgage, general living expense, and/or securing college educations for your children.

Inheritance: buying a policy with a named heir as a beneficiary in order to secure an inheritance for your loved ones. The death benefit can also serve as a supplement to other inheritance funds you may wish to leave your heirs.

Charitable contributions: Life insurance policies can be created with your favorite charity as a named beneficiary. This can help ensure your philanthropic goals are met after you pass, and that benefits are provided to your charity of choice.

Term or Permanent life insurance?

TERM INSURANCE

Term life insurance is purchased by people who are need life insurance coverage for a specific period of time and a specific dollar amount. This type of life insurance provides coverage for a set period of time at a fixed rate payment (usually monthly), payable over the term of the policy. When the policy expires, the previous rate for the insurance coverage is not guaranteed and is subject to new payment terms and other conditions. If the policyholder dies during the term of the policy, the death benefit is paid out to the beneficiary (person named on the policy). Term life insurance is one of the least expensive methods of buying life insurance to provide a substantial death benefit for a term.

There are a variety of terms available with term life insurance products. The most common terms are 5-year term insurance, 10-year term insurance, 20-year term insurance, and 30-year term insurance policies.

There are two types of term life insurance: renewable and convertible term life insurance.

1. **Renewable term life insurance** policies automatically renew at the end of the term. For a 20-year term life insurance, the insurance would automatically renew in year 21 for another 20 years. The renewal may be subject to higher premiums. Higher premiums are due to factors such as older age or health problems etc. It may be wise to shop around for renewal rates at this time.

2. **Conversion term life insurance** is a very important feature with current policies. Convertible term life insurance allows policyholders to exchange their term policy for a **permanent policy**, up to a certain age. This option is a must-have, as you will not typically require a medical exam and you will be provided coverage. You never know what can happen later in life, particularly if the develop an illness, this will be your best option to ensure protection for your family and not worry about the policy term expiring.

TERM INSURANCE continued

*****ALERT *****

Keep an eye out for <u>Mortgage or Creditor Insurance</u>. This is typically sold by banks and mortgage brokers or typical issuers of debt. Their product is usually presented you at the last minute as you sign the mortgage application to finalize the transaction.

Don't sign it!

Ask to sign a '**waiver'** indicating that you do not wish to attach this form of insurance to your mortgage.

<u>It is suggested you obtain a Term Insurance quote, from a licenced insurance representative, and compare the premiums, coverage periods, details and stipulations.</u>

In most cases Term is MUCH better for your family <u>and</u> can save you a substantial amount of money per year.

By entering 'term insurance' in the Magnify-Glass Search capability on this website you will find an excellent and unbiased explanation of this comparison – <u>Mortgage/Creditor Insurance vs. Term Life Insurance</u>. It might only be $100/month that you are saving, maybe more, or maybe less, but it adds up when you calculate your Financial Plan.

<u>Please Note</u>: Bankers and mortgage brokers are <u>**NOT**</u> licensed insurance advisors.

PERMANENT INSURANCE

Basic features of permanent policies:

Permanent insurance provides lifelong protection, and the ability to accumulate cash value on a tax-deferred basis. Permanent life insurance has several variations: **whole life**, **universal life**, **variable life**. All are designed to provide insurance protection for your entire lifetime, as long as you keep the policy in force.

Level premiums. Premiums, typically, that remain level over the lifetime of the policy.

Cash values: These reserves accumulate as a cash value, or cash surrender value. The cash value is available to you if you want to borrow against your policy or to cancel (surrender).

Non-forfeiture options: These are choices available to a policyholder if he or she discontinues premium payments on a policy.

Participating policies and policy 'dividends': A participating policy shares in the financial experience of the insurance company, and policy "dividends" are declared annually and paid to policyholders. Premiums are based on conservative estimates of future expenses, death claims and interest or other investment earnings. When experience is more favourable than these estimates, a surplus is created, which allows the company to credit participating policyholders with dividends. These dividends are NOT guaranteed. Dividends can be paid in cash, left in the policy to accumulate, used to pay part of the premiums, or used to purchase additional insurance.

Non-participating policies: A non-participating policy does not share in the insurer's earnings and does not receive any dividends.

TERM to 100: This is a form of Permanent insurance that does not provide an accumulated cash value.

Please enter your POSTAL CODE in the Wealth Professional LOCATOR on the website as the Trusted Wealth Professionals are all 'Life Licensed' and can help you with your insurance needs.

PERMANENT INSURANCE continued

Whole Life

The insurance company promises to pay a certain death benefit upon your death, regardless of when that occurs, up to a certain agreed-upon age based on mortality and expense projections, along with dividend scale assumptions. All three components are projected and important to a whole life policy. The company often pays you the full face value of the policy if you live to the end of the specified mortality table, which, as its name suggests, tabulates your life expectancy based upon your age and health. With most forms of whole life, premium payments are made for life at a fixed rate, and the policy cannot be canceled as long as you pay the premiums on time. The cash value normally increases at a consistent rate so that it equals the face value at the age at which the policy expires. Loans against this cash value are often available. The premiums are often higher than some other forms, such as Universal Life. Premium payments can be level monthly payments for the rest of your life or lump sump payments that fully pay-up for the policy over a set number of years. This form of permanent insurance is simple and predictable. Important if you want certainty.

Universal Life (Variable Universal Life)

The biggest difference between Universal Life (UL) and whole life is that UL gives you considerable flexibility as to the amount and timing of premium payments. Premiums are **"unbundled"** and, typically, are made of mortality cost and a savings component. In most UL policies, the Policy holder has a choice of mutual or Index funds that are purchased by premiums. Mortality payments are taken from this invested funds. You must rely on the return of these investments to fund your policy and create a tax-sheltered savings component. **IT IS VERY IMPORTANT** to make reasonable assumptions on long term rate of return when initiating the policy premiums. Be very wary of an insurance agent that makes a return assumption of over 5% per year. A 3% assumption is the way to go. You can stop premium payments and have the mortality payments be paid by the savings reserve, as long as, there is a reserve. This adds flexibility. Premium payment options are similar to Whole life.

TERM 100 Insurance

Term 100 policies generally have level premiums and lifetime protection — but no cash value the way participating whole life or UL policies do. The previous Term policies discussed had specific time components like 5 year of 25 year terms. This Term agreement is really for life and pays out the Face Value of the policy at death or age 100.

PLEASE NOTE: The above definitions are general in nature. There are different, customized versions of these types of policies. Go to a Licensed insurance professional that can properly serve you. A FULL, proper **financial plan** is a great way to do this. Using an IIROC licenced advisor is the ideal way to go, particularly because they understand the underlying investments of UL policies. **THIS IS VERY IMPORTANT.** Go to the **Postal Code Advisor** finder at the bottom of this site's page to locate a professional in your area. Remember, just because the Advisor has a Financial planning designation, it doesn't mean they are licenced to perform a FULL FINANCIAL PLAN.

Critical Illness Insurance

Critical illness insurance offers the financial help to pay the costs associated with life-altering illnesses. If you become sick with an illness covered by your policy and survive the waiting period, you’ll tend to receive, with most policies, a lump-sum cash payment. And, unlike reimbursed health insurance benefits, you decide how to spend the money. Once the money is spent, it’s gone. Great short term solution.

Disability Insurance

Disability insurance protects your income to age 65 and will generally kick in after 90 days of disability. Designed to provide monthly income as a result of a permanent or long term disability until age 65. Replaces your “work” income. Premiums vary depending on your occupation. Someone working on an oil rig has higher premiums than an office worker at a Bank.

Recommendation:

- Definitely shop around. Policies vary on premium and terms
- These 2 policies work hand-in-hand. Both are advisable to acquire.

When buying these policies it may be more advantageous NOT to go with an employer group plan. Try to get your own. Premiums and policies may be better. SHOP around!

Annuities: A 'Do It Yourself' Pension Plan

An annuity is a contract with a life insurance company. You deposit a lump sum of money, and they agree to pay you a guaranteed income for a set period of time — or for the rest of your life. Annuities are most commonly used to generate retirement income.

Annuities can be the best retirement choice for many Canadians, yet very few look at this alternative. Like defined benefit pensions, they provide guaranteed income for as long as you live. But while employer **Defined Benefit** pensions are considered the gold standard of retirement income plans today, few Canadians ever think about annuities.

Annuities are the most effective safeguard against "longevity risk," or the possibility of outliving your wealth. It's hard to use terms like 'peace of mind' and 'satisfaction' with non-guaranteed investments like stocks or mutual funds. So there are good reasons for retirees to give annuities more consideration. Unfortunately, while the concept is simple—you hand an insurance company a lump sum in return for a predictable cash flow—the details are complicated. Hopefully we can help you determine if annuities are right for you. If there's no chance you'll run out of money, annuities are probably the wrong choice. They make little sense if you have an ample employer pension, since you already have the assurance of an income for life. Nor are they attractive if you're in poor health: the best payoff from an annuity comes from living much longer than average.

The other reason people avoid annuities is their finality: once you give your cash to the insurance company, you're locked in for life. Most of the investments we discuss in this course can provide better growth potential with liquidity and leave something for your estate. It's best to think of annuities as one part of a larger retirement income plan: they can work uncommonly well in a portfolio alongside stocks and bonds (or GICs). The goal is to figure out the right allocation to each of these assets, based on the trade-off between guaranteed income, access to a lump sum, and growth potential.

You can buy an annuity with money from a **RRSP**, a **RRIF** or a non-registered account. The money is returned to you, with interest, in regular payments. You can choose to receive payments for a set number of years or for the rest of your life. You can receive monthly, quarterly, semi-annual or annual payments.

How annuity payments work:

Your annuity income is calculated when you buy the annuity. It is affected by a **number of factors** — the most important are interest rates and how long you're expected to live. Once you buy an annuity, you can't make any changes to it. Your regular payment amounts are locked in, and you can't change them for any reason. If you're over age 65 and do not have a company pension plan, you may be able to claim the **pension income tax credit**. This means you won't be taxed on the first $2,000 of annuity income each year.

2 types of annuities

1. Term-certain annuity

A term-certain annuity gives you a guaranteed regular income for a set number of years (the term). Term-certain annuities bought with money from an RRSP or RRIF must extend to age 90. If you die before the end of the term, your payments will continue to go to your estate. An example would be a 10 year Term Certain annuity: Annuity payments are for life, however, payments are guaranteed for 10 years. If you die early, then the estate will receive the remainder of 10 year payments.

2. Life annuity

A life annuity gives you a guaranteed regular income for life. Payments usually stop when you die, and **no money** will go to your estate. You may choose to add an option that allows your spouse, beneficiary or estate to continue to receive your payments after your death. An example would be is to set up a joint-last-to-die annuity. Spouse receives payments after first souse dies.

You can have annuities deferred or immediate:

With a **deferred annuity**, your money is invested for a period of time until you are ready to begin taking withdrawals, typically in retirement. You might be 58 years old and you decide to buy an annuity where payment begin at age 65.
If you opt for an **immediate annuity** you begin to receive payments soon after you make your initial investment.

What taxes do you have to pay on annuity?

If you buy the annuity with pre-tax money, then the entire balance will be taxable. This occurs if you transfer money from an RRSP or RRIF to buy an annuity.
If you use after-tax funds, then you'll be taxed only on the earnings. Part of your monthly payment is actual principal. So not all income each year is taxed. This is very advantageous.
If you cash out a deferred annuity in a lump sum, then you'll have to pay income tax on all of the earnings higher than your original investment.

Variable Pay Annuities

While the most common type of annuity offers fixed payments for life, you can also get a “variable annuity” that offers the possibility of increasing payouts if stock and bond markets perform well. Your money goes into segregated mutual funds. But there’s a trade-off: you get upside potential if markets do well, but the minimum guaranteed income is substantially less than you get from a conventional fixed annuity.

Variable annuities—which include products such as Manulife’s Income Plus and Sun Life’s Elite Plus—were all the rage a few years ago. They promised a guaranteed minimum withdrawal benefit (GMWB) of 5% in their hay day, but critics argued increasing payouts were unlikely because of rigid rules and excessive fees (around 3.5%). As interest rates declined and the financial market crashed in 2008 and 2009 they fell out of favour, in fact, this affected the financial shape of Manulife itself because the shrinking portfolios gave the Insurance company lower fees and, as a result, caused a strain to keep paying the 5% on the origin principal of the annuity. Now, these annuities that are currently available charge much higher internal fees and pay a lower guaranteed percentage like 3.5% or 4%. The portfolios tend to be made up of “balanced funds or growth and income funds”. This makes sense since it would be risky to put all the money in a 100% stock fund for someone in ‘70s or ‘80s. This is where the problem lies. If the portfolio is 30, 40, 50% bond funds, then the fees could kill the return because today’s yields are lower than the fees charged internally on this investment product. It leaves the stock or equity side to carry the “load”…CRAZY!

This Variable annuity argument is definitely understood by an **IIROC licensed, full service Advisor**. They manage portfolios themselves and have access to almost all investments. They are not restricted to investment product and can provide a Full retirement plan. The other 2 alternatives are **independent financial planner/mutual fund sales people** and **traditional insurance agents**. Make sure you get more than one quote. All three choices can give you more than one. All 3 can provide plans. Bankers are NOT licensed to do this but Banks have their own IIROC investment firms.

2. Various savings programs/products

Government Created or Sponsored Savings Plans:

RRSP - Registered retirement savings plans

RRIF – Registered retirement income funds

RESP – Registered educational savings plans

TFSA – Tax free savings accounts

RDSP – Registered disability savings plan

IPP – Individual pension plans

RCA – Retirement compensation arrangements

Registered Retirement Savings Plan (RRSP) is an investment account registered with the federal government, that is generally used to save for Retirement.

RRSPs special tax advantages:

1. **Tax-deductible contributions** – You get immediate tax relief by deducting your RRSP contributions from your income each year.
2. **Tax-sheltered earnings** – The money you make on your RRSP investments is not taxed as long as it stays in the plan until age 71.
3. **Tax deferral** – You'll pay tax on your RRSP savings when you withdraw them from the plan. That includes both your investment earnings and your contributions.

But you have deferred this tax liability to the future when it's possible that your marginal tax rate will be lower in retirement than it was during your contributing years.

Anyone who files an income tax return and has earned income can open and contribute to an RRSP.

Contribution limits are the lower of:
18% of your earned income in the previous year, or
the maximum contribution amount for the current tax year: **$26,010 for 2017**.

If you are a member of a pension plan, your **pension adjustment** will reduce the amount you can contribute to your RRSP.

You can carry forward unused contributions : If you don't have the money to contribute in any given year, you can carry forward your RRSP contribution room and use it in the future.

Registered Retirement Savings Plan (RRSP):

Investments that can be held in an RRSP are called qualified investments:

- Cash
- Gold and silver bars
- GICs
- Savings bonds
- Treasury bills (T-bills)
- Bonds (including government bonds, corporate bonds and strip bonds)
- Mutual funds
- ETFs (exchange traded funds)
- Equities (both Canadian and foreign stocks)
- Canadian mortgages
- Mortgage-backed securities
- Income Trusts
- YOUR first mortgage on your house (Go to an advisor for more info)
- Precious metals certificates

Where to open an RRSP account

- Banks and trust companies
- Credit unions and caisses populaires
- Mutual fund companies
- Investment, IIROC licensed firms (for self-directed RRSPs) – **ONLY CHOICE** that places **ALL** of the above qualified investments in one account.
- Life insurance companies

Registered Retirement Income Fund (RRIF)

A RRIF is a fairly easy change because of its similarity to an RRSP. A RRIF provides a high level of control over the investments in your retirement plan, the advantage of tax-free growth of assets within the plan, as well as maximum flexibility in establishing an income stream. You can only hold an RRSP until age 71. At that stage, you must cash it in, buy an Annuity (which we covered early in this lesson), or create a RRIF. Within a RIF you can customize payments. Some people want monthly or quarterly payments, others take income only once per year, usually at the end of the year. There is a mandatory annual minimum payment the Federal Government mandates.

This table outlines the minimum withdrawals on RRIFs established after 1992, as set by the government. Before age 71, the minimum percentage payout is worked out in the following way: **1÷(90 – your current age).** So if you're 65, your minimum withdrawal would be 1÷(90-65)=4%. With a $100,000 RRIF, that amounts to $4,000. Once you reach age 69, the following schedule applies:

Age	2015 and later	1992 to 2015	Pre 1992
65	4.00%	4.00%	4.00%
66	4.17%	4.17%	4.17%
67	4.35%	4.35%	4.35%
68	4.55%	4.55%	4.55%
69	4.76%	4.76%	4.76%
70	5.00%	5.00%	5.00%
71	5.28%	7.38%	5.26%
72	5.40%	7.48%	5.56%
73	5.53%	7.59%	5.88%
74	5.67%	7.71%	6.25%
75	5.82%	7.85%	6.67%
76	5.98%	7.99%	7.14%
77	6.17%	8.15%	7.69%
78	6.36%	8.33%	8.33%
79	6.58%	8.53%	8.53%
80	6.82%	8.75%	8.75%
81	7.08%	8.99%	8.99%
82	7.38%	9.27%	9.27%
83	7.71%	9.58%	9.58%
84	8.08%	9.93%	9.93%
85	8.51%	10.33%	10.33%
86	8.99%	10.79%	10.79%
87	9.55%	11.33%	11.33%
88	10.21%	11.96%	11.96%
89	10.99%	12.71%	12.71%
90	11.92%	13.62%	13.62%
91	13.06%	14.73%	14.73%
92	14.49%	16.12%	16.12%
93	16.34%	17.92%	17.92%
94	18.79%	20.00%	20.00%
95+	20.00%	20.00%	20.00%

Investment choices in a RRIF:

- Cash
- Gold and silver bars
- GICs
- Savings bonds
- Treasury bills (T-bills)
- Bonds (including government bonds, corporate bonds and strip bonds)
- Mutual funds
- ETFs (Exchange Traded Funds)
- Equities (both Canadian and foreign stocks)
- Canadian mortgages
- Mortgage-backed securities
- Income Trusts
- Precious metals

IMPORTANT STRATEGY: When investing in an RRSP, don't get talked into having all your GICs mature the year that you must open the RRIF. This is both not smart and TRAGIC! Many RRSP holders in the late 1990s and early 2,000s that held their RRSP at a Bank would have their GICs set up in such a way that most or all the money came due after 2008 when interest rates collapsed. **They went from 5% to 6% interest rates to 2% ☹**

Place your RRSP investments so that the investments are not disturbed. Stripped Bonds were very popular as RRSP investments because they offered Government guaranteed compounded returns. You could have 'laddered' your bond maturities over a 20 year period. If you were 65 in 2007, you could have divided your RSSP into a series of annual compounded maturing stripped bonds to come due each year over the next 20 years plus at 6% or more, rates guaranteed. At age 71 you could transfer those investments undisturbed into a RRIF. **A SELF–DIRECTED RRSP and RRIF is definitely the way to go**. These accounts allow you to do what we described with bonds and much, much more. Ignorance and lack of investment product availability/knowledge can dramatically affect the way you live retirement!

You can set up a self-directed RRSP or RRIF at a discount broker (make sure you know what you are doing) or a Full-Service IIROC licensed Investment Advisor. Canadian Banks can refer you to their own IIROC licenced advisors. Ask your Banker for, **at least 3 IIROC advisors to interview.** Make sure they are truly Full-Service and offer all investments described in these courses. Retiring investors should NOT become a victim of an adivsor who is handcuffed by lack of choice and flexibility of investment products.

Please use the **POSTAL CODE entry box** at the bottom of this web-page, you'll find the Trusted Wealth Professional in your area that has access to all investment choices and **has experience utilizing them** for retirees. You may need someone that has access to all the financial instruments and knows how to use them.

RESP – Registered Educational Savings Plans

A Registered Education Savings Plan (RESP) is a dedicated savings plan to help you save for a child's education after high school. Most RESPs are opened for children, but you can open an RESP for yourself or another adult. The person who opens the plan is called the 'subscriber'. When your child enrols in post-secondary education, they can start taking payments, called **educational assistance payments (EAPs)** from their RESP. EAPs are made up of the investment earnings and government grant money in the RESP. The person who is named to receive EAPs under the plan is called the beneficiary. Features:

1. **Government grants -** The Canadian government provides 20 cents on every dollar you contribute, up to a maximum of $500 on an annual contribution of $2,500. If you cannot make a contribution in any given year, you may be able to catch up in future years. If you live in Quebec, Alberta or Saskatchewan, you may also be eligible for a provincial grant.
2. **RESP savings grow tax free -** You don't pay tax on any investment earnings as long as they stay in the RESP. That means your savings can grow faster.
3. **EAPs are taxable in the hands of the student -** When your child enrols in post-secondary education, they can start taking the ESP payments, Tax on EAPs is payable in the hands of your child — not the subscriber. Since students tend to have little or no income, they likely won't have to pay very much tax on the payments. Contributions can be withdrawn by you or by the student tax-free.
4. **A variety of investment options -** You can choose investments that best suit your investment objectives, risk tolerance, and time horizon. Different providers offer different investment options. Examples: **stocks**, **bonds, mutual funds, GICs**
5. **Friends and family can contribute**
6. **RESP accounts can stay open for 36 years**

RESP continued

Who offers RESPs? Banks, credit unions, mutual fund companies, investment firms and trust companies. They offer **individual and family plans:**

1. Individual plan

An individual plan is intended to pay for the education of one beneficiary. Anyone can open an individual plan and anyone can contribute to it. You can even open a plan for yourself. If the beneficiary doesn't continue with their education after high school, you may be able to name another beneficiary.

Contributions:

- You decide when and how much money to put in, up to the lifetime contribution limit of $50,000 for a beneficiary.
- If you have an RESP with a financial institution, you decide how to invest your money.

2. Family plan

A family plan can have more than one beneficiary. But each beneficiary must be:

- related to the person who opens the plan (for example, your children, grandchildren, brothers and sisters), and
- under 21 when you name them.

Contributions:

- You usually don't have to make a minimum deposit when you open the plan.
- You decide when and how much money to put in, up to the lifetime limit of $50,000 for **each** beneficiary.
- If you have an RESP with a financial institution, you decide how to invest your contributions.

Using the money for education:

- You decide how to divide the funds among the beneficiaries.
- If one of the beneficiaries doesn't continue with their education after high school, the other beneficiaries can still use the money in the RESP.

RESP continued

Transferring RESP money among your children. You can transfer money between individual RESPs for siblings without any tax penalties. And, you do not have to repay any **Canada Education Savings Grants (CESGs)**. This applies to transfers that take place after 2010. The child who benefits must have been under 21 when the plan was opened.

If your child doesn't continue their education after high school, you have options. But there may be financial costs and tax consequences -- 4 options exist:

1. Keep the RESP open – your child may decide to continue their studies later
2. Transfer the money to another beneficiary
3. Transfer the money to your **RRSP. Need to have the contribution room.** Can transfer up to $50,000 tax free**.**
4. Close the RESP

TFSA – Tax free savings accounts

Another Canadian Investment account option in which income, whether it's interest, dividends or capital gains, are not taxed, even when withdrawn. This tax-free compound growth means that your money grows more quickly inside a TFSA.

Contributions:

The annual contribution limit for 2016 is $5,500. Previous contribution limits were $10,000 for 2015, $5,500 for 2013 and 2014, and $5,000 for the years 2009 to 2012. The 2017 limit will be $5,500. The Government announces, in the Federal Budget each year, if contributions will rise. In addition, you can carry forward unused contribution room indefinitely. Investments that qualify for a TFSA:

- Cash
- Gold and silver bars
- GICs
- Savings bonds
- Treasury bills (T-bills)
- Bonds (including government bonds, corporate bonds and strip bonds)
- Mutual funds
- ETFs(exchange traded funds)
- Equities (both Canadian and foreign stocks)
- Canadian mortgages
- Mortgage-backed securities, and
- Income Trusts
- Precious metals

IMPORTANT NOTE: As the TFSA program was created after the 2008/09 financial crisis, many Canadians have a **unusual expectation** that TFSAs should not fall in value as there has not been a BEAR MARKET since that time. To best understand how to preserve your TFSA gains, with a Safety First approach, please use the Wealth Professional Locator at the bottom of each webpage to connect with a Trusted Wealth Professional. These professionals have managed assets through Bear Markets and to some extent, periods of rising interest rates.

RDSP – Registered Disability Savings Plan

The Registered Disability Savings Plan (RDSP) is a Canada-wide registered matched savings plan specific for people with disabilities. Here are some basics:

- For every $1 put into an RDSP, the federal government can (if your family income is below $87,123) contribute up to $3! This is the Canada Disability Savings Grant.
- For people living on a low-income (less than $25,356), the federal government will put in $1000 each year for 20 years! This is the Canada Disability Savings Bond.
- For people living on an income between $25,356 – $43,561, they can still receive a partial bond.
- Some Provinces also provide grants in addition to these plans as well.

Once you have decided to potentially open a Registered Disability Savings Plan (RDSP), you must find out if you are eligible, and what is required:

1. become eligible for an RDSP
2. open an RDSP
3. manage your money

There are two groups of people who can open this account:

1. Individuals with disabilities who are opening an RDSP for themselves, and;
2. Families or friends who are opening an RDSP for their son/daughter/friend with a disability. The main part of the guide speaks to individuals and the boxes are specific to family and friends, but all the information is important

Who handles RDSPs?

Canadian Banks and Insurance companies handle these. Mutual and Segregated funds, most likely, will be the investments recommended. Other Advisors tend NOT to offer this account.

IPP – Individual pension plans

An IPP is a registered pension plan normally established for a single participant, and designated specifically for business owners or key employees. This is a **GREAT** retirement plan **if proper tactics** are utilized.

The benefits of an IPP are:

- Allows for substantially **higher contributions** than those permitted under an RRSP.
- **Contributions and costs related to an IPP are tax deductible and paid for by the company**.
- Possibility to **contribute for recognized years of service prior** to the establishment of the IPP.
- At retirement, amounts continue to grow free of taxes if the annuity is paid out of the plan.
- In cases of plan termination, employment termination or retirement, the surplus can belong to the participant, and it is not taxable as long as it is not withdrawn.
- Upon retirement, the surplus can provide additional income to the participant. Can transfer to a Life Income Fund LIFs
- Possibility to modify the IPP provisions in order to maximize the benefits for the following situations:
  1. indexation of the annuity,
  2. early retirement without reduction, and
  3. bridging benefit.

  The funding of these benefits (known as ‘Terminal Funding’) results in an extra contribution, which is also tax-deductible for the company.

RCA – Retirement Compensation Accounts

Retirement Compensation Arrangements (RCAs) are defined under subsection 248(1) of the Canadian *Income Tax Act*, which allows 100 per cent tax-deductible corporate dollars to be deposited into an RCA, on behalf of the private business owner and/or key employee.

No tax is paid by the owner/employee until benefits are received at retirement.

Contributions to an RCA should not exceed what is required to fund the 'entitlement' under the Generally Accepted Guidelines for pensions, which are:

"a normal level of benefits would be the same benefit provided under a registered pension plan without regard to the Revenue Canada maximum. This would be 2% x years of service x final three-year average earnings or about 70% of pre-retirement income for an employee with 35 years of service." (CRA Roundtable discussion, 1998).

We will defer to other video on this site for further explanation.

Canadian Investors' Course

IPP's and RCA's an amazing tax saving retirement plans that may offer you huge advantages over traditional plans for Business Owners**.**

Medical Professionals that have been incorporated should consider creating an IPP. This is an account that should be managed by a Trusted Wealth Professional as **Rules- Based Investing** mirrors the Prescribed Growth Rate mandated by the IPP enactment. This is very important as the Business Owners section of this website has detailed information and additional presentations.

Please enter your **Postal Code in the entry box** at the bottom of this page to find an IPP and/or RCA specialist in your area.

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To connect with a local Wealth Professional, please enter your postal code on the website listed below.

www.TrustedWealthProfessionals.com