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Independent Financial Advice
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financial information you can use
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PRESIDENT'S MESSAGE



As consumers we are 'spoiled for choice' these days. If you've shopped for a cell phone or new car recently, you know exactly what I mean. What do you really need? What will you actually use? Product and service options are difficult to decode and it's tough to figure out the best value.

I often find my clients simply have 'decision fatigue' when they are stuck and need an objective forum to bounce around new ideas. By reviewing pros, cons and alternatives together before major decision-making, I can work to save you time, money and frustration down the road. I'll look forward to connecting with you in the New Year, and in the meantime, if you figure out those cell phone plans, please call me! Regards

Barb

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The Pension Dilemma

Are you a member of a defined benefit pension plan? If so, you may have some tough decisions to make when you leave your employer. In many cases, departing employees have to choose between taking the commuted value of the plan (sometimes called the transfer value) and investing it in a Locked-in Retirement Account (LIRA) or receiving a monthly pension when they reach retirement age. If you find yourself in that situation, what are some of the considerations you should bear in mind?

Although the actuaries tell us that the monthly pension and the commuted value are equivalent, they have very different characteristics. While one provides a guaranteed income for life, the other places the investment risk and potential return directly in the hands of the departing employee. If you're considering taking the transfer value, make sure you understand the level of return that's required to match the monthly pension, and what investments you'll need to choose to produce that return.

Is your pension indexed to inflation? Most public sector plans are automatically

indexed, according to a specific formula, while many private sector plans increase their retirement payouts on an ad hoc basis. Many professionals feel that it is difficult, if not impossible, to match the return of a fully indexed plan through investment of the commuted value.

What about medical, dental, and life insurance benefits during retirement? Some employers make these available only to employees who choose the monthly

pension. Taking the commuted value often means that you will need to cover these costs out of your own pocket.

On the other side of the coin, the commuted value does provide more extensive estate protection. The total value of funds in a LIRA can be rolled over to a surviving spouse with no immediate tax implication. Monthly pensions normally provide 60% of the payment to the surviving spouse, although some plans offer the option of reducing the immediate payout in favour of a higher survivor benefit.

The health of your employer may also be a consideration. The current underfunding of many defined benefit plans, particularly if the employer is in a shaky financial position, may be a reason for getting the money out now and under your control. While pensions registered in Ontario are partially protected by the Pension Benefits Guarantee Fund, plans registered in other jurisdictions have no such protection.

Obviously, it's not an easy decision! If you're faced with this dilemma, make sure you give us a call.

Private Medical Coverage – Alternatives for the Self-employed

With the costs of prescription drugs and medical services skyrocketing, making sure that you have the proper medical insurance in place has become a cornerstone of sound financial planning. While OHIP covers routine doctor's bills and a portion of services such as podiatry and physiotherapy, the cost of many medical services must be borne by the patient.

If you're self-employed, you may have been covering these costs out of your own pocket. This can be a sensible way to go for services such as dental care, where private insurance normally has a maximum limit in the range of \$1000 per year. But, while it may be appropriate to self-insure for smaller, day-to-day expenses, you may want to shift the risk to an insurance company in situations where the exposure is far greater.

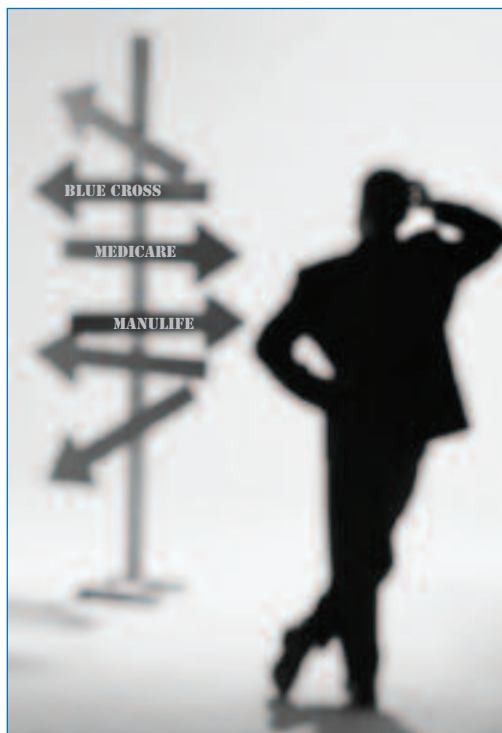
Prescription drugs for someone undergoing cancer treatment, for example, can easily cost up to \$50,000. OHIP only covers prescription drugs for those over 65. Unless you have medical insurance, this type of expense could play havoc with the best financial plan.

While private prescription drug coverage used to be limited in the same way as dental coverage, newer plans on the market provide unlimited coverage, at least up until age 65. Both Blue Cross and Manulife Financial offer plans for the self-employed with no dollar maximum on prescription drugs. While Manulife's plan (AlphaPlus) is available to corporations with a minimum of two employees, the

Blue Cross Global Plan is available to a sole proprietor or unincorporated professional.

And Canada Revenue Agency helps out as well. Health care premiums paid on behalf of a sole proprietor and family members who are employed in the business are deductible up to the following limits if self-employment income is the individual's main source of income: \$1500 per year for each adult; \$750 per year for each child.

For a corporation, the premiums paid by the employer for private health care plans are fully deductible, and they are not considered to be a taxable benefit to the employee.



Since medical underwriting is required for plans with more extensive coverage, the costs will vary depending on age and health status. But comprehensive coverage for extended health and prescription drugs is usually available for less than \$100 per month – a small price to pay for peace of mind.

PRIVATE MEDICAL COVERAGE –

When shopping for private medical coverage, here is a handy checklist of important features to consider.

- What level of coverage is provided (100%, 80%, etc.)?
- Is there a deductible that you will have to pay per service?
- What is the annual maximum and/or lifetime maximum on the services provided?
- Is a doctor's written recommendation required for services such as chiropractic, physiotherapy, and psychology?
- Are alternative treatments such as naturopathy covered?
- What is the monthly cost of the policy?

Information about Manulife's AlphaPlus plan can be found at groupbenefits.manulife.com. The Blue Cross website is www.useblue.com; however, information about the Global Plan had not been added at the time of writing. If you're interested in either of these products, please contact us and we will refer you to a qualified insurance broker.

MATTERS OF INTEREST

In November 2005 Finance Minister Ralph Goodale presented an economic update. The highlights, as they pertain to personal tax, are as follows:

Retroactive to January 1, 2005:

- The lowest personal tax rate will be reduced from 16% to 15%;
- The basic personal credit will increase to \$8,649 (and to \$8,849 for 2006);
- The spouse/partner credit will increase to \$7,345 (and to \$7,515 for 2006)

Additional marginal tax rate reductions are proposed to take effect starting in 2010:

- For income between \$35,595 and \$71,190, a decrease from 22% to 21%;
- For income between \$71,190 and \$115,739, a decrease from 26% to 25%;
- The lower income limit of the 29% tax bracket will increase to \$200,000.

These proposals must be enacted by Parliament before they will have effect.



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