# Solutions

for financial planning

Manulife Investments

SPRING/SUMMER EDITION 2012

## SO, YOU WANT TO BE A MILLIONAIRE?

Look to long-term investing, not luck

## THE WORLD'S 8TH WONDER

Harness the power of compounding

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Solut!ons

Whether you are just starting out, accumulating wealth or getting ready to retire, Manulife Financial offers you a broad range of wealth protection and accumulation products to help you prepare for your financial future. Manulife is one of Canada's strongest and most reliable financial services organizations. With offices in 21 countries and territories, and millions of customers worldwide, you can trust that, when combined with the professional advice you receive from your advisor, our forward-thinking products and services provide practical *Solut!ons* that can help you make the most of your financial plan.

Manulife™ 125 YEARS

# Set a plan and stick with it to achieve your financial goals

Regardless of your stage in life or income, a financial plan can help you set objectives and prioritize your goals. The most important factors behind any savings strategy are spending less than you make and investing early to take advantage of time. This edition of *Solut!ons* discusses budgeting, managing debt and the importance of starting a savings plan as early as possible.

The article *So, you want to be a millionaire* profiles a young couple who share the goal of saving one million dollars. With the right plan in place, their goal becomes achievable. In *The world's 8th wonder*, you will see the importance of compound investment returns, and how you can benefit from what Albert Einstein referred to as the most powerful force in the universe. For those concerned about how their family's finances could be affected by a critical illness, disability or death, *One paycheque away* discusses the benefits of a bundled insurance solution.

Take a few minutes to complete the *Personal budget* worksheet found in this edition. It can help you better understand your current financial situation.

For 125 years, clients have looked to Manulife for strong, reliable, trustworthy and forward-thinking solutions for life's most important financial decisions. After you read this edition of *Solut!ons*, I invite you to meet with your advisor to review your current financial situation and determine the steps to reach your financial goals.

Sincerely,

J. Roy Firth, Executive Vice President
Individual Wealth Management, Manulife Financial

# WHAT'S INSIDE

# *So, you want to be a* MILLIONAIRE?

FINANCIAL PLANNING 101

# LOOK TO LONG-TERM INVESTING, NOT LUCK

Without a large lottery ticket win, most of us won't be able to save a million dollars overnight. But the possibility of saving to become a millionaire in retirement may be an attainable goal. Whether you are 25 and starting from scratch or 45 and feeling a bit behind on your savings strategy, with a solid financial plan in place, the goal may be more achievable than you think.

In the following story we meet a young couple in their late 20s who are looking for a basic strategy to help place them on the road to financial success and reach their million dollar goal.[1]

John and Lisa live together in an apartment in Toronto and are looking forward to building a future together. Having graduated from university with a master's degree in science, John is working as a research assistant for a pharmaceutical company, while Lisa is a marketing associate.

Sharing an apartment and expenses helps keep their overhead relatively low. But both realize that they are spending money

### CLIENT OVERVIEW

**Who:** John and Lisa, age 29 and 27, living as a couple

**Goal:** To save a million dollars

**The plan:** Create a budget, put money into retirement savings and buy a condominium in five years

**Current monthly net income:** John, $3,524; Lisa, $2,761 (salary assumptions: John, $56,000; Lisa, $42,000)

**Assets:** Car, $15,000

**Savings:** John, $1,500; Lisa, $1,000

**Liabilities:** Student loans: $19,500; credit card debt: $2,600

**Pre-budget monthly expenses:**
Rent, $1,500; student loans, $500;
household expenses, $800;
car payment, $400;
insurance, $200; credit cards, $500;
entertainment, $1,200;
clothing, $500;
other non-essential expenses, $350;
transit passes, $220

**Total monthly expenses:** $6,170

**Total free cash flow:** $115

[1] This story is fictional and is used for illustrative purposes only.

unnecessarily and have little left to show for it at the end of the month. Ready to make a change, Lisa calls Jennifer, a friend of the family who is an advisor, to set up a meeting.

Before their meeting, John and Lisa decide that their ultimate goal is to save one million dollars, but they also need a plan to help them:

1. Start a budget and stick to it
2. Begin a regular savings plan for retirement
3. Save $40,000 for a down payment on a condominium

## 1. Starting a budget

At the meeting, John and Lisa provide an overview of what they are looking to achieve. Their goal is to be able to save a million dollars for retirement, but they are having trouble getting started. Both realize they need to cut back on spending as they've developed some bad habits that are undermining their ability to save.

After a quick review of their spending, Jennifer provides John and Lisa with a simple yet effective plan. The goal is to put aside approximately 10 per cent of their after-tax income every month, or approximately $600, into a regular savings plan. In order to do so, they will need to cut back on their entertainment budget and their non-essential expenses.

Jennifer thinks their entertainment budget, at $1,200 a month, is out of control. She suggests that for entertainment, they could easily get by on $750 a month and still enjoy their current lifestyle. She recommends cutting back their non-essential expenses to $200, and Lisa's clothing budget to $300.

Jennifer points out that with a 26.5 per cent interest rate they need to payoff their credit card debt first. She suggests they use their current savings to eliminate this debt. Once they pay it off, they will have an additional savings of $500 per month. Finally, Jennifer recommends that they begin putting aside money in an emergency fund to cover things like unscheduled car repairs and other unforeseen expenses.

With an outline of their new budget in hand, the next step is to create a savings and investment plan.

**Before- and after-budget breakdown**

| | Before ($) | **After ($)** |
|---|---|---|
| Rent | 1,500 | **1,500** |
| Student loans | 500 | **500** |
| Household expenses | 800 | **800** |
| Car payment | 400 | **400** |
| Insurance | 200 | **200** |
| Credit cards | 500 | **–** |
| Entertainment and leisure | 1,200 | **750** |
| Clothing | 500 | **300** |
| Other non-essential expenses | 350 | **200** |
| Transit passes | 220 | **220** |
| **Total expenses** | **6,170** | **4,870** |

## 2. Starting a savings and investment plan

Jennifer points out that, with a goal of saving $1,000,000, they need to begin saving now. Lisa and John are approximately 35 years from retirement, which provides them with a considerable amount of time to achieve this goal.

In their current jobs, neither has a company pension plan, which means that, at this time in their careers, the onus is entirely on them to address their retirement needs.

Jennifer then proceeds to show John and Lisa Chart 1 to illustrate how much they will need to invest every month to become a millionaire at age 65 starting at different ages. The chart assumes that the investment is held within a tax-deferred savings account such as a Registered Retirement Savings Plan (RRSP).

Jennifer explains, "The longer you wait, the more you have to save. And the more you have to save, the tougher it's going to be. You both need to start investing as early as you can and let the power of compound investment returns begin working for you. Time – and spending less than you make – is the key to achieving your financial goals."

Jennifer works out the numbers and recommends that John and Lisa put $616 a month into an RRSP to achieve their million dollar goal.

Jennifer explains that when you contribute to an RRSP, the amount you contribute – which is limited to up to 18 per cent of your

**CHART 1**
**Starting early makes it easier for John and Lisa to save**

| Age | Rate of return (%) | Monthly investment ($) | Investment goal ($) |
|---|---|---|---|
| 25 | 6 | 502.14 | 1,000,000 |
| 30 | 6 | 701.90 | 1,000,000 |
| 35 | 6 | 995.51 | 1,000,000 |
| 40 | 6 | 1,443.01 | 1,000,000 |
| 45 | 6 | 2,164.31 | 1,000,000 |
| 50 | 6 | 3,438.57 | 1,000,000 |

For illustration purposes only.

earned income[2] – is tax-deductible, thus lowering the amount of income you pay taxes on. In addition, any investment growth earned on assets held within an RRSP will not be taxed as long as they remain in a registered plan.

For John and Lisa, the RRSP will constitute the foundation of their financial plan since it allows them to take full advantage of compound investments returns on a tax-deferred basis.

### 3. Saving for a down payment on a condominium

The next part of their savings plan is to put aside money for a condominium. Their goal is to save $40,000 over five years. John and Lisa are aware that this can be accomplished through the Home Buyers' Plan available through an RRSP.

Jennifer advises them that while RRSPs can be a good way to save for a down payment, they may be better off doing so through a Tax-Free Savings Account (TFSA) because of its

[2]Refers to earned income from the previous year minus pension adjustments up to an annual limit. The RRSP limit for 2012 is $22,970.

inherent flexibility. A TFSA is a general purpose savings vehicle that allows each of them to make a $5,000 contribution every year,[3] and withdraw funds at any time in the future tax-free. Like the RRSP, a TFSA allows the investment growth to compound free from taxation. However, unlike with an RRSP, you cannot claim a tax deduction on contributions. The nice thing about TFSAs is that there is no restriction on how withdrawals can be used.[4]

In order to achieve their goal for a down payment, Jennifer advises John and Lisa they will need to put aside an additional $8,000 per year, or approximately $650 per month.

Lisa and John agree to follow Jennifer's recommendations and decide to open up an RRSP and TFSA. Each month, the $1,266 will be automatically withdrawn from their savings accounts through a Pre-Authorized Chequing Plan (PAC) and invested into a broadly diversified portfolio of mutual funds that Jennifer recommends.

"We will need to review your financial plan annually to ensure that it remains realistic and on track. You are both young and your combined incomes will change, so you may have the opportunity to achieve your goals even faster than what we have outlined here today," Jennifer concludes.

With their budgeting/savings plan in place, John and Lisa are happy to know that they are taking control of their finances and that their goals are achievable with the right plan.

## Talk with your advisor

Talk to your advisor about how they can help you to develop a financial plan that ensures you take advantage of the tax advantaged investment strategies available.

**After-budget savings plan breakdown ($)**

| | |
|---|---|
| **Surplus before savings** | **1,415** |
| **Savings:**<br>Registered Retirement Savings Plan (RRSP) – retirement | **616** |
| Tax-Free Savings Account (TFSA) – condo down payment | **650** |
| Emergency savings | **149** |

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[3] Increases, rounded to the nearest $500, to the yearly contribution limit will be applied as warranted by the consumer price index for years after 2009.

[4] Amounts withdrawn in a taxation year will be reflected in contribution room in the following year. Over-contributions in a year will be subject to tax consequences assessed by the Canada Revenue Agency.

# THE WORLD'S 8TH WONDER

# HARNESS THE POWER OF COMPOUNDING

*"Compound interest is the eighth wonder of the world. He who understands it, earns it…he who doesn't…pays it."*

*~ generally attributed to Albert Einstein*

It's no secret that Albert Einstein was a brilliant scientist. But few people realize that his exceptional understanding of mathematics provided him with keen insights into the world of finance as well. It is widely believed that Einstein considered compound interest to be one of the most powerful forces in the universe, and it's an important concept that every investor should understand.

Time and compound investment returns can be powerful allies when it comes to investing, and one of the best ways to take advantage of this is to begin investing as soon as you can. What follows should inspire you to begin taking advantage of what Einstein is believed to have coined "the eighth wonder of the world."

## Understanding compound interest

Compound interest and/or compound investment returns arise when profits from an investment are added to the principal, so that from that moment on, the profit that has been added also has the potential to earn additional profits. This addition of profit to the principal is called compounding, and it can be an important consideration when choosing how to invest your savings.

Compound interest can work against you as well. When you incur debt, you pay interest and principal to the lender until the loan is paid off. If you fail to pay off any part or all of the principal, the level of debt you will carry has the potential to increase until it is nearly impossible to pay off the loan. For example, if you have credit card debt charging 20 per cent interest and you fail to make payments, your debt will double in 3.6 years. If you continue to avoid making payments, your debt would double again in another 3.6 years, and so on.

## Compound investment returns in action

To help illustrate how compound returns can work in your favour, let's assume we have three different

**CHART 1: Simple interest compared to compound interest**

| | Investor | 6% interest | Value after 30 years |
|---|---|---|---|
| **Investor receiving simple interest** | Frank – $1,000 | 30-year investment, **simple interest paid annually** | $2,800 |
| **Investors receiving compound interest** | Carl – $1,000 | 30-year investment, **compound interest paid annually** | $5,743 |
| | Susan – $1,000 | 30-year investment, **compound interest paid monthly** | $6,023 |

For illustrative purposes only. This is a fictional scenario.

investors – Frank, Carl and Susan – each with $1,000 to invest. Frank invests in a 30-year investment that pays six per cent simple interest annually. Carl and Susan also put their money into a 30-year investment that pays six per cent, the difference being that Carl's investment compounds yearly, and Susan's investment compounds monthly.

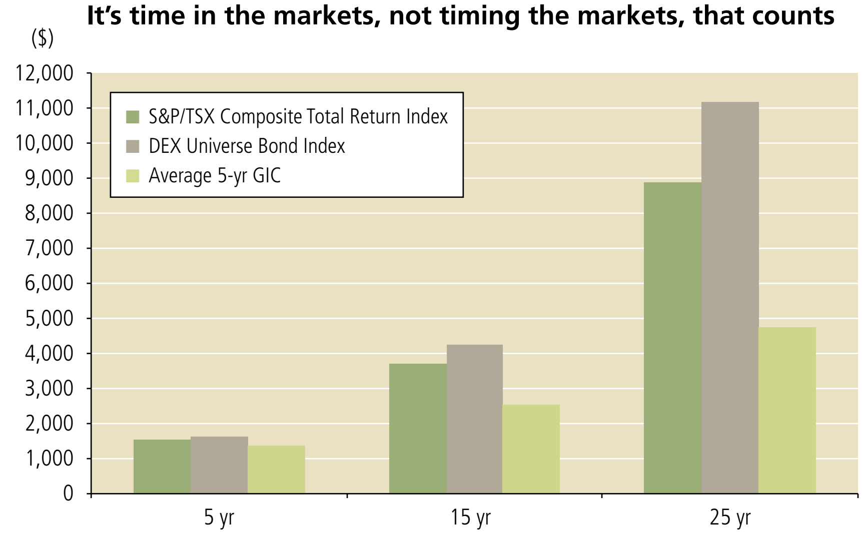
While it is not easy in today's markets to obtain an investment that pays six per cent interest, Chart 1 helps illustrate how compound interest can work for you over time. The difference between earning simple interest and compound interest can lead to dramatically different results. Reinvesting on a monthly or even daily basis can increase returns to an even greater degree. That's the power of compound interest working for you and it underscores the importance of reinvesting your profits and harnessing the benefit of time.

## What history can tell us

While no one can predict the direction of the financial markets, we can turn to history to gain some potential insights into how markets can produce compound investment returns over the long-term. Chart 2

REINVESTING ON A MONTHLY OR EVEN DAILY BASIS CAN INCREASE RETURNS TO AN EVEN GREATER DEGREE.

**CHART 2:**
**It's time in the markets, not timing the markets, that counts**



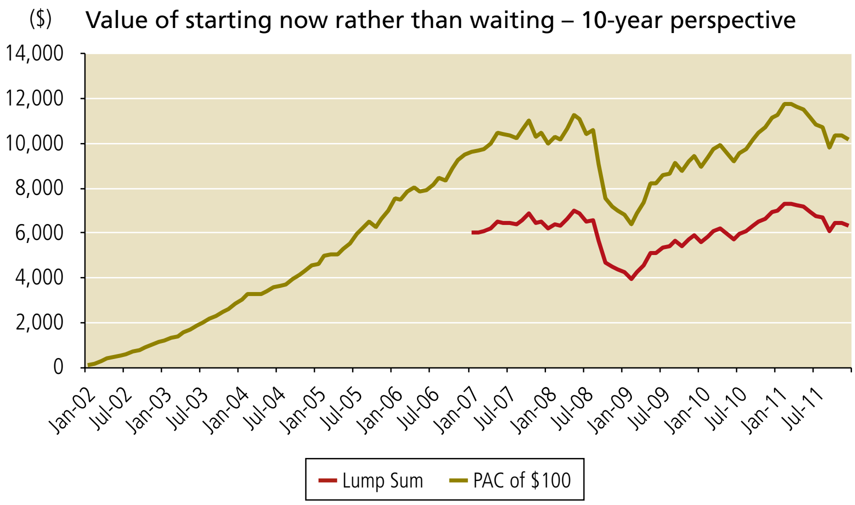

Source: Morningstar Direct as of December 31, 2011. For illustrative purposes only. Past performance is not indicative of future returns.

provides a comparison of a $1,000 investment into three different asset classes using their 30-year average annualized rates of return. For stocks, the annualized compound rate of return is nine per cent; for bonds, the annualized rate of return is 10 per cent; and for Guaranteed Investment Certificates (GICs) with a five-year term to maturity, the annualized rate of return is six per cent. Using these figures, it's easy to see that the longer your money remains invested in the markets, the more you can capture the benefits of compound investment returns over time.

## Now that you understand it, get ready to earn it

It's hard to save up large amounts of money to invest at one time. That is why many Canadians utilize Pre-Authorized Chequing Plans (PACs) to automatically invest smaller, more affordable amounts at regular intervals. One advantage of this process is that by investing through a PAC, you can also take advantage of an investment strategy called dollar-cost averaging. With dollar-cost averaging, you buy more units of a mutual fund when its price is lower and fewer units when its price is higher, reducing the average cost of your mutual

**CHART 3:**
**The benefits of dollar-cost averaging**




Source: Morningstar Direct as of December 31, 2011 using the S&P/TSX Composite Total Return Index. Cannot be purchased directly by investors. For illustrative purposes only. Past performance is not indicative of future returns.

### WHAT ARE MUTUAL FUNDS?

A mutual fund is an investment that pools money from many individuals and invests it according to the fund's stated objectives. Professional money managers make investment decisions on behalf of mutual fund investors, buying and selling investments such as money market investments, bonds and stocks. When investing through a mutual fund, it's important to make sure that all distributions are reinvested in order to take full advantage of the power of compound investment returns over time.

fund units over time.

Dollar-cost averaging has the potential to produce superior returns while minimizing risk. Chart 3 compares a scenario in which one investor saved up to make a large lump-sum investment and another made smaller, more affordable payments and was therefore able to begin investing much earlier. The investor that began earlier and made 60 separate payments of approximately $100 then stopped making payments achieved superior results than the investor who saved $6,000 over a five-year time period and invested the entire amount at one time.

In this scenario, the dollar-cost averaging approach produced a superior result during a volatile period in the markets. The added benefit was that the investor choosing the dollar-cost averaging approach was able to take advantage of the effects of compounding earlier, and they didn't have to worry about timing the market, which can be a detrimental side effect of committing an entire investment at one time.

## Speak with your advisor

Now that you understand the power of compounding and how it can maximize your earning potential, it's time to earn it. Speak with your advisor today to find out how you can make compounding part of your investment strategy. •

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# THE HABIT OF SAVING STARTS EARLY

"Young people raising families should start early to save for retirement, as the obligation will fall increasingly on individuals to look after themselves when they retire."

**Bob Tillmann,** Vice President, Marketing and Sales Support Services, Distribution

"We still have a big challenge ahead of us to get people thinking about this as soon as they should," he says. "Our feeling is that the government isn't likely to fund larger amounts of Canada Pension Plan or other income supplements that people might like to have. And there are fewer and fewer defined benefit pension plans, the ones that allow people to worry less about saving for retirement."

While saving for retirement is far from the first priority of people buying homes and raising children, the challenges only grow larger over time, Mr. Tillmann says. "Once they start a family, the expenses don't seem to go down. Children get older and go to college or university. It just becomes harder and harder as you get older if you have not got into the habit of trying to save for yourself.

"If people start sooner there's more ability to make a difference. No matter how much money you make, it becomes much harder as you get older, if you haven't been saving, to save anywhere close to what you'll need to come close to your pre-retirement income."

Although many people think of their house as the key to their retirement plan, people still need a place to live, and these days, fewer retirees wish to downsize. A savings plan helps people

diversify and gain flexibility.

"Homes are an excellent way to create equity and personal net worth, but if you've got everything tied into the equity in your home, it starts to reduce your choices as you get closer and closer to retirement," Mr. Tillmann says.

One convenient way for young people to save for retirement is through a systematic withdrawal program at work – "making a monthly contribution, as small or large as is appropriate for you in your circumstances." The program can be as simple as a defined contribution plan through an employer. "And maybe there's an employer matching program. People should start to look at those programs before they're buying homes and starting to put a strain on their pay. That way, they're dealing with a number that they've already accounted for."

Registered Retirement Savings Plans (RRSPs) or group RRSPs at work provide a tax incentive for saving, through tax-sheltered growth and tax deductibility on the initial investment. "Typically when you file your return you're going to get some tax refund back at the end of the year. You can think of making some additional payments against your mortgage." Those who start saving in an RRSP at 25 have a dramatic advantage over those who begin at, say, 35.

Mr. Tillmann does not recommend that everyone set aside a specific percentage of income as savings for retirement. "Everyone's circumstances are different."

Mutual funds offer an excellent way to diversify one's investments, he says. "They're a great way for an individual to start getting some exposure to equities, which over the longer term have provided a better return than buying instruments like GICs [Guaranteed Investment Certificates] or putting the money in a savings account and simply saving your way to retirement. There's an opportunity to grow your investments through a diversified portfolio of equities and fixed income." He encourages everyone to look for financial advice when investing in mutual funds. •

ONE CONVENIENT WAY FOR YOUNG PEOPLE TO SAVE FOR RETIREMENT IS THROUGH A SYSTEMATIC WITHDRAWAL PROGRAM AT WORK.

This article appeared on *The Globe and Mail* website **globeandmail.com/financialroadmap** in January 2012.

# TAKE THE BUDGET CHALLENGE

It's time to find balance in your budget

Every good financial plan needs a budget. No matter how much you earn it's important to know where you are spending your money. Budgeting is about building a plan to help guide you to make good decisions when it comes to saving, spending and investing. The challenge is to find balance. Balancing a budget means figuring out how to spend less than you make and therefore breaking the debt cycle.

This worksheet will help you better understand your current situation, identify spending habits and reduce debt.

## PERSONAL BUDGET WORKSHEET

### AFTER-TAX NET INCOME (Please enter monthly amount)

Wages, salary, commissions & bonuses $____________

Rental property Income $____________

Investment income (RRIFs, annuities, dividends, interest) $____________

Government benefits (CPP, OAS) $____________

Pension $____________

Other income $____________

**Total monthly income** $____________

**A Total annual income (above x 12)** $____________

### EXPENSES (Please enter monthly amount)

**Housing**

Mortgage/rent payments $____________

Utilities (gas/electric/water) $____________

Phone/cell/internet/cable $____________

Homeowner's/content Insurance $____________

Property taxes/condo Fees $____________

Home repairs/maintenance $____________

**Transportation**

Gas $____________

Car insurance $____________

Loan/lease payments $____________

Public transit $____________

Maintenance/repairs $____________

Parking $____________

**Daily living**

Groceries $____________

Childcare/support payments $____________

Tuition, student loan payment $____________

Clothing/haircuts $____________

Services (dry cleaning/ housekeeping/landscaping) $____________

**Health care**

Medical (prescriptions/ dental/eye/chiro/massage) $____________

Assisted living, nursing care $____________

**Financial obligations**

Registered contributions $____________

Non-registered contributions $____________

Pension contributions $____________

Loans & lines of credit payment $____________

Credit card payments (all cards) $____________

Health insurance $____________

Life Insurance (Life/LTC/Disability/CI) $____________

**Discretionary expenses**

Fitness $____________

Travel/vacation $____________

Hobbies $____________

Pets $____________

Entertainment $____________

Restaurants $____________

Gifts (birthdays/anniversary) $____________

Subscriptions (newspapers/magazines) $____________

Charities $____________

Other

____________________ $____________

**Total monthly expenses** $____________

**B Total annual expenses (above x 12)** $____________

**Total dollars available to invest or save**

**A Total annual income – B Total annual expenses = Total dollars available** $______________

**Looking at your spending patterns, are you surprised? Pleased? Frightened?**
**If you don't like what you see, work with your advisor to develop a budget and plan.**

| **ASSETS** | Current value |
|---|---|
| Primary residence | $______________ |
| Vacation home, commercial/rental property | $______________ |
| Black book value of automobiles | $______________ |
| Trucks, boats, other transportation | $______________ |
| Chequing accounts | $______________ |
| Savings accounts | $______________ |
| TFSAs | $______________ |
| RESPs | $______________ |
| RRSPs/RRIFs | $______________ |
| Individual stocks | $______________ |
| Individual bonds | $______________ |
| Segregated funds | $______________ |
| Mutual funds | $______________ |
| Money market accounts | $______________ |
| GICs | $______________ |
| Pension (company/individual) | $______________ |
| Other assets | $______________ |
| **A Total assets** | $______________ |

| **LIABILITIES** | Current debt |
|---|---|
| Balance on home mortgage | $______________ |
| Tuition loans | $______________ |
| Credit card balances | $______________ |
| Home equity loans | $______________ |
| Lines of credit | $______________ |
| Medical expenses | $______________ |
| Car loans | $______________ |
| Other long-term debt | $______________ |
| Miscellaneous money owed | $______________ |
| **B Total liabilities** | $______________ |

**Total net worth**

**A Total assets – B Total liabilities = Total net worth** $______________

Are you happy with your assets-to-liabilities ratio? If you think there's room for improvement, talk with your advisor about reducing debt or making your investments work harder for you.

# *SOLUT!ONS* AND QR CODES

Scan a QR code to link to a video version of the following articles: So you want to be a be a millionaire?, The world's 8th wonder and One paycheque away.

## So, just what are QR codes?

QR codes, or Quick Response Codes, are two-dimensional barcodes that encode an URL, phone number, address card or message. If your smart phone is both camera-ready and has QR code decoding software installed, simply point your smart phone at the QR code and watch as the browser loads and takes you to the webpage, or launches a program needed to process the information that you're trying to access. You'll find QR codes in magazines, direct mail, store windows, TV and on websites.

## What's the benefit?

QR codes enable you to quickly access relevant multimedia that will enhance your knowledge of and relationship with the product, service, place, person, company or other sponsor of the QR code – through something like your smart phone.

Please keep in mind that viewing videos on your smartphone can take up a large amount of data. Ensure that your wireless monthly plan has sufficient data usage.

Try it now – scan this QR Code and view the video *So, you want to be a millionaire?* •

### HOW TO SCAN A QR CODE

**BlackBerry:**

**1.** Open the BlackBerry App World app. Visit blackberry.com/appworld to download

**2.** Once in Blackberry App World, push the menu key (to the left of the track pad/track ball)

**3.** Select "Scan a Barcode" from the menu

**4.** Point the camera at the QR code as if taking a picture

**5.** Make sure all four corners of the code are in the view screen. Hold steady until the camera focuses.

**6.** An option to open the website link will appear. Click 'yes' to proceed

Note: you can also download other QR code reader apps from BlackBerry AppWorld such as QR Code Scanner Pro or ScanLife.

**iPhone:**

**1.** Download a QR code reader app such as QR Reader or NeoReader from the App Store. Visit itunes.apple.com to download

**2.** Open your QR code reader app and follow any required instructions

**3.** Point the phone camera at the QR code as if taking a picture

**4.** Make sure all four corners of the code are in the view screen. Hold steady until the camera focuses

**5.** An option to open the website link may appear. Click 'yes' to proceed

**Android:**

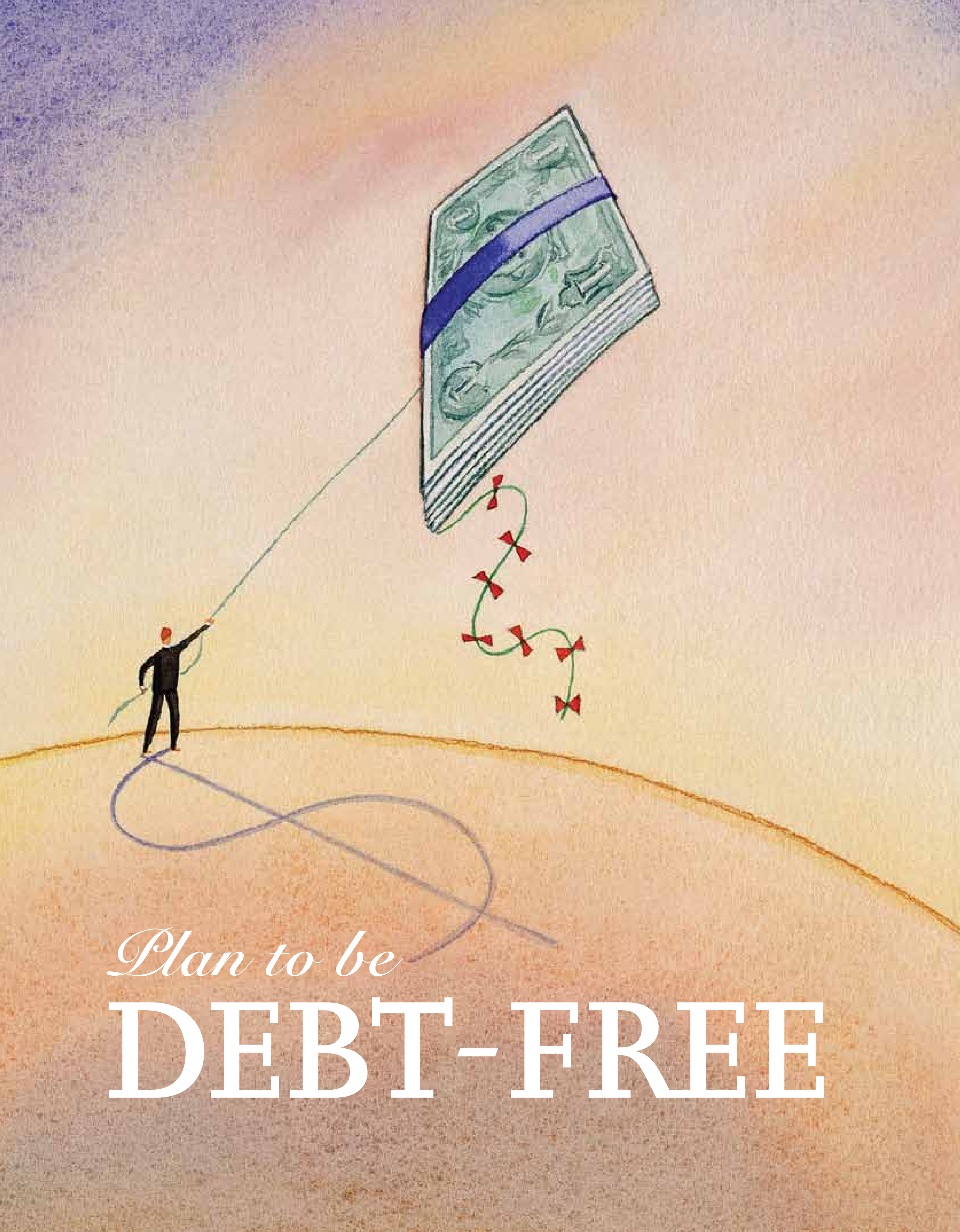
**1.** Download a free QR code reader app such as ScanLife, QuickMark, or QR Droid from the Android Market. Visit market.android.com to download

**2.** Launch your QR code reader app and follow any required instructions

**3.** Point the phone camera at the QR code as if taking a picture

**4.** Make sure all four corners of the code are in the view screen. Hold steady until the camera focuses

**5.** An option to open the website link may appear. Click 'yes' to proceed



# *Plan to be*
# DEBT-FREE

# STRATEGIES FOR GETTING OUT OF DEBT

Although most homeowners aspire to be debt-free, many are not putting their minds to it. A recent Manulife Bank poll[1] found that three in four homeowners consider becoming or being debt-free to be among their highest financial priorities. In fact, that 75 per cent figure holds true (with only slight variation) across all age groups surveyed, but only half of those surveyed had managed to reduce their debt over the preceding 12 months.

## Why are so many Canadian homeowners struggling to reduce their debt?

Lack of knowledge may be part of the problem. Some Canadians have not taken the time to learn about the factors impacting their ability to manage and reduce their debt. For example:

- One in three Canadians aged 30 to 39 are not aware that interest rates are relatively low compared to historical norms. As a result, Canadians in this group may be taking on more debt than they could comfortably carry if interest were to return to historical norms
- Most Canadians (85%) in all age groups are not aware that interest payments on non-registered investment loans are generally tax-deductible
- Two in every three homeowners aren't sure what level of down payment they'd need to avoid having to pay mortgage insurance

While lack of knowledge is one area of concern, a gap between expectations and reality may also be keeping us from paying sufficient attention to our debt. The survey found that 55 per cent of Canadians aged 30 to 39 expect to be debt-free by age 50; however, only 17 per cent in the 50 to 59 age group actually were debt-free.

Why is there such a gap between the optimism in our youth and the reality as we approach retirement? One reason may be a lack of willingness to ask for help when it comes to managing our debt. The survey found that only about one in three Canadians have spoken to an advisor in the past year about their debt and day-to-day finances. As with many things in life – a little good advice can go a long way.

## Strategies to help you become debt-free

If you'd like to become debt-free but aren't sure where to start, here are six strategies to set you on the right path:

### 1. Live within your means

It seems obvious but few people actually take the time to ensure they're consistently spending less than they earn. The solution is simple – create a budget and stick to it. Then, periodically check your

[1]Figures cited in this article are taken from the results of the Manulife Bank of Canada poll, which surveyed 1,000 Canadian homeowners between ages 30 to 59 with household income of more than $50,000. It was conducted online by Research House between July 25 and August 6, 2011. Full survey results can be found at manulifebank.ca/debtresearch.

income and expenses to ensure that you're actually spending within the limits you've set. A budget will help you distinguish between your 'needs' and your 'wants' and also help you ensure that you're setting aside enough money to achieve your longer-term financial goals.

### 2. Plan for the unexpected

One of the biggest challenges for many Canadians trying to become debt-free is an unexpected expense or temporary income disruption. Remember that even with a solid budget in place there will be unexpected challenges along the way. To avoid having these incidents throw your debt-freedom plan off-track, you need to expect the unexpected. Build up an emergency fund that you can tap into if you hit a rough patch. Or, if your contingency plan involves short-term borrowing, ensure you have easy access to a low-interest line of credit so you're not forced to use high-interest credit cards. Finally, when things are back to normal, make it a top priority to replenish your emergency funds or repay your loan.

### 3. Account for rising interest rates

Do you know what interest rates you're paying on your various loans? Are the rates locked-in or variable? If you don't know the answers to these questions, make it a priority to find out. Often variable rates are lower than fixed rates – which could save you money today. However, only consider variable rate loans if you have some flexibility in your budget to absorb an increase in interest costs if interest rates rise. Fixed rates may be preferable if an increase in rates would cause you financial difficulty or undue stress. Recently, more Canadians are opting for loans that allow them to divide their debt between fixed and variable rates so they can enjoy the best of both worlds.

### 4. Be proactive and make debt repayment a priority

Just because you have a 25-year mortgage doesn't mean you should take 25 years to pay it off. In fact, almost all mortgages allow you to make extra payments, beyond what's required. Doing so could significantly reduce the amount of time it takes for you to repay the mortgage and could save you significant interest. The same is true of virtually all loans. If you want to become debt-free, make it a priority. Set a debt-reduction goal the same way you'd set a target for retirement savings and then challenge yourself to reach that goal by putting extra money toward your debt each month. To help you stay on track, create a chart showing your actual debt compared to your goal and update it regularly.

### 5. Consolidate your debt

One of the easiest ways to reduce your debt quickly is to consolidate it all at the lowest rate possible. Moving all of your debt to a single low-rate loan account will not only help you save interest, it will make it easier for you to keep track of how much debt you have. And, knowing how much total debt you have at any given time will make it easier to keep your debt-freedom plan on track.

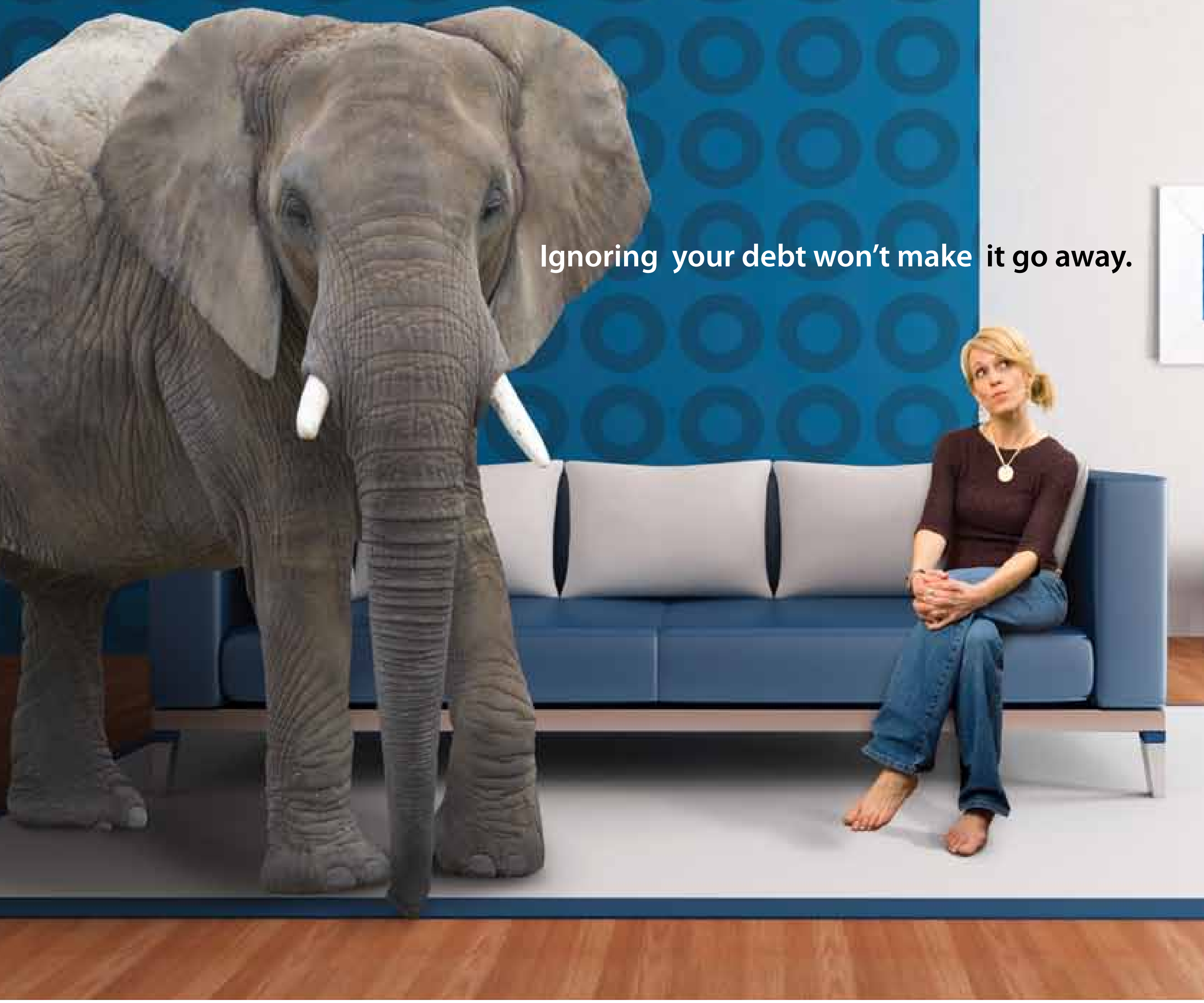
### 6. Talk to your advisor about a debt repayment plan that can work for you

Last, but certainly not least, don't be afraid to talk about debt. Debt management is an important part of your overall financial plan and your advisor can help you create and implement a plan for becoming debt-free sooner.

Most Canadians would like to be debt-free. The good news is that, by implementing these few simple strategies, you may be able to become debt-free sooner than you think. •

#### FIVE COMMON MISTAKES CANADIANS MAKE WITH DEBT

- Staying with your original lender when the mortgage comes due, without shopping around to find a mortgage that best meets your unique needs
- Maintaining multiple separate debts with a range of interest rates, instead of consolidating at a single low rate
- Failing to make extra mortgage payments, when additional money is available
- Not developing a long-term strategy for debt-freedom
- Neglecting to seek out professional debt management advice




Most people have debt and ignoring it won't make it go away. At Manulife Bank, we have created a solution to help Canadians manage their debt more effectively, allowing them to get out of debt sooner and potentially saving thousands in interest.

Check out **manulifeone.ca** today to find out more.

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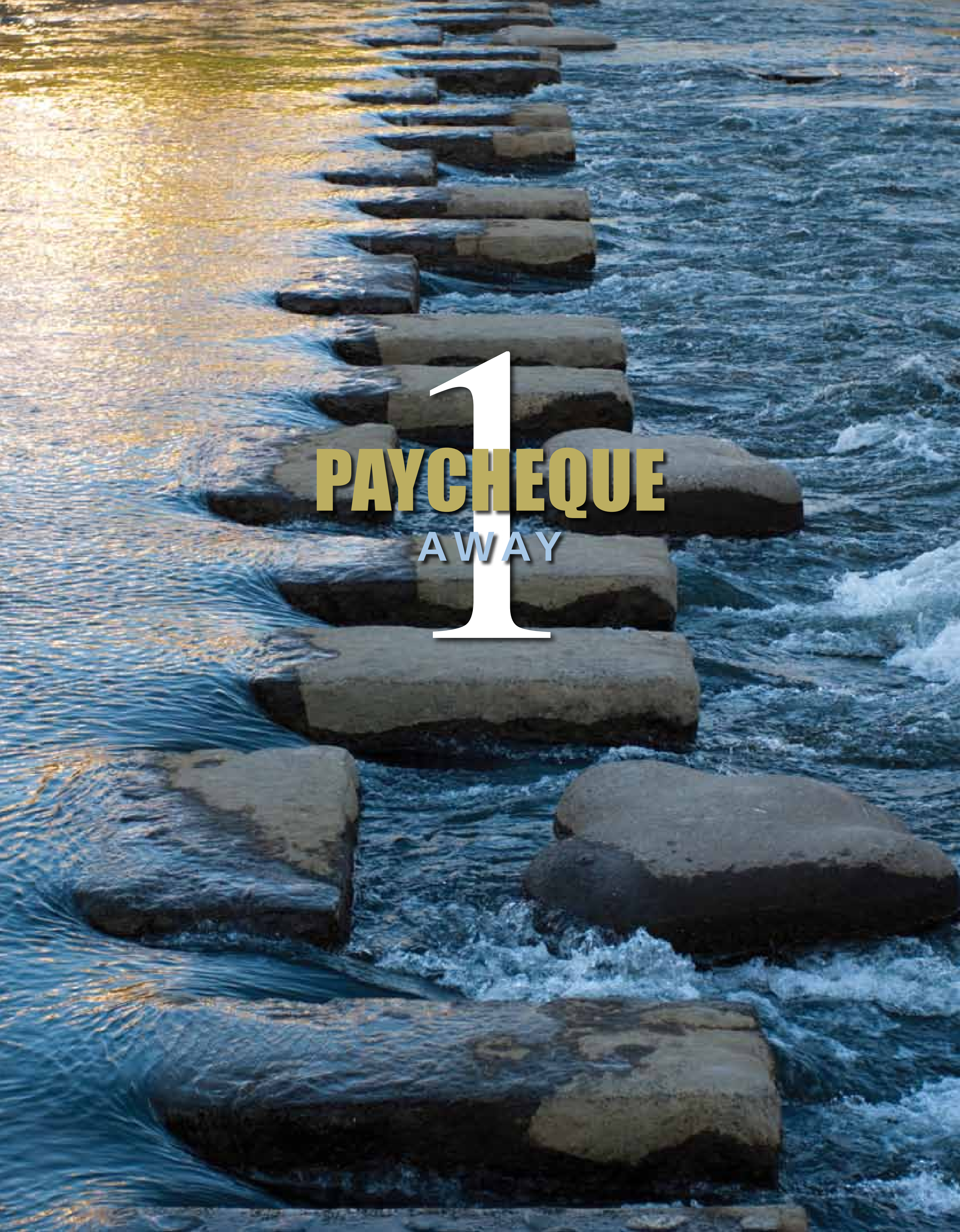

1
PAYCHEQUE
AWAY

# THE BENEFITS OF A BUNDLED INSURANCE SOLUTION

Lucy is a single mom with a seven-year-old daughter. She has a good job as a health claims administrator, but like a lot of people, she lives paycheque to paycheque. She had a bit of a health scare last month, and although the tests were negative, Lucy started thinking… What if she became ill and couldn't work? What would happen to her and her daughter if her paycheque was interrupted?

What about you? What if your paycheque was interrupted for a week, a month or longer?

According to a Canadian Payroll Association Survey,[1] a delay in pay for even a week would put 57 per cent of Canadian employees in financial difficulty. And that number rises to 63 per cent for workers aged 18 to 34.

For single parents it's even higher, with 74 per cent reporting they'd be in financial difficulty if their pay were delayed for a week. Imagine, then, if their paycheque was interrupted for a month or longer because of an illness or disability.

Here's the reality: the average duration of a long-term absence from work due to either illness or disability is 10 weeks, with one in five of those absences lasting more than 17 weeks.[2] And according to the Canadian Life and Health Insurance Association, one in three people, on average, will be disabled for 90 days or more at least once before they reach age 65.[3]

But the research shows that many Canadians don't have the funds to support a short, let alone lengthy, interruption in income. So how will they manage the rent or mortgage and other bills?

## New bundled insurance solution helps protect Canadians during their prime working years

A new, innovative insurance solution, combination insurance, is now available to help young, middle-income Canadians protect one of their most valuable assets – the ability to work and earn a living.

Available for Canadians aged 18 to 50, combination insurance provides the three-in-one protection of a disability, critical illness and life insurance policy, all packaged into one easy-to-manage plan.

The bundled approach delivers solid coverage for three risks with only one application, one underwriting process and one amount to pay. And combination insurance can be easier on the budget than purchasing three stand-alone policies.

### "IT WON'T HAPPEN TO ME." Putting the risk into perspective[4]

Percentage likelihood, before age 65, of a 30-year-old non-smoker:

| | MALE | FEMALE |
|---|---|---|
| Becoming critically ill | **28.4** | **20.9** |
| Becoming disabled | **37.4** | **42.7** |
| Dying | **7.9** | **5.8** |
| Becoming critically ill, becoming disabled or dying | **62.6** | **58.2** |

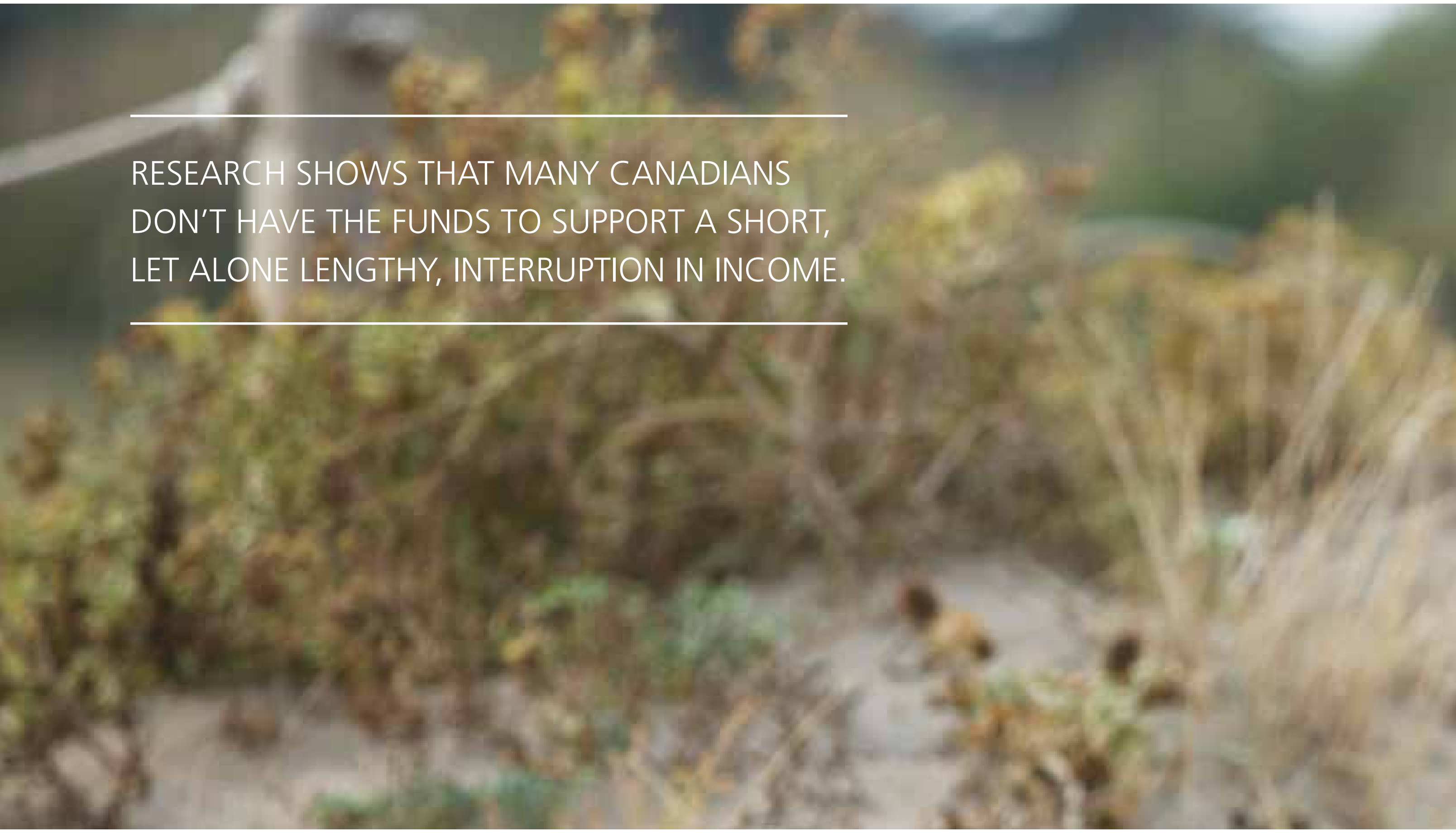
For a 30-year-old couple, the likelihood of at least one person becoming critically ill, disabled, or dying before age 65: **84.4%.**

**The coverage includes:**

| Disability insurance | Critical illness insurance | Life insurance |
|---|---|---|
| Protection to age 65[5] if you're unable to work in your regular occupation because of illness or injury<br>Waiting period of 90 days (180 days if your annual income is less than $15,000) | Critical illness insurance to age 65[5] for 22 covered conditions, plus:<br>• Early intervention benefit pays a benefit for the early stages of some cancers and for coronary angioplasty<br>• No waiting period for most covered conditions means fast access to the benefit so recovery can begin as soon as possible | Term life insurance to age 65[5] |

And there's optional protection for even greater peace of mind:

- Term insurance rider for additional life insurance coverage
- Term insurance and critical illness insurance protection for children up to age 25



RESEARCH SHOWS THAT MANY CANADIANS DON'T HAVE THE FUNDS TO SUPPORT A SHORT, LET ALONE LENGTHY, INTERRUPTION IN INCOME.

## One-of-a-kind 'pool of money' approach

What makes combination insurance affordable is a one-of-a-kind 'pool of money' approach. This approach provides different benefits than owning three stand-alone products, but that's exactly why combination insurance can provide solid protection for three different risks at a price more suited to the average Canadian's budget.

### How it works

- You can buy a minimum of $100,000 and up to a maximum of $500,000 *amount of insurance*
- The amount of insurance creates a pool of money called the *available amount of insurance*

**Access to the available amount of insurance is available three ways:**

| Disability benefit | Critical illness benefit | Life insurance benefit |
|---|---|---|
| Pays a monthly benefit that's the lesser of:<br>• 0.5% of the amount of insurance, and<br>• The available amount of insurance | Pays a covered condition benefit amount that's the lesser of:<br>• 25% of the amount of insurance (less any recovery benefit paid), and<br>• The available amount of insurance | Pays 100% of your available amount of insurance |

## How do the numbers stack up?

Here's an example of what happens when a benefit is paid (starting with a $250,000 amount of insurance):

**Amount of insurance is $250,000**

| Monthly disability benefit | Critical illness benefit | Life insurance benefit |
|---|---|---|
| $250,000 x 0.5% = $1,250 | $250,000 x 25% = $62,500 | $250,000 x 100% = $250,000 |

Following an approved disability claim, a total of $25,000 in disability benefits is paid before the insured person returns to work. The available amount of insurance changes:

**Available amount of insurance is now $225,000**

| Monthly disability benefit | Critical illness benefit | Life insurance benefit |
|---|---|---|
| $250,000 x 0.5% = $1,250 | $250,000 x 25% = $62,500 | $225,000 x 100% = $225,000 |

## Value-added features

- No payments required while on claim for a disability
- Access to an online integrated health information and resource centre and a world-class medical second opinion service for you and all eligible family members
- When the combination insurance expires at age 65, you have the option to purchase a permanent insurance policy with any remaining amount of insurance – without medical underwriting[6]

## Contact your advisor

Protecting your income may be one of the best investments you make. For more information on combination insurance and other income-protection strategies, contact your advisor today. •

[1] *2011 National Payroll Week Employee Survey*, Canadian Payroll Association, prepared by Framework Partners Inc., July 2011. [2] Marshall, Katherine, *On Sick Leave*, from Perspective on Labour and Income, Statistics Canada 2006.

[2] Marshall, Katherine, *On Sick Leave*, from Perspective on Labour and Income, Statistics Canada 2006.

[3] *A guide to disability insurance*, Canadian Life and Health Insurance Association Inc., August 2009.

[4] The risk information is for illustrative purposes only, intended to show the relative risk of at least one person out of a group of two persons, consisting of one male and one female life, dying, becoming critically ill or becoming disabled before age 65. The underlying individual probabilities are consistent with the Synergy risk calculator. The combined probabilities assume independence of death, disability and critical illness events between the two lives, which may not reflect the true correlation of these events for a given set of lives.

The percentages shown are based on a mixture of incidence rates from studies of both the insured and general population, which do not necessarily represent the same critical illness covered conditions or definitions of disability and critical illness conditions as contained in the Synergy disability policy and the Synergy critical illness policy and are not necessarily representative for any given insured person. Factors that may contribute to an individual's risk of critical illness, disability or death include family history, lifestyle and environment.

Data sources: Mortality probability based on the Canadian Institute of Actuaries' CIA9704 gender and smoker distinct mortality tables. Disability probability based on the 1985 Commissioner's Individual Disability Table A gender distinct incidence tables for Occupation Class 2A, 90 day waiting period. Critical illness probability based on combined incidence rates for Cancer ("New cases for ICD-03 primary sites of cancer: 2002-2007") and the Heart and Stroke Foundation of Canada ("The Growing Burden of Heart Disease and Stroke in Canada, 2003"). The probability of dying, becoming critically ill or disabled before age 65 was determined by projecting claims experience to age 65 using these incidence rates and determining the probability of at least one event occurring. The probability of at least one event occurring is less than the sum of the probabilities for all three events, as individuals may incur multiple events.

[5] The combination insurance solution offers protection until the available amount of insurance is zero, or to age 65, whichever is first.

[6] Available provided a critical illness covered condition benefit has not been paid, and is limited to the remaining amount of insurance and subject to minimum issue limits for the product chosen.

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To view this video from your desktop computer visit manulifesolutions.ca


# RESPs – NOT JUST FOR KIDS

When most people think of Registered Education Savings Plans (RESPs), they think of an educational savings plan for children. Did you know that RESPs are a great savings plan for adults, too?

In fact, self-funded RESPs are a smart investment for individuals who are planning on going back to school, or can even be used as an income splitting tool.

## RESPS for adults – how do they work?

By opening a non-family RESP and naming yourself as both the subscriber and the beneficiary, you can contribute up to $50,000 over the life of the plan. You can invest in a wide array of investments including equity and bond funds, and the investment can compound tax-free until withdrawn. You can withdraw your contributions at any time without penalty. However, the RESP has a limited life – it must be terminated within 36 years of its initiation.

## What are the rules for withdrawing funds?

You can withdraw your original capital at any time free from taxes. Once you have enrolled in a qualified post-secondary institution, you can begin receiving Educational Assistance Payments (EAPs). An EAP is a distribution to a beneficiary of the RESP's accumulated investment income (and Canada Education Savings Grant [CESG] amounts where applicable), which are taxed in the beneficiary's hands in the year of receipt. In order for a beneficiary to qualify for an EAP they must be enrolled in a post-secondary level program at a qualifying educational institution in Canada for at least three consecutive weeks.

The attraction lies in the fact that you are eligible for the EAP regardless of whether you attend or pass the class, and that correspondence classes qualify. Non-family RESPs allow adults to be both the subscriber (contributor) and the beneficiary. Although RESPs for adults are not eligible for the CESG, they

still represent one of the few investments that allow assets to grow on a tax-deferred basis.

## What if I don't go back to school?

If you don't enroll at a qualifying institution, and the plan has been open for more than 10 years, you can qualify for an Accumulated Income Payment (AIP). An AIP represents the investment earnings in the RESP, and not your original contributions (or CESG amounts where applicable).

Unlike the EAPs, which are withdrawals of the investment earnings after you have enrolled at a qualifying institution, an AIP withdrawal is subject to a penalty tax of 20 per cent (12 per cent for Quebec residents) in addition to the taxes payable when taken into income. If you have contribution room left, you can transfer up to $50,000 into your RRSP or to a spousal RRSP. This will allow you to avoid the 20 per cent penalty tax (12 per cent for Quebec residents), while generating a tax deduction from the contributions made to the RRSP.[1]

## How can I use an RESP to split income?

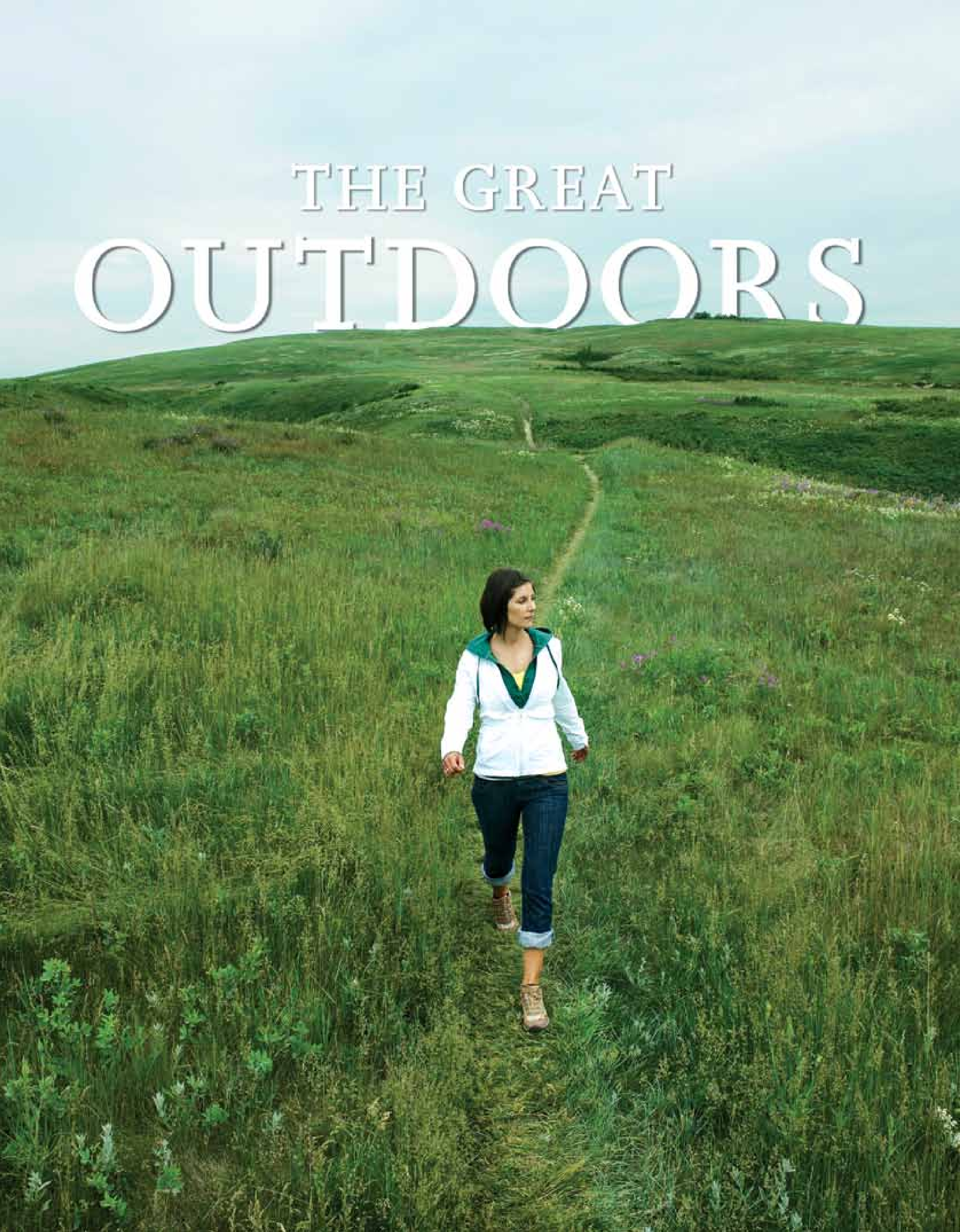
The opportunity for using an RESP to split income arises if you decide not to attend a post-secondary institution. If you name your spouse[2] as a joint subscriber to the RESP, and your spouse has contribution room left in their RRSP, the AIP can be transferred to your spouse's RRSP regardless of who made the contributions to the RESP. This option is particularly attractive if your spouse is in a lower tax bracket since the taxes paid on the eventual withdrawal will be reduced.

## Speak to your advisor

For more information about using an RESP to fund an adult education or income splitting opportunities contact your advisor.

[1]To avoid the 20 per cent (12 per cent in Quebec) penalty tax the AIP must be contributed to an RRSP or spousal RRSP in the same year, or within the first 60 days of the following year in which it is received and must be deducted in the same year received.
[2]Includes a spouse or common-law partner as defined by the *Income Tax Act* (Canada).

# THE GREAT OUTDOORS



# STAY ACTIVE THIS SPRING

Longer days. Warmer temperatures. A chance to glimpse the first green shoots poking through the melting snow. There are many reasons to get out and about this spring, but perhaps the most important is that incorporating physical activity into your daily life year-round can help to improve fitness and maintain good health.

The Canadian Physical Activity Guidelines,[1] developed by the Canadian Society for Exercise Physiology (CSEP), recommend that Canadians of all ages spend significant amounts of time engaged in moderate- to vigorous-intensity aerobic physical activity:

- 60 minutes daily for children aged five to 17 years (including vigorous-intensity activities at least three days each week)
- 150 minutes weekly for adults aged 18 and up, in bouts of 10 minutes or more

Moderate-intensity activities make you sweat a little and breathe harder – for example, walking quickly or riding a bicycle. You can generally talk, but not sing. Vigorous-intensity activities make you sweat more significantly and be 'out of breath' – for example, running or swimming. You may be able to say a few words at a time, but then you'll need to catch your breath.

CSEP also advises children to participate in activities that strengthen muscle and bone – for example, running, walking and yoga – at least three days a week, and adults to do the same at least two days a week. Adults 65 and older may want to add activities that enhance balance to help prevent falls.

All of that may sound like a lot. How can the busiest among us fit in two and a half hours of physical activity each week? The good news is that you don't necessarily have to hit the treadmill and take up weight-lifting – though that may be part of your strategy. One of the best ways to make sure you get enough exercise is to choose physical activities that you enjoy and that fit into your lifestyle.

## Activities for bright, sunny days

Do you like tennis, golf, basketball or lawn bowling? Commit to playing your favourite sport at least once a week. Scheduling a game on the same day and time – whether it's Monday evening or Wednesday morning – helps to get you into a routine. Joining a league or getting a buddy to play with you helps keep you motivated, week after week.

If you're not into organized sports, ask co-workers if they're interested in joining you for lunchtime walks a couple of times a week, or head out with family or friends for after-dinner strolls. Think about whether you can make your commute more physically active – for example, by biking to work or getting off the bus one or two stops earlier and walking the rest of the way. And, when you drive to the grocery store or other shops, park at the furthest end of the parking lot.

When you're making plans with your family, head out to a park instead of a movie. Play tag. Discover a nature trail. Or simply get everyone involved in planting and tending your own garden – mowing the lawn, raking leaves and digging up earth can, after all, be both moderately aerobic and strengthening. The key is to try out new things, learn what family members enjoy most and then focus on those activities.

## When the weather doesn't cooperate

April showers – or wet weather at any time of the year – can derail the best intentions, so make sure you have back-up plans. On days

[1] csep.ca/CMFiles/Guidelines/CSEP-InfoSheetsComplete-ENG.pdf

when it's not pleasant outside, or the soggy ground is slippery and unsafe, consider indoor activities.

Meet a friend at the mall for a brisk walk and look for opportunities to take the stairs rather than an escalator or elevator. Sign up for swimming lessons in your condo or at a local community centre. Register for a dance or yoga class one evening each week.

You may also want to join a gym so you have access to their facilities through rain, humidity, sleet and snow – whatever the weather throws our way. Making a gym routine part of your physical activity plan makes it easy to find classes that appeal to you and you may make new friends who also value and are reaping the benefits of regular exercise. Moral support goes a long way towards helping anyone stick to physical activity resolutions.

Whatever route you decide to take towards better fitness, keep in mind that the more different activities you do, outdoors and indoors, the more likely it is that you'll strengthen different muscle groups while gaining all the benefits of aerobic physical activity. Furthermore, every step really does count – and even half an hour of leisure time spent away from the television or computer, engaging in moderate- or vigorous-intensity activity, will make a difference.

Finally, remember that if you are not sure if certain types or amounts of physical activity are appropriate for you, you should consult a health professional. And it's always a good idea to talk to your doctor before starting any new exercise program.

## Test your knowledge

See how much you know about physical activity by taking the Public Health Agency of Canada's 10-question Physical Activity Quiz at phac-aspc.gc.ca/app/pag-gap/facebook/beactive.

### BENEFITS OF BEING ACTIVE

According to the Canadian Society for Exercise Physiology (CSEP),[2] following the Canadian Physical Activity Guidelines can help to:

- Reduce the risk of chronic disease and premature death
- Maintain functional independence and mobility
- Improve fitness and improve or maintain body weight
- Maintain bone health and avoid osteoporosis
- Improve mental health, including morale and self-esteem

What kinds of chronic diseases might you be able to avoid by following CSEP's recommendations? The Public Health Agency of Canada (PHAC) says there are more than 25 chronic conditions that regular exercise can help to prevent, including coronary heart disease, stroke, hypertension, breast cancer, colon cancer and type 2 diabetes.[3]

PHAC adds that research has found that up to half of the functional decline people experience between age 30 and 70 is not due to aging but to inactive lifestyles. So it seems that staying active and strong can help you keep doing the things you enjoy longer.

[2] csep.ca/CMFiles/Guidelines/CSEP-InfoSheetsComplete-ENG.pdf
[3] phac-aspc.gc.ca/hp-ps/hl-mvs/pa-ap/02paap-eng.php

FUN & FOOD

# Exercise your brain!

Sudoku puzzles are a great daily workout for your brain. They're fun, challenging and addictive – and good for you too! Here are two Sudoku puzzles – one easy and one at a medium level of difficulty.

To solve: Enter digits from 1 to 9 in the blank spaces. Every row, every column and every 3 x 3 square must contain one of each digit. Try to do it without peeking, but if you need help the solutions are on page 31.

Easy

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 4 | | 7 | | 5 | 6 | 9 | |
| | | | 2 | | 6 | | | 4 |
| | | | 9 | | | | 5 | |
| 2 | | 6 | 1 | 9 | | | 8 | |
| | 8 | | | | | | 3 | |
| | 9 | | | 4 | 8 | 1 | | 5 |
| | 6 | | | | 1 | | | |
| 9 | | | 8 | | 7 | | | |
| | 1 | 2 | 3 | | 9 | | 4 | |

Puzzle by websudoku.com

Medium

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 4 | | | | 1 | 7 | 2 | |
| | | 2 | 3 | 4 | | | 1 | 8 |
| | | 8 | 6 | | 2 | | | |
| | 8 | | 4 | | | | | 9 |
| | | | | 5 | | | | |
| 2 | | | | | 7 | | 5 | |
| | | | 7 | | 3 | 5 | | |
| 7 | 3 | | | 6 | 4 | 2 | | |
| | 1 | 4 | 2 | | | | 6 | |

Puzzle by websudoku.com

# Greek summer salad

**Ingredients**

6 tbsp. (90 ml) extra virgin olive oil
3 tbsp. (45 ml) red wine vinegar
2 tbsp. (30 g) fresh oregano, minced
¼ tsp. (2 g) dried oregano
1 ½ tsp. (23 ml) lemon juice
1 garlic clove
½ tsp. (3 g) salt
Pinch of black pepper
½ cup (125 g) red onion, sliced
1 cucumber, peeled and sliced ¼ inch thick
2 romaine lettuce hearts, torn into bite size pieces
2 cups (500 g) cocktail tomatoes, halved
1 red pepper, roasted, peeled, seeded and cut into ½ inch wide strips*
¼ cup (63 ml) vegetable oil
¼ cup (63 g) fresh mint, minced
¾ cup (189 g) kalamata olives, pitted
5 oz. (142 g) feta cheese, crumbled

**Method**

1. Whisk the first 8 ingredients together in a bowl large enough to hold the entire salad
2. Add the onion and cucumber, then marinate for 20 minutes
3. Add the romaine lettuce hearts, peppers and tomatoes and mint to the bowl and toss
4. Arrange the salad on a platter or divide evenly on serving plates
5. Sprinkle with kalamata olives and feta cheese

*Roasting method: Coat peppers with a light layer of vegetable oil. Rotate peppers over open flame, either on a bbq or gas stove, until peppers turn black and blister. If an open flame isn't available, a broiler can be used. Slice the pepper in half and remove the core, seeds and membrane. On a broiler plate, place peppers open side down and broil until skins are black and blistered. Cover peppers in a bowl and allow to rest for 15 minutes. Peel the black skin off.

This recipe was printed with permission from the Ontario Greenhouse Vegetable Growers (ontariogreenhouse.com).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