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Perspective



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Stay Open to Opportunity

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These are trying times for all investors as the global recession intensifies and financial markets continue to reel. We have seen in the past several months that Canada has now joined the global contraction in full force. Recent data show a remarkable plunge in Canadian exports, consumer spending and confidence in the wake of the meltdown in the U.S. and elsewhere. Our housing and commercial real estate sectors have weakened markedly and layoffs mount as businesses contract in the face of weak demand for their products and services.

The manufacturing sector in central Canada preceded the more general downturn in response to the earlier surge in the

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Canadian dollar and the continuing and deepening troubles in the auto industry. But, with the global economic decline, commodity prices have plummeted (with the exception of gold), slowing activity in the energy and materials sectors

in the rest of the country. The forest products sector has long been weakened by the massive plunge in U.S. housing activity and the global reduction in demand for newsprint.

The financial and other services sectors have been hard hit as asset values and earnings fall and cyclical risks pile up. The credit crunch continues to forestall even a modest recovery as troubled businesses and households are strained and have bumped up against a lack of sufficient capital at reasonable cost. In the stock market, there has been virtually nowhere to hide as the TSX has continued to sell off so far this year, on the heels of a brutal 2008.

As bad as it is, however, there is evidence that financial strains are beginning to ease and central banks are working

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Saving and Planning for Retirement – Important Considerations for Singles

By chance or design, a surprisingly large number of Canadians are facing their golden years alone. The fact is that even if you are part of a couple now, a recently released BMO Retirement Institute report, *Retirement for One, By Chance or By Design*, indicates that there is a strong likelihood that you will find yourself single at some point during retirement.

Even though common wisdom supports that every Canadian should start saving for retirement as early as possible, singles are often likely to be less informed about their financial well-being in retirement than their married counterparts. Since singles have only one income on which to rely, it's important to start saving as early as possible to benefit from compounding growth. In fact, if you're 20 years from retirement and you save \$5,000 per year in an account like a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA), you will have

approximately \$220,000. If you wait 10 years to start saving, you'll have to come up with \$15,000 each year for the next 10 years to have as much money saved up. Saving enough money for retirement is hard enough, but starting earlier will make it seem easier.

Singles may find themselves needing to invest more aggressively both before and during retirement in order to compensate for a lower saving rate and a smaller nest egg. However, your investment portfolio should be well diversified and reflect your risk tolerance and time horizon. Meeting with your BMO Nesbitt Burns Investment Advisor to review your portfolio at least annually is an important part of your financial plan.

Once you've established a plan to accumulate savings, you should ensure you take steps to protect that savings plan. When you're the only income earner saving for retirement, protecting your earning potential

Based on the findings of the report, singles need to plan and save just like couples, but may also need to address some additional considerations;

- Start planning for retirement earlier than couples
 - Manage expenses more closely both before and during retirement
 - Greater need to protect their income
 - Have a later life plan
- To learn more please visit retirementyourway.com.

should be top of mind. When you are unable to work due to illness or other reasons, this not only impacts how much money you will be able to save, but may result in using funds that had previously been set aside for retirement.

Having a plan that encompasses both savings goals and risk management will help you make your retirement vision a reality. Your BMO Nesbitt Burns Investment Advisor can help you create or update your retirement plan and offer solutions to help you achieve your goals.

Contact your Investment Advisor for a full copy of the BMO Retirement Institute report ■

About Registered Disability Savings Plans

Did you know?

First proposed in the 2007 Federal Budget, Registered Disability Savings Plans (RDSPs) provide welcome assistance for parents and others planning for the long-term financial security of people with disabilities. Now available at BMO Financial Group, here are some of the benefits of an RDSP:

- Parents and other contributors can contribute a lifetime maximum of up to \$200,000 per beneficiary, with no annual limit.
- Contributions may qualify for payments from the **Canada Disability Savings Grant (CDSG)*** program, up to a lifetime maximum of \$70,000 per beneficiary.



- Lower-income families may qualify for payments from the **Canada Disability Savings Bond (CDSB)*** program without having to make a contribution to an RDSP, up to a lifetime maximum of \$20,000.
- Any growth on the money invested in the plan is on a tax-deferred basis.
- When money is withdrawn, the investment income is taxed to the beneficiary, who is likely to have a much lower tax rate than parents or contributors.
- Eligibility ends December 31st in the year the beneficiary turns 49. Both the CDSG and the CDSB are contributed by the Government of Canada and paid directly to the plan on behalf of the beneficiary ■

2009 Federal Budget – Summary of Personal Income Tax Proposals

Effective January 1, 2009 (unless otherwise stated), the 2009 Federal Budget proposes to make the following personal income tax amendments:

General Tax Incentives

Personal Amounts and Income Tax Brackets

- The federal basic personal amount (and the spousal, common-law partner and eligible dependant amounts) are scheduled to increase from \$9,600 (in 2008) to \$10,320.
- The upper limit on the lowest federal personal income tax bracket (which taxes income at 15%) will increase from \$37,885 (in 2008) to \$40,726.
- The upper limit on the second personal income tax bracket (which taxes income at 22%) will increase from \$75,769 (in 2008) to \$81,452.

Home Renovation Tax Credit

- Effective after January 27, 2009, the government proposes to introduce a temporary non-refundable Home Renovation Tax Credit (HRTC) equal to 15% of eligible expenditures incurred in excess of \$1,000 but not more than \$10,000, resulting in a maximum credit of \$1,350 (\$9,000 x 15%).
- The credit will only apply for the 2009 taxation year for work performed or goods acquired after January 27, 2009 and before February 1, 2010 but will not apply to expenditures made pursuant to agreements entered into before January 28, 2009.
- Eligible expenditures qualify for the credit if they are incurred in relation to a renovation or alteration provided the work is of an enduring nature and is integral to an eligible dwelling.
- Qualified expenditures include the cost of labour and professional services, building materials, fixtures, equipment rentals, and permits but would not include regular maintenance and repairs, appliances or financing costs, for example.

Home Buyer's Plan and the First Time Home Buyers Credit

- After January 27, 2009, the amount that an eligible first time home buyer will be able to withdraw tax-free from an RRSP to help finance the purchase of a home will increase from \$20,000 to \$25,000.
- The budget also proposes a new non-refundable tax credit for first time home buyers who acquire a qualifying home after January 27, 2009. The credit is equal to \$5,000 multiplied by the lowest personal income tax rate for the year (15% for a maximum of \$750 in 2009) and is claimable for the taxation year in which the home is acquired.



Mineral Exploration Tax Credit

- Currently scheduled to expire in March 2009, the budget proposes to extend the eligibility for the mineral exploration tax credit (available to individuals who invest in flow-through shares, equal to 15% of specified mineral exploration expenses incurred in Canada) for one year to flow-through share agreements entered into on or before March 31, 2010.

Tax Relief for Seniors

Age Credit

- The budget proposed to increase the Age credit (applicable to those aged 65 and over) by \$1,000 to \$6,408. The income level at which this credit is fully phased out will increase to \$75,032 (from \$68,365).

RRSP/RRIF Losses after Death

- Background: At the time of an RRSP/RRIF annuitant's death, the fair market value of the investments held in the RRSP/RRIF is generally included in the income of the deceased for the year of death. If the investments have increased in the time between the annuitant's

death and distribution to the beneficiary, the amount of the increase is generally included in the beneficiary's income. If however there is a decrease in the value of the investments (between death and distribution) this loss was generally not able to be recognized for tax purposes.

- Therefore, in respect of a deceased annuitant's RRSP/RRIF, where the final distribution occurs after 2008, the budget proposes to allow the amount of the post-death decrease in value to be carried back and deducted against the deceased annuitant's year-of-death income inclusion.

Low Income Taxpayers

The Working Income Tax Benefit (WITB)

- The WITB originated in 2007 to provide tax relief for low income individuals and families who have earned income from employment or business. The budget proposes (after further consultations) to enhance the assistance provided by the Working Income Tax Benefit effectively doubling the amount of total tax relief provided. In addition, the budget proposes to increase the levels at which Child Tax Benefits for low income families are phased out.

Other Measures

Key Corporate Tax Proposals

- The amount of active business income earned by a qualifying small business that is subject to the low federal corporate tax rates will be increased to \$500,000 (from \$400,000) retroactive to January 1, 2009. Other enhancements to capital cost allowances on business assets purchased, such as computers and software, apply after the date of the budget.

Previously-Introduced Measures

- The government also confirmed its intention to proceed with several previously-introduced tax measures, including the one-time 25% reduction in the 2008 RRIF minimum payments announced in late 2008. In addition, the government intends to review the outstanding proposals for non-resident trusts and foreign investment entities in light of recent submissions received on these complex measures, before proceeding further on these amendments.

Many of these budget proposals were included in income tax legislation which was formally passed into law on March 12, 2009. For more information on these measures and to determine how these tax measures may affect you, please consult with your tax advisor ■

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hard to provide the liquidity needed to restart normal credit flows. The spread in interest rates between corporate bonds and government bonds is narrowing, and will likely decline further as the Bank of Canada supports the corporate bond market. The recent fiscal stimulus package will also help to restart the economy. Nevertheless, the recession will likely continue for much of the rest of this year. However, at the first sign of a bottoming in economic activity, stocks will begin to rebound. While it is impossible to time that specifically, it is safe to suggest that next year will be a far better one for financial markets.

In the meantime, all of us must step up our savings to recoup at least some of the losses in our retirement and other accounts. Prudent investment, even in cash-like instruments, is always worthwhile, and no time more so than during this once-in-a-lifetime meltdown in wealth. Over the next year there will be enormous opportunities to profit as the panic selloff in many stocks and bonds reverses. There has never been a better time to be cash rich and open to these opportunities. There is so much cash on the sidelines that the rebound in asset values is likely to be very sharp and sudden ■



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