

RAWLING REPORT

FALL 2002 • BROUGHT TO YOU BY



RAWLING FINANCIAL INC.

HELPING CLIENTS MAKE WISE DECISIONS REGARDING THEIR WEALTH

RESPs: A personal, tax-effective way to save for your children's future

One of the most valuable gifts that we can give our children is the opportunity to pursue a post-secondary education. This not only gives our children the chance to meet their full potential, but it also makes a big difference to future earnings and standard of living. Studies have found that Canadians with a university degree earn almost twice as much as those with a secondary school certificate.

With the skyrocketing costs of post-secondary education, it is essential that we plan ahead. One way to prepare for our children or grandchildren's futures is to invest in a Registered Education Savings Plan.

There are some great benefits to investing in RESPs.

- Tax-free compounding
- Flexible access to money
- Opportunity to income split
- 20% Boost from the Canadian Education Savings Grant

Interested?

Why not call me today to discuss how you can take advantage of this great product. You can even set up a pre-authorized chequing plan to automatically make your contributions on a regular basis.

Hugh



Rawling Financial welcomes Vicky Glinavs

Vicky Glinavs joined the Rawling Financial team on August 22, 2002. She is a graduate of the Fanshawe College Library Technician Program. She has seven years experience within the Oil & Gas Industry in Calgary in the Information Services Department. She brings good customer service skills and looks forward to helping Rawling Financial Clients.

She is very involved with the London Blue Devils Lacrosse organization running the booster club. You will find her in local arenas throughout the year watching her son play lacrosse and hockey.

Vicky will be happy to help you with any questions, or in booking any meetings to see us to discuss your financial security plan.

Planning strategies, part 2:

“Should my policies be corporate owned or personally owned?”

See the Spring 2002 issue of *The Rawling Report for Part 1*

Sole shareholder or multiple shareholders

Having a company own the policies for personal needs may create a delicate situation if the company is owned by multiple shareholders. The shareholders might find it useful to seek legal advice to inform them about questions like the actual control over the policy and eventually over the death benefit, and the possible tensions between shareholders.

In the case of a buy-sell agreement on death, the policies are often issued before the agreement is drafted. A buy-sell agreement should be discussed before the policies are issued. Also, how to give maximum security to the estate of the deceased is another matter that should be examined before issuing the policies.

In the absence of an agreement, policies issued criss-cross (i.e., on the life of one shareholder, and owned by the other shareholders) do not give much power of negotiation to the estate for the sale of its share in the business. Actually, the surviving shareholders may continue to operate the company. In addition, they could cash in a substantial amount of the death benefit. For corporate owned policies, the estate would have at least an indirect interest in its share of the death benefit cashed by the company.

The question of creditors

A major obstacle to the ownership of a policy by the corporation may be the company's creditors. Up front, if the company owns the policies, the trustee in bankruptcy (in case of bankruptcy) has access to the cash values or the death benefit. Life insurance policies may offer some creditor protection in certain cases, but if the company is owner and beneficiary of the policies, there is no special creditor protection.

Some problems may arise upon death if the company has outstanding debts. It is common to see clauses in loan agreements that limit the company's ability to pay dividends. In a buy-sell scenario on death, the capital dividend usually paid with the death proceeds may not be paid at all as a result of these clauses. All the planning would be short-circuited because the money would not be available to the surviving shareholders when it is needed most. A way to get around this could be for the client to buy some additional protection to cover the loan on death.

Some companies may also get around the grasp of the company creditors, by having their holding companies (if they exist) own the policies. While this does not entirely protect the cash from the operating company's creditors, it provides an extra corporate layer that creditors have to access.

Cost of life insurance premiums

The lower, net after-tax cost of life insurance premiums is usually the main reason the business owner would prefer to have the company own the life insurance policies. It is worthwhile to emphasize again the fact that life insurance premiums are generally not tax-deductible, even if paid by the company. However, there still remain some tax advantages in having the company pay for the premiums, namely when the tax rate of the company is lower than the shareholder's marginal tax rate. The bigger the difference, the bigger the tax benefit.

Client has the last word

Usually, if the company is chosen as owner, it will be named as beneficiary as well. There may be a personalized ownership structure, but every non-standard ownership structure may create delays in the issue of the policies as well. Finally, once the client has analyzed the relevant elements, it will be the client's decision to choose the type of ownership that will best suite their situation and meet their goals.

RRSP Checklist

Do you know about...

- The contribution deadline of March 1, 2003?
- The contribution limit of 18% or \$13,500, whichever is less?
- The overcontribution limit of \$2,000?
- The benefits of spousal plans for income splitting?
- Your unused carry forward room?
- Your individual risk tolerance?
- The benefits of asset allocation and rebalancing?
- RRSP Loans, how much, how long, pros/cons?
- The benefits of dollar cost averaging?

For information on these important points and how they can affect your retirement plan, please give us a call!

Visit us on the Internet at www.rawlingfinancial.com



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