Kootenay Savings

# yourMoneyWorks

**Maria Kruchen**
250-368-2630 or 1-877-691-5769
maria.kruchen@kscu.com
Maria is located at our Trail Branch

**Craig McFadden**
250-365-9953 or 1-877-691-5769
craig.mcfadden@kscu.com
Craig is located at our Castlegar Branch

**John Merlo**
250-368-2631 or 1-877-691-5769
john.merlo@kscu.com
John is located at our Trail Branch

**Jim Scott**
250-427-1658 or 1-877-691-5769
jim.scott@kscu.com
Jim is located at our Kimberley Branch

MoneyWorks

Qtrade Asset Management


# Don't count on your house to fund your retirement

**For many Canadians, their home makes up the biggest part of their net worth. While a house is indisputably an important financial asset, here are four reasons why you should be cautious about planning to sell it to fund your retirement:**

**You may not want to move.** When it becomes financially necessary to sell your family home and trade down to a smaller place, you may discover that, like the majority of seniors, you prefer to age in a place with the support of your long-established friends and familiar community services.

**House prices may fall.** Real estate is an illiquid asset, which means you can't count on its realizing an estimated value if you have to sell it in a short period of time. You may find you are trying to sell when the market is going through one of its periodic downturns.

**"Trading down" may not mean profit.** You may find that the price differential between your current home and your next place is insufficient to generate meaningful income. You may also need to consider new expenses such as condominium fees.

**Your spouse may have other ideas.** Talk it through. Surveys show that only half of Canadian retirees share the same vision for retirement as their partners.

Talk to us about the role that home equity plays in your retirement plans. We can help you to consider all your options. ■

# For steadier returns and lower volatility, consider bond funds for your portfolio


**With interest rates continuing to hover near 30-year lows, fixed-income yields are also near record low levels. As a result, some investors might be tempted to give bond funds a pass.**

However, as part of a diversified portfolio that also includes equity funds, bond funds offer two important benefits that make them valuable at all times:

• **Steady returns.** Bonds offer a fundamental element of stability because they provide regular interest income and full principal repayment on their maturity. As a result, bond funds can provide steady returns with moderate volatility, making them a valuable offset to the potential higher returns and higher volatility of equity funds over the long term.

• **Non-correlation.** Bond funds tend not to be highly correlated with equity funds, largely because bonds tend to react favourably to conditions that are not positive for equities, and vice versa.

It was these characteristics that enabled fixed-income markets to show positive returns during 2008, when most equity funds were reeling from the effects of the global economic downturn.

### The benefits of a fund approach

Holding bond funds, rather than buying and selling individual bonds on your own, offers a number of advantages. You'll achieve greater diversification of issuer, maturity date, and yield, along with professional management.

Bond funds can adjust their holdings, selling existing issues to generate capital gains or losses, extending or shortening their term, and adjusting weighting of different issuers in response to changing market conditions.

### Types of funds

Bond funds come in a wide array, with different goals and holdings. The fund or funds that are right for you will depend on your investment objectives, time horizon, comfort with volatility, and fit with your other investments.

Mutual funds that focus primarily on short-term bonds or other fixed-income securities are favoured by those who want a temporary parking place for cash. They offer lower volatility returns than equity funds; indeed, Morningstar statistics show that the median Canadian short-term fixed-income fund did not lose money in 18 of the past 20 calendar years.

Mutual funds that hold primarily long-term bonds offer potentially higher returns, but are also more volatile because long-term bonds are more sensitive to interest-rate fluctuations.

**Government bonds.** These bonds, particularly those issued by the federal government, are considered some of the most secure investments around. As a result, funds that hold them can be expected to provide lower but steadier returns.

**Corporate bonds.** Bonds can also be issued by corporations. Funds that hold a large portion of corporate bond issues are usually seeking to provide higher yields than government issues. Note, however, that with higher yields comes greater volatility.

We can help you determine how bond funds may play a role in your portfolio. ■

## Bond funds + equity funds = 2 keys to a diversified portfolio

**Bond funds tend to provide relatively steady but more modest returns; equity funds can provide potentially higher returns but tend to be much more volatile. The lesson? Having both in your portfolio will help give you a mix of growth potential and lower volatility.**


Source: Morningstar, Canadian Investment Funds Standards Committee indices, Dec. 31, 1999, to Dec. 31, 2009. Returns are simple one-year returns.

**PERSONAL FINANCES**

## Use your credit report to protect against identity theft

According to the Canadian Anti-Fraud Centre, Canadians lost almost $11 million last year to identity theft. What can you do to protect yourself? One of the most valuable tools available to you is your credit report.

Your credit report is important because it is an electronic snapshot of your financial health compiled and shared by credit granting agencies such as financial institutions and department stores. It provides a picture of your loan payment history and potentially negative data such as bankruptcies, judgments, and tax liens.

If you find anything untoward on your report, it could indicate that your identity has been confused with that of another person or stolen by identity thieves intent on using your good name for their own profit.

It's a good practice to check your credit report once a year to confirm the accuracy of your personal and financial information. You can view your credit report online with Equifax (www.equifax.ca) and TransUnion (www.transunion.ca) for a fee, or download a form to request a free report.

Mail in the completed form with photocopies of two pieces of identification, and you should receive a full report in the mail in about two weeks. ■

**RETIREMENT SAVINGS**

## Got a refund? Think RRSP

If you anticipate receiving a tax refund, you may already be dreaming about how to spend it — maybe a trip or a plasma-screen TV. Here's a better idea: Use your refund to top up your Registered Retirement Savings Plan (RRSP) and enjoy a bigger nest egg when you need it.

If you contribute now for the current year, you will be putting your money to work almost a year earlier than those who wait until the last minute, and you will maximize the tax savings and tax-deferred growth that make RRSPs so attractive in the first place.

Let's say you're expecting a tax refund of $2,000. Putting that in your RRSP will give you a $2,000 tax deduction for 2010. Assuming a marginal tax rate of 35%, that represents tax savings of $700.

Even better, your contribution will begin to grow on a tax-deferred basis. Assuming you can leave it in your RRSP for 30 years and earn an average of 6% annually, your $2,000 will grow to almost $11,500.

For other effective ways to put your tax refund to work for you, give us a call. ■

**FINANCIAL PLANNING**

## Self-employed? New EI changes give you benefits

One of the biggest risks faced by people who are self-employed has long been potential loss of income caused by illness, injury, having a child, or caring for a gravely ill loved one. Now, you can protect against that risk by making voluntary contributions to Employment Insurance (EI).

Starting Jan. 31, 2010, self-employed individuals who choose to contribute to EI will be able to apply for the same "special benefits" as salaried employees who contribute:

- **If you give birth**, you may be eligible for up to 15 weeks of maternity benefits.
- **If you become a biological or adoptive parent**, you may be eligible for up to 35 weeks of parental benefits (these may be shared between two parents).
- **If you are unable to work because of illness or injury**, you may be eligible for up to 15 weeks of sickness benefits.
- **If you need to be away from work temporarily to care for a gravely ill family member**, you may receive up to six weeks of compassionate care benefits (during a 26-week period).

You must have earned a minimum of $6,000 from your business in the previous calendar year in order to be eligible. Premiums must be paid for at least 12 months before benefits become available.

Self-employed residents of Quebec will continue to receive maternity and parental benefits through the Quebec Parental Insurance Plan, and will now be eligible to receive sickness and compassionate benefits through EI.

For more information, visit www.servicecanada.gc.ca and look for Employment Insurance. ■

# How you can leave the legacy you want, with life insurance

**Life insurance is one of the most versatile tools you can employ in your estate plan. Because the proceeds can be paid directly to your named beneficiaries tax-free, you have the assurance of knowing exactly what they will get. You don't have to worry about the policy being challenged in court (as you might with assets left through a will) or being seized by a creditor of your estate (in most cases). And the proceeds can be paid out quickly, whereas it may take months or even years to complete an estate settlement.**

In fact, life insurance gives you both the control and the flexibility to accomplish a wide variety of estate planning goals — some of which you may never before have associated with it. Here are some illustrations of how it might help you achieve your goals.

**Protecting your family from financial hardship.** This is the primary purpose of life insurance: providing your family with funds to cover your income in the event of your death. You also may want to use it to provide a secure retirement income for your spouse.

**Paying off debts.** If you have a mortgage on your home, your life insurance policy could be the difference between your family living mortgage-free and having to move to less expensive accommodations in the event of your death.

**Covering final taxes.** Life insurance is also an effective way to preserve your estate — the policy proceeds can be used to cover any capital gains taxes that arise at death. So instead of having to sell the family retreat to pay the tax bill, your family could enjoy it for generations to come.

**Creating an estate.** If you're young and haven't yet established much of an estate, life insurance can be a cost-effective way to create one, and leave your loved ones the inheritance that you'd like them to have.

**Paying for your children's education.** If you have children, chances are you want them to be able to enjoy the benefits of a post-secondary education. You might even already be saving for that goal. In this case, you might choose to have life insurance proceeds paid into a trust specifically for that purpose.

**Equalizing your estate.** Suppose that you own a business, and it represents the largest asset in your estate. You plan to leave it to your daughter, who is eager to carry on in your place. But you also have a son, and you don't want to leave him with nothing. You can leave the business to your daughter and name your son as beneficiary of a life insurance policy that's equal in value to the business.

**Leaving assets to charity.** Suppose that your children and spouse are financially secure or your estate is more than ample to support them — but you'd also like to leave something to charity. Life insurance can be an effective way to achieve that goal and generate tax benefits for your estate or for yourself during your lifetime, depending on how your policy benefit donation is structured.

These are just some of the many ways we can use life insurance to help custom-tailor the legacy you want to create. ■



## Three ways to teach kids about money

**WE HEAR A lot about financial literacy these days as Ottawa promotes its efforts to educate Canadians about money management, saving, and investing. Clearly, the first steps begin with our kids, and not just in the classroom.**

**Parents, grandparents, and other caregivers can provide some of the building blocks to economic maturity by sharing their own experiences with money.**

**Since children learn best by doing, here are three ways you can help them understand basic financial concepts.**

**1. Let them manage their own income.** It's important for your kids to have their own money to manage — and mismanage. Painful lessons tend to stick, whether it is losing cash for the first time through carelessness, or blowing their entire allowance on an impulse purchase, and then dealing with having nothing left.

**2. Help them set goals and allocate their money.** You can help your kids learn the discipline of saving by helping them set goals for donating, saving, and spending, and giving them separate piggybanks to allocate the chosen portion of the money they earn.

**3. Show them the power of compound growth.** Open a savings account, Guaranteed Investment Certificate, or other investment for your child. If you have online access to the account, even better — your child can track its accumulation and use online calculators to project future growth.

We can help you if you'd like to set up a savings vehicle for your child. ■



May/June 2010