

THE INTEGRATIS INSIDER

“Your source for integrated financial solutions”

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IT'S ALL RELATIVE: GROUP PLAN ELIGIBILITY

Eligibility of family members in a group plan is a question that is raised constantly, as the definition of ‘family’ is ever changing in today’s society.

In the past, a family member was defined as a person of the opposite sex to whom the plan member is legally married, and children whom the plan member is legally responsible for and reside with as a caregiver.



The word “spouse” no longer applies to only those who are legally married, but also to those who are living in a common-law relationship. Each insurer has a defined minimum period that an unmarried couple must reside together before they qualify to enroll as a family, ranging from the first day (0 waiting period) to 12 months of co-habitation.

A spouse may now also be a person of the same or opposite sex of the plan member, provided they reside together, and are in a conjugal relationship. The plan member’s extended family, including parents, grandparents, aunts and uncles are not eligible to join the plan as a family member, even if the plan member resides with any of the aforementioned. Siblings of the plan member are not eligible to join the plan, unless the plan member is the legal guardian of the sibling(s), and the sibling(s) do not exceed the maximum dependent age limit.

The definition of a dependent child is generally consistent with each insurer. A dependent child must be unmarried, and reliant on the plan member. Most insurers will cover a dependent child until the age of 21 if the child is still residing with the plan member.

Dependent children enrolled in an accredited educational facility are eligible until age 25, provided they are enrolled as a full-time student, and are not otherwise engaged in gainful full-time employment.

A dependent child is also defined as one who is incapable of supporting oneself, and who is financially dependent on the plan member, due to a permanent mental or physical infirmity or disorder. There is generally no age limit for dependent children with permanent mental or physical disorders.

In a case where both parents have enrolled for family benefits through the group benefit program offered by their employer, claims incurred for dependent children are to be submitted through the plan of the parent with the date of birth earlier in the calendar year, regardless of the age of the parent.

In the case of separation or divorce, the claim for a dependent child should be submitted to the plan of the parent with custody. If the parent with custody re-marries, the claim should then be submitted to his or her spouse’s plan. If the full amount of the claim is not reimbursed at this stage, the remainder can be submitted through the plan of the parent without custody, and finally to the plan of the spouse of the parent who does not have custody.

The information provided in this article is based on general industry information. Please consult your specific carrier for actual definitions and guidelines regarding your plan.

-Vanessa Moore

WE’RE MOVING!

On 27 May 2005, Integratis Benefits Solutions Inc. will be relocating its office to 127 Victoria St. S., Suite 202, Kitchener, ON N2G 2B4.



ENHANCING YOUR RETIREMENT INCOME

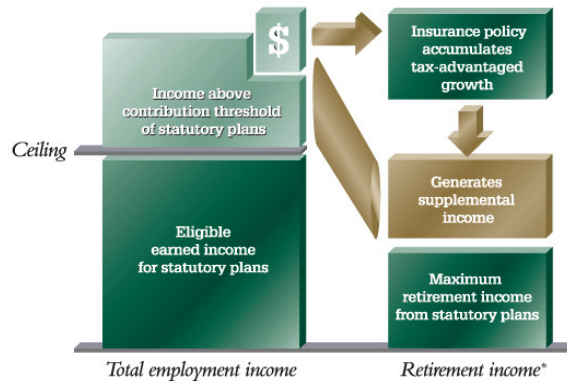
Conventional retirement planning has been based on statutory plans — government-controlled, tax-assisted programs like the following:

- » defined benefit pension plans
- » defined contribution pension plans
- » registered retirement savings plans
- » deferred profit sharing plans

Can these plans alone provide enough income for your lifestyle?

The enhanced retirement income concept is based on using life insurance to accumulate tax-advantaged growth of policy values.

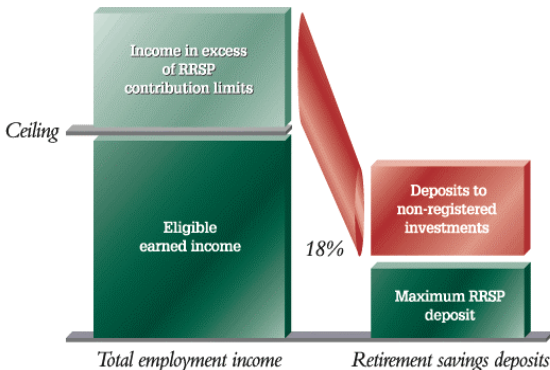
The cash value of the policy can later be accessed to provide added income at retirement, as well as a tax-free transfer at death of the remaining death benefit to your intended heirs or charitable organization.



rate with no legislated age maximum for accessing funds or predetermined schedule for accessing funds. Retirement income may be substantially enhanced, and generally some insurance benefits remain for estate purposes.

An excellent tool for your “safe money”

Because the intent of these extra funds is to enhance retirement income, many people will tend to place these funds in low-risk, non-registered guaranteed investments, so that they are assured the funds will be available at a later date. Currently, the rates of return on these investments are at historic all-time lows, and thus they are not protected from both higher tax rates and inflation over time.



The problem

You can defer taxation on 18 per cent of your eligible earned income up to the maximum amount determined by legislation. A reduced savings deposit to income ratio, therefore, disadvantages taxpayers with income in excess of this threshold. The ability to defer taxation on the growth of your savings deposits can dramatically affect your income at retirement.

A solution

Life insurance provides tax-advantaged growth and competitive returns not restricted to RRSP limits. This allows later access that can be achieved on a tax-advantaged basis, possibly at a lower tax

By using participating whole life insurance, you can achieve a higher rate of return on the growth of your funds as compared to guaranteed investments, and still have low-risk diversification in your portfolio. Participating whole life has been in the Canadian insurance marketplace for over a hundred years. It provides a higher rate of return than the current guaranteed interest options, while providing the safety of investing in fixed income instruments like mortgages, bonds, and real estate.

By using whole life insurance, you can achieve a higher rate of return to enhance your retirement and still have the protection needed to secure your family’s future financial needs.

-Mark Bottineau



FEDERAL BUDGET 2005: AN ANALYSIS

Foreign Content Limit:

In what is perhaps the most significant budget win for Canadian investors, the government is proposing to eliminate the 30% foreign property rule (FPR), effective immediately.



The FPR, originally introduced in 1971, limits the amount of foreign property (e.g., shares, mutual fund units, debt, etc.) that an RRSP or RRIF can hold. The FPR was originally set at 10% of a plan's assets and was raised to 20% in the 1990s. After much lobbying, it was raised to its current level of 30% in 2001. The penalty for exceeding the FPR limit is a penalty tax of 1% per month.

The original intention of the FPR was to ensure that a substantial proportion of tax-deferred retirement savings flowed to Canadian companies, and to support the development of Canada's capital markets.

The cancellation of the FPR will allow Canadians to fully invest their RRSP and RRIF savings in the global economy, with no geographic restrictions. As a result, investors will no longer need to invest in 100% RSP-eligible funds

('clone funds') to get around the FPR.

Before moving all money out of clone funds and into the direct foreign fund equivalents, investors may wish to wait until the

legislation is passed, given the current Liberal minority government.

The federal government has once again responded to various industry lobbying efforts and is proposing to increase the retirement savings limits even further. This builds on the increases announced in the 2003 federal budget.

The new proposed limits, which also affect registered pension plans (RPPs), are summarized in the chart below:

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|----------|----------|----------|----------|----------|----------|---------|
| Money Purchase RPPs - Annual Contribution Limits: | | | | | | | |
| Current: | \$18,000 | indexed | | | | | |
| Proposed: | \$18,000 | \$19,000 | \$20,000 | \$21,000 | \$22,000 | indexed | |
| Defined Benefit RPPs - Annual Pension Benefit Per Year of Service: | | | | | | | |
| Current: | \$2,000 | indexed | | | | | |
| Proposed: | \$2,000 | \$2,111 | \$2,222 | \$2,333 | \$2,444 | indexed | |
| RRSPs - Annual Contribution Limits: | | | | | | | |
| Current: | \$16,500 | \$18,000 | indexed | | | | |
| Proposed: | \$16,500 | \$18,000 | \$19,000 | \$20,000 | \$21,000 | \$22,000 | indexed |

Federal Life Income Funds:

When an employee who is a member of a federally regulated pension plan terminates his or her employment, he or she may

choose to take the commuted value of the pension fund and transfer it to a locked-in RRSP. At age 69, this locked-in RRSP can be used either to acquire a life annuity from an insurance company or may be converted into a Life Income Fund (LIF).

The problem with the LIF option is that under the regulations of the federal Pension Benefits Standards Act, the terms of all LIF contracts require that any LIF assets remaining in the account when the annuitant reaches age 80 must be used to purchase a life annuity.

This year's federal budget proposes to remove the requirement for seniors who transfer funds from their federally regulated locked-in RRSPs into LIFs to convert them into annuities at age 80. These seniors will now be allowed to continue to withdraw funds

from their LIF, even after age 80.

Basic Personal Amount:

Under the Canadian tax system, the basic personal credit allows

“Television won't last. It's a flash in the pan.” -Mary Somerville, radio pioneer, 1948.

BUDGET cont. - each individual to receive a basic amount of income on a completely tax-free basis. For 2005, the basic personal amount is \$8,148 (\$8,012 in 2004). The income tax system also allows personal credits in respect of a spouse, common-law partner (CLP), or a wholly dependent relative, further increasing the amount of income that can be received tax-free.

This amount, however, is reduced on a dollar-for-dollar basis by the dependant's net income over a certain threshold; for 2004, this net income threshold is \$681. For 2005, the spouse or CLP amount is \$6,919 (\$6,803 in 2004). The federal budget proposes to increase this amount to at least \$8,500 by 2009 and will also adjust the threshold amount accordingly.

Interest deductibility:

Interest and other expenses are generally deductible if the expense is incurred for the purpose of earning income. On October 31, 2003, the government released draft legislation that reintroduces the concept of reasonable expectation of profit. These new rules, if enacted as proposed, would severely limit the ability for investors to deduct interest on money borrowed to purchase common shares or mutual funds.

When the draft legislation was released in 2003, the government stated that its sole intention was to

restore the law and related administrative practices to what they were generally understood to be in the past. Clearly, many commentators disagreed and felt that the proposals could have more far-reaching effects.

In last year's budget, the government clarified that while this was not the intention behind these proposals, a number of significant issues have been raised that deserved further consideration. As a result, last year the government extended the period of making written submissions on these proposals until the end of August 2004.

Many tax professionals had hoped that the proposals would be either scrapped completely or substantially revamped to clarify that interest would still be deductible on money borrowed to purchase common shares and mutual funds.

In today's budget, Finance announced that they will be introducing a 'more modest legislative initiative' that would respond to the industry's concerns while still achieving the government's objectives. The legislation, when introduced, will be combined with a Canada Revenue Agency publication that will address certain administrative questions relating to interest deductibility that may arise as a result of the new proposal. *Source: AIM Trimark



The content of this publication, based on information that we believe is accurate, is general in nature, and we cannot guarantee its accuracy or comprehensiveness.

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