The Francis Forum

Summer Edition 2014

Duane Francis, CFP, CIM, CPCA, FCSI, CIWM
Portfolio Manager/Senior Financial Advisor
Life Insurance Advisor

Mandeville Private Client Inc.
1565 Carling Avenue, Suite 610
Ottawa, ON K1Z 8R1
Telephone: (613) 728-0101
Fax: (613) 728-4075
Email: dfrancis@mandevillepc.com

Janet Nunn
Executive Assistant
Telephone: (613) 728-0101 Ext.228
Email: jnunn@mandevillepc.com

INSIDE THIS ISSUE

How Much of your Income Should You Be Saving for Retirement?

What percentage of our income should we be socking away for retirement? The conventional wisdom has been 10 per cent. Other answers include "as much as you can" and the perennial favourite: "more." All three answers aren't good enough.

Is it a percentage of gross income before tax? Or is it based on net income, after income taxes have been factored in? And isn't it 15 or 20 per cent these days? And should it be into an RRSP or a TFSA? Do you factor in any pension deductions at work?

The answer to any question involving money and time will depend on a wide number of variables, many of which are unknowable in advance. How much will you spend? How fast will your investments grow? How long will you live?

One of the biggest mistakes investors make is not automating their savings. I say this because time after time, the people who have set up an automatic transfer to a savings account or investment portfolio are almost evangelical about how it changed their lives.

Am I being dramatic? No. Imagine if you were asked to pay your income tax in one lump-sum payment at the end of the year instead of having it deducted at source from each paycheque. If we had to come up with tens of thousands of dollars at the end of the year, many of us simply wouldn't be able to cut that cheque. It's only because it's taken automatically on a regular basis that we're able to pay our tax bills. Conversely, automatic contributions to long-term savings add up over time. There's almost nothing to lose in setting it up.

With the average debt-to-income ratio at a record high, many are wondering if they should instead focus on paying down debt before worrying about saving for the future. Without a doubt, high-interest debt on credit cards is a higher priority than saving for the future. But those with a more responsible debt portfolio are still wondering the same thing.

Those lacking the stomach for moderate to aggressive investment portfolios might take comfort knowing that many Canadians in the past, and in the future, focus on accelerating their mortgage repayments first and then turn to aggressive saving later on. When the hair starts to thin, the children become self-sufficient, and retirement starts to feel like a less abstract idea, it's not unheard of to see the thousands of dollars that were being put into a mortgage payment then get directed to retirement savings. The trade-off is that if you wait, saving 10 per cent of your income would be like only making the minimum payment on a credit card balance. You would need to be prepared to sock away 30 per cent or more if you delay saving for retirement.

This article continues on the pages that follow. As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely,

Duane

Continued from Cover Page

Another consideration is that your time horizon until retirement would be shorter, which can affect how much risk you can accept in your portfolio. And since one of the reasons you may have focused on accelerating debt repayment first was due to a more conservative risk profile, the rate of return projections may be lower for an older, more conservative investor than a younger, more aggressive one.

If you are paying fees for financial advice, you should ideally be working with a financial planner. A financial plan will provide a ballpark estimate to the question of how much to save based on a long list of variables. Importantly, it can be subject to a number of “what if” scenarios. What would happen if your investments grew at a rate just barely above inflation? What if you live until 100? What would the effect of private nursing costs look like versus a public retirement residence?

While the idea of a perfect financial plan involves having the last cheque you write being the only one that ever bounces, the financial planning process is an ongoing and ever evolving one. One cannot simply arrive at a retirement expense projection for the year they turn 65 and then adjust for inflation thereafter. Just as expenses change during a working career, so too will they change in retirement.

But while saving for retirement is about mitigating the risk of running out of money down the road, the true financial planning process will identify risks that may be present between now and retirement. Are you one of those families that have procrastinated on wills, powers of attorney and insurance? Are you focused on not running out of money for decades in retirement, but couldn’t last four weeks of unemployment today?

The answer to the question of how much one should be saving is often seen as a non-answer: It depends. A financial plan will help find your number, but until you get one, the greater plan would be 10 per cent or “as much as you can.” And then, maybe just a little more.

http://www.theglobeandmail.com/globe-investor/personal-finance/retirement-rrsps/how-much-should-you-be-saving-for-retirement-conventional-wisdom-has-been-10/article17551317/

A Note on Tax Planning – T1013 Authorization

Tax planning and financial planning are both important not only for businesses, but for individuals, as well. The two forms of planning also have a direct relationship. The reason behind this is that tax planning forms a vital part in an effective financial plan. Gaining a complete understanding on the influences of taxes on a person's overall financial well-being is extremely valuable, especially for people who are now self-employed.

Always ensure your financial planner has a copy of your most recent Notice of Assessment and that they have T1013 Authorization in order to ensure they are able to identify any tax-minimization strategies you are able to take advantage of.

What is Tax Planning?

Tax planning involves the process of logically analyzing a financial plan or situation based on a tax perspective, as a means of aligning financial objectives with the developed tax efficiency plan. It aims to identify solutions for accomplishing the elements used in a financial plan. This is usually done in a tax-efficient way. Tax planning also allows financial plan elements to interact with each other effectively, with an aim of reducing tax liability. The whole tax planning process also covers a variety of aspects including the right timing for income, purchases and expenses, selection of retirement and investment plans, status of tax filing, and common tax deductions.

Why is Tax Planning Important?

Effective tax planning strategies work in legally reducing your tax liabilities. An effective taxation plan can also protect your personal and business assets while keeping your tax liabilities to a minimum. It optimizes your working capital, and strengthens your financial efficiency. It also supports the spreading of taxable income among different family members. It is also useful in taking full advantage of all tax exemptions legally available, and other permissible tax rebates and deductions. It also supports the optimum use of all forms of income, especially those with tax exemptions.

http://taxes.answers.com/tax-planning/why-is-tax-and-financial-planning-important

Why Good Passwords Are Important

Let's be honest. Passwords are just plain annoying, a necessary evil as some would say. Unfortunately, they are the first line of defense that we have to protect ourselves from hackers and others who have ill intentions. If a hacker cracks your password, he or she can wreak all kinds of havoc, from defacing your website, to accessing your bank accounts, or even using your information to set up new credit card accounts or apply for loans.

Fortunately, it isn't that hard to create a good, memorable password. With a few simple ideas you can keep those hackers at bay. In this Tip of the Month, we will tell you how to make a strong password, what to avoid, and how to make it memorable.

What makes a good password?

- It should be easy to remember (You don't want to write it down.)
- Use at least 8 characters (the longer the more secure)
- Use a mixture of characters (most are case sensitive):
    - Upper case letters (A – Z)
    - Lower case letters (a – z)
    - One or more numbers
    - At least one or two special characters, such as a $ or * or !

What to avoid in creating a password

- **Names of any kind.** These include your login name, your own or a family member's name, a pet's name, or any proper name.
- **Any kind of personal information**, specifically your phone number, address, birthday, license plate number, or anything else someone could guess or look up about you. It also includes sensitive information such as your ATM PIN, or social security number or credit card number.
- **Words contained in the dictionary or foreign language dictionary.** By all means, never, ever use the word password or Password and avoid words that can be found in the dictionary.
- **Sequences or repeated characters.** Avoid sequences or repeated characters such as 22222 or 12345 or abc123 or asdfg.

Other good safety practices

Don't give hackers free reign over your valuable information. Make them work hard and end up empty-handed.

- Never write your password on a sticky and put it on your monitor or under your keyboard.
- Don't ever share your password with anyone.
- Don't use the same password for all the sites you visit.
- Change your password periodically. The more important the information you are protecting, the more frequently you should change the password.
- Always change the default system password. Never leave it as the default.

Make it memorable

Now that you know how to make a good, strong password, how do you remember it without writing it down? One favorite trick is to use a pass phrase. You can take a favorite quote, a line from a song, or a Bible verse and use the first letter or each word and possibly change a few of the letters with characters.

For example, you could take the first part of a Bible verse such as John 3:16 "For God so loved the world that he gave his only begotten son" and make it: j316fGsLtw*. Or Benjamin Franklin's quote "A penny saved is a penny earned." That password would be ApsiApe*BF.

How can hackers break your password?

There are many ways that someone can figure out your password. Here are a few examples:

- **Brute Force attack.** Given enough time and computing cycles, hackers can work through enough different combinations of characters to find your password.
- **Dictionary attack.** Words in a dictionary are tried until they figure out what one you have used.
- **Personal attacks.** Hackers can try personal information such as your name, family member's name, or pet's name or your phone number or address.
- **Insider attacks.** Someone at work, maybe a co-worker, a visitor, or cleaning staff, can see it attached to your monitor or next to your keyboard.
- **You give it to someone.** Once you give it away, you don't know what they'll do. They may write it down next to their monitor.

http://www.katalystsolutions.com/newsletter/issue-1/39-keeping-safe-the-importance-of-good-passwords.html

Estate Planning: How to Approach the Subject with your Parents

Talking to Your Parents about Estate Planning

Many surveys report that the majority rarely discuss estate planning with their parents. Adult children have no idea of what their parents would want them to do with their wealth if Mom or Dad became incapacitated. There are three basic reasons why people write wills or create trusts:

- They want to pass their assets on to their family members rather than let government take over their assets.
- They want to keep peace in the family by identifying who gets what before they die.
- They want to plan ahead for the costs of incapacity, including the care of their spouse.

These are all very noble and smart reasons for your parents to write a will, create a trust, and engage in smart estate planning. But what is your role in all of this? If your parents have saved and invested wisely, you really don't have much of a role. If they have not, and you're concerned that they haven't protected their assets, you may need to broach the subject with them.
Here are some suggestions on approaching your parents about their estate planning (or lack of it):

Senior Alert

Don't go behind your sibling's back to assist your parents in their estate planning. Your influence— though well meaning—may be interpreted as greed by your brother or sister. If you value your relationship with your sibling, be above board. Fairness is more important to siblings than equally dividing up pieces of the estate. But fairness will be achieved only through open lines of communication.

- Begin the conversation with wanting to understand what your parents want; something like, “Dad, I really want to carry out your wishes, but I need to better understand them. Do you want to pass down property to the family? Do you want to be able to draw down money from your assets to help care for you and Mom? Have you thought about ways to avoid high taxes and lengthy probate?”
- Acknowledge that you fully understand that this is *their* money. Advance planning on their part means that they can keep control. Your goal is to help them keep control—not relinquish it to government or strangers in some courtroom.
- Stay focused on your parents' concerns. This is about them—not your needs or wants. Perhaps they're worried that they'll outlive their resources, or that the kids will fight over the estate and the family will break apart. They may be struggling with finding a fair way of dividing up what they'll leave behind. Rather than confront these issues, they'd rather not talk about them or just plain avoid them altogether.
- If you feel they're uncomfortable talking with you, ask them to see a financial planner.
- One way of approaching the issue more subtly is to share with them your experience of setting up a will or doing your own estate planning. These create an opening to discuss how your parents have addressed or not addressed these issues.
- Share with them an actual story of how someone who didn't have a will caused his or her children to lose a great deal of their parent's hard-earned wealth through taxes and probate.
- If you know of a smart and better way for your parents to leave you money (for example, via a trust) you might try, “Dad, I don't know what you're leaving me, and that's okay, but you might want to consider setting up a trust so that the money will be protected in case someone should sue me in my work.”

Money has long been at the root of many a divorce. Fights over how money is spent hits many a household. Tread carefully in bringing this up with your parents. This is their money. Your motive ought to be about helping them (if they need the help) meet their needs and wishes regarding the preservation and handing down of their assets. And remember, an inheritance, if you receive one, is a gift, not a right.

http://life.familyeducation.com/estate-planning/aging-parents/50442.html

The Francis Forum

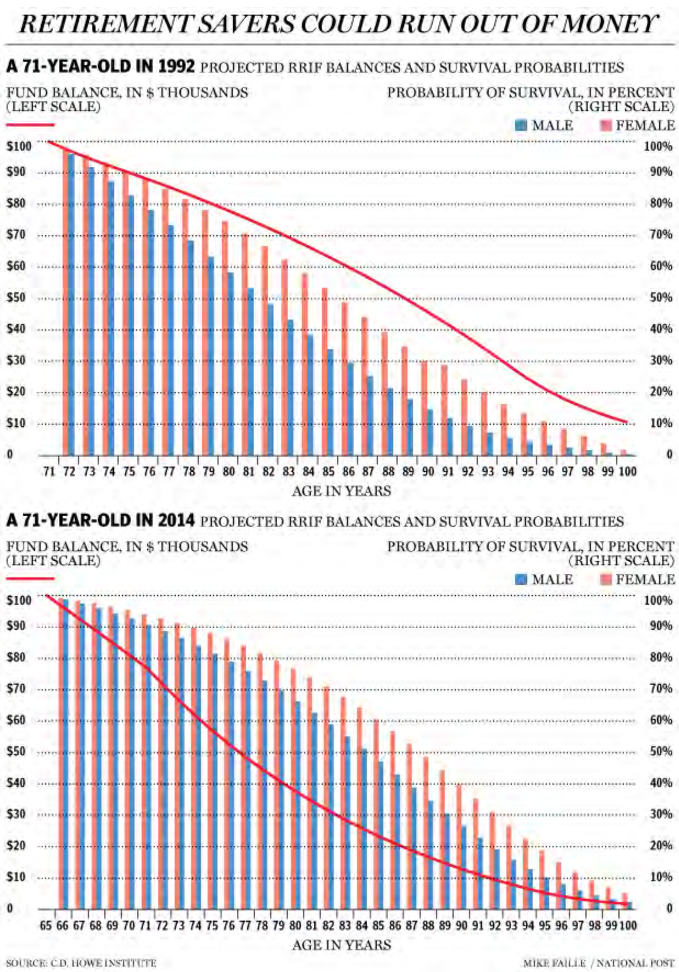
Create Wealth, Achieve Freedom

Summer Edition 2014

The Problem with Canada's RRIF Withdrawal Rules

The federal government may have inadvertently been doling out some bad retirement planning advice in recent years.

By age 71 at the latest, Canadians must begin withdrawals from their tax deferred retirement accounts that start at 7.38% of their account value and steadily rise each year thereafter. This includes registered retirement income funds, life income funds and locked-in retirement income funds.



Many seniors use this withdrawal rate as their budget, assuming it is a sustainable rate that will slowly liquidate their retirement savings and provide them with a lifetime income.

But a new study from the C.D. Howe Institute suggests that those rates may have worked in 1992 when they were originally established, but not likely anymore.

Many seniors who set their monthly budget based on these rates will simply run out of money, the C.D. Howe said in a report released Wednesday.

In a report called "Outliving Our Savings," the authors assert that based on increased life expectancies and lower investment returns, the withdrawal rates established in 1992 need to be decreased. And no doubt we're in a different environment today than we were then.

The average 71-year old lives about 2.75 years longer now than in 1992. And the average yield on long-term Government of Canada bonds has fallen from 8.5% to 3.1%.

According to the C.D. Howe report, in 1992 "a 71-year-old man who withdrew the annual mandatory minimum from his RRIF could expect to deplete 25% of his initial balance's real value upon reaching his life expectancy. Now, he can expect to live to see his initial balance drop about 70%, and faces a 1-in-7 chance of seeing its real value drop more than 90%."

Similar stats apply to women, who could have expected to deplete 40% of their account by life expectancy then, versus 80% now. And now there is a 25% chance of seeing the real value drop by 90%.

The "interest rates have nowhere to go but up" mantra has been echoing for five years with little follow through. So what if low rates, low growth and low inflation low are the new normal?

The Minister of Finance in 1992, John Manley, asserted that "the main purpose of the RRIF minimum withdrawal rates is to ensure that a minimum amount of tax is paid on funds which have benefited from a deferral of tax over a considerable period of time."

In 2014, one might argue that the secondary objectives of the RRIF minimum withdrawal rates are to ensure that a sustainable withdrawal rate occurs, that motivations to take on excess investment risk are diminished and that the odds are more in favour of retirees having money left over in their 80s and 90s rather than outliving their money.

So whether the government follows through with an update or not, seniors who have the majority of their retirement savings in RRIF accounts need to be careful about spending everything they take out of their RRIFs and relying on the withdrawal limits as being some sort of a loose budget. If they do, they run a risk of running out of money.

http://business.financialpost.com/2014/06/03/canadas-rrif-withdrawal-rules-forces-seniors-to-outlive-their-savings-c-d-howe-study-finds/?utm_source=dlvr.it&utm_medium=twitter

Canada's New Anti-Spam Legislation (CASL)

As its name would suggest, the Canadian Anti-Spam Law (CASL) is based in Canada, and only has reach on Canadian senders and recipients.

Opt-in Status of a Recipient
In order to send emails to a recipient, you MUST have obtained the consent of the recipient. There are two formal titles to consent, both of which are explained below:

Express consent is the most desirable form of recipient as there is no legal time-limit on sending emails to such a contact. These contacts are defined as a recipient who has specifically requested to receive emails from the sender via an approved signup form.

- In any case of a complaint or legal matter, the burden of proof will lie on the sending organization. This makes it imperative that the sending organization records and stores any and all details regarding the recipient's opt-in status.

- Subscriptions must be of the recipients own volition. Pre-checked boxes or "implied subscriptions" do not qualify, Make sure that your signup forms clearly let the recipient know what they are signing up for; and make sure that the subscription is optional.

- Confirmed Opt-In is not required, however it is highly recommended as it is the only way to ensure that each of your contacts are legitimate.

Note: Up until this point, Benchmark email has not had any policy regarding pre-checked boxes qualifying as opt-in. Any contact that was gathered using this measure would no longer be considered as an "Express Consent Recipient", but rather as an "Implied Consent Recipient." Be sure to verify that each of your signup forms are in compliance with the new standards.

Implied Consent is when a recipient implies that they would like to receive your emails without having completed an approved signup form.

Up until this point, implied consent has consisted of:

- A recipient who has purchased or had some contact from the sender any time in the past.

- A recipient who has had a business relationship with the sender any time in the past.

- A recipient who has inquired about products or services any time in the past.

As of July 1st, the definition of Implied Consent is as follows:

- A recipient who has purchased or had a contract of some nature with the sender within 24 months of the current date.

- A recipient who has had a business relationship of a professional nature with the sender within 24 months of the current date.

- A recipient who has inquired about products or services within 6 months of the current date.

- A recipient has been a member of a club, organization, or voluntary organization within 24 months of the current date.

- A recipient has made a donation/gift to, volunteered for, or attended an event hosted by an organization where the sender is a registered charity, political party, or political candidate for a publically elected office within 24 months of the current date.

Note: There are two key differences here. The first and most important is that there are now time limits on implied consent email addresses. Any sender who has contacts falling into this category should make every effort to confirm that recipient's address as quickly as possible. The second key component here is a bit harder to identify since it isn't specifically stated; unlike the CAN-SPAM Act, Politicians are not exempt from the CASL standards as some of the above points directly relate to their own operations.

What kinds of messages does CASL apply to?
CASL isn't limited to just emails or texts. It can apply to any commercial electronic message sent through any means of telecommunication, including sound and voice messages.
It also includes emerging forms of electronic messaging, meaning in the future, some new form of electronic communication could still be covered under the law. Basically, any form of electronic messaging that encourages the recipient to participate in a commercial activity falls under CASL.

http://www.benchmarkemail.com/blogs/detail/casl-compliance-what-you-need-to-know

Buying or Renovating a Home?
Look For Cash Back from the Taxman

The rebate will allow you to recover some of the goods and services tax (GST) or the federal part of the harmonized sales tax (HST) paid for a new or substantially renovated house that is to be used as your, or your relation's, primary place of residence.

Generally, the taxman will distinguish between an "owner-built" house and a house purchased from a builder. In either case, you may be entitled to the rebate, but the forms you have to file are different.

Specifically, you might qualify for an "owner-built" rebate if you: (1) built, or hired someone else to build, a house on land that you already owned, (2) substantially renovated, or hired someone to renovate, your existing house (at least 90 per cent of the interior must be removed or replaced to count as a substantial renovation), (3) built, or hired someone to build, a major addition to your house that at least doubles the size of the living area (for example, the addition of a full second storey to an existing bungalow), or (4) converted a non-residential property into your house.

If you purchased a house from a builder, you may be entitled to the rebate if you: (1) purchased a new or substantially renovated house from a builder, or (2) purchased a new or substantially renovated home from the builder where you leased the land from the builder (and the lease is for 20 years or more or gives you the option to buy the land).

The property

What type of property will qualify for this rebate? A "house" for purposes of the rebate generally includes a detached or semi-detached single-unit house, a duplex, condominium unit, townhouse, a unit in a co-operative housing corporation, a mobile home (including a modular home) and a floating home. A house can also include a bed and breakfast or similar place where rooms are rented on a short-term basis (although the building must be used more than 50 per cent as your primary place of residence if you hope to claim a rebate for the whole building).

How much can you expect back from the government? If you qualify, you can expect a federal rebate of up to $6,300. The actual federal rebate is clawed back somewhat if the value of your property is over $350,000, and disappears entirely if your property is worth $450,000 or more after the building or renovation. If you can't claim the full federal rebate, you may also be eligible for a provincial rebate (Ontario offers rebates that can be as high as $24,000).

The nuances

Be sure to get a copy of the booklet RC4028, GST/HST New Housing Rebate, available on the taxman's website at cra.gc.ca which includes provincial forms and instruction.

You'll need to file the applicable forms to claim the rebate: Form GST191-WS, Construction Summary Worksheet, and Form GST191, GST/HST New Housing Rebate Application for Owner-Built Houses or Form GST190, GST/HST New Housing Rebate Application for Houses Purchased from a Builder.

All owners of a property must be individuals to qualify for the rebate (no owner can be a partnership or corporation). As for deadlines, you can file for the rebate generally within two years following the substantial completion of the building or renovation of your house. Finally, if you bought or built a home or other building to rent out to individuals as a place of residence, you may be entitled to a rebate as well (see Guide RC4231 on CRA's website).

http://www.theglobeandmail.com/globe-investor/personal-finance/taxes/buying-or-renovating-a-home-look-for-cash-back-from-the-taxman/article18666717/

Summer Activities

RBC Ottawa Bluesfest
July 3rd – 13th, 2014
http://ottawajazzfestival.com/

Ottawa Busker Festival
August 1st – 4th, 2014
http://www.sparksstreetmall.com/ottawabuskerfest.html

Casino Lac-Leamy Sound of Light
August 2nd – 14th, 2014
http://www.feux.qc.ca/

National Capital Craft Beer Week
August 9th – 17th, 2014
http://www.nationalcapitalbeerweek.com/

The Ottawa Folk Festival
September 10th - 14th, 2014
http://www.ottawafolk.com/

News

A Note from Mandeville Private Client

Global Energy Efficiency and Renewable Energy Fund (GEEREF) LP has won the 2014 PCMA Investment Fund Deal of the Year Award.

The nominees were evaluated based on their leadership in the industry, their contribution to the deal, innovative market, product or investment opportunities created and the benefits of the deal for the issuer and for its investors.

The Portland GEEREF LP was celebrated as the '**Investment Fund Deal of the Year**' for providing investors with a unique opportunity to invest alongside supranational institutions and sovereign states through investment in global energy efficiency and renewable energy.

The Changing of The Guard

The Ceremonial Guard, today, is a composite Canadian Armed Forces Unit of 400 soldiers that includes a Headquarters Company, a Public Duties Company, the Band of the Ceremonial Guard and the Pipes and Drums of the Ceremonial Guard. The Guard is augmented by members of the Royal Canadian Air Force and the Royal Canadian Navy to execute sentry duty at the Tomb of the Unknown Soldier.

The Changing of the Guard Ceremony is performed daily on Parliament Hill from late June to the end of August. Sentries are also posted daily, from 9am to 5pm, at the Tomb of the Unknown Soldier at the National War Memorial on Confederation Square, located at the corner of Elgin and Wellington Street and from 10am to 5pm at Rideau Hall, the residence of His Excellency, the Governor General, located at 1 Sussex Drive.