*Compliments of* **Dehoney Financial Group**

THE NEWSLETTER OF MONEY MANAGEMENT AND FINANCIAL PLANNING IDEAS

# Planning Ahead

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Many of us see fall as a time to get back to business. Summer's over, the kids are back in school, and it's time to get serious about life after the holidays.

This is also a great time to review your finances. As the second half of 2011 brings more uncertainty, it's time to make sure you're on the right track. There have been some substantial changes in perceptions of the economy and financial markets in recent months.

We're here to help you navigate whatever the future brings. Let's talk about your financial priorities and the steps you can take for a bright future.

FOCUS ON INSURANCE

## The tax-saving benefits of life insurance

**If you've already contributed the maximum to your Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA), there are other ways to generate tax-deferred investment income. The fact is you may need to accumulate more savings to retire in the style you want, and when you're saving for the long term, you'll want to invest in a tax-advantaged way.**

Though not commonly seen as a tax-efficient investment, consider Universal Life insurance, which has two benefits for you: life insurance and a tax-deferred investment account.

First, the obvious: because it's life insurance, it will serve to meet your estate planning needs because both the death benefit and accumulated investment portion are tax-free to your beneficiaries.

We can build up your investments within your Universal Life plan by making deposits in excess of the cost of the insurance subject to certain limits, and let the investments grow tax-deferred until you make a withdrawal. You could then use these investments to supplement your income in retirement.

Alternatively, you could arrange annual loans from a financial institution using your policy as collateral. A loan is not considered taxable income. On death, the loan can be repaid from the proceeds of the insurance policy.

Most Universal Life policies give you a wide range of investment options, including Canadian and foreign equity index investments, balanced, bond, and money market mutual funds, and guaranteed interest investments. As time passes, we can adjust the holdings to meet your changing insurance needs and investment goals.

Let us show you how the tax attractiveness of life insurance can enhance its value as an estate planning and wealth management tool. ■

# Two ingredients for successful investing in one package

MUTUAL FUNDS

**Investing internationally and holding a diversified mix of assets in your portfolio are two of the key steps to successful investing. However, it's not always easy to know where to invest or to make individual investments around the world. A person may have limited access to markets outside North America and to the detailed information needed to make wise investment choices.**

One strategy to consider for instant geographic and asset class diversification is investing in global neutral balanced mutual funds. Here's how this investing strategy can benefit your portfolio.

## Two for one

Global neutral balanced funds offer instant geographic and asset class diversification with a single investment. Global investing opens your portfolio to opportunities and sectors with growth potential. Asset class diversification exposes your portfolio to a wider mix of asset types that can help provide greater potential returns and manage risk.

Global neutral balanced funds are referred to as "neutral" because they're required to have a more even distribution of equities and fixed-income investments than the other two varieties of balanced funds — equity-focused and income-focused balanced funds. As their names suggest, the other two categories of balanced funds lean more heavily in one direction or the other.

By investing in both stocks and fixed-income securities (typically bonds), both inside and outside of Canada, you benefit from investing opportunities for growth while mitigating risk.

## Achieve a fine balance of diversification

Geographic diversification works by spreading investment risk among different countries. The theory is that when one part of the world is experiencing rocky markets, another part of the world may be doing well.

Investors who want to diversify among asset classes and want to do so both inside and outside Canada should consider these funds. To qualify for inclusion in the global balanced category, global neutral balanced funds must follow guidelines dictating how much of their portfolios can be held in Canadian securities and the proportion that can be held in international equities.

Mutual funds are an excellent way to get a degree of international diversification that can be difficult to achieve with individual securities. You benefit from the professional portfolio management teams' knowledge of international investments, as well as their ability to keep a fund's portfolio mix in balance and right for current market conditions.

In addition to geographic and asset class diversification, an investment in these mutual funds enhances your diversification potential through ownership of the many individual investments held by your fund. This would be difficult or impossible for most investors to achieve on their own.

Before investing in a global neutral balanced fund, we should explore the objectives and portfolio composition of individual funds. While they all have a global element, some focus more on North America, while others venture further afield. Individual fund management styles can vary. Some may be "funds of funds"— funds that invest in other mutual funds to meet their investment objectives.

Let's talk about strategies for building you a successful, diversified portfolio, and whether a global neutral balanced fund would work for you. ■

**MONEY TALK**

# Do you have faith in the next generation?

Chances are you're going to pass along the bulk of your wealth to your children. You'll feel better if you know your children will be able to draw the maximum benefit from your inheritance. Unfortunately, for some, there is reason to worry they might not.

In a recent poll conducted by one of Canada's big five banks, only 58% of respondents said they were confident that their children would be able to properly manage the money left to them. But there are steps you can take to provide the information and knowledge your heirs will need to manage the money they receive wisely.

**Knowledge is key.** Your children should have the knowledge and support that will help them put your money to good use for themselves and their families. There is a wealth of books, workshops, and websites that can teach the basics of sound investment management.

**Prudence and planning make it last.** Many parents worry that their adult children will squander an inheritance by spending it away bit by bit, instead of using it wisely to provide for their own futures. Share your insight. You know from your own experience that effective wealth management means focusing on making wealth grow over time, through sound long-term investments, effective tax moves, and a host of other strategies that reinforce wealth accumulation.

**If you need us, we can help.** We can help make sure your adult children are prepared and equipped to handle an inheritance. We can offer guidance, if they require it.

By giving your children financial management knowledge, guidance, and tools, you are helping future generations as well.

You may already have considered how to leave your estate to your children. It's also important to think about how you can help them make the most of their inheritance. We'd be pleased to help you build your faith in the ability of your children to manage the money you provide for them. ■

**WHAT YOU NEED TO KNOW ABOUT...**

# Maximizing education savings

The costs of post-secondary education are rising. A Registered Education Savings Plan (RESP) can help ensure that you and your children cope with those costs.

By making the most of an RESP — including smart investing for tax-deferred growth and eligibility for government grants — we can generate investment returns to help ensure you have enough for your children's education.

**Q: What are the current costs and how much are they expected to go up?**

**A:** Consider this:

- A 2009 study by one of the top five banks in Canada found the total cost of a four-year degree (including living expenses and academic fees) was $77,000.
- For those who lived at home with their parents, the cost was $52,000.
- The study predicted that by 2027 that cost would almost double — to $137,000 for those living away from home and $101,000 for students who stay at home.
- Statistics Canada recently reported that undergraduate students this year paid 4% more in tuition fees than last year, and graduate students 6.6% more.

**Q: How can I maximize the CESG?**

**A:** To receive the maximum Canada Education Savings Grant (CESG), you could contribute amounts annually to an RESP rather than a large sum at the outset; the grant is 20% on the first $2,500 contributed each year, to a maximum of $500 per year.

However, an RESP strategy isn't always cut and dried. If you have a large lump sum available (up to maximum lifetime RESP contribution limit of $50,000), we might explore investing it all to begin earning compounding tax-sheltered returns early. You would forgo some government grant money, but you would immediately begin earning tax-deferred returns. A best strategy for managing the grant would depend on a discussion of your needs and situation.

**Q: Are there any advantages to a self-directed RESP?**

**A:** Flexibility! There is a lot of flexibility with a self-directed RESP, allowing us to take full advantage of the wide range of investments you can hold in an RESP.

We can work with you to make sure your strategy maximizes the savings and investment potential of an RESP, as well as making the most effective use of government grants.

# Is your prescription coverage enough?

**Seniors purchase 40% of the medications in Canada, according to the Canadian Institute for Health Information (CIHI). Because of high costs, more companies are no longer providing health benefits to former employees.**

And despite the fact that seniors are eligible for provincial drug benefits, reports from Statistics Canada show that households with seniors face higher out-of-pocket drug expenses than those without seniors. However, this can be a big issue at any stage of life — whether you're working and have a growing family, or when you're older and need more medical care. That's why it makes sense to start planning for prescription drug insurance.

### Costs on the rise

According to the CIHI, total Canadian drug expenditure is estimated to have reached $31.1 billion in 2010, an increase of $1.4 billion, or 4.8% since 2009. Prescribed drugs represent $26.1 billion of the total. That growth is far in excess of inflation, although spending growth is slowing a little owing to cheaper generic drugs. Between 2000 and 2005, drug spending rose at an annual rate of 8.9%.

### Consider your own coverage

While many of us have workplace drug insurance, it's important to review whether it will cover all your prescription drug needs, now and in the future. Seniors, who are covered by provincial plans, should be aware of their potential shortcomings and out-of-pocket amounts they might be expected to pay.

There are other issues to consider. Your drug plan won't follow you if you change jobs. When you retire, you might lose coverage for yourself and your family.

If you're not covered by a drug plan at work, consider the best private coverage for yourself and your family. As you get older, you want to ensure that your coverage meets your needs in your senior years.

Increasingly, one of the major issues is whether new and expensive drug treatments are covered. With costly drugs being developed for treatment of serious illnesses such as cancer, some people have been surprised to discover these drugs are not covered by employer or government drug plans.

### Let's make a plan for coverage

We need to talk about your existing drug coverage and whether it's enough for you and your family. Together, we can look at ways to make sure you and your loved ones have enough coverage.

For example, we will discuss whether you should be setting aside a portion of savings for drug and other medical expenses that may not be covered, and whether or not your provincial plan will be enough in retirement. If you lose workplace coverage when you retire, you may be eligible for government coverage, but your younger spouse may not be. If you have no coverage, we should explore private insurance plans or other means of meeting drug costs.

Making sure you're covered will not only save money, but free up cash for other financial goals. Let's discuss your strategy for covering drug costs now and into the future. ■



# There's no place like home

FOR MOST OF US, the idea of home care during a major long-term illness is far more attractive than a hospital stay.

According to the Canadian Home Care Association, it's predicted that 35% to 50% of Canadians over age 65 will require some form of long-term care. Receiving that care in the comfort of your home can be a way to recover from a long illness, or it can include palliative care, but no matter what the reason might be, home care is costly. That's why, if you would prefer home care should the need arise, we should begin planning today to meet those costs.

The answer for most of us is long-term care insurance, which provides funds for care at home or in a long-term care facility. It's essential to your peace of mind to know that your home care coverage is sufficient.

The level of home care coverage offered by insurers differs. Some policies might offer less financial aid for home care than for institutional care. We should also consider how much home care is likely to cost where you live, since costs vary throughout Canada.

It's also important to be realistic. Unfortunately, many communities have a shortage of qualified home care workers. If access to home care is important to you, we need to keep that in mind when planning your future.

Together, we can ensure that if you need it, home care will be affordable for you. ■

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