



Finance Forum



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The sun is out, the grass is green, which could only mean one thing – Golf Season is upon us! Please join us for our 1st Annual Georgijev Financial Group Charity Golf Tournament on August 30th at Greenhills Golf Club. Proceeds from the event will go to London Health Sciences Foundation and Grace Donnelly Woman’s Health Pavilion. Bring a friend and come out for a GREAT day!!! Call our office for details.

FOCUS ON INSURANCE



Insuring your mortgage? There is more than one option

When you take out a mortgage on property, you’ll probably be offered mortgage life insurance. Should you take it? It’s certainly convenient — premiums are usually deducted automatically from your bank account along with your mortgage payment.

But before making a decision, look at all your options. You may find that other types of life insurance will not only cover the mortgage debt but will also offer more value and flexibility in meeting your overall insurance needs.

From the lender. Mortgage life insurance is designed with a very specific purpose — to pay off your mortgage in the event of your death. The institution that holds the mortgage is the owner and sole beneficiary of the policy.

But even though your coverage gradually shrinks over the years as you pay down the mortgage, your premiums

won’t change. In addition, the lender can terminate your coverage if you change lenders or move.

For more flexibility. A personal life insurance policy — whether permanent or term — can offer much more flexibility. You get to choose the beneficiaries, and they can use the death benefit for whatever need seems most pressing at the time. They might choose to pay off the mortgage, or they might instead use the funds to replace income, pay other debts, invest, or pay for post-secondary education.

A personal life insurance policy is also portable, remaining with you if you move or change lenders. And your coverage stays the same as your mortgage decreases.

Professional advice can help you protect your family home while also offering your loved ones continuing security over the long term. ■

The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

FINANCIAL PLANNING

Getting married? Start off right

When arranging their nuptials, it's not unusual for happy couples to get so tied up in wedding plans that they forget about financial planning. This can be a serious oversight, with potentially costly implications.

It's always wise to document the wealth of both parties — fully disclosing assets and debts — before entering into the marriage. As well, taking the time now to agree on short-term financial goals and discuss long-term ones can help reduce disagreements later. And coordinating group insurance coverage under plans at work may save money and optimize protection.

Ideally, you and your spouse-to-be should explore your financial life together with a professional. ■



TAX PLANNING

New definition of disability could reduce taxes

The 2005 federal budget contained several provisions aimed at making it easier to qualify for the disability tax deduction. For example, eligibility is now based on the total effect of all conditions. The Canada Revenue Agency has implemented those changes and published a new plain-language guide (RC4064) that tax advisors call a "must read" for those with a disability or those who care for someone with a disability. ■

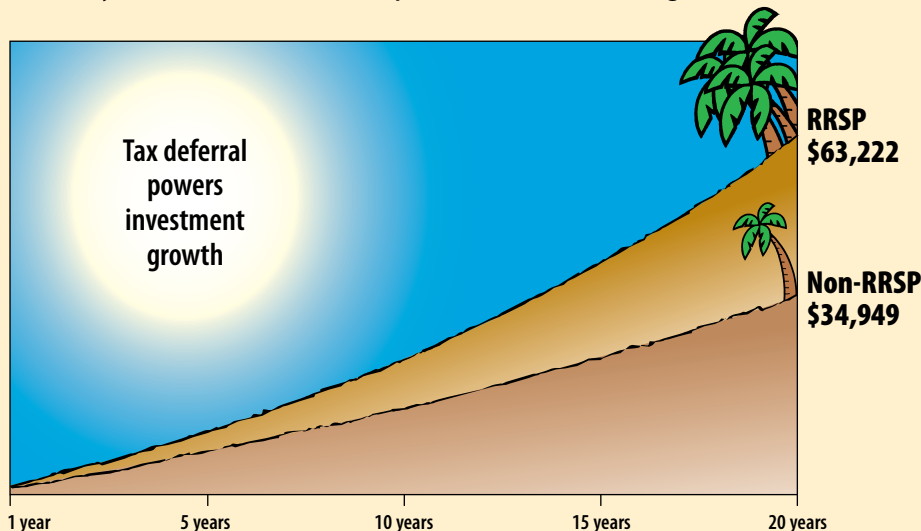


EYEOPENER

graphic evidence of how investing works

Why your RRSP will take you higher

FOR MOST CANADIANS, a Registered Retirement Savings Plan (RRSP) is by far the easiest, most effective way to build wealth. The main reason: The plan earns income on money that would otherwise be siphoned for tax in a non-registered account. ■



Based on monthly deposits of \$100 earning 6% per year over 20 years and a marginal tax rate of 40%. Assumes RRSP contributions generate a tax refund that's reinvested in the RRSP. For illustrative purposes only. Actual returns may vary.

TAX DEDUCTIONS

Moving? Claim these tax deductions

You can claim tax deductions for a wide range of expenses if you move at least 40 kilometres closer to your place of work. (Home-based self-employed people get the same break if they move at least 40 km.) For example, you may be able to deduct up to \$5,000 of the cost of maintaining a vacant home while trying to sell it. Other eligible expenses include the cost of replacing a driver's license and other legal documents, as well as utility connection and disconnection fees. For complete details, read Form T1-M on the Canada Revenue Agency Website at www.cra-arc.gc.ca. ■

Your mutual fund profits will be taxed — here's how

Mutual funds offer investors access to a widely diversified professionally managed portfolio in a single investment. But because they hold a wide range of assets, mutual funds generate different types of distributions that are not taxed uniformly. For unitholders, this can be confusing. Here's what you need to know.

What and when

With the exception of money market funds, which are designed specifically to generate interest income, most mutual funds will earn a mixture of interest, dividends, and capital gains. Funds that hold investment trusts may also generate return-of-capital distributions.

Distributions are passed through from companies to unitholders and taxed in their hands. Distributions may be monthly (for money market funds), or they may be quarterly or semi-annually (for bond funds, dividend funds, and balanced funds). Capital gains are usually distributed annually, at the end of the year.

Tax treatment

Investment income earned by the fund retains its character when distributed to unitholders. In other words, outside of registered plans, distributions of interest are fully taxable at the unitholder's marginal rate, while capital gains, Canadian-source dividends, and return of capital are taxed less heavily.

Note that distributions are taxable even if you receive them in the form of additional fund units rather than as cash. Inside registered plans, of course, distributions have no immediate tax implications.

Switching without tax

A capital gain (or loss) may also occur when you sell or transfer fund units for more (or less) than you paid. There is an exception, however, with corporate-class funds. These funds typically include a number of different offerings under a single corporate issuer. Switching from one

to another doesn't trigger a capital gain or loss if you stay within the corporation.

Name or misnomer?

Remember, a fund's name may not always provide a clear indication of the types of income it distributes. Some dividend funds, for example, hold a large proportion of common shares and may generate significant capital gains. And increasingly, "income" funds are relying on income trusts that generate return of capital.

The best way to understand the distribution profile of your funds, and those you may be considering, is to seek professional guidance. ■



RRSPs and other investments work better together

Both registered and non-registered investments have a role to play in helping you meet your goals. Saving for retirement may be your most important goal, but it's probably not the only reason you're investing. Some of your goals are likely to be shorter-term, such as buying a car or taking a family vacation.

When your registered and non-registered investments work together effectively, your whole portfolio becomes stronger — helping you to realize your goals. Here's how.

Tax treatment

Inside a registered plan, investment earnings accumulate tax-free. Upon withdrawal, they are fully taxable at your marginal rate, just like employment income.

Outside of registered plans, the tax treatment depends upon the type of investment income that is generated:

- **Interest.** This type of income is fully taxed every year.
- **Dividends.** Those from Canadian corporations (but not foreign companies) qualify for a tax credit that substantially reduces the tax due.
- **Capital gains.** These are realized, or become due, when you sell or transfer an investment for more than you paid for it. Only 50% of the increase in value of the investment is taxable. In addition, capital losses can be used to offset taxable capital gains.
- **Return of capital.** These distributions, which essentially give back a portion of your initial investment, are not taxable. They are subtracted from the asset's adjusted cost base, resulting in a higher capital gain (or a lower capital loss) when the asset is eventually sold or transferred.

Portfolio strategies

Here are some strategies that could help make your registered and non-registered assets work together effectively.

Allocate wisely. When you have both registered and non-registered assets, it may be more efficient to hold high-taxed investments that generate interest income inside your RRSP, where they can be fully sheltered. Investments that generate tax-preferred dividends, capital gains, and return of capital may be better suited to your non-registered account. Inside an RRSP, the tax benefits don't apply.

Buy and hold. Capital gains are taxable only when realized. By adopting a buy-and-hold approach with your non-registered equities, you can defer taxation for years and even time the sale so that it falls in a year when you have little other income. Of course, buy-and-sell decisions should never be based solely on the tax implications.

Professional advice can help you build a portfolio that maximizes the benefits of both registered and non-registered investments. ■

The more you have, the more you have to protect

People sometimes assume that the need for life insurance peaks when they have a young family and then begins to wane. But that's not necessarily true.

Not only does the need for protection not disappear as you get older, in some cases it may become greater. Here's why.

A higher standard of living

Life and disability insurance can help your family maintain their standard of living if you die or become unable to work because of illness or injury. And as you get older, your risk of both health problems and premature death increases. At the same time, your standard of living is likely to increase.

Perhaps you'll move from a starter home to a larger house with higher maintenance costs, or you'll buy another vehicle. Also, as your kids get older, expenses often go up, not down, with costs like sports and activity fees and, of course, post-secondary education.

More income to replace

One of the primary functions of life and disability insurance is to replace lost income. Naturally, as your income rises, you'll need more insurance coverage to keep pace.

Otherwise, your family might experience a significant drop in income if you were to pass away or be unable to work for an extended period. This would have not only an immediate impact on your family's lifestyle, but could also affect your financial progress towards longer-term goals, such as retirement.

Greater tax liabilities

With the passing years, doubtless you'll work hard to build your assets. It's likely that your Registered Retirement Savings Plan (RRSP) and other savings will grow. Moreover, you may buy a recreational or rental property, or perhaps start or expand a business.

As you acquire more assets, and as they appreciate in value, the potential capital gains tax exposure that arises at death also increases. Sufficient insurance coverage will ensure that the tax burden won't fall on your family.

Health risks increase with age

It's an unfortunate fact of life that as you get older and reach your peak earning years, you also face a growing risk of contracting a chronic or age-related health problem. There are two types of insurance that can offer you some important financial protection:

- **Critical illness insurance** is designed to pay you a one-time lump sum in the event that you experience a heart attack, stroke, life-threatening cancer, or other serious illness covered by the terms of your policy.

- **Long-term care coverage** provides financial support if you need care in your home or in a long-term care facility.

These are just a few examples of how your insurance needs can increase as you get older and move past your "young family" years. Professional advice can help you find the protection you need for both your growing family and your growing assets. ■

Blended families need precise estate plans

IF YOU ARE a parent in one of Canada's 500,000 blended families, estate planning can be particularly complex. Here are some points to consider.

Keep your will up-to-date. In most parts of Canada, your will becomes void once you marry or remarry. It's crucial to make a new one, or your children from a previous relationship may not be entitled to an inheritance.

Make strategic use of life insurance. Both you and your spouse need life insurance to cover debt, replace income, and handle final expenses. But life insurance can also be used to equalize inheritances. For example, you might choose to leave your house and retirement assets to your new family and the insurance proceeds to your children from a previous marriage.

Keep beneficiary designations current. If the beneficiary named in your registered plan or insurance policy is your ex-spouse, make sure that's what you still want.

Name a guardian. Think carefully about naming a suitable legal guardian (tutor, in Quebec) for children from a previous relationship, especially if your ex-spouse lives far away or has died.

Consider a trust. Establishing trusts in your will helps provide control, guidance, and direction in the distribution of assets to your children.

With professional advice, you can ensure that all your children will have the financial protection they need. ■

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