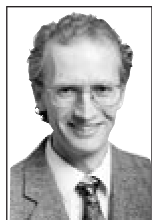
PERSONAL FINANCE

Specials needs planning

COMMENTARY

If you're the parent of an adult child with an intellectual or severe physical disability, you face special challenges in your financial planning and estate planning.

Once your child turns 18, you may want to continue to help support your child financially as much as you can afford. But, in many cases, the costs are enormous. There are limits to what most people can afford — especially if the dependent adult lives another 20 or 30 years, by which time you would likely want to be retired.



TERRY McBRIDE

Tax savings from claiming the caregiver tax credit and transferring your child's disability tax credit only subsidize a small fraction of the costs you'll encounter.

Here is a fictional scenario. A widower named Andrew lives in Saskatchewan.

Besides owning his house mortgage-free, he has a large RRSP.

His youngest child, Donna, has a disability that limits her employment options. Because she may never be self-sufficient Andrew was not shy about seeking government help. Donna lives in a group home and receives social assistance from the provincial government.

As a young, vulnerable adult Donna cannot fend for herself in the financial world. She can become involved in transactions that are not in her best interests, yet she can be held accountable because she is legally an adult.

Andrew wisely applied to the court to become a "co-decision maker" for Donna. There were court costs and lawyer's fees plus physicians' fees for affidavits.

But what happens after Andrew dies? What is the most effective way to leave a financial gift so as to enhance Donna's security and quality of life? Many lawyers don't know the answers. It's easy to procrastinate and do nothing.

Andrew's two other grownup children, Beth and Charles, are prosperous and independent. In his will, Andrew simply names all three children as equal beneficiaries.

Upon Andrew's death, his executor, Charles, takes charge of settling the estate. After selling Andrew's house, Charles would pay the large income tax bill resulting from the RRSP. Then, after tax and probate costs, each child can expect to receive about $100,000.

Several thorny complications would arise if Charles pays out the $100,000 inheritance directly to Donna.

First, the provincial Department of Community Resources and Employment will cut off Donna's social assistance benefits.

Second, Donna couldn't manage her $100,000 inheritance on her own. Her siblings would need to apply to the court to become Donna's co-decision makers to help manage her money. Otherwise, the Public Trustee would be obligated to step in to assist Donna once her financial institution learns that she is a vulnerable adult at risk of financial abuse.

What if Andrew tries to divert all his inheritance to his other two children when he discovers that the government is simply going to confiscate Donna's inheritance anyway?

Excluding his dependent adult child altogether can be futile. Expect the Public Trustee to contest the will when the executor applies for probate because Andrew is supposed to make reasonable and adequate provision for Donna. The court could order his will to be varied to establish a $100,000 trust to enhance Donna's care without interfering with her social assistance.

Rather than have his will overturned in a costly court action, Andrew should be proactive and learn how to establish his own discretionary testamentary trust (also called a "Henson trust") for Donna. He could direct the trustee to use the trust fund to pay for such nice things as vacations, traveling companions or extra TV channels for Donna — without disrupting her entitlement to social assistance.

The Saskatchewan Association for Community Living (SACL) has published a helpful book about estate planning by Dr. Rita McLeod called "The Road Map to the Future." You will find more good information in a new SACL publication called "Navigating the System: An Advocacy Handbook for Parents of Children with Intellectual Disabilities."

Terry McBride is a member of Advocis (The Financial Advisors Association of Canada). He works at Raymond James Ltd. A recommendation of any strategy would only be made following a personal review of an individual situation. Seek independent advice for your tax-related questions.

—SP Photo by Greg Pender

Dale Ennis, editor of The Canadian MoneySaver magazine, says there are bargains to be had for savvy investors

You better shop around

❑ Look for best deals on investments: editor

By Abraham Akot
of The StarPhoenix

Every Boxing Day many of us line up at our favourite stores to take advantage of discounts.

When we go grocery shopping we take advantage of coupons to save money on our purchases.

Can we also save money on investment products?

If you are an investment professional, you definitely know the answer to this question. And depending on your interest and where you are in your financial life, you probably know the answer. But maybe not.

Maybe the financial lingo is too daunting and you think you don't have the ability and time to learn.

Dale Ennis, founder and editor of the Canadian MoneySaver monthly magazine says understanding money has nothing to do with one's intellectual ability.

"I was doing a talk show on a television station and was sitting with a doctor around that time of the year we look at RRSPs (Registered Retirement Saving Plans)," said Ennis.

"I said (to the doctor) 'So what do you hold in your RRSP?' And he said, 'Oh I have my RRSP with the Royal Bank.' I asked again what's in it? He said again — 'It is with the Royal Bank.' He did not understand — RRSP is a vehicle, that's all it is. It is not an investment."

If you are putting money in both an RRSP as well as other investments, put your most heavily taxed items in your RRSP and the other items in non-registered investment, says Ennis.

"Some would say put your bond in your RRSP.

> *"Like any other skills, money is a learned skill. As you build on it, you become more successful in the skill, you become more knowledgeable, you become less stressed about financial matters."*
>
> **— Dale Ennis, Canadian MoneySaver editor**

Why? Because you are getting interest from your bond. And interest from bonds is taxed at the highest marginal rate — leave them in your RRSP where they are productive," he said.

"Outside your RRSP, you buy stocks. Why? Because at the marginal tax rate — the capital gains and the dividends are preferentially treated — which simply means you pay a lot less tax."

Prior to starting the MoneySaver magazine 25 years ago, Ennis bought a mutual fund which turn out to be an investment he did not need. It had an insurance and an investment component.

"I only wanted an investment component. Anyway, it triggered the whole dilemma . . . that I needed to learn more about financial matters. It was a good learning experience.

"I had also decided that maybe I could take my . . . learning and put it in print and share it with other Canadians," he said.

Ennis quit his job as a teacher with the blessing of his wife, Betty, to launch the first issue of the Canadian MoneySaver in 1981.

The magazine started humbly, with only eight pages, but it immediately received attention in Ontario because of some positive coverage by a Toronto newspaper, said Ennis. By the time the first issue was printed, more than 500 people had subscribed.

Today the magazine has more than 30,000 customers, as well as an online edition. Produced without advertisements, it is totally funded by subscriptions. It has about 50 contributing editors, who are mostly practitioners in fields like financial planning, accounting, investment counselling and law.

For $20 a year, you get 10 issues that cover topics like investing in stocks, mutual funds, bonds, insurance, tax savings, estate planning, retirement planning and dividend reinvestment plans.

Ennis, who was in Saskatoon recently, has hooked up with Costco during the magazine's 25th anniversary year to present seminars across the country on how to "keep, save and make more money.

"Like any other skills, money is a learned skill. As you build on it, you become more successful in the skill, you become more knowledgeable, you become less stressed about financial matters," he said.

Ennis says that with a little knowledge anyone can beat 85 per cent of money managers in Canada.

"Because 85 per cent of the mutual funds don't beat the index. So what do you do? You buy the index."

Why can't money managers beat the Canadian equity index? Ennis says he believes it's cost.

"Because the management expense ratio (MER) is too high. Your cost to pay the advisers, commonly called the load, is too high."

Ennis says savings can be found within other everyday financial expenditures.

"You can do the same and slice the cost of premiums on your insurance. You can slice the cost of your mortgage and your loans. If you know there are options and you shop around."

Homebuyers should wait for coming correction

COMMENTARY

Time to dip into the ever-filling mailbag, which today is a digital marvel.

Seems people have no end of concerns and questions about the always changing real estate market.

Diana says: "I realize you are a very busy man and I respect your opinion. I read and clip out your columns religiously. Your last week's column suggested locking in. My renewal date is 2008 and I am presently at 5.17 per cent. I could reopen this mortgage and go for another five years, or should I ride this one until 2008? I can make these payments barely, but any higher I am not sure. I won't hold you to your answer, just your opinion."

OK, Diana, don't panic. If you have equity in your home and are not a first-time buyer (mortgaged to the gills), then stay with your current loan. The rate is fairly decent, and you need not incur costs renegotiating the mortgage. Will rates be higher in 2008? You bet they will be, so concentrate on saving money to put against the debt upon renewal.

Some folks on the left bank of Canada write: "My wife and I read your article on 'Not-so-perfect storm brews over real estate' with great interest. As it turns out we just "cashed in" our house here in Victoria and banked over $255,000.

"We were planning on moving up in the housing market due to a growing family.

"We moved to a new part of town where we are currently renting and quite comfortable. We have an option to buy and build right now, but that may get pushed to the spring. The only bright spot is that we have managed to extend our offer to purchase this chunk of land to the spring. Other people are now paying $20,000-$25,000 more for their lots than we signed up for in March!

"My question: Should we professionally invest that cash and pounce in

GARTH TURNER

Turner Report

February, or a later date? Or should we jump back in and build now to lock a low interest rate? (If we jump back in it means a mortgage of around $230,000.)"

The question here is one of timing, and I am still firmly of the opinion that we're at the high-water mark for house values. Thanks to rising mortgage rates and insane energy costs, the economy will slow a little and real estate will cool off.

Lots of people will be shocked to learn that homes will not go up forever (as if they ever did), and the ensuing media angst will accelerate the dip. So, my thinking is you are far better off to buy when demand slacks. This will far outweigh the impact of rising loan costs.

Remember: The prime rate of 4.5 per cent today is not going to 10 per cent. If it hits six per cent by the end of 2006, I will be surprised.

From Toronto: "We would like to wait to buy until the mortgage rate goes up. We have to fight with people who buy $300,000 houses with zero to five per cent down. If the rates go up, the prices go down and we have a good down payment. The thing is we do not want to wait for more than a year . . . What do you suggest? We want to buy in January-February when the prices go down a bit, do you think after February the prices will go up again?"

Just what I've been saying, actually. The market in Toronto is, in many ways, far less steamy than the newspaper front pages or the cover of Toronto Life suggest. In many neighbourhoods, it's hard to sell a home, while recreational properties have already been impacted by the inevitable correction. The average home price has peaked and will decline — not by a huge amount, but enough to restore some balance between supply and demand.

Wise buyers will now wait for the snow.

If you have a question, concern or comment, I am but a few keystrokes away: garth@garth.ca.