A reverse mortgage is excellent estate planning

By PETER CHAPERLIN
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We in the financial planning profession consider estate planning an important element of the "final" planning. Why? To protect the "estate" as much as possible from the ravages of the tax bite so the heirs get the intended due.

There are people, however, whose attitude towards estate planning is, "Who cares; we're going to spend our children's inheritance!"

A Reverse Mortgage will allow more spending of the inheritance.

Today's retiree's will live longer than their parents or grandparents - possibly 30 years of retirement living. Income must come from somewhere and last this extended length of time.

A Reverse Mortgage solves the future income problem.

There are people who would like to have control of how the inheritance is distributed or would like to help their children now when the help is needed most.

A Reverse Mortgage makes it possible to distribute the wealth now.

There are cases where a style of living will change through the retirement years. For example, an avid gardener might have to move to an apartment and this would be a devastating loss of pleasurable occupation.

A Reverse Mortgage would prevent the forced change of residence and lifestyle.

A widow's income can suddenly be depleted when her husband's company pension stops on his death. A Reverse Mortgage recreates the lost income.

In fact there are many situations where a Reverse Mortgage is the solution to the problem.

How does it work?

First you must look at a house as a "box of cash". The idea is to release the cash to the owners while they still live in it, (rather than when they sell the house).

A portion of the current appraised value of the home is used to put a mortgage on the house. That's right, after sweating all those years to pay off the mortgage, another is being put on. But this is no ordinary conventional mortgage. This one is for life and there are no mortgage payments to be made.

So how does the mortgage get repaid?

Whenever the last surviving homeowner can literally no longer live in the house - either through deterioration of health or death, the house is sold. The proceeds of the sale pay off the mortgage and all the accrued payments.

If there is money left over, it goes to the estate for distribution to the heirs. If there is not enough from the sale to pay off the mortgage debt, the company loses. There is no recourse to recover the difference.

Where does the retirement income come from? The mortgage loan money is used to purchase a life annuity - the whole spectrum of annuity options is available. Because "borrowed" money from the mortgage is "invested" to provide the annuity, the resultant income is tax free under current tax laws.

Reverse Mortgages have been available in England and the United States for about 35 and 15 years respectively. The concept is only a few years old in Canada and they have been only available in British Columbia and Ontario up until now.

The popularity of the product is growing by leaps and bounds. In the foreseeable future it will become one of the main income sources for retirees as government pension plans waiver with their support and people will be forced to search for substitute income sources to maintain their higher and more active standards of living.

Reverse Mortgages are the product of the future.

This article was provided by Money Concepts Financial Planning Centres, Georgetown. For further information, telephone 873-1877.

Labor-sponsored investment fund participating in government program

Canada's only national labor-sponsored investment fund is the first to participate in a new Ontario government program providing attractive tax credits for investment in the kind of emerging growth companies that can help stimulate the provincial economy.

New Ontario tax legislation now provides a 20 per cent provincial tax credit, matching the 20 per cent federal tax credit already in place, for investments of up to $3,500 each year in a labor-sponsored investment fund. The provincial tax credits are retroactive to shares purchased after November 6, 1991.

In addition, Working Ventures shares are RRSP eligible and an individual who purchases these shares may transfer them to an RRSP and claim a deduction from taxable income.

Investors in Working Ventures gain an advantage of $1,400 over other RRSPs on an investment of $3,500. If you're in a 41.1 per cent marginal tax bracket (and you only have to earn over $28,785 in this province to be in this bracket) you will receive tax savings of $1,438.50 for your RRSP deduction plus $700 from the federal government and $700 from the Province of Ontario in tax credits. That means a $3,500 RRSP contribution in Working Ventures will result in total tax savings of $2,838.50 for a net cost of only $661.50.

The two-year-old Working Ventures Canadian Fund, sponsored by the Canadian Federation of Labour, is the world's first national labour-sponsored investment fund. All money invested in the fund, which is managed by a Toronto-based team of professionals, will be reinvested in promising, growth-oriented small and medium-sized Canadian businesses. Investments in the small business sector of the economy traditionally offer the potential for higher rates of return in return for acceptance of some additional risk.

For more information call: Ron Bogg or Julie Makepeace, Working Ventures Canadian Fund, (416)929-7777.

How do you save income tax with an RRSP?

RR$Ps

by Brigitte Goulard

(NC)—RRSPs are one of the last tax shelters available to Canadians. The amount of money that you put into your RRSP during the year is deducted from the income that you earned during the year, so that you are required to pay less income tax. The rules however restrict what you may contribute to a prescribed limit.

How does this work? For example, if your employment income this year is $50,000 and you contribute $2,000 to your RRSP, the amount of income tax you will pay will be based on $48,000 rather than $50,000 (assuming you are not eligible for any other types of deductions).

Are there any other tax advantages to an RRSP? Yes. All the money earned by your investment in an RRSP, such as interest, dividends and capital gains, is not taxable so long as it is reinvested in your RRSP. These earnings will be taxed only when you withdraw them from the RRSP.

Will the tax saved ever be paid? Yes. The amount you contribute to your RRSP will eventually be taxed when the money is paid back to you. This is usually when you retire and your income is lower. If you contribute to an RRSP in the name of your spouse you may save even more income tax in the future, by splitting your retirement income between two people. Your total contributions to both your own plan and your spouses plan cannot, however, exceed your prescribed limit.

To learn more about RRSPs visit a branch of your local trust company. This article was prepared by the Trust Companies Association of Canada.