

THE Guardian

...building better retirement incomes since 1974

Winter 2009

TAX FREE SAVINGS ACCOUNT

In the Chinese calendar, 2009 is the year of the Ox. The tax averse investor may choose to call 2009 the year of the TFSA (Tax Free Savings Account). To review, the TFSA allows Canadians 18 years and older to save up to \$5,000 per year in eligible investment vehicles and watch those savings grow tax free throughout their lifetime. Although contributions to a TFSA are not deductible for income tax purposes, the income earned on investments is not taxed, even when withdrawn. After 2009, the contribution limit each year will be indexed to inflation and the available amount will be included on your Notice of Assessment from CRA. Unused TFSA room can be carried forward, to be contributed in a future year. Further, any amounts withdrawn from the TFSA are added back to one's contribution room for the following year.

Investors who consistently save significant amounts will likely contribute to both an RRSP and a TFSA. For others, a decision will be made to invest in one or the other. One criteria will be the objective of the savings. TFSAs are flexible and can be used to meet either short-term savings objectives or long term objectives like retirement savings. RRSPs are clearly designed for retirement savings with limited exceptions – allowable tax free withdrawals (and subsequent re-payment) for the Home Buyer's Plan or the Lifelong Learning Plan.

Income levels, both now and in the future, will also be a factor. If a taxpayer's marginal tax rate is higher at the time of contribution than it's likely to be when withdrawals are made, an RRSP is preferable for its tax saving qualities. If the reverse is true, and retirement income (and hence marginal tax rate) is expected to be greater than current income, then a TFSA will be the better choice because of those tax-free withdrawals.

A wide variety of investment vehicles are available as TFSA alternatives, including GICs and mutual funds. Your Solguard advisor's independent status ensures that you are provided with the most suitable product with the most appropriate institution, as not all products are created equal (we have found some financial institutions will allow the appointment of a beneficiary, while others will not).

BIRTH YEARS AND FIGURES OF NOTE

As is our custom, for the January edition of the Guardian, we outline key birth years from a retirement income planning perspective, as well as marginal tax rates for British Columbia Tax payers for 2009, and the recently announced Canada Pension Plan (CPP) and Old Age Security (OAS) retirement benefits.

If you were born in 1949, you become eligible to receive a reduced CPP entitlement. While you would not be able to receive your full entitlement until age 65, you can draw as early as your 60th birthday. Note that your full entitlement will be reduced by .5% for each month prior to your 65th birthday. For example, a tax payer turning 60 would see a reduction of 30% (60 months at .5%).

To receive the entitlement prior to age 65 you must either have stopped working or earn less than the current maximum CPP retirement benefit (\$908.75 in 2009) in the month before your pension begins and in the month it commences.

For many, it makes sense to start CPP at age 60, assuming you meet the employment income test outlined in the previous paragraph. However, as this is not always the case, we recommend you consult your Solguard advisor or seek other professional advice to confirm this.

If you were born in 1944, you become eligible for OAS provided you meet the residency requirements. It is important to keep in mind you must apply for OAS as the benefits do not commence automatically.

The taxpayer turning 65 in 2009 is also eligible to qualify for the pension income tax credit. Accordingly, all tax payers 65 or over should ensure they receive at least \$2,000 per year of eligible pension income. Even if income is sufficiently low that an individual is not paying taxes, the credit can be transferred to a spouse to reduce their taxes.

Eligible sources include:

- Pension income from a previous employer (qualifies regardless of age of tax payer).
- RRSP annuity or RRIF income (starting at age 65).
- Taxable income from a non-registered annuity or GIC product issued from an insurance company.

Note that CPP and OAS do not qualify.

If you were born in 1938 and maintain an RRSP, you must arrange to set up a maturity option by the end of this calendar year. Either an annuity or a Registered Retirement Income Fund will qualify. For those whose RRSP funds are locked-in under either provincial or federal pension legislation, the choices are an annuity or a Life Income Fund.

Current year Government Pension figures and marginal tax rates for BC tax payers can be outlined as follows:

Taxable Income	Combined Federal & Provincial Marginal Tax Rate
0 – 35,716	20.06
35,716 – 38,832	22.70
38,832 - 71,443	29.70
71,433 – 77,664	32.50
77,664 – 82,014	36.50
82,014 – 99,588	38.29
99,588 – 126,264	40.70
126,264 +	43.70

Maximum CPP retirement benefit	\$908.75
Maximum OAS benefit	\$516.96
OAS clawback threshold	\$66,335

A VICTORIA FAREWELL

Well known to our Vancouver Island clients, Tony Southwell has announced his retirement effective December 2008 after 20 years of advising clients through our Victoria office. Enthusiastic dedication to his clients and unquestioned integrity were the hallmarks of Tony's business practice and he will be missed by both his clients and his partners.

Tony has worked closely with Mark Gouws over the past 10 years. Many of Tony's clients have now met Mark, who looks forward to providing the same high level of service they have become accustomed to.

**REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON \$100,000
COMMENCING ONE MONTH FROM ISSUE**

Best Current Rate: 4.45%

Age	1st Year	TOTAL PAYMENTS	A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, \$100,000 will produce the following monthly income. For 5 years:\$1860.00 For 10 years:\$1010.00 For 15 years:\$738.00
		TO AGE 100	
55	\$239.00	\$246,548.00	
60	278.00	215,451.00	
65	334.00	189,000.00	
71	616.00	160,631.00	

**MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON \$100,000**

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
	55	\$573.41	\$539.18	\$566.80	\$536.36
60	626.56	583.38	616.44	577.85	535.23
65	700.85	634.54	669.25	619.14	571.46
71	834.59	733.66	754.63	688.18	631.84

The material contained herein is intended to provide the clients of Solguard Financial Ltd. with advice and guidance of a general nature, and is believed to be accurate at the time of writing. However, due to rapid changes in interest rates, market conditions, tax rulings and other investment factors, readers should seek further advice specific to their situation, before proceeding with investment action.



Peak Securities Inc. is a member of the Canadian Investor Protection Fund.

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