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the ZLC Financial

OUTLOOK

A newsletter for clients and friends

spring 2008

Tax Free Savings Account (TFSA)

A New Way to Save for a Rainy Day!

The 2008 Federal Budget introduced a big treat for investors by proposing a brand new savings plan that allows us to save money for retirement, or any other purpose, on a completely tax free basis.

Who is Eligible?
Effective 2009, any Canadian resident who is 18 or older can make a deposit to a TFSA.

What are the Contribution Limits?
The initial year's contribution limit is $5,000, with future annual limits indexed to inflation, and rounded to the nearest $500.

Like a Registered Retirement Savings Plan (RRSP), if you don't contribute the maximum amount each year, the unused amount is carried forward so you can use it in the future. However, unlike an RRSP, if you withdraw money from your TFSA, the amount you take out will be added back to your contribution room, so you can contribute it again in the future.

Be careful though. If you contribute more than your limit, you will have to pay a penalty tax of 1% per month on the excess amount.

What are the Tax Advantages?
Deposits to a TFSA are not tax deductible, but here's the big advantage: all your income, capital gains, and dividends are not taxable.

Also since earnings (and withdrawals) are not included in your taxable income, your income tested government credits and benefits like Old Age Security benefits, Old Age Tax Credit, GST credit, subsidized nursing home care, Guaranteed Income Supplements, etc. will not be affected.

What Can You Invest In?
Qualified investments for a TFSA are the same as for RRSP investments, including mutual funds, public securities, bonds, and term deposits.

Can I Borrow to Make my Deposits?
Yes. Also, investments in a TFSA can be used as collateral for a loan. However, since the income earned in a TFSA is not taxable, any interest you pay on money borrowed to make a TFSA contribution is not tax deductible.

Does Income Attribution Apply?
Normally, if you give money to your spouse or common law partner, you still have to pay tax on the income earned on that money. However, if your spouse or common law partner invests the money in a TFSA, this 'attribution' rule does not apply.

What Happens Upon Death?
On death, most assets are considered to be sold at fair market value for tax purposes. If your assets pass to your surviving spouse or common law partner, then the tax is deferred.

With a TFSA, there is no deemed disposition (sale) at death, but the ongoing investment income and gains will be taxable, unless you name a surviving spouse as the "successor." In that case, your TFSA will maintain its tax exempt status, and will not affect your spouse's own TFSA contribution room.

How Does this Compare to a RRSP?
So, assuming your money is limited, which do you choose? A TFSA or RRSP?

Below is a comparison of a TFSA deposit of $5,000, and an RRSP deposit of $8,881 ($5,000 net, after receiving a 43.7% tax refund). Both assume earnings of 7% for 20 years:

COMPARISON:	TFSA Accumulation	RRSP Accumulation	RRSP After tax (43.7%) on withdrawal
Initial Deposit	$5,000	$8,881	$5,000
Year 10	$9,836	$17,470	$9,836
Year 20	Net $19,348	$34,367	Net $19,348

While the two plans are meant to be taxed the same, the example shows that this only occurs if your tax rate is the same when your money is withdrawn, as when you deposit it. If your tax rate is higher when your money is withdrawn, then the TFSA makes more sense. Alternatively, if your tax rate is lower when your money is withdrawn, then the RRSP is the better choice. However, if you consider that the TFSA withdrawals are not included in income tested government benefits and credits, then the TFSA could be the better option.

Editor: Heidi U. Pullem, CFP, CDFA

Reasons to Love Market Volatility

As painful as market volatility can be, there are some very good reasons to love it. Contrary to popular belief, not everything about market volatility is bad.

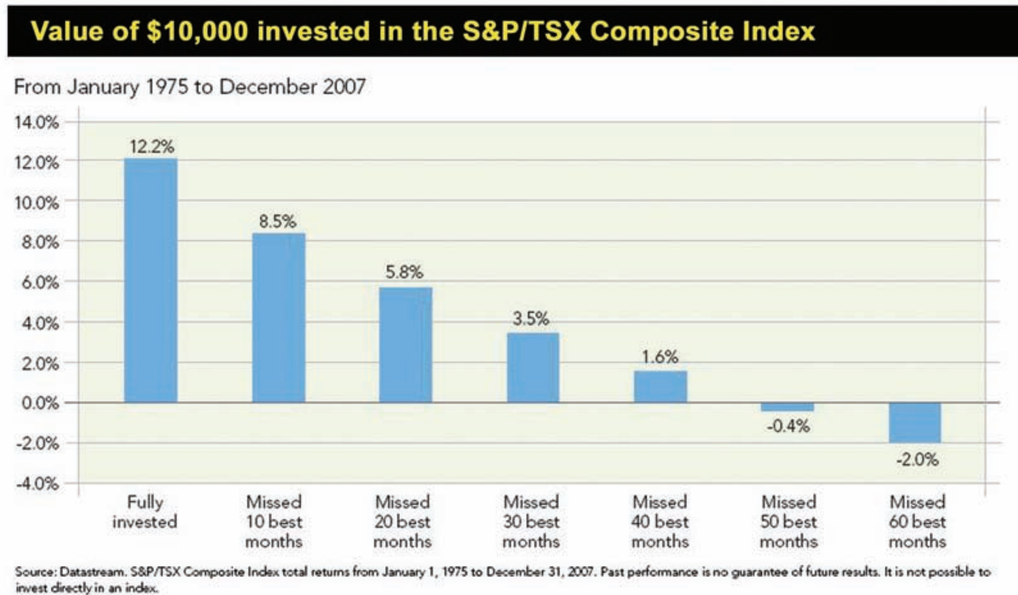
Bear (down) markets are big sales. If you're like most of us, you probably don't go to the store and ask to see only the most expensive items. You likely read the weekly flyer and look for bargains. That's not much different from the way you should approach investing. During periods of market volatility, there are opportunities to buy strong, well managed companies, with bright futures, at artificially low prices.

Whenever the stock market experiences a long running Bull (up) market, like we have just enjoyed over the past few years, many investors lose their perspective about risk. During the good times, we often mistake having a high risk tolerance for being comfortable with unlimited upside potential.

Understand your risk tolerance, or just how much volatility you can stand. With the market volatility we have experienced over the past several months, how have you reacted when your investments dropped by 5%, 10% or more? Have you been tempted to buy, sell or hold?

Do you worry about the direction of the stock market or overall economy? Do you wonder if future political or economic events will derail your financial plans? If so, it might be time to rethink your asset allocation, choose less volatile investments, or buy investments with principal or income guarantees.

However, if you are generally optimistic about the future because you have a sound, well-considered investment strategy that fits with your personal goals, your portfolio is probably aligned with your risk tolerance.



Successful investors select superior, conservatively managed businesses, and hold those businesses for the long term (5 years or more). And they never forget to always diversify, diversify, and diversify.

Regularly compare your current mix of investments to your ideal mix. Rarely is it a good idea to sell an investment as a knee jerk reaction to a downturn, but rebalancing a portfolio according to your plan can improve your returns over the long run.

Realize that it's sometimes difficult to ignore hot tips, and the good and bad news market reports. Successful investors learn to filter out the hype. Don't buy or sell based on what you hear. Do your homework, and make decisions based on fact, not rumour.

Market volatility forces us to think about what we're really doing when we invest. We save and invest to accomplish significant life goals like educating our children, retiring comfortably and enjoying good care in our later years, etc. These goals never change, regardless of what the market does in the next few months.

Market timing can be dangerous to your long term financial health, and can often result in lower returns than if you simply ignore market volatility altogether. Avoid jumping in and out of investments according to the latest trend or market data.

Since many of us don't have the time, resources, or interest, to take care of our portfolios every day, work with your ZLC Associate and use their knowledge and experience to maximize your opportunities, and avoid unnecessary risks. That's the real secret to investment success.

What's New with Registered Education Savings Plans (RESPs)?

The Federal Budget for 2008 announced that families now have more years to contribute to their children's RESPs.

The amount of time an RESP may remain open has increased from 25 years to 35 years. The proposal also extends the maximum contribution period by 10 years.

Changes will apply to all existing and future RESPs, effective January 1, 2008.

The maximum lifetime contribution limit of $50,000 has not been raised, nor have the rules for the Canada Education Savings Plan Grant eligibility.

TRAVEL INSURANCE: Don't leave home without it!

Whether we're going to another province or the US for a few days, heading to the Caribbean, or travelling overseas, unexpected emergencies can happen prior to, or during our trip.

Government health insurance plans typically cover only a limited portion of medical costs once we leave B.C. Yet almost two-thirds of us don't pack travel insurance for trips within Canada, and over half of us think our provincial and/or employee health insurance plans will cover all our medical expenses when traveling within Canada.

In fact, government health insurance plans typically cover only a limited portion of medical costs once we leave home. It's important that we understand what extra travel insurance we need to fill any gaps, such as costs for air ambulance services, x-rays, crutches or emergency prescriptions. In some cases, these out of pocket expenses can add up to thousands of dollars.

Also, we might have to pay up front for certain medical costs or doctor's services, and later seek reimbursement from our plans. The provision of prescription drugs outside hospitals falls within the range of 'additional benefits' that provinces may include under their respective health insurance plans, but on their own terms and conditions. Generally these are not portable outside B.C.

When buying travel insurance, whether for travel within Canada or for trips abroad, you need to be aware of the following potential limits or hidden restrictions:

- **Deductibles.** Does the plan have a deductible that you have to pay for each claim?
- **Preferred hospitals.** If you need medical help, will the insurance company demand that you visit their preferred hospital?
- **Pre-existing conditions.** Does the plan deny benefits if your medical emergency arises because of a pre-existing condition or health problem you already had when your trip started?
- **Health standards.** Does the plan require you to determine whether you meet the insurance company's health standards before being approved? Some travel insurance policies charge a higher premium, depending upon your age and any health problems. A medical questionnaire may even be required in some situations.
- **Cancellations & Interruptions.** Since travel plans are often non-refundable, cancellation and interruption insurance is advisable to protect your travel investment in case you have to cancel your trip, come home early, or stay later at your destination. This type of insurance should be purchased within 48 hours of booking your trip.

Other tips for a safer and healthier holiday:

Keep credit cards, traveller's cheques, passports and other identifications in several different locations. Carry only identification that you will need during your trip. Make several photocopies of the main information page of your passport - carry one with you, separate from your passport and another one with someone staying at home.

Take advantage of hotel safety deposit boxes and use pockets or handbags only for items you will need frequently.

For international travel, ensure that your immunizations are up to date. Visit your doctor in advance of your trip to determine if you need any specific medications. Remember that not all medications that are legal in Canada may be legal in the country you are visiting. Check in advance to be sure, and if you are carrying prescription drugs, carry a copy of the prescription. It is also advisable to bring an extra supply of your medication in the event of loss or travel delays.

If you do have travel insurance, be sure to carry your policy with you, as well as phone numbers to call in the event of an emergency. Make sure your policy includes travel assistance.

Applying is as easy as calling your ZLC Associate, who will help you choose the plan that's right for you.