



**B L Garbens Associates Inc.**  
Independent Financial Advice  
Professional • Personal • Proactive

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## PRESIDENT'S MESSAGE



*If, like me, you've been uplifted by the outpouring of generosity following the Tsunami disaster, you'll appreciate the value of giving to a cause that matters. What makes this recent global relief effort especially moving is how quickly people were motivated to help those half a world away. For many individuals - and corporations too - this meant digging deep to free up additional funds right on the heels of their planned year-end donations in 2004.*

*Planning is always key when thinking of your giving strategies so that you not only maximize the good you can do for your favourite charity, but also benefit from every tax advantage available to you. This update is focused on providing more information on those strategies. I hope you find new information you can use to guide your giving plans this year.*

*All the best in 2005,*

*Barb*

Barbara L. Garbens  
MBA, RFP, CFP

# Charitable Donations – Beyond The Cash Gift

Supporting a favourite charity is an important goal for many clients. Fortunately, it's a goal that the government supports as well, by providing tax incentives for various forms of donations. Tax credits are provided by both the federal and provincial governments for donations, with the combined value of the credits just under 50% of the amount donated. While many of us make cash donations each year to a favourite cause, there are other tax-effective ways of providing support as well.

Do you have shares that have gone up in value? It often makes sense to donate the shares directly to the charity, rather than selling them and donating the cash. When this is done, only 25% of the capital gain on the shares comes into income, instead of the usual 50%. The donation credit is based on the fair market value of the shares at the time of the donation, resulting in a substantial advantage over selling the shares and donating the cash.

Another possibility is to review your current life insurance policies to see if there are any you no longer need for

family protection. If that's the case, you may be able to achieve a tax benefit by donating the policy to a charity. But, make sure you get professional advice on how to go about this. Different methods will produce different tax results.

For example, if you retain ownership of the policy, but name the charity as beneficiary, your estate will receive a donation credit in the year of your death when the life insurance proceeds are paid out to the charity. But there won't be any immediate tax relief.

On the other hand, if you transfer ownership of the policy to the charity, and name the charity as beneficiary, you'll receive an immediate donation credit for the cash surrender value of the policy, plus future credits for any premiums you pay after the ownership is transferred. Don't forget that when you dispose of a whole life policy, the difference between the cash surrender value and the adjusted cost basis is taxable income. Your financial planner can help you determine the impact.

However you choose to support your favourite charity, take advantage of the tax benefits to make it a win-win strategy.



[www.canadahelps.org](http://www.canadahelps.org)

[www.charity.ca](http://www.charity.ca)

[www.community-fdn.ca](http://www.community-fdn.ca)

[www.charityvillage.com](http://www.charityvillage.com)

# RRSP v. RRIF – How Investment Strategies Differ

If you've spent many years saving for retirement in your RRSP, you're quite used to hearing about how the value of your account will fluctuate, and how it's not a concern because you need to focus on long-term returns. It would be understandable to assume that the same philosophy continues to apply once you reach that time where you start to draw on your retirement funds. But that could be a serious mistake. Here's why.

Once you start to withdraw money from a RRIF, two or three years of negative investment returns can have a serious impact, one that you may never be able to recover from. To illustrate, let's say that an RRSP account goes through a period of negative returns, losing 7% of its value each year for three years. It will take a 25% cumulative return to recover its lost value.

Now, let's look at a RRIF account that undergoes the same losses, while you're withdrawing 7% of the initial amount each year. In three years, the account will be down by 40% of its initial value, and will never recover to its original level, as long as the same withdrawals continue. In fact, the account will likely be depleted in about 15 years.

Of course, you always have the alternative of withdrawing less from the RRIF, assuming you're withdrawing more than the legislated minimum to begin with. But that could mean seriously curtailing the lifestyle you've worked so hard to achieve.

If you're thinking the solution is to put everything into fixed income investments like bonds and GICs that won't be subject to negative returns, that's not the answer either. The low interest rates



generated by these products won't provide the returns you need to give you a decent income throughout your retirement years. The key to managing investment risk is diversification and balance.

Here's our recommendation. To reduce the risk of having to sell investments that have dropped in value when you need to produce income, you need to keep some funds available in cash and fixed income. One year's income requirement in a money market fund can provide monthly income as needed.

Funds that may be needed to cover income requirements for the next two to five years can be kept in bonds and GICs. A ladder portfolio will ensure that there is an investment coming due each year to be moved into the money market fund and used to cover spending needs for that year.

The balance of your RRIF can be kept in a diversified portfolio, with exposure to growth investments to provide inflation protection for the long term. The key is to make sure that you won't have to sell growth investments to produce regular income.

The following resources may be of interest for learning more about various charities, or for making cash donations on-line:

**[www.canadahelps.org](http://www.canadahelps.org)**

Provides a portal for on-line donations to a wide variety of Canadian charities.

**[www.charity.ca](http://www.charity.ca)**

A clearinghouse for Internet fund-raising for North American charities.

**[www.community-fdn.ca](http://www.community-fdn.ca)**

Provides information on the work of community foundations across Canada.

**[www.charityvillage.com](http://www.charityvillage.com)**

News, jobs, information, and resources related to philanthropy.

## MATTERS OF INTEREST

The RRSP deadline this year is March 1, 2005. Here are some ideas to consider:

- Make a spousal RRSP contribution if your spouse is in a lower tax bracket. This will help equalize retirement income in the future;
- If you are over 69 and still have earned income, you may continue to make a spousal contribution as long as your spouse has not yet reached 69;
- Contribute now for 2005's contribution assuming you know what the level will be. The extra year of compounding will make a difference to the final result;
- Have children file tax returns declaring their earnings (even if they are not taxable). This will allow CRA to recognize RRSP room that may otherwise be lost.

Give us a call if you have any questions relating to your specific situation.



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