



People who care, Plans that perform

Perspective



Tax-Free Savings Account (TFSA)

The Tax-Free Savings Account, or TFSA, which became available in January 2009, is a new tax-efficient savings vehicle introduced in the 2008 Federal Budget. The TFSA will have the effect of reducing taxes payable by Canadians while increasing the personal rate of savings. It has long been noted that Canadians pay an excessive amount of taxes and that the personal rate of savings has been falling for years. The TFSA provides relief for both of these problems. The Canadian government views the TFSA as “The single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP)”. So what’s all the hype about? Simply put, the TFSA combines the tax deferral of an RRSP, with the accessibility of a savings account. It’s your “rainy day” account, the new car account, the family vacation account, or a start a new business account – all in one.

The TFSA account is available to any individual who is over the age of 18 and is a Canadian resident. The TFSA is a registered savings account that, like an RESP (Registered Education Savings Plan), allows for non-deductible contributions while sheltering any income and gains from tax. The major innovation of the TFSA over other registered accounts is that there is no tax on withdrawals - ever.

The TFSA contribution room for 2009 is \$5,000 and this amount will be indexed to inflation each year. Much in the same footprint as the RRSP, unused contribution room can be carried forward and used in subsequent years. Overcontributions will be subject to a penalty.

Withdrawals are one area where a TFSA has a distinct advantage over an RRSP. When a withdrawal is made from an RRSP, that contribution room is lost forever. However, with a TFSA, an account holder may use the funds and as long as they are not re-contributed in the year of withdrawal, may top up their TFSA to the extent of the withdrawal at a later date without penalty. This simply means that after a TFSA has been established, if there is a withdrawal, the withdrawal amount is added to next year’s available contribution room. An example where this may be beneficial would be in the case of a small business owner. A withdrawal from a TFSA may be required to help finance the early start-up costs, but after the business has been established and begins to turn a profit, the amount of the withdrawal can be re-contributed to the TFSA without penalty.

Another distinct advantage of the TFSA is that you can provide funds to your spouse, common-law partner, or adult children for their TFSA and no income attribution will result. If you have a spouse and three adult children, the income splitting opportunities become very attractive. (Note that if you give your adult child money to contribute into a TFSA, the amount given and any subsequent income or growth is legally theirs).

As with an RRSP, the range of assets that can be held within a TFSA are quite diverse. Mutual funds, segregated funds, stocks, bonds and GICs, and even certain shares of small business corporations are permitted within a TFSA. As with any investment, the assets held within a TFSA should match the investor profile of the contributor. Items such as risk tolerance, financial situation, time horizon and the purpose of the account need to be taken into consideration when selecting assets to be held within a TFSA.

A notable feature of the TFSA is its parity. An individual does not have to be a high income earner, or below a certain age in order to take advantage of the benefits of the account. Early estimates predict that in the first five years, over 75% of the benefits of TFSAs will go to account holders in the lowest two income brackets. Part of the reason for this is that withdrawals will not impact an individual’s eligibility for income-tested benefits or credits, such as Old Age Security, the Guaranteed Income Supplement, Employment Insurance benefits, and the Canada Child Tax Benefit.

With all the benefits of a TFSA, is the RRSP destined to become second choice for savings accounts amongst Canadians? It depends on a number of factors: your savings needs, your current and future income, and your effective tax rate now and in retirement. For example, if your effective-tax rate is higher now (because you may be in the accumulation phase and therefore peak earning years of your working life) than it will be in retirement, an RRSP may be the way to go. However, if you expect income in retirement to be greater than what you are currently earning, a TFSA may provide a higher net rate of return. A TFSA’s flexibility and non-influence on income-tested benefits will always need to be taken into consideration when it is compared against an RRSP.

To set up your TFSA, please contact your Arca advisor.

Contributor: Chris Osborne



Inside this Issue

Page 2

- Market Commentary
- Arca Family Announcements
- Community Business Profile
- Group Benefits Fundamentals

Page 3

- Inside Arca
- Tax and Estate Planning
- Your Arca Team

Page 4

- Lifestyle Tips



Community Business Profile

Benchmark Management Group

You may see a new face in the office on your next visit to Arca. Paul Bolger will be operating Benchmark Management Group from our Labrador Drive location for the 2009 tax season.

Paul is a Certified Management Accountant and since 1989 has been providing financial management services to personal and corporate clients. His services include financial statement preparation, corporate and personal tax returns, budgeting, controllership services, business plan development and management reviews.

For your business accounting needs, Paul can be reached at (519)569-0812 or bolger.bmg@bell.blackberry.net.

In order to offer networking opportunities to our clients and business partners, we will be featuring one business in each newsletter. If you would like your business to be profiled, please contact Rose Frim at (519)745-8500 or by email rfrim@arcafinancial.com.

Market Commentary

Economic Outlook – Pessimism prevails

The world economy is expected to expand by 0.5% in 2009 (anything below 3% is deemed a world recession). Unlike past global recessions that are largely contained to a specific region (such as Asia or North America), this is a rare instance in history that we will see a synchronized global economic downturn.

In Europe, short-term borrowing costs have been high and even exceeded their American counterparts. Nowhere in the world have households escaped the downdraft in stock market wealth and many countries are also faced with deterioration in real estate wealth (such as UK, US, Spain, Australia and Ireland). We believe we are only at the half-way mark for the global downturn, with advanced and developing economies unlikely to find firmer ground until the third quarter of 2009.

Many nations are also aggressively cutting interest rates, while undertaking fiscal and financial measures to aid households, credit markets and firms in distress. These financial-aid measures will cause global growth to rebound in 2010.

The U.S. economy officially entered a recession in December 2007; however, the hardest leg of the downturn has just begun. Aside from the ongoing credit turmoil impacting business operations and investment, job losses have now accelerated sharply, and consumers are slamming their wallets shut. Talk on Capitol Hill is of money being dedicated to infrastructure investment has increased the likelihood that the

end of 2009 and 2010 will benefit from a relatively solid rebound. In addition, the combination of lower gasoline prices and permanent income tax cuts will likely place consumers back in the driver's seat in 2010.

In Canada, more expensive credit, weakened export demand, falling commodity prices, plummeting stock markets are having an impact on business and consumer confidence. Going forward, expect these downward trends to become more pronounced in employment, investment and consumer spending. There is one major negative factor on the economy that is uniquely Canadian and will have a profound impact – the effect of tumbling commodity prices. Since the Canadian stock market is disproportionately weighted with commodity related firms (50%), the past rise in commodity prices also drove up stock market wealth for Canadians as a whole.

To sum up, there are two phases to the economic outlook. First, weakness through the first half of 2009 across all major economies. Second, a solid recovery is expected in the second half of 2009 and through 2010. A lot of imbalances will still need to be unwound, including those that afflicted the global economy before this crisis. There is no simple solution. So while we will likely get a reprieve over the next 12-24 months, a number of broader issues will continue to exist.

Article sourced by Heather Huston from comments made by TD Economics.

Arca Family Announcements

Congratulations to Dave & Tess Archer who welcomed their second baby girl, Jamie Elizabeth, on December 1st, 2008. Best wishes to the Archer family!

Congratulations to Heather Huston who passed her Branch Manager's exam in November! Way to go Heather!

Congratulations go to Bill Vollmer who passed his Canadian Securities exam in December! Great accomplishment Bill!

Congratulations to Joanne Strub, who has accepted the position of Insurance Associate on Bill Vollmer's team.

Congratulations to Krystal King who has moved into the Client Service Associates' role on Bill Vollmer's team.

Welcome to Deb Wettlaufer! Deb joins us as the Client Services Associate and Investments Associate for the Healy/Strome team and for Paul Struck and Irene Fast. Welcome aboard!

What would you like to see in our next issue? Let us know at inquiries@arcafinancial.com!

Group Benefits Fundamentals

Financial Planning Services for Groups

Spectrem Perspective recently completed a survey of plan members in defined contribution plans where 59% of participants stated that they do not have financial planning services available to them. According to their report entitled "Financial Planning at the Workplace", of those participants with no access to financial planning through their retirement plans, 81% indicated they would be interested in investment planning services if offered.

The majority of plan participants without access expressed interest in using these services. "There is a clear disconnect between retirement plan participants' interest in financial planning services and the benefits their employers are providing. The vast majority of those without access to these services are interested in them." said Catherine McBreen, Managing Director of Spectrem Group.

This report is based on a telephone survey of 399 participants in defined contribution plans. Even though the survey is U.S. based, it would be fair to say that the same deficiency holds true for Canadian pension plans.

Arca has the resources to quickly and professionally remedy this problem with extensive financial planning services available to all our plan members. Give us a call today to find out how we can help you!

Contributed by Paul Struck, CLU and Irene Fast, RHU Arca's Group Benefits Consultants



Inside Arca

Staff Christmas Party

December 6th was our annual staff Christmas party held at the Charcoal Steak House. The evening included our annual Arca Awards ceremony. The awards ceremony is an opportunity to recognize some of the special achievements our staff and advisors have accomplished in the past year. Congratulations to Rose Frim, Mark Healy, Mark Leech, John Lunz, Amanda Hesch, Jeri-Gay MacDonald, Kelly Smith, Joanne Strub, and Bill Vollmer on your awards!

Holiday Gala

Thank you to all of our clients who joined us for our Annual Holiday Gala on December 16. We raised \$800.00 for the Family & Children's Services of Waterloo Region.

Don't forget to spring ahead and change your clocks on Sunday, March 8th.

Tax And Estate Planning

Why Consider Joint Last-To-Die Insurance?

Death and taxes are just two of the unfortunate realities of life. You can't avoid them but you can put measures in place to lessen their impact and protect the ones you love. Life insurance is one of the tools you can use.

Upon your death, you will have a deemed disposition of all your assets at their fair market value, and this may cause a large tax liability. If you have a spouse, you can defer the tax liability until his or her death, but you cannot eliminate it. This is where joint last-to-die life insurance can be very helpful.

With joint last-to-die insurance (sometimes called second-to-die), two lives are insured jointly. The death benefit is not paid upon the death of the first insured, but instead is paid when the second insured dies. This type of insurance will be less expensive than single life coverage on either of the lives insured.

Consider the example where a family will

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This material is provided for general information purpose only and is not to be construed as investment nor tax advice. Before acting on any of the above please consult with a professional for investment or tax advice based upon your personal circumstances.

Arca's Turning Green

That's why we're offering the opportunity to receive your copy of our newsletter by email! If you would like to receive the newsletter by email, rather than paper, then please let us know by emailing inquiries@arcafinancial.com and stating 'newsletter by email' in the subject line. We can all do our part for the environment.

Please note our office will be closed on
Monday, February 16 - *FamilyDay*
Friday, April 10 - *Good Friday*
Monday, May 18 - *Victoria Day*

need approximately \$500,000 to pay the tax liability on the family cottage and investment assets upon the death of the parents. If both parents are currently 47 year old non-smokers, they can pay as little as \$2,103 for \$500,000 of joint last-to-die insurance coverage. If they purchased individual policies, the cost would be \$4,088 for the father and \$3,148 for the mother. Depending on the type of insurance product, the parents could also choose to pay up the policy in 10 years and use the tax sheltering available within an exempt insurance policy. They could deposit \$21,945 into the policy for 10 years and this would accumulate to about \$1,440,000 after 40 years, assuming a 5% product rate.

Joint last-to-die insurance is a cost effective way to provide for your loved ones. Feel free to contact your Arca advisor if you would like more details.



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CFO, Tax & Estate
Planning Consultant



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Deb Wettlaufer
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Service Associate



*People who care,
Plans that perform*

“Stress is not what happens to us. It’s our response to what happens, and response is something we can choose.””

– Maureen Kolloran

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Lifestyle Tips

Stress Check-Up

In our every day lives, we face many situations that have the potential of causing us stress. We may find ourselves feeling impatient or anxious waiting in line at the bank, sitting in heavy traffic, or facing more difficult situations such as going through a separation or the death of a loved one. Our reactions to these challenges impact our emotional and physical lives substantially.

All of us have experienced the symptoms of stress at one time or another when confronted with situations that make us feel uncomfortable, threatened or insecure. The heart beats faster, breathing quickens and blood pressure rises. We may choose to respond by acting aggressively, or we may feel like running for the nearest exit – hence the common label attached to this reaction, “fight or flight”. Reactions to difficult situations vary from person to person. What may be perceived as a very stressful situation for one person may not be overly stressful for another. Current information states that stress is a result of an “imbalance between demands and resources” and occurs when “pressure exceeds one’s perceived ability to cope”. Learning to change our perception of a given situation, adopting a more positive attitude and having the confidence in our ability to cope with it, can help us to better handle these challenging times.

There are many tried and true methods that work to help calm us. If you’re planning a trip to Tokyo Japan, you may want to visit the recently opened and appropriately named, “The Venting Place”. Catering to the business crowd, you have your choice of hurling either plates or

cups at a wall for a small fee! But you don’t need to travel far and wide. Here are some suggestions that you may want to investigate and incorporate into your life:

- Deep breathing – focus on your breathing, take slow deep breaths from the diaphragm
- Meditation – sit comfortably on the floor/chair, focus on an image (flower, candle) or repeat a word such as “peace” and use positive “self talk” eg. “I am strong”, “I am in perfect health”
- Visualization – imagine yourself on a tropical beach, or recall a happy memory or vacation
- Yoga, walking or other exercises – stretches tense muscles and release endorphins
- Artistic Expression – write a journal to get in touch with your feelings, painting, carving, or take up any hobby that you find very enjoyable
- Take B vitamins or herbs – B5, C, zinc, magnesium, rosemary, valerian, chamomile, rosehip, lavender, passion flower, peppermint
- Autogenic training, self hypnosis, biofeedback and Transcendental Meditation – are all relaxation techniques for learning to control body functions normally not under conscious control, such as heart rate or blood pressure. These techniques may help manage migraines, anxiety attacks, fibromyalgia and other conditions.
- Learn to say “no” – set limits, learn to manage your time

Contributor: Rose Frim

