Freedom 55 Financial
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Your Financial Security

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NEW IDEAS FOR YOUR STRONGER FINANCIAL FUTURE

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Protect your business from the loss of key people

Many business owners insure their physical assets from destruction. But how would your business cope if a key person died prematurely or suffered a life-threatening illness?

Consider a top salesperson who is unsurpassed at harnessing client relationships, or an executive whose operational know-how helps the business flourish.

Insurance on your key people can help prevent an unexpected loss from financially harming – or even destroying – the business you've worked so hard to build.

Every company has key people

Every company has people whose contributions are essential to its success, due to their:

- Strong technical skills
- Personal connections with valued customers
- Skills in attracting new business
- Responsibility for major projects

Whether they're highly valued employees, owners or partners, these key people bring energy and expertise to a business that can be difficult and costly to replace.

continued on page 4

Exposed to too much risk this year?

Lengthy estate settlement, risk that creditors will have access to your investments and the risk that down markets will erode your investment values are just some of the potential risks from which you can plan to protect yourself.

However, if you're among a growing number of aging Canadians who want to collect an income in retirement there are other risks you will face. If your focus has been retirement savings, you may not be aware of these unique risks associated with the income phase of your retirement plan.

The retirement risk zone

Unpredictable investment returns is one such risk. Poor market returns in the years just before or just after retirement may leave you with insufficient income to last your lifetime. Industry experts consider the five years before and the five years after retirement to be an especially critical phase for retirement savings.

If you are lucky during retirement and earn excellent returns, your retirement savings may continue to grow even while you are taking an income.

But if you are unlucky during retirement and earn poor returns, your retirement savings may run out leaving you with little to no income.

It's important to have a plan to reduce the risk your retirement income will not be sustainable.

Protect yourself

There are a number of things you can do to help combat the risks associated with investing through both the saving and income phases of your financial security plan. Here are some things you should consider.

Choosing the right product mix – While retirement and other risks cannot be addressed with just one product, there are several features segregated fund policies offer that can help protect you from the potential risks associated with retirement. Your financial security advisor can help you determine whether insurance-based investment vehicles such as segregated fund policies or mutual funds are more appropriate for you.

Building the right portfolio – Take advantage of the many tools your financial security advisor has that will help you determine the right mix of investments you should hold in your investment portfolio. He or she will help make sure these decisions are based on your unique situation and your risk tolerance – so you can feel more comfortable with the level of investment risk associated with investing.

Contacting your financial security advisor regularly – It's important to remember your feelings towards risk may change over time, so maintaining contact with your advisor is important. Your financial security advisor can give you the advice you need about how to best approach these potential risks as they may apply to you.

Whether you're in the saving phase of your retirement plan or drawing an income, your financial security advisor will work with you to help determine what products and features are best suited to helping you reach your investment goals.

Make sure mortgage features fit your circumstances

Ensuring you have the right type of mortgage for your circumstances, budget and lifestyle is the first step in managing this important piece of your overall financial picture.

Below is a quick overview of some of the more common types of mortgages on the market today.

Conventional mortgage
Under a *conventional* mortgage, a lender will normally provide up to 80 per cent of the appraised value or purchase price of the property, whichever is less. You must be able to provide the balance of the purchase price.

High-ratio or insured mortgage
Here the lender may finance up to 95 per cent of appraised value or purchase price, whichever is less. This type of mortgage must, by law, be insured against non-payment by either Canada Mortgage and Housing Corporation or Genworth Financial Mortgage Insurance Company of Canada. The insurance premium may be paid upfront or added to the mortgage amount.

Open mortgage
An *open* mortgage allows payment of the principal, in part or in full, at any time without penalty. Open mortgages tend to be for a short term, usually a year or less, although some lenders have longer terms. They typically have a higher interest rate than a closed mortgage because they offer greater flexibility.

Open mortgages are worth considering when interest rates are declining or if you have a short-term need.

Closed mortgage
A *closed* mortgage features regular payments for the term you select. A penalty usually applies if you repay the loan in full before the end of the term.

Closed mortgages are available for short or long terms and are worth considering when interest rates are rising.

Convertible mortgage
A *convertible* mortgage allows you to convert your mortgage to another mortgage type at any time without penalty. Often a *convertible* mortgage will specify what type(s) of mortgage can be selected.

Fixed-rate mortgage
A *fixed-rate* mortgage has a set or fixed interest rate that does not change during the term of the mortgage.

Fixed rate mortgages are ideal for individuals who want their payments to stay the same and want to know the amount that will remain owing at the end of the term.

Variable rate mortgage
Variable rate mortgages generally have a lower interest rate than fixed-rate mortgages with the potential to accelerate the reduction of the outstanding balance and, as a result, reduce your interest costs. The interest rate will fluctuate and may increase depending on market conditions.

Some *variable rate* mortgages offer a fixed payment for the full mortgage term. The portion of the payment that is applied to the principal fluctuates with changes in interest rates. This may either shorten or lengthen the amortization period.

Other *variable rate* mortgages have payments that fluctuate depending on the then-current interest rate.

Variable rate mortgages are worth considering if you're comfortable with, and can manage, changing interest rates and/or changing payments.

Determining the right mortgage and options for your situation can be confusing. Your financial security advisor can connect you with his or her mortgage planning specialist who can answer all your mortgage questions.

CONTINUED FROM PAGE 1

Benefits of key person insurance

Key person insurance helps protect your business in many ways. If a key person dies prematurely or becomes critically ill, your business receives funds at the exact time they're needed. Your business can use these funds to:

- Help keep your business running
- Find and train a replacement
- Compensate for lost revenues
- Assure creditors and suppliers that funds are available to meet commitments
- Assure customers your business has the means to continue

Life insurance for key people

With key person life insurance, your business is the owner and beneficiary of the policy. If the key person dies, your business receives the full death benefit tax-free – even if the person dies the very first day the policy is in effect.

What's more, many permanent life insurance policies can accumulate cash value. The cash value grows inside the policy on a tax-advantaged basis.* Your business can access this cash value while the key person is living and use it to:

- Take advantage of business and investment opportunities
- Deal with emergencies and unforeseen expenses
- Reward the key person with a retirement bonus

Critical illness insurance for key people

With key person critical illness insurance, your business is the owner and premium payor of the policy. Benefits are paid tax-free to the company after the key person meets the survival period, which is usually 30 days. Critical illness insurance benefits are tax-free to the company, provided the policy is considered accident and sickness insurance for tax purposes.

If the key person remains healthy, your business may recover its insurance costs with an optional return of premium rider. This can return up to 100 per cent of premium paid, if there is no critical illness. However, the taxation of a critical illness insurance policy with a return of premium benefit is uncertain at this time.

Determining the value of your key people

Your financial security advisor can help you determine the financial impact of losing a key person. Ask your advisor how you can implement key person protection as part of your business plan.

*If the accumulation stays within prescribed limits, the cash value is only subject to income tax when it's withdrawn.

The information provided is based on current laws, regulations and other rules applicable to Canadian residents. Rules and their interpretation may change, affecting the accuracy of the information. The information provided is general in nature and should not be relied upon as a substitute for advice in any specific situation. For specific situations, obtain advice from the appropriate professional advisors.

Information is provided by London Life Insurance Company and is current as of August 2009.

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