Helkie Financial

THE NEWSLETTER OF
MONEY MANAGEMENT AND
FINANCIAL PLANNING IDEAS

Planning Ahead

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QUADRUS

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FOCUS ON INSURANCE

Consider long-term care in retirement planning

More than half of Canadians are unaware of the potential costs related to long-term healthcare, suggests a report conducted by the Canadian Life and Health Insurance Association (CLHIA).[1] Even more troubling, few are financially prepared to cover these expenses if they need them, it says.

In fact, more than two-thirds (67%) of the Canadians aged 60 and over who were surveyed said that they have no financial plan to cover ongoing care expenses. A majority (56%) didn't know the potential costs related to long-term care in their province, with many incorrectly assuming the government will cover these expenses.[1]

Many Canadians may not realize that their retirement years may not all necessarily be healthy ones. Health-adjusted life expectancy — counting only illness-free or disability-free years — is considerably shorter than actual life expectancy. Women and men can expect to live, on average, 83.6 and 78.9 years, respectively; however, their health-adjusted life expectancy is estimated at just 72.1 and 69.6 years.[2]

The potential need for long-term care services, ranging from home assistance to full-time care in a nursing facility, suggests it may be prudent to purchase long-term-care insurance to cover the potential costs. Those who have not prepared properly could see their retirement plans hit hard if healthcare-related expenses deplete resources intended for travel, lifestyle amenities, gifts to family, and planned bequests.

We can help you review your insurance needs and take appropriate steps to help ensure that you'll be able to get the level of care you want. ■

1 CLHIA *Report On Long-Term Care Policy: Improving the Accessibility, Quality and Sustainability Of Long-term Care in Canada*, June 2012.
2 Statistics Canada, CANSIM, Table 102-0122, "Health-adjusted life expectancy, by sex," May 2012.

Are equity funds a good inflation hedge?

The U.S. Federal Reserve has been following an ultra-low interest rate policy since the 2008 financial crisis. Many fear that the resulting cheap credit could lead to rising prices down the road — in other words, inflation.

Warning younger Canadian savers about inflation these days is hard, because few have witnessed its pernicious effects as price increases dilute hard-earned buying power. These effects can be significant, especially for seniors living on fixed incomes. For example, inflation of just 3% a year would cut the purchasing power of a senior's annuity payments by close to half (46%) over two decades.

Outpacing inflation

Historically, gold has long been considered an effective inflation hedge. However, equity mutual funds may fill a similar role.

Jeremy Siegel, a professor at the Wharton School and author of *Stocks for the Long Run*, notes that the businesses that mutual funds invest in are "claims on real assets, such as land and plant and equipment, which appreciate in value as overall prices increase."[1]

Although there can be significant short-term fluctuations, Siegel says over 30-year periods "the return on stocks after inflation is virtually unaffected by the inflation rate."[1]

Picking individual equity winners in the inflation hedging game is hard, because price increases can be volatile; some industries are more vulnerable than others. Statistics Canada even keeps two measures of inflation to account for this disparity. The Consumer Price Index (CPI) targets a broad basket of goods, but the core CPI excludes food and energy prices, which tend to be more variable.

How mutual funds can help

The upshot is that investors who want an effective inflation hedge may be better off investing in a professionally managed mutual fund, rather than trying to figure out which individual companies will outperform.

One especially effective option is to invest in an international mutual fund that has heavy allocations in countries with a history of stable money. That way, if inflation rises in Canada, you stand to be compensated, as this would cause the Canadian dollar to fall and your foreign-currency fund units would then be worth more when converted back into local funds.

Equity mutual funds offer significant advantages over bond funds in an inflationary environment, because the earnings of the companies that they invest in will rise in such an environment; however, the interest that previously issued bonds pay will not.

Inflation risk may be rising

In late 2013, the urgency of considering possible inflation hedges increased, with the announcement that Janet Yellen will be taking over as the U.S. Federal Reserve chairman in early 2014. She is thought to place priority on job creation over keeping inflation low, which could significantly heighten inflation risks.[2]

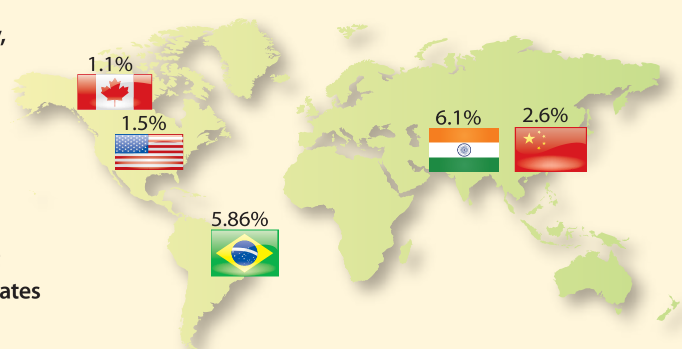
As if that were not enough, inflation pressures from China are showing signs of spreading into Western economies. Low Chinese wages have long been a key factor in keeping prices low for many of the goods that Canadians import, ranging from textiles, to toys and iPhones. However, Chinese wages have been rising[3] and the effects risk spilling over into Canada.

In short, savers need to think ahead. While phrases such as "the risk of inflation," may seem tame, they need to be taken seriously. Talk to us about how to position your portfolio to hedge against possible inflation down the road. ■

1 Jeremy Siegel, "Stocks: The best Inflation Hedge," Kiplinger.com, June 9, 2011.
2 "Janet Yellen will stick to her predecessor's expansionary policies," *The Economist*, Oct. 12, 2013.
3 "Manpower CEO Joerres Says Wage Inflation May Aid China Economy," *Bloomberg News*, Sept. 12, 2013.

Could inflation spread here?

In a global economy, there is a danger that inflation could spread to North America from countries where it is higher. This chart provides a snapshot of current inflation rates around the world.*



* Monthly inflation, Nov. 1, 2013. Source: WallStreetDaily.com, trading economics

RETIREMENT PLANNING

Expecting significant retirement income? A TFSA may be better than an RRSP

Many Canadians face a tough choice at the start of each year, regarding whether to contribute to their Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA). Both popular tax-planning tools have advantages. Which is better for you depends on a variety of factors. Your projected retirement income provides a good clue.

If your projected marginal tax rate will be lower after you retire than what it is now, an RRSP may be the better option. That's because the tax deductions you get when you contribute to an RRSP are likely to be larger than the tax you pay later, when you withdraw the funds.

However, some Canadians will actually have higher incomes when they retire. For example, some retiring employees have taken to "double dipping," after they leave their first careers. This involves collecting a pension but continuing to provide work as private contractors in their old fields of expertise. (A retired teacher continuing to take on substitute teaching mandates would be an example.) In such cases, their marginal tax rates when they retire could be higher than when they were working. For them, a TFSA may be a better option. ■

EDUCATION PLANNING

Why you may want your kids to leave home broke

Most Canadians would shudder at the prospect of sending their kids out into the world with no financial assets. However, some kids often do worse — many are forced to leave home not just broke, but owing money as well.

The average student debt load after graduating from a four-year undergrad program now sits at around $27,000.[1] This provides a strong indication that parents are having a hard time helping their kids pay their education expenses.

Worse, those costs are rising. Canadian full-time students in undergraduate programs paid 3.3% more on average in tuition fees for the 2013/2014 academic year this fall than they did a year earlier. That follows a 4.2% increase in 2012/2013.[2]

Getting a head start on those increases is crucial. A first step should involve consulting us, to make sure you are investing enough in your kids' Registered Education Savings Plans (RESPs) or an alternative dedicated account. They will be far better off if they leave home merely broke — as opposed to in debt. ■

1 The Canadian Federation of Students.
2 Statistics Canada, *The Daily*, Sept. 12, 2013.

EDUCATION PLANNING

Canadians working longer to finance kids' education

Many parents are responsible and well intentioned and, as a result, have invested significant sums in their kids' Registered Education Savings Plans (RESPs). However, according to a recent survey by a major Canadian financial institution, 60% of Canadian parents with children under the age of 25 are putting their own retirement goals on the back burner, to help pay for a child's schooling. Fully a third of parents surveyed even took on debt to help fund their kids' education.[1]

There are several reasons that parents are forced to put themselves into this uncomfortable position. These include a tough job market, rising education costs, and increasing pressures on students to take on additional studies, such as advanced degrees. However, the most important reason is that many parents wait too long before starting to put money aside.

Make sure that does not happen to you. Talk to us about balancing your savings for your children's education and your own future. ■

1 CIBC poll, conducted by Leger Marketing, June 2013.

Thinking about mortgage life insurance?

Many Canadians are prompted to buy mortgage life insurance when they buy a home, aiming to protect what is often their largest investment. It's important to know, however, that the purchase of mortgage life insurance is not compulsory. In addition, there may be a better way to protect your family and your home — with term life insurance.

Mortgage life vs. term life

Mortgage lenders typically offer mortgage life insurance, also known as creditor insurance, as an add-on service when customers finance their homes. It's a convenient way to protect your family in case anything happens to you.

Mortgage life insurance covers the repayment of the outstanding mortgage balance upon death (limitations may apply), making your creditor the sole beneficiary and freeing your dependents from obligations. Term life insurance, however, may provide you with the same protection along with more flexibility and be more cost-effective:

- With a term life insurance policy, you get to choose your beneficiary, who can then choose how to best use the insurance proceeds — including paying off mortgage debt as well as paying off any of your other debts, meeting day-to-day living expenses, or paying your final taxes.
- A term life insurance plan covers you for a fixed amount, while mortgage insurance covers you only for the outstanding mortgage balance, which declines as you pay off the loan. In practice, this means mortgage life insurance protection actually shrinks as you build up more equity in your home.
- Mortgage life insurance generally covers only the individual listed on the loan document. In contrast, some term life insurance and critical illness insurance policies extend coverage to you, your partner, your children, and others.
- If you switch mortgage lenders, you may lose your insurance coverage and have to reapply. Term life insurance, on the other hand, is portable. Your coverage stays with you, no matter who your lenders are.
- Under a term insurance policy, certain conditions, such as the type of coverage and the amount covered, can be fairly easy to change. You even have the option of converting to permanent insurance, which covers you for life.

Assess all coverage

If you're buying a new home, it may be an ideal time to review and re-evaluate all your income protection needs, particularly if you have a growing family or are taking on bigger financial obligations.

You could use the opportunity to look at your current insurance coverage, and that of your spouse, to reduce any duplication and determine the right amount of protection needed in case of death or illness — whether it's to help pay off a mortgage or anything else that's important to you.

Insurance planning is a key component of your overall financial plan. We can help you make the decisions that are right for you and your family. ■

Life insurance calls for a personal touch

While Canadians buy nearly $19 billion in goods and services online, one product that has fared less well on the Internet is the sale of life insurance, where most buyers seem to prefer a personal touch. A recent survey by the Life Insurance Market Research Association (LIMRA) indicates that 76% of Canadians prefer to buy life insurance face to face.[1]

Why is this? Probably because life insurance is typically a personal, highly customized product. Your employment conditions, financial situation, family obligations, and life expectancies are unique. This means life insurance advice may be difficult to dispense via a call centre operator or based on an online checklist.

The LIMRA study measured long-term patterns in life insurance ownership, adequacy of coverage, and consumers' attitudes about insurance. For example, it found that demand for insurance remains high, even though just over two-thirds (68%) of Canadian households have life insurance. In fact, six million Canadians believe that they need more.

In many cases they are right. Married couples with children under 18 were found to have less insurance coverage than they may need for their protection. Three out of four people surveyed said they would have trouble meeting current expenses if the family's primary wage earner were to pass away.

Do you have enough insurance to provide your family with the protection you want them to have? Talk to us to make sure. And, judging from the survey results, you may prefer to chat in person, rather than text, tweet, or email — which is fine by us. ■

1 LIMRA, 2013 Canadian Life Insurance Ownership Study.

This newsletter has been written (unless otherwise indicated) and produced by Ariad Communications.