

## INSIDE THIS ISSUE

- Mythbusters: Wills & Powers of Attorney...
- 2nd Annual Craig & Taylor Associates Client Art Show
- Will Your Pension be Sufficient in Retirement
- Income Strategy
- The Grandmother to Grandmother Strategy
- Mortgage Solutions Now Available



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### Craig & Taylor Associates

504-1525 Carling Avenue  
Ottawa, Ontario K1Z 8R9  
Tel: (613) 725-3414  
Toll Free: 1-800-265-8244  
Fax: (613) 725-9570

Email: [askus@craigandtaylor.com](mailto:askus@craigandtaylor.com)  
Web Site: [www.craigandtaylor.com](http://www.craigandtaylor.com)

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## Mythbusters: Wills & Powers of Attorney are for “Old People”

by Vickie Snow, CFP, CSA

At one time or another everyone has heard the expression “*there are two certainties in life: death & taxes*”. Why is it then, that not everyone plans for these certainties? Estate and/or tax planning are two major components of a comprehensive financial plan yet many claim that they are either too young or do not have enough assets to think about it. To dispel these and other common myths, we will take a closer look at basic estate planning.

*Estate* is a term used in common law to signify the total of a person’s property, entitlements and obligations. Therefore, if you owe or own anything, you have an estate. As we go about living our lives, we build relationships and accumulate assets. In order to protect those relationships and assets we use estate planning. Estate planning is about life, for what is, and what may be. It is guided by both reason and emotion. An estate plan is as unique as its owner and is

made as a result of choices and priorities.

A Will and Powers of Attorney are documents that apply to every estate plan.

A will serves to accomplish a numbers of things including (but not limited to):

1. naming a person (executor, estate trustee or liquidator) or institution that will look after your affairs upon death,
2. distributing your assets according to your wishes, and
3. naming a guardian for minor children.

The first common myth surrounding wills is that if there is no will in place when you die (to die intestate), your spouse automatically gets everything.

Actually, if you die intestate, provincial legislation dictates how assets will be divided. Essentially, the government now dictates how assets will be divided and in Ontario that does not



(Continued on page 2)

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Must be able to qualify medically.

# Dollars & \$ense

*(Continued from page 1)*

include a 100% transfer of assets to your spouse. The second myth associated with wills is the misconception that should you die intestate, a common-law spouse will receive the same consideration as a married spouse. In fact, a common-law spouse has no legal rights when it comes to estate assets unless dictated through a will.

At any point in time, we may become incapable of expressing our wishes or making rational decisions. This may be as a result of accident, illness or mental capacity. Individuals who hold power of attorney are those given the authority to act on behalf of another person with respect to financial or personal care issues.

A power of attorney for property gives one or more people the authority to manage financial affairs should we be unable to act independently. The power of attorney for personal care includes direction for your health care, safety and medical issues. The attorney need not be the same for both situations.

A plan prepared with the assistance of your financial planner can assist you with your estate planning goals and in the development of strategies to implement them. However, when it comes to the legal documents, the best way to ensure that documents accurately reflect your wishes is to see a lawyer who will guide you through the preparation. Your lawyer will ensure these documents are properly witnessed and not subject to dispute when you are not able to clarify your intentions. Communicating your plans with family members outside of these documents is also critical in order to avoid misunderstandings and disagreements should attorneys need to act.

We have only briefly touched on the basic estate planning documents, but clearly it is for everyone. Taking no action relinquishes decisions to others. Getting a plan in place ensures you will decide what happens to you and what you have accumulated throughout your lifetime, in both life and beyond.

## 2nd Annual Craig & Taylor Associates Client Art Show

**Sunday, September 30th**

**1pm - 5pm**

**Craig & Taylor Associates Offices**

If you would like to be an exhibitor in the show, please contact Vickie by June 30, 2007 with details of your pieces\*.

\* number of pieces per artist will depend on the number of exhibitors

**MARK YOUR  
CALENDAR!**



### Estate Planning Tip

**Review your annual statements to confirm beneficiaries are properly noted.**  
*This small step can help catch missing details!*

# Will your pension be sufficient in retirement? This quick calculation may help you.

**Stephen Cock, B.A., CFP**

According to a recent survey on retirement trends, the average Canadian senior requires a before-tax income of about \$28,000 per year to comfortably meet household needs. However, averages can be extremely misleading, as the calculation includes what those of very modest means identify as needs along with those of very high income, for whom perceptions of need may be entirely different. The real challenge is to figure out how much you *personally* will require in retirement to suit *your* personal lifestyle.

Seniors typically have a characteristic set of household expenses. Items that once took up a considerable amount of money, like mortgage payments and other long-term debt as well as child support and education expenses, are usually no longer a drain on income. However, the retired have a considerable amount of free time and they may wish to pursue hobbies and interests such as traveling that are rather expensive. Moreover, insurance costs, and the cost of health care or nursing care are also expenses that the elderly retired person must consider. It is natural for people to wonder whether their pensions will be sufficient for their retirement dreams, or nightmares. You can make a quick and very rough calculation by following the steps outlined below. You will find it convenient to make these calculations at this time of year seeing as income tax filing deadlines are falling right around now, so you

should have quick access to relevant financial figures.

Jot down your total income level (line 150 of your tax return), and subtract the federal and provincial tax payable (lines 420 and 428). Subtract your contributions to CPP and your contributions to unemployment insurance, as well as your contributions to your pension plan and your RRSP. From this figure subtract other annual payments (not on your tax return) like mortgage payments and children's expenses that you will no longer be responsible for in retirement.

You should then make adjustments upwards to factor in your additional future retirement desires such as the cruises you can't currently afford, and certainly also a contingency for potential ill health and care years' expenses. Add these expenses to your figure, and this should give you a rough idea of your current after tax basic retirement income requirements.

The next step is to consider income tax, which unfortunately, will not disappear after retirement. You will need to calculate how much gross income you will need to meet the after-tax requirement you have arrived upon. For residents of Ontario, the information that follows serves as a rough guide. For example, if the annual amount of after-tax income needed is in the order of \$40,000, then the pre-tax amount would be about \$50,000.

Approximate after-tax income requirement	Approximate level of pre-tax income required
\$30,000	\$36,000
\$40,000	\$50,000
\$50,000	\$65,000
\$60,000	\$81,000
\$70,000	\$100,000
\$80,000	\$120,000

This quick calculation will give you a sense of whether your pensions will be sufficient in retirement (and even then only if the pensions are indexed to inflation). Of course, it is only a very rough guide but it is a good start for a ballpark figure. It will help you judge the extent to which you need regular top-up contributions to your retirement savings or indeed, whether you can even realistically afford to retire as early as you would like.

More complex financial situations need the more careful modeling using the sophisticated financial planning software we utilize in the office. Examples of these situations include: where the sources of retirement income will also include after-tax sources of capital; those who may be subject to Old Age Security claw-back; those people concerned about the reduced levels of pensions that will continue to their survivors, or any other complicating factors.

## INCOME STRATEGY

by Jerry Taylor, B.A., CLU, Ch.FC, RFP, CFP, CSA

*Are you using GICs to supplement your pension income? Do you want to preserve your capital for your family? Are you paying too much income tax? Do you want a higher return on your investments, guaranteed for life?*

If you are like a lot of our clients, you are retired or approaching retirement and you still have significant funds invested in Guaranteed Investment Certificates (GICs) or Canada Savings Bonds (CSBs). You are concerned about the preservation of capital for estate purposes but enjoy receiving the income from the investments to help supplement your lifestyle. This income is in the form of interest income, which is 100% taxable, so that after paying taxes and backing out inflation, there is very little, if any, left!

While this is not for everyone, one of the strategies we have used over the last 20 years is the purchase of an insured prescribed annuity. This type of annuity provides a tax-preferred **guaranteed** series of payments for the rest of your life. The income is a blended payment of capital plus interest where only the interest portion is taxable. The interest portion of the annuity, unlike a mortgage that is front-loaded, is averaged over the life of the annuity in equal installments. You pay tax only on this prescribed interest amount, so that you receive a higher after-tax income than you would from the same amount invested in a GIC.

However, using this strategy, the capital you use to purchase the annuity is no longer available to pass on to your heirs. So the final component is to place a capital protection policy on your life for the amount of the initial capital. *This will assume, of course, that you will be able to qualify for the capital protection policy.* You will want to ensure that you can obtain the policy **BEFORE** you purchase the annuity.

The net return, as can be seen from the example, even after tax and capital protection costs, is far greater than maintaining the status quo of investing in GICs or CSBs. Some of the benefits of the strategy include:

- An excellent tax preferred income stream;
- The ability to name a beneficiary outside your will, i.e. no probate fees on the capital;
- The capital is a tax free benefit;
- The capital is not tied up for months before passing on to your beneficiaries.

### THE INSURED ANNUITY STRATEGY-A SIMPLE WAY TO INCREASE INCOME AND PRESERVE YOUR CAPITAL.

This illustration compares a GIC investment to a prescribed annuity backed by a capital protection strategy.

Term Deposit	Type of Investment	Insured Annuity
\$300,000	Deposit	\$300,000
4.00%	Rate	n/a
\$12,000	Annual Income	\$21,353
\$12,000	Taxable Portion	\$4,686
46%	Marginal Rate	46%
\$5,520	Income Tax	\$2,156
\$6,480	After Tax Income	\$19,197
\$0	Capital Protection Cost	\$6,765
<b>\$6,480</b>	<b>Net (after tax) Income</b>	<b>\$12,432</b>
2.16%	Equivalent Net After Tax of Return	4.14%
4%	Equivalent Before Tax of Return	7.12%
<b>Increase in Available Income</b>		<b>91.90%</b>

#### NOTES:

- Annuity income is guaranteed for the life of the annuitants.
- GIC income can fluctuate on renewal dates.
- 30-year bonds are currently offering less than 4.5% (with some market risk!)
- **This strategy offers no market risk!**
- Life insurance proceeds are paid to named beneficiaries tax free, may be creditor proof and need not be probated.
- This illustration is based on a 75 year old male and a 70 year old female as at February 13, 2007.

*For more information about this exciting concept, call our office and ask to speak to your planner.*

The preceding information is for education purposes only. As it is impossible to include all situations, circumstances and exceptions in a commentary such as this, a further review should be done. Rates are subject to change. Every effort has been made to ensure the accuracy of the information in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use.

## The Grandmother to Grandmother Movement

**Bev and Dick Coote  
Goulbourn Grans**

It started with a small group of women – grandmothers – in Wakefield, QC, who were moved by the plight of the many grandmothers in Sub-Saharan Africa who, with few or no resources, are raising their grandchildren whose parents had died from HIV/AIDS. Some of these grandmothers are in failing health, and can be raising as many as 30 grandchildren. The Wakefield Grannies established a link with a self-help group of grannies in Alexandra Township, South Africa (called the “Go-Go Grannies”), to raise funds to help them in their momentous task. Since then, the Grandmother to Grandmother

Campaign, launched by the Stephen Lewis Foundation in March, 2006, has spread across Canada. Prior to the International HIV/AIDS conference in Toronto last year, there were just a handful of Granny Groups in Canada – there are now over 130, including 13 in the Ottawa area at the time of writing! These groups are involved in raising awareness of the problems, targeting government programs, and raising funds for the Stephen Lewis Foundation to use in its support of over 150 projects in 14 countries in Africa.

The statistics are overwhelming: 40 million HIV/AIDS sufferers world-

wide – 25.6 million in Sub-Saharan Africa; current estimate of 13 million orphans in Sub-Saharan Africa is projected to reach 18-20 million by 2010. In some countries 40-60% of these orphans now live in grandmother-headed households, with the majority living in poverty with limited access to food, water, education and health care. The Stephen Lewis Foundation provides money for food, school fees and uniforms, and income generating projects, counseling and social support for grandmothers, and coffins to allow for dignified burials.

*(Continued on page 6)*

### HERE ARE SOME PHOTOS FROM OUR FUNDRAISING EVENT



Some of the Goulbourn Grans help with food dishes



(left to right) Bev Coote, our M.C. Catherine Clark and Alice Layiki-Dehne HIV/AIDS Coordinator with the Westboro Community Health Centre



The Uganda Nnankasa Dancers of Ottawa

**If you would like to contribute an article to our newsletter to highlight a charity or event, please contact your planner for further information.**

## Mortgage Solutions Now Available

The world of mortgages is no longer what it used to be! In a market of over 50 different lenders and 200 different available mortgage solutions, the industry has become more complex than ever before. How does one make sense of all the information? And most importantly, how to find the mortgage that meets your unique and specific situation?

Consulting a mortgage specialist is almost necessary to wade through all of the options and information the current market place has to offer. Restricting yourself to investigating your options with one or two lenders when you can get help and compare all available lenders in one step could have a big impact on your long-term financial plan.

Consumers often believe that the lending officer at their bank will negotiate the best deal for them.

Unfortunately, the bank lenders work for the bank, not the bank's customers. Using an independent mortgage specialist provides the benefit of unbiased and independent advice from someone who works with you and for you.

*For more information about mortgage services at Craig & Taylor Associates, please contact our office.*



*(Continued from page 5)*

You can get involved by supporting one of the local Grandmother to Grandmother groups – and remember, you don't have to be a Granny to help!:

- **Capital Grannies for Grannies**  
(Ottawa - Sue Bryant)  
ksuebryant@rogers.com
- **Grands and Friends**  
(Carleton Place)  
grandsandfriends@hotmail.com
- **Grassroot Grannies**  
(Kanata - Sue Cousineau)  
suecousi@magma.ca
- **Northwestern Grannies**  
(Ottawa - Marion Reid)  
mkreid@magma.ca
- **Unitarian Go Go Grannies**  
(Ottawa - Pat Hill)  
craibhill@rogers.com
- **One World Grannies**  
(Ottawa - Peggy Edwards)  
pedwards@thechelseagroup.net
- **Mississippi Grannies**  
(Almonte - Pat Vetter)  
pfvetter@magma.ca)
- **Goulbourn Grans**  
(Stittsville - Bev Coote)  
dcoote@compmore.net
- **Wakefield Grannies #1**  
mail@thegrannies.org
- **Wakefield Grannies #2**  
(Ilse Turnsen)  
ilseturnsen@yahoo.ca  
*Kindly write Wakefield Grannies in the Subject Box*