



STRATEGY UPDATE

Controlling volatility is the key to a safe retirement income

by Paul Bourbonniere and Ruth Ashton

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Retired investors often make the mistake of focusing exclusively on the rate of return on their investment portfolio. When taking income from a portfolio, the degree of risk, is just as important in determining the security of your income stream.



Many clients are familiar with the concept of dollar cost averaging (i.e. buying into the market on a regular monthly basis). When accumulating wealth, this device takes advantage of market volatility to improve the ultimate accumulation amount. However, this technique has a nasty flipside. The same volatility that is beneficial when accumulating your nest egg can be devastating when withdrawing income. The following chart shows an example of someone withdrawing \$800 per month from a portfolio worth \$100,000 over a 12 year period. It shows us that the moderate returns portfolio (5%) with low risk (6% standard deviation) has a higher probability of success than a high return, high-risk portfolio. This suggests that it is just as important to plan for risk control as for achieving high rates of return when it comes time to draw income from your investments.

Risk, Return and Cash Flow

Assume: \$100,000 paying \$800 per month over 12 years
Calculate: Probability of Receiving All 144 Payments

Rate of Return	Annualized Standard Deviation*			
	low risk			higher risk
	0.0%	6.0%	12.0%	18.0%
3.0%	100.0%	61.0%	54.1%	51.5%
5.0%	100.0%	89.7%	72.8%	64.8%
7.0%	100.0%	98.9%	87.3%	76.5%
9.0%	100.0%	99.9%	95.2%	86.0%

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*Standard Deviation: A measure of the dispersion of a set of data from its mean. The more spread apart the data is, the higher the deviation. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility (risk).

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Increasingly the planning profession is becoming aware of the pitfalls of starting your income during a period of weak markets. Of course, no one can predict when markets will be weak. Risk control measures must be in place well before your need for income begins in order to protect your income from inevitable market volatility. While the industry has responded to this challenge through such products as Manulife's much-publicized Income Plus program, we at Polson Bourbonniere Financial Planning Associates have looked to draw on the expertise of major pension carriers such as SEI who have considerable expertise in optimum portfolio design. Regardless of the method, the goal is to withdraw income from the least volatile component of a client's portfolio. Often, life annuities can play an important role in creating all or a portion of the guaranteed income that you will need.

In light of this new research, if you are now taking income from your portfolio rest assured that your Polson Bourbonniere planner will be reviewing your situation in time for your next regular scheduled meeting with a view towards protecting your income flow. Should you have an immediate question or comment, we welcome your call.

Calculating the Cost of Education by Syd Robson



According to recent studies, the average university tuition will cost 175% more than it did 15 years ago. If your child or grandchild began university in 2004 and is attending school away from home it will cost approximately \$67,000 for 4 years of university. Even if they live at home the cost is still over \$42,000.

If your child or grandchild is starting first grade this year, by the time they graduate the cost for four years of university is expected to be between \$112,000 and \$149,000 (University Finance Study, Statistics Canada). So the key is to save early and take advantage of all of the government programs that are available. Here are the new rules recently announced by the government on RESP contributions.

- Elimination of the \$4,000 annual contribution limit
- Ability to lump-sum fund RESP's
- Lifetime limit increased to \$50,000 (from \$42,000)
- Increase in maximum annual CESG credit
 - \$500 per year (i.e. \$2500 x 20%)
 - \$1,000 per year for catch-up CESG's
 - (i.e. \$5000 x 20%)
- Maximum CESG limit of \$7,200 is unchanged

In 1980 universities received \$6.44 in grants from the government for every \$1 collected from students; today it is under \$3. As a higher percentage of the population recognizes the importance of education and as government grants fail to keep pace, education costs will continue to rise.

What You Can Do:

1. Start to save early
2. Open an RESP account and take advantage of the CESG
3. Apply early for government grants, bursaries and stipends.
4. Talk to your Polson Bourbonniere financial planner.

The Privatization of BCE By Kirs Polson and Lydia Bzowej



As many of you will be aware, earlier this year BCE entered into an agreement to be acquired by an investor group led by Teacher's Private Capital Inc. and Madison Dearborn Partners, LLC. For those of you that hold BCE shares

this means that your shares will be traded for cash at a price of \$42.75 per share when the arrangement is finalized. Currently this is expected to take place during the first quarter of 2008.

This cash transaction will trigger an immediate capital gain or loss for shareholders depending upon the price for which the shares were acquired. For most people, this will be a capital gain and many of our clients are wondering how best to minimize the tax liability from the transaction.

Strategy #1

Apply Capital Losses to BCE Capital Gain

Tax on capital gains is calculated based on "net capital gains" which is the difference between capital gains and capital losses in a year. If you hold other securities, including mutual funds, which are in a loss position, selling these securities would trigger a capital loss which can be used to help offset the capital gains from the BCE shares. In addition, you may be carrying forward losses from past years, which can also be used to help offset the gains. One example would be to sell any outstanding Nortel shares, which would trigger a capital loss which can help to offset the gains.

Strategy #2

Use Unrealized Capital Losses of a Spouse or Common-law Partner

If you hold BCE shares and do not have capital losses to apply against the capital gains, then you may be able to access capital losses of your spouse or common-law-partner.

This is, however, a complicated arrangement and should only be undertaken with the advice and approval of your tax advisor.

Strategy #3

Charitable Donations

Option 1: Donate BCE Shares Prior to Sale

One way to avoid capital gains tax on the sale of the BCE shares would be to donate the shares to charity before the sale occurs. There is a 0% capital gains inclusion rate when shares are donated to charity so investors will avoid tax on the unrealized capital gains. In addition, tax savings will be realized from the charitable donation receipt for the year of donation. Please note that you can claim a tax credit for the amount of the donation up to 75% of your net income for the year.

Option 2: Donate the Cash Received from the BCE Sale

This option is not as profitable as donating shares (Option 1), however you can still receive the tax credit for the donation of the cash. Again, you can only claim the credit for an amount equal to 75% of your net income for the year.

As with any tax planning strategy, you should always consult your tax advisor to ensure accuracy in your reporting. And, as always, your Polson Bourbonniere planner is available to discuss these options with you.



Polson Bourbonniere Client Profile

Yvonne Horwitz



In her seventies and sensational! Yvonne Horwitz has no intention of slowing down.

Yvonne was born in 1935 in Morocco, and came to Canada in 1948 as a young woman of 24. Combining her many skills, Yvonne embarked on a career in education, teaching French to children with disabilities. After seven years of teaching, Yvonne succumbed to her true passion, though – sports.

Yvonne began working at The Sporting Life, in their fashion department. And she's never left! While many of her contemporaries have retired to a life of leisure, Yvonne is still working there today. No doubt she likes getting first crack at all the latest running gear - because that is where her heart is these days!

Yvonne and her husband were very active in skiing and tennis, but as she entered her forties Yvonne discovered running in a big way. She is dedicated to the sport, and has participated in 13 marathons to date.

You wouldn't know by looking at that fit and fabulous lady that she is a mother of four and a grandmother of seven. We wonder how they keep up with her!

RRSP REMINDER

The deadline for RSP contributions for the 2007 income tax year is Friday, February 29, 2008. The 2007 RRSP annual contribution maximum is 18% of earned income, up to a maximum of \$19,000. Your 2006 Notice of Assessment will reflect how much you are eligible to contribute.

While topping up your RRSP is always a good idea, it's even more important to make regular contributions. So, why not contribute early for 2008 (maximum \$20,000) or start a monthly payment plan if you don't already have one?

And remember, if you haven't contributed your maximum each year, you are permitted to carry forward unused room. The simplest way to find out your RRSP room is to check your Notice of Assessment. An RSP loan may be an effective way to increase your contributions or take advantage of existing contribution room. Let a Polson Bourbonniere Financial Planning Associate show you how.



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