THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

Mike Antosik
CFP, FMA, FCSI, CIM, CSWP™, FDS
Financial Advisor

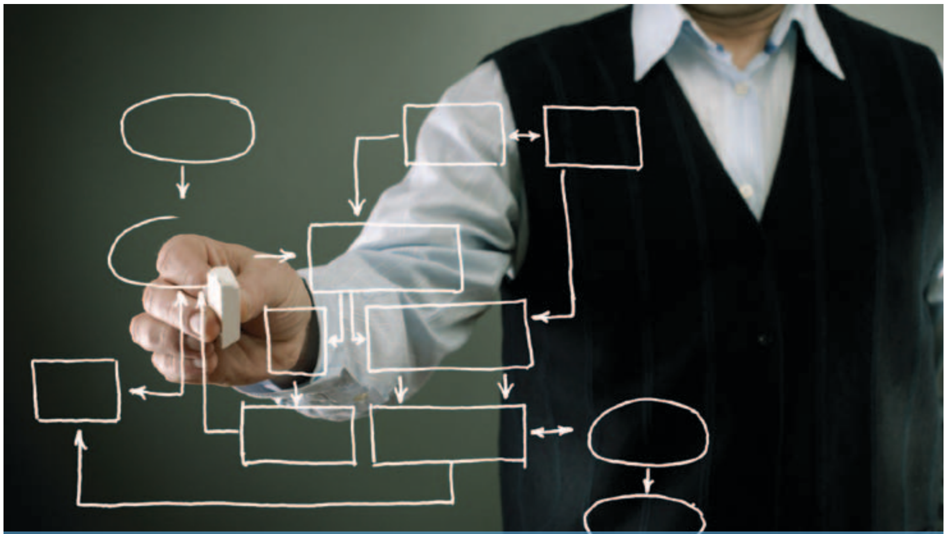
Manulife Securities
MANULIFE SECURITIES INVESTMENT SERVICES INC.
MANULIFE SECURITIES INSURANCE INC.

508-1900 City Park Dr.
Ottawa, ON K1J 1A3
Telephone: (613) 746-7200 ext. 235
Cell: (613) 860-3863
Fax: (613-746-7282
Email: mike.antosik@manulifesecurities.ca
Website: www.readytoretire.ca

With the end of year of turbulent market activity almost upon us, thoughts no doubt turn reflective. There's no better time than now for us to get together and have a conversation about the year past, and what lies ahead.

Let's take the opportunity to review where your finances have taken you this year, especially to see whether your portfolio is still in alignment with your goals, as your asset allocation may have shifted. It will give us a chance to review not just your investments, but also all aspects of your financial life.

A new year is a new start. Let's plan today to make the most of it.



FOCUS ON RETIREMENT

Ease your way into retirement

Plunging into retirement can be psychologically unsettling. In fact, a recent poll by a major Canadian financial institution showed that 39% of retirees who returned to work did so not because they needed the income, but because they were bored.

A new stage of life

Financial aspects of retirement are known. Preparing to handle the psychological and emotional aspects of retirement is something else we should consider.

In the end, retirement is about much more than money; it's about making a major transition — from a life where work plays a major role to one for which you'll need to find different sources of contentment, self-worth, and social interaction. One way to ensure your decisions are the right ones is to take a phased-in approach to retirement.

Try before you buy

A gradual approach to leaving the workplace can allow you to acclimatize to a new life and find interests and activities that will keep you occupied and satisfied.

Let's consider whether you can arrange with your employer to reduce working hours or to work part time. Increasingly, employers are open to this approach because it works to their benefit as well.

If that's not feasible, consider alternatives such as a part-time consultancy or working reduced hours for another employer. If you're self-employed, you can set your own retirement agenda.

Find out how you can "test drive" retirement with a phased-in approach by talking to us. It could be the first step on the road to a more fulfilling life. ■

How you can turn fund losses into tax benefits

With the end of the year approaching, it's an ideal time to review the performance of your investments — in particular, mutual fund holdings that have declined in value.

Because fund performance sometimes results in a loss, depending on the markets in a given year, we need to pay as much attention to our "sell" strategy as we did to the steps that originally led us to make those investments.

The end of the year is a good time to consider selling underperforming mutual funds. We may not be able to revive them, but the right strategy can help minimize taxes and give the holdings one last crack at doing some good for your portfolio returns.

If the proceeds from those funds can be used in more promising investments, this could be the time to sell at a loss to improve your year-end tax position.

A good opportunity to 'sell low'

By redeeming fund units (outside your registered plans such as Registered Retirement Savings Plans) for less than their original cost, you will create a capital loss that can be used to offset capital gains on your income tax return. By reducing your capital gains, you reduce your tax bill. You may even be able to use that loss to reduce taxes in future or past years.

If you own money-losing mutual funds that are likely to make a year-end distribution, you take advantage of the capital loss for tax purposes and avoid a taxable distribution by redeeming before the distribution date (generally mid-December).

We need to carefully consider which of your mutual fund holdings are candidates for tax-loss selling. These should be investments we believe have little opportunity for recovery. We also need to weigh the financial benefits of tax-loss selling in each case.

When we create a capital loss, it must first be used to offset any capital gains earned in the same tax year. Any remaining losses can be carried forward indefinitely to future years or applied to gains from the previous three years.

How it works

Here's an example of how tax-loss selling can work to your benefit.

Let's assume you invested $80,000 in a mutual fund a few years ago (outside a registered plan) and sold that investment this year $100,000, for a profit of $20,000. You also sold a money-losing fund investment this year for a loss of $10,000. (See infographic.)

You would deduct the $10,000 loss from the $20,000 gain, leaving you with a capital gain of $10,000 for the year. Half that amount must be reported as a taxable capital gain on your income tax return, so you will pay tax on $5,000.

You can use a capital loss on any eligible investment to offset a capital gain on any other eligible investment. For example, your mutual fund loss could be used to offset gains from mutual funds, stocks, bonds, exchange-traded funds, or even investment real estate. However, capital losses can normally be used only to reduce or eliminate capital gains, not to offset other income.

There is one important caveat: When you sell a security to claim a capital loss, do not buy that security again for at least 30 days. Otherwise it will be deemed a superficial loss by the Canadian Revenue Agency and you won't be allowed to use it to reduce taxable gains.

Timing is important. Transactions need to be completed before year-end to qualify for your 2011 income tax return. Please refer to your tax professional or accountant for advice. ■

How tax-loss selling works

No tax-loss selling	Using tax-loss selling
$20,000 Amount gained from selling A	**$20,000** Amount gained from selling A **-$10,000** Amount lost from selling B
x 50% Only 50% of the gain is declared for tax purposes	$10,000 Net gain, after applying B against A x 50% Only 50% of the gain is declared for tax purposes
$10,000 Taxable capital gain, not using tax-loss selling	**$5,000** Taxable capital gain, using tax-loss selling

MONEY FILE

Power up your TFSA

A November 2010 survey by BMO Financial Group showed that while more than a third of Canadians have opened a Tax-Free Savings Account (TFSA), they know little about the wide range of investments that they can hold within those plans. As a result, investors may not be taking full advantage of the tax benefits and investment return potential of TFSAs.

The survey showed that 37% had no idea what investments are eligible for their TFSAs. Only 20% knew that mutual funds were eligible and 26% knew that Guaranteed Investment Certificates (GICs) could be included in their plans. The reality is that a TFSA can hold many types of investments. Here's a look:

It's not a simple 'account'

The range of eligible investments is similar to what qualifies for inclusion in a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). That means a wide selection of individual securities, such as eligible stocks and bonds, mutual funds, real estate investment trusts (REITs), annuity contracts, foreign currency, and more.

Diversifying beyond cash or savings-type investments in your TFSA can improve long-term growth potential and returns. Because your investment returns are completely tax-sheltered in the TFSA and tax-free upon withdrawal, the more you earn in your TFSA, the more you benefit from the tax advantages. Compounding of tax-sheltered returns can greatly increase your investment profits and leave you with a much larger pool of wealth than you would have if you invest in a taxable account.

Strategy is key

The investments you hold in your TFSA will depend on your financial goals, your risk tolerance, and other factors. We need to consider your TFSA as part of your overall investment plan, carefully balancing what you hold in your TFSA, RRSP, and non-registered investments. We also need to ensure that your investment decisions aren't driven solely by tax considerations, but that taxes are just one part of deciding how and when to invest.

We can make the most of your TFSA by exploring its full investment and tax-saving potential within your overall investment plan. ■

MONEY TALK

Manage the stress of an emergency

As the Canadian population ages, more of us in our 40s, 50s, and beyond are supporting the care of, or helping to care for, senior parents. There's a good chance that at some point we'll be called upon to deal with emergencies involving our aging relatives. Sometimes those emergencies require us to supply information needed for our parents' care or well-being.

When that time comes, you'll want to access that information as quickly as possible. You or your loved ones don't want to be scrambling to figure out necessary details when time is critical and stress is high.

The best way to make sure you can act quickly and confidently is to prepare in advance. Speak with your parents about their information, compile it and any documents you might need, and make sure they're easily accessible. The more knowledgeable you are, the better you'll be able to look after not just your parents, but yourself as well.

We recommend putting together the following:

Medical information

If a parent is in sudden need of medical care, supplying the right information in a hurry can be a lifesaver. Keep a list of your parents' blood types, medications, details of allergies, a history of past illnesses and surgeries, and contact information for doctors and other caregivers. You'll also want to have details of any medical insurance plans, as well as supplemental coverage such as critical illness insurance or long-term care insurance.

Financial information

You may be called on to manage or help manage your parents' finances in an emergency. This will require access to bank account information, credit card information, details of loans and loan payments, investment information, and any other pertinent financial details and documents.

Legal documents

Quick access to important legal documents is essential for medical and financial matters. If you or another family member has power of attorney to manage your parents' healthcare or finances, copies and originals must be easily accessible. Other information you may need in an emergency includes your parents' wills, their written instructions about the level of medical treatment they want if they can't express their wishes (sometimes known as a "living will"), and insurance policies. Other estate planning information should also be readily available. The documents and information you need will depend on your parents' situation. We can help you plan a strategy for gathering the necessary documentation, speaking with your parents, and deciding where their information should be kept for immediate access. ■

Stability and safety for your income

Nobody wants their retirement lifestyle jeopardized because of financial market fluctuations. In light of the market environment over the past year, you might be seeking alternatives for retirement income that will offer stability and security for at least part of your income, no matter what happens with financial markets.

Annuities can provide that safety and stability. Here's a look at why the time might be right for annuities.

The beauty of being predictable

Annuities were created for people who need their income stream to be predictable. An annuity is a contract with an insurance company that converts a lump sum into a stream of guaranteed income for a specified period or for life.

Its primary purpose is to hedge against the risk that you could outlive your income. Your annuity purchase buys guaranteed regular income payments, regardless of the ups and downs of financial markets, which means there is no investment risk.

The market fluctuations of the past year have helped bring annuities — often overlooked by retirees in these days of low interest rates — back into focus. While the most popular retirement income choice for Canadians — the Registered Retirement Income Fund (RRIF) — can be outlived, an annuity can offset or eliminate market-induced volatility.

There's another reason to consider an annuity now. With interest rates at historical lows, there's practically nowhere for them to go but up, and some experts expect gradual increases in 2012. Annuities purchased in times of rising rates will generate higher income because payments are determined in part by interest rates at the time of purchase. Payments, which are typically monthly, are a combination of repayment of the principal of your investment, plus investment income.

You can customize

There are many types of annuities, making it possible to tailor a strategy that meets your individual needs for income. An annuity can be used as a long-term income solution or as a shorter-term stopgap. For example, you may want a life annuity to provide income for as long as you live. Or you could purchase a term-certain annuity for a set number of years to tide you over until other income kicks in — such as Canada Pension Plan payments.

If you want both stability and the opportunity to retain an active investment portfolio during retirement, you can combine one or more annuities and a RRIF as part of your income strategy. That way you'll have the benefits of stability and the potential for growth that can help protect your purchasing power.

Think about whether an annuity should be part of your income plan. Even if today isn't the right time, an annuity might be worth considering down the road — particularly when interest rates move higher. ■

What to consider before moving

MANY PEOPLE CONSIDER moving to another location in Canada when they retire, with studies revealing that one-third to one-half of baby boomers are likely to move in retirement.

There are many reasons to relocate. You might want to be nearer to your children or grandchildren, prefer a more pleasant climate, or like the idea of living in a community more suited to retirees.

We should thoroughly explore your options before you make a decision. Here are five key questions we should answer.

- Will your new home cost more or less than your current one? Obviously, the price of your new home will affect — for better or for worse — the pool of capital you have in retirement. A less expensive home can free up cash.
- Will your cost of living change? We need to consider living expenses, such as food, utilities, and property taxes, all of which can vary from location to location.
- Will your income tax situation change? Different provinces have different tax rates. Your overall tax bill could rise or fall.
- Will you have access to the medical facilities you need? Consider the quality of local hospitals, the availability of services you may need in the future, and whether doctors are taking new patients.
- Have you considered the implications of being closer to, or farther from, friends and family? Family dynamics change with proximity and distance. So do travel costs.

Together, we can find the answers to these and other questions. Let's make sure the move you're considering is the right one. ■