



Perspective

www.bmonesbittburns.com

In This Issue:

- A New and Unique Way to Save
- Individual Pension Plans – For Professionals & Small Business Owners
- RRSP Saving Strategies

This is No Time to Stop Saving

As at December 5, 2008

Not a day seems to go by when we are not reminded of the global financial crisis and commensurate slowdown in economic activity. The U.S., Canada, Britain, Japan and the Eurozone are in recession. The incoming data suggest that the economy is still declining rapidly and we are likely to see continued weakness through 2009. Many investors have suffered considerable losses in stock portfolios, even the most conservative ones. The only real safe haven has been U.S. and Canadian government bonds. Meantime, the Canadian dollar has fallen sharply.

One thing is certain, governments around the world realize the severity of the situation and are taking very aggressive and unconventional actions to thaw the liquidity freeze, assuring that credit becomes more readily available for households and businesses. As well, virtually all countries are introducing large targeted and multi-year fiscal stimulus to create jobs and increase confidence, mainly in the form of project spending for infrastructure, alternative energy and education as well as moderate tax cuts for the middle class.

Washington, at this point, has made almost \$8 trillion of financial commitments, ranging from direct investments to

debt guarantees, through a wide range of rescue programs hatched by the Federal Reserve, Treasury and Federal Deposit Insurance Corp. And, this number could grow if markets worsen. It is clear that the Fed and the Treasury are willing to print as much money as needed to revive the nation's crippled banking system.

As painful as this has been for all of us, this meltdown also provides opportunities. While these are still early days, there are glimmers to suggest that many good stocks are considerably undervalued. This should have enticing implications for investors.

As well corporate bond spreads, even for investment grade bonds, are at historically wide levels and likely to come in once the credit markets thaw. There have been lessons learned in this volatile period as many have watched their hard-earned savings diminish. There is no better time to speak to your BMO Nesbitt Burns Investment Advisor, create or refresh your financial plan, and restructure your portfolio to reflect the 'new normal' environment. Most of all, continue to save – make this year's RRSP contribution. Open up a Tax-Free Savings Account. Some might consider government bonds, GICs and other low-risk investments, as well as undervalued stocks. 2009 will be a weak year, but by 2010 we should be well into the thrust of economic recovery. Stock market rallies occur in anticipation of the economic upturn, so before the end of next year, a bull market in stocks could well recommence.

Warm Greetings!

On behalf of BMO Nesbitt Burns, I would like to offer you our best wishes for a New Year filled with peace, health and happiness. With a very difficult year in the markets behind us, we hope 2009 brings a renewed sense of optimism and hope. Thank you, most sincerely, for your valued business and most importantly for your trust in us.

Dean Manjuris
Vice-Chairman, BMO Nesbitt Burns, Private Client Division

Sherry Cooper is Global Economic Strategist and Executive Vice-President, BMO Financial Group and Chief Economist of BMO Capital Markets.

A New and Unique Way to Save

Benjamin Franklin coined the phrase, “Nothing is more certain than Death and Taxes” and for the most part, he was right. In 2008 the Federal Government introduced the Tax-Free Savings Account (TFSA) and created some wiggle room in Mr Franklin’s assertions.

One of the principle features of the TFSA is its tax-free nature. A tremendous benefit to Canadians who, for the past 50 years have relied on RRSP or other registered accounts for tax shelter. TFSAs have a few distinguishable features, for instance, unlike an RRSP account that is tax deferred, all income earned in a TFSA is fully tax free. This offers a unique planning opportunity to Canadians of all ages to take advantage starting on January 2, 2009. Initially the benefit may appear small given the contribution limits as new contribution room becomes available each year, the benefits grow and over time the value can become monumental to average Canadians.

Here is an example:

Comparing contributions of \$5,000 per year over 5, 10 and 20 year periods between a non registered account and a TFSA produces the following result. A discounted rate of 5% is used in the non registered account (to pay taxes) v/s 8% for TFSA (because of no tax impact)

	5 years		10 years		20 years	
	Taxable Account 5% return	Tax Free Account 8% return	Taxable Account 5% return	Tax Free Account 8% return	Taxable Account 5% return	Tax Free Account 8% return
Total Investment	\$25,000	\$25,000	\$50,000	\$50,000	\$100,000	\$100,000
After Tax Return	\$29,009	\$31,679	\$66,033	\$78,227	\$173,596	\$247,114
Extra Benefit		\$2,670		\$12,194		\$73,518

There are numerous planning opportunities created by the introduction of the TFSA. Canadians would be wise to view it as one strategy that could be used to increase net worth and save taxes over the long term. In consultation with your Investment Advisor, you now have the opportunity to add an additional tool to accomplish your financial goals. RRSPs, RESPs, and TFSAs each have their unique features and can be used to complement each other to meet your personal or your family’s financial goals.

¹For BMO Nesbitt Burns, TFSA account holders are required to be the age of majority to open a TFSA - for some jurisdictions (B.C., N.S., N.B., Nfld., Yukon, North West Territories, Nunavut) the age of majority is 19.

TFSAs have appeal for all Canadians. Seniors can contribute excess cash flow and save taxes while preserving government benefits. Younger Canadians can save for a variety of purposes; High income earners can supplement RRSP accounts and shelter an additional \$5,000 per year in a TFSA. (As an example: between the ages of 18 and 60 a person has 42 years of contribution room in a TFSA. Contributing \$5,000 per year would amount to \$210,000 in contributions. Without withdrawals and invested at 8%, the value would rise to nearly \$1.6 million tax-free.)

As taxpayers, we take one step forward when we earn income and half a step back when we pay taxes. In the TFSA, we take a full stride forward and keep going each year without the loss of value due to taxation. TFSAs provide a new, exciting and unique opportunity to build net worth for Canadians.

Features of the TFSA

- **Eligibility:** All Canadian residents 18¹ years and older with a Social Insurance Number, are eligible to open a TFSA account.
- **Contributions:** Contributions can be made to a TFSA to the annual limit of \$5,000 per year. Contributions made under the limit of \$5,000 per year, create carry forward room that could be used at any time. Contributions can start from age 18 and there is no age limit.
- **Contribution Room:** Canada Revenue Agency will keep track of contribution room available to each Canadian. Contribution room is made up of the following amounts. Annual contribution for each year (\$5,000) plus the carry forward room available, plus the amount withdrawn in the previous year.
- **Flexibility of Withdrawals:** Withdrawals from a TFSA can be made at any time and for any reason. The amounts withdrawn are added back to contribution room in the following year. (All deposits and withdrawals are tracked by CRA and reported to you on your Notice of Assessment each year.)
- **Taxes:** All income earned in a TFSA is tax free and is not reported on your income tax returns. The income earned also does not affect government benefits like Old Age Security, Guaranteed Income Supplement, GST credit or Child Tax credit. An additional benefit for seniors who receive government benefits.
 - Capital gains, dividends or interest income in a TFSA are not taxable as discussed, however Capital Loss in a TFSA is also not recognized.
 - You can gift funds to your spouse, common law partner or adult child allowing them to make a contribution to their own TFSA (subject to their own available room) None of the income earned in the TFSA account would be attributed back to you as the source of funds.
 - Contributions are not deductible for income tax purposes. However all income earned in the account is free from taxes.
- **Successor:** No beneficiary election is made in a TFSA. Account holders can elect their spouse to be a successor to their account. If no successor is nominated, the account forms part of the estate. TFSAs cannot be held in joint names. They are created in single holder names only.

Individual Pension Plans – For Professionals & Small Business Owners

For many company owners and professionals that are focused on managing and building their business, retirement is often an afterthought. The demands of the organization often take priority over personal retirement and financial planning matters. RRSPs are traditionally used by most business owners to save for retirement because they offer tax deductions for amounts contributed and tax deferral of growth in assets. RRSP contribution limits however may not allow some business owners the opportunity to save enough to maintain their desired standard of living in retirement.

An Individual Pension Plan (IPP) is a unique retirement planning solution that has become increasingly popular among business owners, professionals and executives. An IPP is a defined benefit pension plan that is designed to provide a pre-determined lifetime pension. IPPs are typically established for the benefit of a single participant that owns a business – however a spouse may be added to the IPP if employed by the same or a related company.

With an IPP, the amount of the pension is determined by formula, and the contribution equals the cost of providing that pension (as calculated by an actuary). By comparison, contributions to an RRSP are flexible and the pension payments during retirement are whatever the accumulated contributions will support.

IPPs vs. RRSPs

- An IPP allows for up to 65% more in tax-deductible contributions than available through an RRSP. The older the IPP member, the greater the contribution.
 - IPP contributions are tax deductible to the sponsoring employer
 - All assets within an IPP are protected from creditors. The last 12 months of contributions are not creditor protected under an RRSP
 - Under an IPP, additional tax deductible contributions are required from the sponsoring company if investment returns are less than 7.5% per year on average. Weak investment performance within an RRSP cannot be offset by additional contributions
- In most provinces, IPP assets are locked-in and may not be withdrawn in cash until retirement
 - IPPs are more complex and costly to set-up & administer than RRSPs
 - Unlike RRSPs, expenses of the IPP (including actuarial consulting fees, investment related fees, and interest expense on funds borrowed for contributions) are tax deductible when paid directly by the company sponsor
 - In many cases, significant lump-sum past service contributions are possible at the time an IPP is established
 - Significant tax-deductible lump-sum contributions at the time of actual retirement are also possible in an IPP
 - Generally speaking, if an investment is allowed under an RRSP, it is acceptable for an IPP. As a registered pension plan, IPPs have a 10% investment concentration limit which is designed to ensure broad diversification of plan assets.

Depending on the Plan Member's province of residence, IPP assets may be transferred at retirement to a Life Income Fund (LIF), a Locked-In Retirement Income Fund (LRIF), a Registered Retirement Income Fund (RRIF), or a life annuity. The IPP may also be continued and pension payments made directly from the plan.

Is an IPP Right for You?

Suitable candidates for an IPP are business owners and professionals over age 40 who are allowed to incorporate (such as doctors, lawyers, dentists, engineers, lawyers and accountants). To qualify, the IPP member must be receiving T4 income from an incorporated employer and the company sponsor must have the resources to fund the IPP on an ongoing basis.

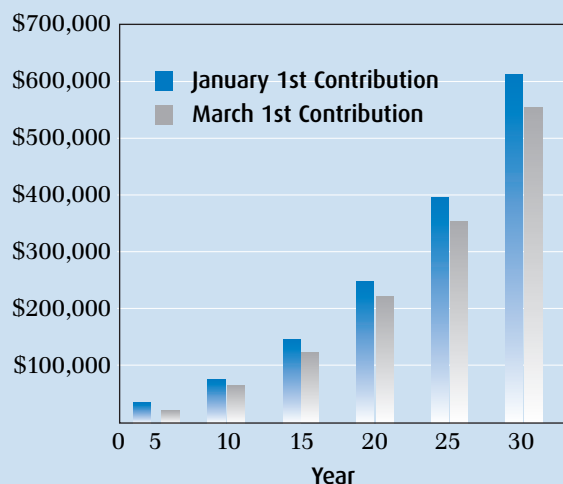
Planning for retirement is critical for all Canadians – for professionals and small business owners, it's vital to consider all options. At BMO Nesbitt Burns, we offer a turnkey IPP solution that includes professional investment advice, custody of plan assets, a corporate trustee arrangement, and the services of an established independent actuarial firm. To learn more and discuss whether an IPP may be suitable for you and your company, please contact your BMO Nesbitt Burns Investment Advisor.

RRSP Saving Strategies

Contribute early

Many RRSP owners make their contributions during the last two weeks of February. By doing so, they effectively lower the value of their RRSP. By contributing on January 1st rather than on March 1st of the following year, the money is in the RRSP for an additional 14 months. Compounding, especially over a number of years, can have a profound effect on the total value of the RRSP. As the graph shows, if you contributed \$5,000 on January 1st each year for 30 years and earned an eight per cent return, you would have \$57,279 more money in your RRSP than if you made your annual contribution on March 1st of the following year.

The value of early RRSP contributions



Contribute longer

As long as you continue to have earned income or unused RRSP room, you may continue to contribute to your RRSP up to and including the end of the year in which you turn 71 years of age. RRSP contributions are deductible against any type of income including pension or investment income.

Once you turn 71, you have until the end of that year to mature your RRSP. However if your spouse is still young enough to have an RRSP, you may contribute to a Spousal RRSP and take the tax deduction for your contribution, even though you may no longer contribute to an RRSP for yourself.

Borrow wisely

While you may carry forward your unused deduction room, it may still make sense to borrow the funds today to make your RRSP contribution as soon as possible. Let's face it, if it is difficult to make this year's RRSP contribution, it probably won't be any easier to come up with twice as much money next year. But, since the loan interest is not tax deductible, if you decide to borrow the money, you should plan to use your tax refund to partially repay the loan and pay the entire balance off within the year. Once you have paid off the loan, continue making the "loan-like" payments directly to your RRSP for future years' deductions.

For more information on RRSP savings strategies, please contact your BMO Nesbitt Burns Investment Advisor.

BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée provide this commentary to clients for informational purposes only. The information contained herein is based on sources that we believe to be reliable, but is not guaranteed by us, may be incomplete or may change without notice. The comments included in this document are general in nature, and professional advice regarding an individual's particular position should be obtained.

BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltée are indirect subsidiaries of Bank of Montreal and Member CIPF. TO U.S. RESIDENTS: BMO Nesbitt Burns Securities Inc. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO Nesbitt Burns Inc., accept responsibility for the contents herein, subject to the terms as set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Securities Inc. and/or BMO Nesbitt Burns Securities Ltd. To U.K. RESIDENTS: The contents hereof are intended for the use of non-private customers and may not be issued or passed on to any person described in the Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995, as amended. The comments included in this publication are not intended to be legal advice or a definitive analysis of tax applicability. Such comments are general in nature and professional advice regarding an individual's particular position should be obtained. For investment advice regarding your specific situation, please speak to a BMO Nesbitt Burns Investment Advisor.

© BMO (M-bar roundel symbol) is a registered trade-mark of Bank of Montreal, used under licence.

© Nesbitt Burns is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

The comments included in the publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be attained in respect of any person's specific circumstances

