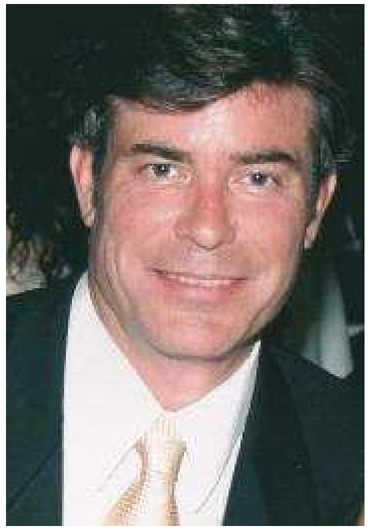


Mark Huber, CFP, Author

"How To Open A Lifetime Tax Exemption Plan"

- Teleconference Call Transcript -
With
Mark Huber and Ross Allan

http://WeSaveYouTaxes.com

Mark Huber: Well, hello, and good morning to everyone. This is the "How to Open a Lifetime Tax Exemption Plan" teleconference call and I'm delighted that you're all here on the line. My name is Mark Huber and I welcome each and every one of you . For those that don't know me I'm a certified financial planner and I've worked in the financial services industry for over 22 years.

I've long recognized that my role is to partner with individuals and to assist them in creating prosperity and financial peace of mind for themselves and for their families. And furthermore, I subscribe to the ideal that when we discover something that is of great value is our obligation and pleasure to share it with others. And that's why I've hosted the call here today and additionally why I've authored numerous downloadable e-books and audios at howtobesetforlife.com. You can check out the resources there. Why a teleconference you might ask?

Well, as Canadians and individuals, frankly the world over, we're all increasingly time starved. And this is a great venue that makes it far easier, cost effective and convenient, frankly, to meet and share this fabulous information. I call it information on demand. And don't worry about trying to write everything down because we are recording the call today, and you'll get a copy of the audio and a transcript will follow up within a few days or so. The beauty of audio is that you can record it, listen to it on your iPod or when you're jogging or driving and certainly share it with friends. You've just got to love technology these days.

Today's topic is titled "How to Open a Tax Exemption Lifetime Plan." And today I'm delighted to be joined by Ross Allan who has a long list of accomplishments that span many years. So again, it's with great pleasure that I introduce to the call Ross Allan. So good morning, Ross, and welcome.

Ross Allan: Good morning, Mark, and thanks very much for having me this morning. Looking forward to sharing some time with you.

Mark: It's our pleasure. Thank you for your time.

Ross: Well, as you know, Mark, tax planning is one of the major drivers for most Canadian investors. And everything from the RSP which is the most obvious to, you know, many of the tax-efficient investment strategies out there which are championed by both the planning industry, by the banking industry, by the mutual fund companies. And much of Canadians' investment behaviour, I think, is driven towards the minimization of taxation and particularly investment income tax. Because it's in essence there's an insidious nature to investment income tax because it's second generation tax. We pay money on our income when we earn it. We save it and once we are in a position to save it we start paying another kind of tax which is this investment income tax.

Mark: Right.

Ross: So what we have looked towards is that, look, there's-- most of what I see in the industry is a focus on efficient strategies regarding investment tax planning.

And most of them are actually deferrals meaning that ultimately the tax will have to be paid. The tax is either paid by your estate when you pass away. Your tax is paid when you change an investment manager. The tax is paid when you decide to sell a specific investment and buy another one. Any of this deferral strategy now comes to bear and a bill is presented to the investor at the end of the day saying, "Thanks, very much and here you are." And so what I saw in that was that it creates, to some degree, I think a different kind of investment behaviour. Because individuals are basically sometimes holding on to investments too long for fear of paying the tax. And so what we've created in our tax exemption plan strategy was we said, you know, we can create an account for an individual or a couple or a corporation whereby capital assets can be stored in a tax-exempt environment as opposed to a tax-deferred environment. And what that creates is, of course, the ability, then, for the owner of that account to enjoy long-term exempt status, very similar to what they would have in their principal residence, in their family home. So it's an attractive concept.

Mark: <u>And that's a huge distinction that I'm hoping is not lost on the listeners.</u>

Ross: Yeah, and it is easy and as you say, you talked before Mark about busy clients and the reality is most of us are extremely busy. And we, you know, RSP season has just completed and my experience when I was in the RSP business was you get a lot of people making decisions in the last two weeks of February. All just trying to get that money in. "Give me the tax break and I'll deal with the planning later on whether it's the choice of the investment or, you know, strategic areas where I might invest that money. But ultimately, I'm busy and I have a business," or a family obligation or a career obligation. And so what we've tried to do is sort of slow down a little bit with our clients and say, "We have one area here that you can enjoy exempt status. We'd like to talk to you about allocating a portion of your financial plan and/or your investment portfolio into an exempt account." And that's why we call it the lifetime tax exemption plan.

Mark: Okay. Now can you break that down any further or do you want to talk to individuals that-- and situations that this might be appropriate for? I'll let you run with that.

Ross: Yeah, let me talk a little bit about the nature and maybe talk about the definition of the wording. <u>And one of the critical parts about this is we use the term "lifetime" because it is truly an account which does not have a timeline when income must be taken from the account. It does not have a timeline on death where there is an ultimate, what they call a "reconciliation" at an estate level to</u>

actually reconcile growth within that account. It's a lifetime tax exemption plan.

Capital assets would accrue in the account during their lifetime.

Individuals can move and change investment assets within that account. So one of the things that we see these days is people are very unnerved by current markets. And so to be able to move from a, you know, an account that has more equity orientation to a fixed-income guaranteed account is perfectly allowable without any taxable disposition or change.

Mark: So if I understand correctly, basically this program is all initiated and of benefit for the client as opposed to many of these government-mandated programs like RRSP's and RIF's and such where there are definite timelines that trigger, essentially, taxable events.

Ross: That's correct. So the RSP is, for example, a great example of this because the RSP is something-- we've all become quite addicted to the deduction of the RSP. And my experience has been that when I speak to clients who are now in their 70's and are in the mandated income stage of a RIF which is the conversion of an RSP to an income-oriented fund, for some of them they actually don't want the income. They actually have sufficient income from other assets.

They're concerned that this income from the RIF account actually encroaches upon other government benefits, so you're faced with claw-backs on Old Age Security and CPP benefits. And so that's an unnerving thing, particularly for what I-- I look at my average-- the client who is attracted to this is someone who says, "You know, I've paid enough tax during my lifetime. I'm quite done with the remittance of taxation and if I could suppress this income from this account, I actually would. I may require it later on," and we can talk a little bit later on about the usages of this account for people in their senior, you know, their later years, in their late 70's and early 80's. But it's something whereby my experience is for some of our investment clients, they actually don't want the income that is mandated to them through the government RSP program when the time comes.

Mark: You know, that's such an important point, and, again, I hope this is not lost on listeners. Because I see this in my practice, Ross, as you would well know, where the mantra for years has been, put money in RSP's when you're in your working career because you're in a high-tax environment. And then you get to pull it out when you're retired because you'll be in a lower tax bracket and it's all good. And as you pointed out, of course, by age 71 you are mandated to start pulling income from your registered assets out. And these people, in many cases, don't want or need that income because it drives them into a higher tax bracket. And many people are in higher tax brackets now, because of some of these programs that they have no control over, than during their working life.

And they're very frustrated. So, again, we have to do some kind of work-around strategies to create tax relief for them. So I'm looking forward tohearing more about the program that you're offering.

Ross: Yeah. The other thing that, Mark, that I think we find is a little bit unique about our program is that it is a product that is issued and managed and underwritten by an insurance company. And if people are looking at the historical perspective on insurance-related products is it's been a very long-term, what I call, a deferred benefit as the focus of this product, meaning deferred to the estate. So we all know that in life insurance-- well, maybe we don't all know, but for those who don't know, the insurance products basically are paid during your lifetime with a tax-free settlement benefit upon death.

And that's been the traditional method and strategy that many of the insurance companies have focused on is a, what I call "death-benefit strategy." And as my father has said to me so wisely, he said, "What benefit is that to me, because I'm dead?" And I would tend to agree.

I think that the orientation these days for investors who are unsettled by current market conditions is that they are more attentive to their own financial planning needs. So one of the biggest questions that I hear from, what I call, my Joe-Canadian client, is "Do I have enough money to live on?"

And that's a very critical question and it's one of the reasons why the employment of a good financial advisor is important for Canadians to help assess that question. Well, in today's marketplace when lots of clients have experienced investment losses, particularly if they have had too much money in equity-oriented market investments, that question is very, very topical. And it's not a question to be answered lightly. And what we have said is that we want to focus our lifetime exemption plan on what would be described as "living benefits" meaning benefits that accrue to the account holder primarily during their lifetime.

Mark: Well, that's attractive.

Ross: Which is a little different.

Mark: Sure.

Ross: And the residual benefit—we all like that, right, you call it Jerry Maguire, "Show me the money." And so-- for those of you who saw the movie-- and so when I look at my average client I would describe them as a cost-conscious, tax averse and fee sensitive Canadian investor. And that individual, I think, is actually more attracted to an account that would accrue tax-exemption benefits during their lifetime as the primary purpose with a residual benefit to the estate or to the children. And so what that allows for is the sense that a senior client, who is really from what I think and Mark you would know this, is from a saving generation as opposed to a spending generation.

Mark: Exactly.

Ross: And many of the clients that we work with see a very clear distinction between those inter-generational values around money. So what we've tried to do is try to design our concept around providing that individual, the saver, with the ability to save money in this tax-free environment. And therefore, answer that need of, "Will I have enough money to live on?" Well, nobody really has that answer buttoned down and absolutely guaranteed.

So what we've said is, well, why don't we just make sure that we allocate sufficient assets in savings, you know, investment saving-type instruments for you? And if we could allocate those assets in a tax-exempt environment where you were never required to trigger the income. You could live into your sunset years with a sense that you had extra money saved up in a rainy-day fund which is really at the end of the day, I think, what that saving generation is very attracted to about our concept and our plan.

Mark: You know, this really resonates with me and it makes me consider this program in kind of a broad term or phrase, "asset allocation" which we all know is so important from our, you know, investment portfolios, to a product allocation whereby one doesn't want to have all their eggs in any one basket. But one should have many eggs in many baskets, each with their own designated purpose. And I really start feeling that there is obviously a great need but more importantly, a definite purpose for a tax exemption plan, as you're describing.

Ross: And I think that's one of the areas where I think, back to your point on the product allocation, we say to clients, this is not for all your money but for a certain percentage of your money. This is a very sensible decision to put money in a low-risk, you know, build it into some guaranteed investment certificates within this account. And the rainy-day fund idea, I think, particularly comes to bear. And I want to touch on this issue of healthcare needs because I think it's a critical part of the reality for Canadians that-- coming forward, is that that is likely one of the largest liabilities and one of the largest risks that any particular Canadian client investor faces is the risk of a significant chronic healthcare problem which could erode their net worth significantly.

Mark: Or deplete it totally.

Ross: Or deplete it totally. They call it out there, you know, any of you who've studied demographics and so on, they call this the "silver tsunami" that what is happening is there is a massive change in the way the dynamics of demographics in our country are going to change in the next 20 years, 30 years.

But let's look at the next 20-year period of time where we expect more and more pressure on a healthcare system, more costs being transferred down to the consumer. We would expect to see life expectancy, which any of you who have studied any of the, you know, in the material that's out there on life expectancies, we are living longer. And we're living longer with more chronic healthcare conditions and potentially with a healthcare system that is not going to be sufficiently funded to meet the needs of the average Canadian in that environment. And so one of the things that we have looked for in the design of our product is to say, this could be what we call, in essence, a healthcare savings plan. A plan that is designed for the long term, the risk that some day you may require assistance with healthcare or long-term care and that you would have an account allocated specifically for that purpose. Rather than-- and we are, in essence, not trying to insure that risk. We talked a little bit about that because long-term care insurance is something that's been commonly talked about. But the problem with it is it's expensive and people are in the retirement years, I think, reticent to add extra expense and premium to insure risk that they may never feel they're going to collect on.

Mark: That's very true.

Ross: So this account really is designed in that context as a long-term healthcare savings plan, built for the needs of the individuals who own the account. And at the end of the day, if there are healthcare needs to be met, there is the ability to draw funds outside of these accounts on a tax-free basis, meaning that there is no disposition under current Canadian tax law for money drawn out of these accounts in the event of a disability or long-term care need.

Mark: Well, that's wonderful news.

Ross: Yes, and it's a little known piece of information. It's becoming more popular out in the marketplace because people are more concerned about their healthcare and how they might be able to address and manage this unknown, this, again, this silver tsunami that I talk about. And I had a situation in my own family where we had significant healthcare expenses for my mother before she died. And we certainly recognize that the need was there, even in a very heavily insured socialized government medicine, you know, the government extended healthcare plan or core healthcare plan. It's an expensive proposition and it is something that I think people in their financial planning, and back to your point on product allocation, that it's a very sensible financial planning strategy to be allocating money for that specific purpose.

Mark: Well, it is. But your point, again, is very well taken because a lot of these products, you know, can be pricy and people really are very cost and fee-sensitive. There's no doubt about it. <u>So I really like the plan that you're describing because it seems to me it's-- you're client-funded, it's client-controlled for whatever the needs and the purpose of the family situation are and the dynamics and with the benefits that can accrue while one is living for</u>

whatever purposes are necessary.

Ross: Exactly. And we try to build it on a structure where what's important to understand about these kinds of accounts is there are, in essence, expenses to setup the account. There's an insurance fee built into this account and what we are strategically trying to manage and handle within this account is that that fee can be designed to actually be a decreasing fee over time. Meaning that the insurance, in essence, the cost of the shelter can actually be built on a declining balance so that by the time you reach age 80 and 85 years old, you are simply having a pure exempt account that is accruing for your benefit, for use during your lifetime, with nominal expenses levied against the account. That's distinctly different than the traditional strategy of open investment capital with interest, dividends and capital gains being paid in, say, a diversified portfolio.

Certainly a fixed-income portfolio that's a hundred-percent interest income is going to continue to be fully taxed every year. And in the studies that we've looked at, if we took an individual, you know, a couple let's say are 65 years old and are looking to, you know, put a portion of their assets into this kind of account over time. We think that we can design it such that the actual cost of this account is probably a third of the cost of the investment income tax that they would pay during their lifetime on their open assets.

Mark: Really?

Ross: Well, and it's back to my point on insidious taxation on this investment income tax. Some of it is buried in, as you know, in these kind of tax preferred or deferred strategies. Tax efficient strategies are only just in essence creating an impending tax bill that will either be paid when they cash it out if they need it when they're 80 years old, or when they die when the full taxation on the RSP occurs. So in our account, you know, if an individual is over their lifetime paying, say, $75,000 of investment income tax, and I know that sounds like a lot of money but it's the reality. When you do the planning you can see that this is a real risk number that's on the table. We hope that our accounts can be managed and handled for, say, $25,000 total cost over a lifetime.

Mark: Well, that's awesome.

Ross: And that really is an attractive notion for individuals.

Mark: Where do I sign up?

Ross: Yeah, where do I sign up? Well, and that's an important thing. Let me explain to you a little bit about signing up. It does involve-- the setting up of these accounts-- what is important is that because you are dealing with an insurance company and an insurance company that needs to make, in essence, an actuarial - big word there - but just simply an assessment of life expectancy, there is a medical process that must be gone through in order for the insurance company to assess realistic life expectancy for an individual or a couple who are buying this kind of account. So people do need to know that there is a process of qualification that must be entered into in order to sign up for the account and to transfer the capital assets into the account.

Mark: A quick word on that, Ross, if I might. Even if a person isn't in perfect health or could be health challenged, there are still opportunities for these individuals, no?

Ross: That's correct. And one of the things that oftentimes we are finding is that because we are designing these with a declining cost, we're not focusing on a large estate death benefit as my father would say, but we're focusing on a living benefit. We're actually going to be reducing that insurance component over time. And so if you have a couple that comes in and, you know, say they're 65 years old and want to buy a joint account, the insurance company will assess based on what they call "joint life expectancy." So if one individual has a health problem but the other does not, then the account is still very viable. And our job is to work and design these accounts to be of best benefit for the individuals during their lifetime. That's really our role in this process at the structuring of this kind of account.

Mark: Okay, great. So then what happens?

Ross: So the individual, basically what we would do is we would work through, you and I would work through a financial plan and say what percentage of an individual's net worth or investable assets would they be interested in allocating into this exempt environment. Go through the process, then, of simply making application to get a medical assessment done, all of the medical records would be sent to their family doctor so you'd know exactly what's going on with any medical issues that might arise.

And the account is then set up and we decide, then, how much of their current open money-- again, it's not for registered money because registered money is already in a tax-deferred environment, very expensive to pull money out of registered assets. This is designed specifically for investors with open or non-registered money, investors maybe who have money in corporations.

And so you and I talked briefly before we came on air about that issue that individuals who have corporations are experiencing an even higher tax bracket problem because investment income tax is extremely high in operating companies or investment holding companies. And so in that specific environment this plan becomes extremely attractive because it allows for accrual of tax-free growth during their lifetime and a very nice tax-free flow out of their corporation when they die which is very beneficial. So the set up of that is based on a strategic planning strategy for how much money should be moved into this exempt environment from the current environment that might be either in the deferred or preferred category of financial planning or financial assets.

Mark: Okay. Well, it seems all very straightforward.

Ross: Yeah, it takes a little time to get it set up and so on and it's a, you know, it's an interesting thing. One of the areas that we have found quite helpful in just discussing this idea with clients, is the current market for the TFSA account which is very topical these days. The tax-free savings account is an account that the government has just recently opened up and allowed people to put a small $5,000 deposit into a tax-free environment. Very attractive.

When you put the numbers together and you actually run it for the average Canadian and they put it into a Canada Savings Bond, most Canadians save $40 on their TFSA account which-- nothing to sneeze at. But for my clients who are older and/or looking-- who have larger pools of capital assets, they simply don't have the time to wait for the accrual of that tax-free benefit. And so what they're looking to do and one of the things that we've developed <u>is a model that says we can accelerate and buy a super-charged TFSA for people where they could put in fifty or a hundred-thousand or more into this kind of tax-exempt environment right away.</u>

<u>And so we're not having to put time in to build and wait for the tax-free status to grow to a significant amount for us. We can actually enjoy and accelerate those tax-free benefits into our lifetime tax exemption plan right away.</u>

Mark: Well, that's exciting news.

Ross: Immediate tax exempt benefits.

Mark: So this is a tax-free savings account super sized.

Ross: Super sized, exactly. Exactly. Unless you saw the movie and if you saw the movie you might not like the super sized.

Mark: Yeah, right, and I saw the movie, yeah. Okay, so bad analogy. But I think people get the point and it shouldn't be lost on them. And I hope they really understand that <u>what we're all about is to utilize the tools, the techniques and the strategies that are available, that are legitimate, that are sanctioned by law to start implementing some of these to more quickly, readily and with peace of mind, create the true wealth for themselves and their families.</u>

Ross: Exactly. I think you're exactly right and I think that that's-- this is a long-held tax strategy. Exempt life-insurance products of this nature have a long, long history so this is not new. It's just the design of this, the way we're building out these kinds of concepts just to be one-- where we said we think that there's a fundamental shift in the attitudes and buying patterns of Canadians who control larger amounts of wealth. And I think that that fundamental shift is this, Mark, that the whole notion of risk assessment is changing. And people are dealing with a lot of different issues and concerns and worries about risk as it relates to financial assets. And what we've wanted to do with this strategy is to say, you know, if you have concerns over your investment and retention of capital, and had some experience where you've been invested in areas where perhaps you didn't fully understand the volatility of the markets, I mean, gosh, current markets are absolutely testing everybody's, you know, everything from patience to paranoia. It's a very difficult market to be in.

What's distinctly important to understand about our strategy is <u>that the driver of profitability to the client, the end user, is not an equity-based investment strategy.</u>

<u>Let me reiterate that.</u>

<u>This is not about needing to be in equity-based investments to make this concept work. This concept is driven by the tax-exempt status that the individual enjoys in the account. And so, therefore, they can be much more conservative, safer, all these words that everybody's looking for. They can buy guaranteed investment certificates within this account. And the driver of the value proposition to the client is the tax-exempt status</u> not being out in the equity markets. And that creates, I think, a different mindset for-- I think a lot of people, individuals these days, are definitely reassessing, "What did I mean by risk?"

If you owned a balanced fund, for example, and saw it drop by 20 percent this year, you might say, "Well, I thought it was a balanced fund?" And that's a very fair question. Very fair question that it-- people are redefining risk.

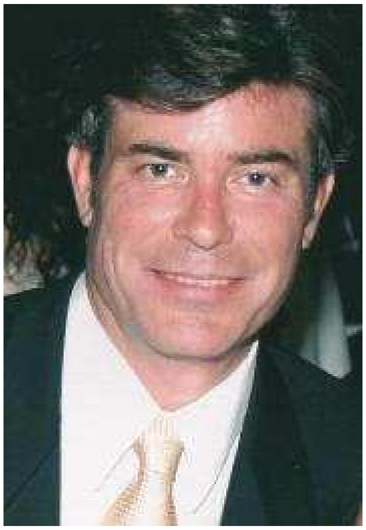
And so what we've tried to do with this account is say<u>, this is for your more conservative money. This kind of account works best for money that you're saying, "I'd really like to tuck some money away that I just don't have to worry about. And I really am looking for a more secure place to store and accrue financial assets. And this tax-free environment is a compelling case for me to pursue this account a little bit more closely and see whether it fits for me."</u>

Mark: Well, that's great. Thanks again, Ross. And, again, my name is Mark Huber from http://WeSaveYouTaxes.com and we wish you all a very pleasant day and all the very best to you and yours as you continue to create wealth and financial peace of mind.

And remember it's your life; plan for it and then live life like you mean it. So good luck and good bye for now!

- End Call -

Who Is Mark Huber?



Mark Huber, CFP, Author

Mark Huber is a practicing certified financial planner (CFP) with over 22 years of experience in the financial services industry.

Mark’s boutique planning practice works with a select group of clients who are all share a passionate vision for creating true wealth and living their dream lives.

Here's A Sampling Of What A Few People Have Said Already...

To whom it may concern:

Most of us trust our car mechanic, family doctor, postman, but somehow we decide to manage our financial affairs ourselves.

We spend a lot of time reading, researching and making doubtful decisions.

Everyone can go on internet and buy some stocks or mutual funds.

Information today is basically free, but know-how is priceless.

You can buy all the tools you need to fix your teeth, but would you do it yourself?

If your financial well being is important to you, talk to great financial planner Mark Huber.

It is your map to financial stability.

Sincerely yours,

AZ

Hi!
Thanks for your guidance and advice Mark. Our biggest regret is that we did not make the changes that we have made under you years ago!

Craig and Michele - Vancouver, BC

Dear Mark,

We just wanted to say that we are very happy with your financial advice and the services you offer.

You always respond to us quickly and thoroughly on all our inquiries and we always feel that you given priority to all our requests - big and small.

Thank you for helping us to look at our investments in a creative and effective way.

It is a pleasure working with you and we definitely recommend your services to all our friends/family looking for good financial advice to 'make their money move'!

L and A

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-The End-