

# MUTUAL GAINS



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Without money, possibilities are limited..... without personal relationships, life is barren....  
without balance, happiness and fulfillment are but a dream.



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## Equities Are Just Like Vegetables

Equities fluctuate. That is a fact of life just like death and everything else that life throws at us. I, like you wish equities were much smoother in delivering returns. It's uncomfortable going through long periods of "bad taste" i.e. the past 3 years. The fact of the matter is that for our financial plans to work in the long term we need equities in our portfolio like..... we need vegetables in our diet.

Here is some research by Dr. Moshe Milevsky (a person whose research I've referred to on more than one occasion over the past 16 years) to quantify this point. To clarify, the following research is on equities not vegetables:

A 65 year old retiree wanting to take an income of \$7,500 per year from his \$100,000 portfolio. A computer program was then consulted to determine how to invest the money. Various configurations were used from 100% GICs to 100% equities and several asset allocations in between. Based on historical rates of return for these asset types, Stats Canada mortality tables thousands of retirement scenarios were created and here are the findings.

With 40 / 60% equity / GIC portfolio men have a 30% chance of outliving their portfolio. For women it's a 47% chance. You don't want to experience the occasional bad taste of equities? A 100% GIC portfolio has a 47% chance of running out. For women it's a 71% chance of the money running out.

This isn't really that startling but I think it needs to be acknowledged today. Pension plans know it. If you have a company pension plan that fact will be clearly evident in how your pension money is invested. The Canadian government knows it. All you need to do is look at a recent CPP annual report.

Could you please pass the vegetables?

### A FINANCIAL PLANNER / CLIENT RELATIONSHIP BENEFIT

"While it is wise to learn from experience, it is wiser to learn from the experiences of others."

Rick Warren, New York Times best selling author  
of "The Purpose Driven Life"

## Real Estate Versus A Portfolio of Businesses

One of the foundational principles of investing, ALL investing, is diversification. Not just diversifying among one asset class (i.e. owning shares in 50 businesses rather than just 3 or 4) or real estate in several geographical locations rather than in just 1, but really diversifying. However, it is often asked "what is the best investment for me to make?"

Buying a home has always played a major role in financial planning and when a real estate investment is made it usually is in residential real estate so The table here shows a comparison between a solid equity mutual fund (“A Portfolio of Businesses”) and housing prices over the past 21 ½ years in a couple of major Canadian cities (September 30, 1981 to March 31<sup>st</sup> 2003).

If you would like the whole report which includes what you would need to earn to keep pace with inflation and the comparisons to cities right across Canada (14 total) call or e-mail me directly.

<b>City</b>	<b>Cost</b>	<b>Value</b>	<b>Trimark Fund</b>
<b>Victoria</b>	<b>\$160,000</b>	<b>\$325,943</b>	<b>\$3,020,115</b>
<b>Vancouver</b>	<b>\$305,000</b>	<b>\$621,328</b>	<b>\$5,757,094</b>
<b>Calgary</b>	<b>\$212,000</b>	<b>\$431,874</b>	<b>\$4,001,652</b>
<b>Toronto</b>	<b>\$225,000</b>	<b>\$458,357</b>	<b>\$4,247,036</b>

**House prices are from the Royal LePage survey of Canadian House Prices.  
They do not include rental income that may have been collected.**

## “Will I Be OK?”

I believe this question is the most common in the mind of people like you and me when it comes to talking about money.... “Will I be OK?” Will you?

I know the answer to that question is not always an emphatic YES for you. Too often it’s “I’m not sure” and frankly I don’t think you are satisfied with that answer. Uncertainty means unnecessary stress and the older you are or get, the more anxiety it causes. To address this, go back to the foundation of your financial plan and get the answer to these three questions:

- 1) How much will I need to retire *when* I want and *how* I want?
- 2) How much will I have, based on how much I’ve saved, how much I’m saving and the likely return based on my current portfolio?
- 3) If there’s a gap, how do I close it?

The answer to these questions should determine the foundation of your financial plan. If you don’t know the answers to these 3 questions then let’s get them together. Here is a good place to start. Go to [www.careyvandenberg.com](http://www.careyvandenberg.com) and click on the Lifestyle Questionnaire. Complete it and e-mail it off to me. You don’t have web access? Call or send us a note. We’ll have one delivered right to your door by your friendly neighbourhood postal carrier (unless you live in a newer home - then it will go to your neighbourhood postal unit).

## Buying Back Your Pension – Sometimes It’s Good, Sometimes it Isn’t

You’ve missed some work for raising children or maybe from a layoff. Or maybe you “cashed out” only to return to your employer and now you have the opportunity to “buy back” your pension. Good idea? Let’s take a look.

Consider an example of a mid 50’s single woman. Wasn’t with her employer for 3 years then went back. Her lost pension could be caught up with an investment of \$8,000. Her pension plan tells her that this will give her an extra \$150 per month when she retires at 60 and at 65 that will go down by \$50 per month. Doing some quick calculations shows that she would have to earn well over 20% per year on her \$8,000 in order to get the same result on her own. The argument to buy back her missed pension is compelling.

Another example, this time it’s a 40 year old woman. Stayed at home to raise kids for 5 years and now she is back at her old job. She is told she needs to contribute \$24,000 to her pension. This time the calculations aren’t so compelling. If she leaves her RRSP where it is she would have to earn a conservative 6.5% to breakeven and when she passes on, whatever is left inside her RRSP goes to her heirs which won’t be the case with her pension.

The answer to question “to buy back or not to buy back” isn’t always that simple. Make sure the deal is good for you.

## The B.C. Governments “Phase 3”

Phase 3 of the Province of British Columbia’s Voluntary Exit Program starts August 18, 2003. Under this program, a large number of employees will be offered special early retirement incentives and severance packages. Are / or will you be one of them?

In total, to meet the Workforce Adjustment targets established by the Province in November 2001, thousands of employees must either voluntarily exit government employment or receive lay-off notices by March 31, 2004. In addition there are thousands of health care workers facing similar job transitions.

This process requires terminating employees to make difficult financial decisions in respect of their pension and severance entitlements. If you are part of "Phase 3" you are probably feeling a little anxious, uncertain..... STRESSED! Give me a call or e-mail. I'd be happy to answer any of your questions about your options and where you can go from here. It's all about knowing that you are going to be OK.

### Health Spending Account Is Much Cheaper Than A Raise For Boss and For You

If you are an employer in the process of giving a pay raise you probably are well aware that for every \$1.00 you increase payroll it actually costs you \$1.69. Yes there is a cheaper way. In fact, it only has to cost you \$1.10 if you pay out the raise a different way. Are you an employee? Maybe your boss will be willing to split the savings if you agree to go with a "Private Health Services Plan". Why not? It's a piece of cake to set one up. See adjacent chart and feel free to call or e-mail me with your questions.

<b>\$1.00 Raise</b>		<b>vs. \$1.00 Health Spending Account</b>	
<b>Employer Cost</b>	<b>\$1.69</b>	<b>Employer Cost</b>	<b>\$1.10</b>
<b>Less Employer Deductions:</b>			
Holiday Pay	0.06		
Workers Comp	0.07		
EI	0.04		
CPP	0.07		
<b>Less Employee Deductions:</b>			
EI	0.03		
CPP	0.07		
Income Tax	0.35		
<b>Net to Employee</b>	<b>\$1.00</b>	<b>Net to Employee</b>	<b>\$1.00</b>

### Protecting YOU As You Age

You may be familiar with the concept of putting money "In Trust" for your kids (or grandkids). The reason for putting it "in trust" is so that those kids will have a sounder mind (i.e. an adult) overseeing the money.

Now you can keep your own assets safe in a trust for your own benefit when you may be financially vulnerable. Let's face it. Life has shown that as we age our mind loses its sharpness. You and I could (or will?) be financially vulnerable one day and the "Alter Ego Trust" could be just the ticket to protect us from ourselves.

The Alter Ego Trust has been available in Canada since 2001 to taxpayers over age 65. It's a type of inter-vivos or "living" trust created by you during your lifetime. It can provide management assistance for you if you become incapable of managing funds and paying bills. It can provide for you if you become disabled without disqualifying you from government benefits. It can also protect you from yourself by giving you an income without giving access to your assets.

Since a Trustee becomes the legal owner of the assets in a trust, the trust relationship imposes significant legal obligations on the Trustee to act in the interest of you, the trust beneficiary and offers vulnerable persons considerable legal protection in the administration of their assets. This can actually give you more protection than a Power of Attorney.

With an Alter Ego Trust you can be the first Trustee as well as the beneficiary. In this case you manage the trust but do not own the assets inside it. Naming a successor Trustee ensures seamless change in management if you become incapable. No need to move assets to someone else's name (and trigger potential capital gains), you simply switch signing officers.

Here is something that I find a lot of clients asking about - saving (or avoiding!) probate fees at death. Since the Trustee of an Alter Ego Trust is the new legal owner, you no longer own the assets personally. When you die (yes, when - not if) the trust assets are not included in your estate. This makes the Alter Ego Trust a potential probate avoidance vehicle, especially in provinces with high probate rates (B.C. and Ontario).

Saving a bit on probate fees isn't a big deal? How about confidentiality on how your estate is divided? Unlike wills, which become public documents when probated, the terms of a trust and the assets held remain private. This eliminates the feud that can take place in the settling of an estate (a common occurrence).

One more point about avoiding probate. It does not mean avoiding tax. All of your capital assets, including those held in trust, will be included in calculating your taxable capital gains at death.

Note: Unlike “capital assets” which can be rolled into an Alter Ego Trust without triggering capital gains tax you can’t transfer an existing life insurance policy because a life policy is not considered capital property. Your Trustee can, however, be authorized to purchase a new life policy, and as owner can access this policy's cash values and make or change the beneficiary. Powers of Attorney can't do this.

(Setting a trust like this up for you and your spouse is called a “Joint Partner Trust”)

## HHHMMMMMMmmmmmm.....

“About 82 per cent of Hudson's Bay Co.'s operating profit in 2002 came from its financial services unit” ( their credit card) - July 18<sup>th</sup>, Globe & Mail. In other words, the Bay makes more money off the interest they charge for people buying on credit than they do on all their retail sales combined. It looks like retailing may becoming a loss leader for credit card services.

BCE, one of the largest companies in Canada calculates the “fair value of pension plan assets” at the end of the year as the average value over the past 4 years not what it was actually worth at the end of the year. It does this to prevent it’s pension plan from appearing to fluctuate too much. If BCE's pension plan had a particularly bad year, it would be difficult for investors to know given that it would be averaged out with three other years. A loss, for instance, of \$1-billion over four years would be averaged to a \$250-million loss over four years.

Do you hold “index” or other passively managed investments? Consider this. On Nov. 14<sup>th</sup> 1972, the Dow reached 1,000 for the first time in history however it didn’t start to stay above 1,000 until December 1982 (Source: Stock Traders Almanac)

A portfolio of investments passed on to a surviving spouse will be charged probate fees. When the surviving spouse passes on, no matter how soon after, the same portfolio will be subject to probate fees.... a second time.

If life expectancy is reported as 85 that means you have a 50% chance of living past that age.

A working budget must be a prerequisite to the use of credit cards. Without a budget, there is no meaningful context to determine if a particular purchase can be afforded. Larry Burkett 1939 – 2003

## Try This Plan of Travel Next Year

This year our family cut our holiday bill by more than 50% by doing a home exchange. We wanted to experience Canada Day on Parliament Hill and do some other Canadian things in the area. However, the fact of the matter is that if it was going to cost us \$6,000 we probably would have gone somewhere more, well.... exotic.

Aside from a spending a couple hundred dollars on museums and the like (many of which were half price or free at particular times), some great dinners out, oh and of course the \$2,200 airfare for 4, there were no hotels to pay for (except for a couple days in Quebec City) and no car rental (cars were exchanged). Plus we enjoyed all the other benefits of being “home”. The end result is that we saved over \$3,000.

After we had accepted a home exchange in Ottawa we had received offers to exchange from as far away as Hawaii (two University of Hawaii professors), Holland (a Greenhouse / Nursery business owner) and Mexico (a Canadian retired couple) so now the decision is..... where do we go next year?

Sound interesting? Go to [www.homeexchange.com](http://www.homeexchange.com)



CFP, Chartered Financial Planner

### DISCLOSURE

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