Investor Insight

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OLD AGE SECURITY (OAS) Deferral Option Now Available

Canada's seniors now have the option to delay receiving their old age security (OAS) for up to five years past the age of eligibility.

For every month that the receipt of OAS is delayed, seniors will received an increased monthly pension of 0.6% per month up to a maximum of 36% at age 70.

The changes came into effect July 8, 2013. The federal government announced the new voluntary deferral option for OAS in the 2012 budget. In that budget, the government also announced it would increase the eligibility age for OAS to 67 from 65 starting in 2023, with full implementation by 2029.

As an example: if the OAS payment at age 65 would be $500.00 per month and the recipient waits to age 70 they would receive $680.00 per month.

Five Golden Rules of Retirement Planning

The golden years are meant to be just that, not a time when you have to cut back. Unfortunately, outliving money will become more likely for the many people who have not properly prepared. Here are five golden rules.

1. Retirees will not decrease their pre-retirement spending during the first few years of retirement. Why? They are young, healthy and finally able to do the things they dreamed of, such as travelling and golfing.

2. Plan for increasing longevity. The average person will retire today at 61 years of age and live almost three decades in retirement.

3. Keep the withdrawal rate of your retirement funds as low as possible for as long as possible, despite the increasing desire by many to spend in their early retirement years. Keep withdrawal rates under 5% in the early years and increase it as needed. This is exclusive of your pensions, OAS and CPP.

4. Plan for discretionary health care expenses, which could be in the form of retirement housing and cross border health care.

5. Don't get too conservative. You could go broke slowly. This happens when your conservative investments earn a lot less than your expenditures. With the current low interest rate environment it is important that you consider holding some equities in your portfolio.

Avoid Putting Stock in Short-term Forecasts

Pundits and analysts are quick to give advice on market changes, but smart investors play the long game.

When will the U.S. Federal Reserve Board begin tapering its quantitative easing efforts?
How will Europe's lingering debt woes play out?
Where will the S&P/TSX composite be at the end of 2013?
How about the S&P 500?

Analysts have been and will keep debating those questions endlessly across the airwaves and internet and hordes of investors will listen to every word.

The only problem - the vast majority of those pundits will be wrong.

Want evidence? Consider the research Philip Tetock detailed in his 2005 book "Expert Political Judgment: How Good is it? How Can we Know?

Professor Tetlock conducted a seven year study in which both "experts" and "non experts" were asked to predict an array of political and economic events. The study looked at 8O,OOO predictions, and while the experts fared better than non-experts, their predictions on average were accurate only 20% of the time!

How then are we to play the game differently?

If you study history's best investors you will find they share some key similarities that separates them from the masses:

· They think long term
· They keep emotion at bay
· They focus on value

The next time you think about buying or selling your investments because of an "experts'' predictions remember the above.

The Rule of 72

Is a rule stating that in order to find out the number of years required to double your money at a given interest rate, you divide the compound return into 72. The result is the approximate number of years that it will take your investments to double.

For example an 8% return will double your money in 9 years.

72/8=9

A 4% return will double in 18 years.

72/4=18

Three Estate Planning Mistakes

Failing to Prepare a Will

What happens if you die without having a valid will in place? Your assets are distributable according to the arbitrary formula set out in the applicable provincial legislation. The Ontario Succession Law Reform Act sets out the following schemes of distribution:

If the client has a spouse only: Entire estate goes to the spouse.

Spouse & one child: First $200,000 to the spouse. Remainder equally split between spouse and child.

Spouse & children: First $200,000 to the spouse. Remainder is split, one-
third to spouse and two-thirds to children equally.

Children, but no spouse: children share equally.

No spouse or children: Entire estate goes to the deceased's parents or surviving parent. If parents have predeceased, siblings share equally.
Children of a deceased sibling share their parents' share. If only nieces and nephews survive, they share equally.

No lawful heirs: The estate becomes property of the province.

Failing to Keep Your Will Up to Date

An update is warranted under the following circumstances:

· Marital status changes: in Ontario, marriage revokes a will. In the case of divorce, the will is read as if the former spouse predeceased the testator, whereas separation has no effect on the will.

· Nature or quantum of assets change.
· Residence change.
· Loss or addition of beneficiaries.
· A change in health.

Creating a Do-it-Yourself Will

In Canada, there are three basic types of wills: formal (typed document, signed by the testator In the presence of at least two witnesses), notarial (only used in Quebec) and holographic (in the testator's own handwriting and signed by them, no witnesses required).

Estate experts will always recommend a formal will prepared by an experienced lawyer or notary.

The typical problems with do-it-yourself wills include:

· Failure to name an executor or alternate executor.
· Failure to dispose of all assets, thereby creating a partial intestacy.
· Gifting more than you have.
· Failure to appreciate the rights of spouses and dependants.
· Improper wording.
· Invalid provisions.

New Guidelines for Replacing Funds from a TFSA

The last thing you want to hear is that you owe tax on your tax-free savings account. Even though the amount of contribution room in a tax-free savings account grows each year, you must take care to not over contribute.

The Canada Revenue Agency (CRA) recently released some new information on its web-site relating to TFSA over contributions.

If a withdrawal has been made during the year, and you are in a hurry to get back to saving money tax-free, be sure you know the rules.

The full amount of the deposits throughout the calendar year must not exceed the contribution room determined at the beginning of the year. This means that if you withdraw money this year, you may not be able to put that money back in the TFSA until the following year. You must check first to see if you have unused contribution room.

Make sure you don't get caught paying tax on your TFSA. Penalties are stiff. CRA can charge 1% per month on excess contributions.

Thought of the Day

"Remember that small steps can create giant leaps over time, so never think of any financial or spending matter as a small one". - David Bach

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