NAKAMUN
ADVISOR
FALL 2010
AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

Using Capital Losses
to Recover Taxes on Previous Years' Capital Gains

By Garry Keiller, The Nakamun Group, Edmonton

If you've paid taxes on capital gains in the past three years and are considering selling an investment that has dropped in value, you may be able to recover some of those tax dollars you paid.

The Income Tax Act requires capital losses to be applied first against current year's capital gains. However, if there is a remaining balance, the net capital losses can be used to reduce taxable capital gains in any of the three previous years, or in any future year.

Since the capital loss can be carried back only three years, apply the loss to the earliest year in which you have capital gains.

If you haven't had capital gains this year or the three previous years, but your spouse or common-law partner has, it is possible to transfer your capital losses.

TRANSFERRING CAPITAL LOSSES TO YOUR SPOUSE

Immediately after you've sold your investment, your spouse or common-law partner buys the exact same amount of the identical investment, waits at least 31 days, and then sells the investment. Under the superficial loss rules, the capital loss realized on your sale will be denied and instead added to your spouse or common-law partner's adjusted cost base, thereby transferring the capital loss.

continued on page 3…

GOOD ADVICE | WELL GIVEN

A MEMBER OF THE NAKAMUN FINANCIAL GROUP
VANCOUVER
EDMONTON
CALGARY
WINNIPEG

Independent Advisors in Retirement, Financial and Estate Planning, Employee Benefits and Corporate Insurance.

PLANNING
AN AFFORDABLE RETIREMENT

By Garry Keiller, The Nakamun Group, Edmonton

The roughly 12 percent of Canadians now between the ages of 55 and 64, and some of the almost-14 percent of Canadians 65 years of age or older, are in the throws of a transition from saving for their retirement to spending their retirement savings. The better their financial planning has been, the more likely they will be to realize their desired retirement lifestyle.

When planning an affordable retirement, time can be your best friend or your worst enemy. The sooner you start to formulate your game plan to meet your financial goals for retirement, the more successful you will be. Ten years is not too far ahead to start planning and implementing. Sometimes, however, you have no time at all — losing your job, for whatever reason, can take you from employment to retirement in one day. Planning, then, is a challenge, but not impossible.

Here are simplified steps to guide your planning for an affordable retirement.

Step One
DETERMINE YOUR NEEDS

Make a list of all your basic expenses if you were to retire today:

- Accommodation — mortgage payments, rent, property taxes, condo management fees
- Food
- Clothing
- Other expenses you must pay every month

Select an approximate date when you'd like to retire, and then eliminate the basic expenses that will no longer be relevant. For example, if you are empty-nesters currently living in a big, multi-storey house, and are starting to suffer the effects of arthritis, you will likely downsize into accommodation that may be less expensive. Perhaps your clothing budget can be reduced or other recurring expenses will cease in the foreseeable future.

Next, make a list of your reasonable lifestyle wants in retirement — for example, holidays, hobbies, recreation activities, or a new vehicle every few years.

With this information, your Nakamun Advisor will extrapolate the expenses to when you are planning to retire, taking into consideration estimated inflation rates.

Step Two
IDENTIFY SOURCES OF INCOME

Once you know what your retirement expenses will be, the next step is to identify the guaranteed sources of income, noting whether or not they are adjusted for cost-of-living increases:

- Company pension — rather than guessing, request your company's human resources department to calculate the numbers
- Canada Pension Plan — your Nakamun Advisor can estimate your CPP payments
- Old Age Security — that you will receive, if you qualify, once you reach age 65
- Any other guaranteed retirement income

Ideally, the after-tax income generated by the guaranteed sources will be enough to pay the basic expenses. If not, other sources of income must be identified — Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), and other savings. Your Nakamun Advisor will help you determine the order in which your savings are most appropriate to use.

Once your essential expenses are covered, you will begin to see which of your retirement "wants" will be possible.

Step Three
CREATE A PLAN

If your projected retirement income is not sufficient to provide for the retirement you desire, you have fundamentally three choices:

- Work longer to increase income sources
- Reduce expenses now, to build up your retirement savings
- Modify your retirement expectations

The earlier you start the planning process, the better your chances of being able to finance the retirement you would like. If you know ten years in advance that you will need more funds for retirement, there is still time to reduce spending, save more, and do whatever else you are prepared to do to increase your retirement savings.

Step Four
ALLOW FOR VARIABLES

Two critical variables of financial planning for retirement, both unpredictable and to some extent out of your control, are the age to which you live and your health during that time.

No one can accurately tell you how long you will live. The age to which your parents lived could be an indicator, but still doesn't predict your longevity. Therefore, to estimate conservatively, we typically plan to age 100. Beyond late-80s, expenses are likely to change. For example, assisted living accommodation may be most practical and holiday expenses may drop.

Health care costs are also difficult to plan, since you don't know what your needs will be and what expenses government plans will cover. Private health care insurance and other types of health-related insurance should be considered.

For future accommodation and health care expenses, the sale of your home is a common source of income. At some stage of your life, living independently in your home is unlikely to be practical. An added bonus is that the sale of your primary residence provides you with tax-free dollars.

Step Five
REVIEW YOUR PLAN ANNUALLY

Annual reviews of your financial plan for retirement, particularly as you approach the transition date from saving to withdrawing from retirement savings, will ensure you are on track to meet your goals and responding appropriately to unexpected occurrences and trends that you feel might be threatening to sabotage your plan.

Catastrophes such as the collapse of a company pension plan cannot be overcome without significant adjustment in retirement expectations, particularly for those close to retirement age.

However, the effects of occurrences such as rising inflation or poor returns on retirement investments can be alleviated by diligent annual reviews to ensure your plan contains a balanced, diversified portfolio and appropriate adjustments as necessary. After you retire, the amount and type of funds you withdraw from your investments are a complex balance of tax issues, investment returns, and your financial needs. We urge you to stay in close touch with your Nakamun Advisor, who will guide you through these plan adjustments, so you don't inadvertently over or under react.

START PLANNING EARLY

The earlier you start financial planning for your retirement, the more likely you will be to succeed in reaching your goals. Whether you're in your 20s and putting regular, small amounts into an RRSP, or in your 60s and topping up your savings, your Nakamun Advisor can help you plan for an affordable retirement and periodically review your progress.

...continued from page 1

AN EXAMPLE OF THE TAX SAVINGS

Assuming you have a net capital loss of $20,000 and can either carry this loss back to a previous year or transfer it to your spouse; your marginal tax rate is 46 percent; and the type of capital gain yields a 50 percent inclusion rate:

Net capital loss	**$20,000**
Net loss x .50 x .46	**$4,600**

The result is a recovery of **$4,600** in taxes previously paid.

WHO CAN BENEFIT MOST

Investors who sell their investments at a loss and have little or no capital gains in the current year, and they or their spouse had capital gains in the past three years can take best advantage of this strategy.

HOW TO RECOVER THE TAX

To apply for a loss carryback, complete Area III of Form T1A — Request for Loss Carryback — and attach it to your income tax return. Specify the year to which you wish the loss to be applied.

FOR FURTHER INFORMATION

If you would like further information or assistance in planning the application of a capital loss to a previous capital gain, please contact your Nakamun Advisor.

YOUR INSURANCE IS *ASSURED*

In Canada, purchasing insurance — life or property and casualty — comes with reasonable assurance of protection against the insurer being unable to pay a claim due to insolvency.

For life insurance, the protection is provided by Assuris; while for property and casualty insurance, the Property and Casualty Insurance Compensation Corporation (PACICC) provides coverage. Both of these industry-funded, non-profit organizations provide protection to policyholders similar to the way Canadian Deposit Insurance Corporation (CDIC) insures bank, trust company, and loan company depositors against loss in case of member failure.

LIFE INSURANCE

By R.A. (Bob) Challis, CFP, RHU, TEP
The Nakamun Group, Winnipeg

Assuris, a not-for-profit corporation funded by the life insurance industry, protects Canadian policyholders against loss of benefits due to the financial failure of a member company. Life insurance policyholders are automatically covered, at no additional cost, by Assuris' protection and, if their life insurance company fails, their policies are transferred to a solvent company to ensure continuity of covered benefits under the original terms of the policy. Even if an individual's insurability has changed since purchasing the original life insurance product, benefits are retained without interruption and without additional proof of insurability.

In Canada, Assuris protection applies to a variety of products issued by life insurance companies, such as life, critical illness, health expense, disability income, payout annuity, long-term care, accumulation annuity, group, and group retirement insurances; as well as the guaranteed amounts under individual segregated funds policies. Assuris guarantees 100 percent protection when benefits are below certain dollar values and otherwise, at least 85 percent. For example:

- promised death benefits of up to $200,000 or 85 percent, whichever is higher
- promised Monthly Income Benefits of up to $2,000 per month or 85 percent, whichever is higher
- promised health expenses and cash values of up to $60,000 or 85 percent, whichever is higher

The 85 percent protection does not apply to accumulated values such as accumulation annuities, universal life overflow accounts, and dividend deposit accounts. For these deposit-type products, Assuris guarantees 100 percent of accumulated value up to $100,000.

For further information on Assuris' protection on your life insurance products, please contact your Nakamun Advisor.

PROPERTY AND CASUALTY INSURANCE

By Gloria Murphy, CIP,
The Nakamun Group, Vancouver

Most insurance companies in Canada that insure homes, cars, and other property are members of PACICC, which protects policyholders from undue financial loss in the unlikely event their insurer becomes insolvent. Policyholders do not need to apply or purchase PACICC coverage, which is automatically extended to eligible policies.

PACICC provides protection on valid policies on, before, or up to 45 days after the date of the insurer's insolvency. The maximum recovery from PACICC is $250,000 for unpaid claims for losses arising from a single occurrence. Policy deductibles are still applied to the total amount of the insured loss.

PACICC will also refund up to 70 percent of an unexpired premium on the date of the insurer's wind-up order, up to a maximum of $700 per policy.

For more information regarding protection in the event an insurer is unable to pay a claim, contact your Nakamun Group insurance specialist.