



**Freedom 55  
Financial**

A division of London Life Insurance Company

# Your Financial Security

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NEW IDEAS FOR YOUR STRONGER FINANCIAL FUTURE

## How do tax-free savings accounts fit with life insurance?

**When used properly, the new federal tax-free savings account (TFSA) can allow you to grow and later access your savings tax-free, within the limits set out by the Canada Revenue Agency. This flexibility will surely change the way Canadians invest and save their money. But how does the TFSA fit into your overall financial security plan?**



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One key principal to remember is to never sacrifice your life insurance protection just to fund a TFSA. Life insurance is a vital cornerstone of a solid financial security plan.

It helps you prepare for the uncontrollable events in life, which could otherwise derail your carefully thought-out investment strategy.

### How to use each vehicle for maximum advantage

For many Canadians, the choice isn't either/or. It's how to make the best use of each tool within your overall financial security plan.

- Think about how much protection you need. If your family needs \$500,000 to replace lost income and pay debts, a \$5,000 per year TFSA falls far short. Life insurance exponentially leverages your premium payments to create an instant, tax-free estate.

It pays the full death benefit, even if the insured person dies the very first day the policy is in effect.

- Use life insurance first, to give your family a foundation of financial security.
  - Then consider adding a TFSA to grow your savings on a tax-advantaged basis.
- Talk with your financial security advisor about creating a financial security plan to maximize the value of both life insurance and TFSAs.



*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 not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.*

# Critical illness insurance for children

Although no one wants to consider anything happening to their children, planning today for the unexpected may help reduce considerable financial hardship tomorrow.

Imagine your child became critically ill. It could be, for example, a life-threatening cancer, Type 1 Diabetes, loss of speech, deafness or perhaps bacterial meningitis.

Where would you want to be?  
Would you want to take time off work to be with your child?

Would you value access to a second medical opinion on your child's diagnosis and treatment plan?

Would a lump sum of money help you focus on your child's recovery instead of financial concerns?

Would you like to establish your child's critical illness insurability for their adulthood?

And if your child thankfully remains healthy, would you like your premiums returned?

If you've answered yes to any of these questions, you may want to consider child critical illness insurance (Child CI). Child CI is designed to provide families with the financial resources to help support recovery and care of a child in the event of a critical condition and help ensure the child's future insurability.

## Money at a time when it's needed most!

Child CI pays a lump-sum benefit if your child is diagnosed with one of the critical conditions defined in the policy and the survival period (usually 30 days) is satisfied.

## Added support at a time when it's needed most!

- Most offer medical referral services that can provide a second medical opinion on the diagnosis, recommend treatment options, identify leading doctors and co-ordinate treatment in medical facilities outside Canada.
- Some also include critical illness counselling and support services to help you and your child cope with the many issues that may be experienced (e.g. child or elder care resource referrals, stress management, financial consultation).

## Protect your child's insurability

Some insurers offer a conversion option upon policy expiration – usually around age 25 – without underwriting, to an adult critical illness insurance policy.

## No claims – consider return of premium benefit

Look for a policy that offers a Return of Premium Rider if you are interested in recouping 100 per cent of the eligible premium paid if a claim has not been made.

This benefit can be used any way you like. You may choose to share money with your child to help:

- Recover the costs associated with your child's education
  - Provide for a down payment on a vehicle or home
  - Fund a trip to explore another part of the world

For more information about how Child CI may fit your needs, ask your financial security advisor.



**While purchasing a home gives you the opportunity to develop equity over the long term, there are other good reasons to consider home ownership these days, especially if you're a first-time buyer.**



# Soft housing markets an opportunity

Rick Fourneau, Director, Mortgage Credit for London Life says today's low interest rates and softening real estate market often mean the cost of renting can be higher than the cost of home ownership.

"This is particularly the case in larger urban centres," he says, pointing out "rents seldom are adjusted downward to reflect declines in housing prices."

Rick has more advice and tips for would-be homeowners, including the value of a good credit score and getting pre-approved by a mortgage lender.

## **Good credit makes a difference**

The higher your score, he says, the easier and, in some cases, the cheaper it will be to get a mortgage.

"Getting pre-approved at the start helps you get realistic about how much house you can afford. The general rule of thumb is your monthly principal, interest, realty taxes and, if applicable, half the condo fees shouldn't total more than 30 per cent of your gross monthly income.

"Once you're pre-approved, you have rate security as your interest rate is usually locked in for 90 days. And, being pre-approved allows you to make an unconditional offer when you find that home of your dreams.

"That can be a real advantage in a competitive market," he adds.

Lenders, he says, are making it easier to become a homeowner these days with longer amortization periods . . . in some cases up to 35 years. He stresses, however, while a longer amortization will lower payments up front, ideally you should increase the payments and/or shorten the amortization period as you progress in your career to control interest charges.

## **New products on the market**

Rick is also quick to point out many lenders have developed some innovative mortgage products over the past few years.

"The variable rate mortgage that you can lock in at any time is great for consumers," he says. "It allows you to take advantage of declining interest

rates and gives you rate protection when they start to rise."

Rick's final piece of advice for anyone shopping for a home is to use an agent.

"Agents will also help manage your expectations. They know what homes with the features you want are selling for. If you know how much you have to spend, they'll quickly tell you if you're aiming too high or low."

An agent, he says, will also save you time by pre-screening listings and only showing you those that meet your requirements.

Finally, Rick says, by having your own agent you know there is someone acting on your behalf, which may not be the case when dealing with a vendor's agent.

If a new home might be in your future make it a point to talk to your financial security advisor. He or she can refer you to a mortgage planning specialist who has the knowledge and skills needed to design a mortgage that's right for your particular situation.

# Planning for a tax-efficient retirement income

As you approach or enter retirement, your focus may shift from wealth accumulation to a focus on income. Along with this shift, many refocus on protecting their capital from undue taxes to ensure it lasts as long as possible. You worked hard to earn and save your money and now you want to ensure that you'll have enough to live the retirement lifestyle you have planned.

THE FUNDS  
DON'T AVOID  
TAXES, BUT  
DEFER IT,  
REDUCING  
TAXABLE  
INCOME  
DURING THE  
INITIAL YEARS  
YOU OWN  
THEM.

**T**here are so many products to choose from at retirement, it can be confusing and hard to decide which one is best for you. This is particularly true with non-registered investments, as investors have a large amount

of flexibility with these funds. While most associate retirement income with their registered investments, income can also be generated from non-registered holdings as well.

One such option is tax-efficient withdrawal funds. These funds are popular with investors who want a consistent monthly income from their non-registered investments. They are designed to help you to defer the amount of tax you're going to pay on your investments when you start to draw income.

These funds often work on a principal called return of capital. Return of capital basically means your investment will pay you back your money first, which is tax-free. Once all your original

capital gain is returned to you, then you start to draw on the growth, and that is taxable as a capital gain.

The funds don't avoid taxes, but defer it, reducing taxable income during the initial years you own them. Return of capital isn't immediately taxable when you receive it and the rest of the distribution is taxable in the form of interest, dividends and/or capital gains. They can be great options for those in higher tax brackets and who still require an element of growth in addition to income.

Before selecting any investment income option it is typically best to get financial security advice that looks at your full financial picture. This includes information on guaranteed income sources, your personal tax situation, and income requirements. If you are looking for ways to improve your after-tax income, or balance your income needs with growth, contact your financial security and investment representative who can help you decide what products and services are right for you and your unique circumstances



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