Freedom 55 Financial
A division of London Life Insurance Company

your financial security

ISSUE 1, 2014

Help take your retirement savings to the next level

Research shows most Canadians don't feel prepared for retirement, and some have no strategy to get there. Only 24 per cent[1] of Canadians who filed taxes in 2011 contributed to a registered retirement savings plan (RRSP) and are saving less than four per cent of their disposable income. While planning for retirement can be confusing, there are options to help increase your savings and grow what you have already saved.

A good retirement savings strategy involves more than just one focus. As you're bombarded with messages on investing, contributing and saving, you might consider – or reconsider – the choices you've made. Your financial security advisor can help you navigate through the wealth of information and help you increase your savings opportunities.

While many Canadians have not yet decided about retirement savings (statistics show 11 million Canadians aged 25 to 64 did not contribute to an RRSP in 2011[1]), it's important to use all the tax-reduction tools available as you plan for retirement.

With its potential for reducing taxes, consider how a tax-free savings account (TFSA) could fit your retirement planning strategy with RRSPs. They are intended to complement each other as savings vehicles.

Because of their flexibility, some people think of TFSAs as short-term savings for big ticket items or emergency funds. However, if you only use a TFSA for these purposes, potential for additional growth is lost. Both RRSPs and TFSAs can be used to effectively accumulate more savings for retirement – and help you reach your retirement goals sooner.

	RRSP	TFSA
Minimum age to contribute:	No minimum age as long as you're earning income	18 years of age and older
Maximum age to contribute:	71 years – you must cash out, convert to a registered retirement income fund (RRIF), or buy an annuity by Dec. 31 in the year you turn 71	None
You can contribute:	The lesser of 18 per cent of your earned income or $23,820 for the 2013 tax year	A maximum of $5,500 for the 2013 tax year
You must contribute by:	March 3, 2014 for the 2013 tax year	Year-end – Dec. 31, 2013 for the 2013 tax year
You can carry contribution room forward:	Until the maximum age	Indefinitely
Upfront tax advantages:	Contributions provide an upfront tax benefit – they lower your taxable income for the current year	None
Tax advantages in retirement:	Tax-deferred – withdrawals are taxed at your marginal tax rate at the time you make them (which is usually lower when you're retired); it doesn't matter whether your investment gains came from interest, dividends, or capital gains	Tax-free – you won't pay any taxes on the income you withdraw, regardless of whether your investment gains came from interest, dividends, or capital gains

[1]Statistics Canada - CANSIM Table 111-0039

Will you be ready for retirement?

Many Canadians aren't sure of the answer to this question. As fewer and fewer Canadians will retire with an employer pension plan, contributing to a registered retirement savings plan (RRSP) continues to be one of the best ways to save for retirement.

According to the 2011 Report on the Value of Advice[1] released by the Investment Funds Institute of Canada (IFIC), "the sizably larger investment portfolios of advised investors relative to non-advised investors" demonstrate the value of working with a professional. In fact, retirement can look different for each of us.

Pay yourself first

This tried and true strategy cannot be overstated. If it's hard to find the money in your budget, make your savings a fixed expense. Determine the portion of your budget you can devote to retirement savings. Set up an automatic withdrawal directly from your bank account into your registered retirement savings plan (RRSP). It might surprise you how even a small monthly contribution can grow over time. As life changes and income and expenses allow for larger contributions, you can increase your savings. Now you're creating the good habits that will afford you a comfortable retirement.

Reduce your taxable income

Your RRSP contribution can help you reduce tax while you are in a higher income bracket. Not only are you deferring tax, but you're putting more money to work now. The money you invest today will grow tax-deferred. And with careful planning you could be in a lower tax bracket in retirement than during your working years. As a result, your income will be taxed at a lower percentage so you'll be able to keep more of your money.

RRSP loan

Many Canadians don't have the cash flow to make the most of their contribution room. An RRSP loan can help you take advantage of your contribution room and the resulting tax savings. Interest rates are historically low and there is potential for growth in the markets. This could be the year to take out a loan to help you reach your retirement goals.

Five reasons to consider an RRSP loan:

1. To reduce your taxes next year.
2. Unexpected expenses did not allow for contributions this year
3. To start your money working immediately and benefit from the power of compounding
4. To take advantage of historically low interest rates
5. Because you plan on paying down the loan upon refund to reduce interest costs

Your financial security advisor can help you define what your retirement years might look like and work with you to create a disciplined plan that will reflect your unique situation such as age, tax bracket, contribution room and investment goals, and help you achieve them.

While borrowing to invest can be a powerful means to build wealth, the risks involved make it a strategy that is not suitable for everyone. Your financial security advisor and investment representative and your tax advisor can help you determine if borrowing to invest is a strategy that is right for you.

RRSP contribution deadline

Your 2013 registered retirement savings plan (RRSP) contributions are due March 3, 2014. Contributions dated after March 3, 2014 will result in tax receipts for 2014 and not the 2013 tax year.

[1]Source: http://www.advisor.ca/news/industry-news/ific-releases-report-on-value-of-advice-65447

Navigating life's milestones with your versatile RRSP

As fewer Canadians retire with an employer pension plan, contributing to a registered retirement savings plan (RRSP) is more crucial than ever. However, if you're young and your retirement feels like a distant reality, there are other good reasons to start contributing to an RRSP.

Lifelong Learning Plan (LLP)

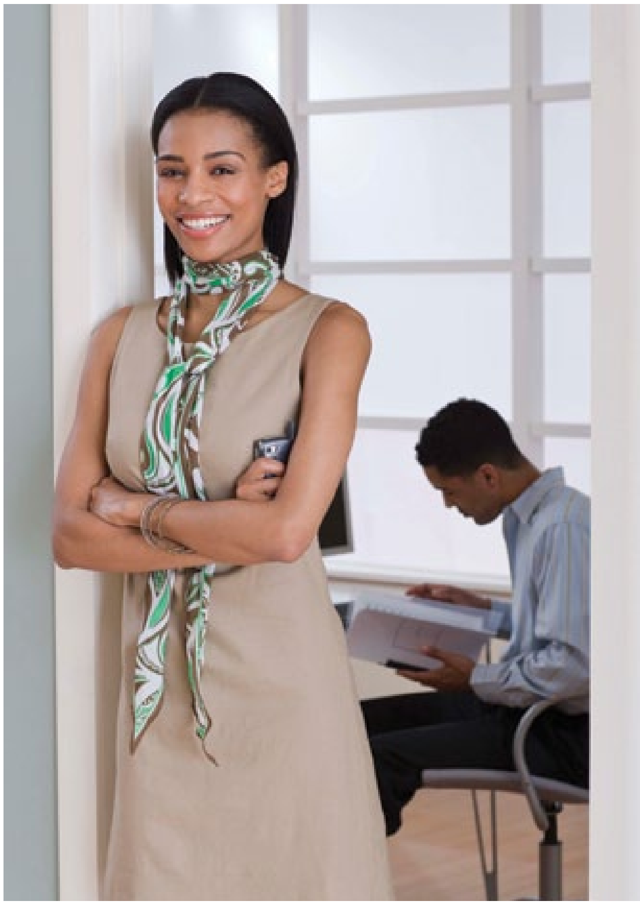
It's more common for people to have multiple careers in a lifetime. Upgrading your skills with training and education for personal reasons or after a job loss can pave the way for a career upgrade or a higher paying job.

The LLP allows you to withdraw $10,000 per year from your RRSP to a maximum of $20,000 in total. It can also be withdrawn from a spouse's plan and both spouses can qualify to a maximum of $40,000. You must have a written offer to enroll in a full-time program before March of the year after you withdraw the money from your RRSP. Disabled students can also qualify for part-time educational programs. Please note that RRSP contributions must be made 90 days before the deduction for educational costs. It is your responsibility to meet all conditions outlined on the Canada Revenue Agency (CRA) website.

Of course, the money will have to be paid back into your RRSP. You have up to 10 years to make repayments to your RRSP. Usually, one-tenth of the total amount has to be repaid on a yearly basis until the full amount is repaid. The LLP is ideal for developing skills over a lifetime since it can be used multiple times as long as it's repaid in full before its accessed again.

Home Buyers' Plan (HBP)

Buying your first home is on your horizon, contributing to an RRSP could help you finance your down payment. RRSP contributions and the reinvestment of any refunds could be one strategy toward saving the minimum 20 per cent down payment to avoid paying Canada Mortgage and Housing Corporation (CMHC) insurance premiums. The HBP allows first-time home buyers to use up to $25,000 from your RRSP savings (or $50,000 per couple).



There is a longer time horizon than with the LLP to make repayments to an RRSP under the HBP. Payments can be made over 15 years and must be at least one-fifteenth of the amount withdrawn per year. If a payment is not made one year, the amount is included as income for that year. And similar to the LLP, funds have to be held for 90 days or more in the RRSP before they can be used toward the purchase of a first home.

Contact your financial security advisor to bring the flexibility of an RRSP to your financial security plan.

Save it. Spend it. Leave it.

A strategy to help optimize your net worth

Growth on money held in passive investments is taxed at the highest marginal tax rate. The erosion of future growth potential due to taxes may threaten your financial security plan. However, the "Save it. Spend it. Leave it." strategy shows how tax-efficient permanent life insurance can be.

It allows you to compare the amount of capital and the required rate of return needed in three different asset classes to achieve the same cash flow and net estate that may be obtained through permanent life insurance.

Save it: You can use permanent life insurance to accumulate cash value on a tax-advantaged basis for future use.

Spend it: You can access your policy's accumulated cash value to help meet your needs. In the long term, you may use the policy as collateral to obtain a line of credit.[1]

Leave it: You can use life insurance to preserve more assets for your beneficiaries and heirs. The death benefit goes directly to the named beneficiaries tax-free.

Consider life insurance as a unique asset

Permanent life insurance is a unique asset class because of its immediate estate enhancement and the opportunity for tax-advantaged growth within legislative limits as long as the growth remains in the policy. It can serve your primary need for insurance and at the same time provide strong, long-term growth and allow for a tax-efficient transfer to your estate, all for less cost or less risk than many other asset classes.

The right permanent life insurance solution can assist you in achieving these goals.

- Transfer wealth to your estate
- Reduce concerns about taxes on income
- Strategically diversify your portfolio

Your financial security advisor can help you determine how permanent life insurance may fit into your financial security plan.

[1]Clients should not purchase life insurance just because of the future possibility of obtaining a collateral loan. Collateral loans involve risk. They should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The terms or future availability of collateral loans cannot be guaranteed.

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.