

This Issue: **The Basics plus Updated Benefits**

New Year's Resolutions: How are you at making a list of New Year's Resolutions? I often try, but procrastination always gets in my way. This year, I tried to outsmart my old foe by instead making a list of things that prevent me from listing my resolutions. I'd share my list with you, but honestly, once I wrote down "1) watch football" I turned on the TV and ~~the list~~ was history. Chalk up another victory for procrastination.

The Basics... Regardless of your affection for making lists, it's always good to pause for reflection, and start the New Year by *getting back to basics*. This has never been more important than here in the year Twenty-Ten.

While interest rates are at 50-year lows, Canadian household debt has never been higher (based on % of disposable income). Americans have begun ~~unwinding~~ their debt levels but not their Northern neighbours. With the combination of paltry saving rates, and soon-to-be-rising lending rates, I believe there will soon be a lot of pain on the horizon for Canadians who don't manage their cash flow. No one can say when lending rates will go up, but eventually they WILL go up.

Count your blessings if your family escaped layoffs in 2009. But imagine if you were let go tomorrow and then consider how your cash flow and debts would be impacted. What if you fell ill and were unable to earn the big bonus? Did you already spend it? For many, this will be a very sobering thought. So please, heed this warning:

Now is the time to put a plan in place to better manage your debts and to build sufficient emergency reserves. Regardless of how much you earn, everyone should watch their net cash flow.

Three simple rules to follow are:

- 1) Set a goal for 2010 to pay down your unsecured debt by half and then do the same next year.
- 2) Don't fall into the trap of repeatedly consolidating your line of credit into your mortgage.
- 3) Pay off your credit cards at the end of each month.

If you're not following these principles, you're not living within your means and you're only making the problem worse. Remember, *the first thing you MUST do to get out of a hole is STOP DIGGING.*

I know this isn't easy. Doing the right thing (stop digging) is rarely easy to do. An article in the Economist (pg 55, Jan 2, 2010) suggested people have a natural tendency to procrastinate and, while they truly believe they will ~~do~~ it tomorrow, tomorrow somehow never quite comes. To this I say "No kidding, any teenager could have taught you that". But seriously, I agree that our natural tendencies are to protect ourselves from harm. However, it only takes a moment of reflection to realize avoiding the short-term pain of tackling debt will only lead to more painful debt issues down the road.



Cash Management

**Sensible debt management
Paying less tax
It's all about having choices**

I encourage you to take a moment to pause and to reflect on your spending practices and debt management. Then, do yourself and your family a favour by implementing a plan to tackle your debt once and for all. Getting back to basics will be like lifting a huge burden off your back. Remember, you're not in this alone! Your friends at Legacy Partners are here to help build your cash management plan, so give us a call.

In Summary:

- *Pause and reflect on what's important to you*
- *Get back to basics and live within your means*
- *The first thing you MUST do to get out of a hole is... STOP DIGGING.*

Updated Benefits: In 2008, our Legacy Letters outlined new benefits available from the government. Over the past year, a few of these have been updated and the following is a quick summary of the changes. For details on the full programs, please give us a call.

In Summary:

- *TFSA – Unused room accumulates each year*
- *LRIF – now 50% unlocking is available*
- *RDSP – Bonds/grants for those who qualify*
- *CPP – higher early pension penalties in 2011.*

TFSA... While not a change, it's important to know that your \$5,000 per year contribution room ACCUMULATES every year (starting with 2009). Therefore, a person who has not yet opened a Tax Free Savings Account could put \$10,000 into a TFSA in 2010. Over the years, this accumulative room will be a great place to invest severance cheques, proceeds from downsizing your home, or even an inheritance. We also have unique ways to integrate TFSAs into your retirement income.

Today, many clients have a TFSA at the bank for their short-term savings account. In these cases, remember to be careful when combining withdrawals and deposits in the same year. Withdrawals will only count as added contribution room for the following year (and there are significant penalties for over contribution in a year).

LIF Unlock... Last year we were happy to help clients unlock 25% from their locked in life income fund (LIF). Recent changes have increased the unlocking rule to 50% for new LIFs in 2010. As a transition rule, clients who previously unlocked 25% have until Dec 31, 2010 to unlock an additional 25%. There are a few important details to this updated rule which we should discuss before you make your final decision to unlock funds.

RDSP... It took a while, but by the end of 2009 Registered Disability Savings Plans were available through most institutions (including through us). If you have a family member who is eligible for the disability tax credit (T-2201 form), you'll be happy to know they are also eligible for this new RDSP. Just by opening an account, some people will qualify for \$1,000 a year in government Bonds. Deposits you make could qualify for up to \$3,500/year in matching Grants. We strongly believe qualified applicants will NOT want to miss out on this opportunity. As with many government programs, there are plenty of details we'll need to share with you.

CPP changes... In 2011, retirees will face higher penalties for electing to take CPP prior to age 65. The pension reduction will be 7.2% per year instead of the current 6%. On the plus side, if you choose to defer your pension beyond age 65 you will receive a bonus of 8.4% per year instead of the current 6% bonus.

Other changes included increases to low earnings drop out rule+ and continued benefit for child rearing years. Add to this the 2012 elimination of the cessation rule and you'll find your retirement decision just got more complicated. But don't worry, we can help you sift through your options and help you plan ahead for retirement.

Helping Friends and Family.

As you can see from this Legacy Letter, we strive to address many important details in each Legacy Plan. We're proud of our efforts to monitor plans and properly position our clients for what lies ahead. The true merits of a good financial plan are best revealed in the calm and confident voices of our clients during challenging market conditions. We promise to continue our efforts to see you through the decades ahead including the many challenging markets to come (ones which likely will appear with a greater frequency than the last decade).

If your friends or family did not share your calmness or confidence last year, we'd be happy to introduce them to our quality, caring service. Wouldn't you agree they deserve to be better prepared for the next market tumble? But before they meet us, your friends and family need your help. Nobody likes a blind date, so they'd be looking to you for an introduction. Here are three things you can do to help the people you care about:

- ✓ Direct them to our web site (a great overview of who we are and what we do) and then have US call them.
- ✓ Invite them to join you and me for coffee or lunch. A casual meet & greet is key to deciding if they feel a connection and want to work with us.
- ✓ Sign them up for our e-mail introduction letters. A short series of monthly e-mails (each one-page long) that expand on key aspects of the work we do.

With your help, these people will be able to first, thank you for your interest in their well being, and second, be able to decide on their own if we are the right fit for them – just as you did when we first met. ☺

The information in this letter is general in nature. You should consult your Financial Advisor before making changes to your investment plan.

www.LegacyPartners.ca

Legacy Partners of London Inc

Your can reach us at:

240 - 633 Colborne St.

London ON N6B 2V3

Phone: 519-518-2025

Fax: 519-518-2026

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Representing Freedom 55 Financial, a division of London Life Insurance Company.

Our Passion...

We believe there is no greater purpose in life than to leave things better than you found them. If everyone did this, day in and day out, what a wonderful Legacy that would be. A person's Legacy can take many different forms – spending quality time with your family; building a business you can be proud of; or helping a neighbour in need. At Legacy Partners of London, we believe everyone has the potential to achieve their greater purpose and we work closely with our clients to help them Create and Conserve their Legacy.