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From the Desk of Laszlo Szojka

New Conventional Wisdom in Canada

Happy Spring everyone. As we head into the annual income tax season, it is never too early to start planning next year's tax return when it comes to investments. I spend a lot of time with people discussing how to maximize their tax savings depending on their income, savings and means. With the different registrations for savings these days, people need to understand how RRSP's, TFSA's, RRIF's and tax efficient investment accounts work.

The conventional wisdom was always to put money into your RRSP and get a tax refund. With the advent of TFSA's and all the potential income splitting tax incentives being introduced, the income you are earning now and potentially in retirement MUST be taken into account to best decide what is the best solution in the long term. With TFSA limits increasing every year and with talk of doubling the limits in the next federal budget, the TFSA, or as I like to call it, The Tax Free Investment Account can become the most powerful account in your financial plan.

Now, because each and every individual situation is so unique, planning takes on a whole new meaning and requires a one on one conversation. What I do is go through your income taxes, savings and all those things to come up with the ideal plan. The use of the TFSA and longer term planning is NOT a cookie cutter solution. So whether your annual income is under \$20,000 or over \$400,000, start planning early, do not be afraid to ask questions and give me a call or email.

New Regulations Coming for 2016

As with all things, regulatory change is a common theme in the investment industry. In January 2016, a significant change is coming called the Client Relationship Model 2, or CRM2 for short. In a nutshell, it will obligate almost all firms to disclose all forms of fees paid to investment professionals. I personally think this is a wonderful thing as it levels the playing field and makes things more transparent. Sadly, the only firms that will still be excluded are those in the insurance industry.

A lot of people have asked me, "How do you get paid?"

With the many different ways the financial industry charges fees, there has always been confusion. CRM2 will try to show you exactly, to the dollar, what those fees are across the many different financial firms excluding, unfortunately, the insurance industry.

Investment Funds from all institutions charge an average management fee in Canada of about 2.0%. The other added costs are GST/HST, legal and administration costs which add another 0.25% to 0.5%. Out of the management fee only, 1% goes to the Management Company and 1% is paid to the advisors firm known as a Service Fee. CRM2 only is interested in the Advisor Firms fee of 1% and the disclosure of it.

How are service fees charged? The Service Fee of 1% is divided by 365 days and charged daily on the net assets of the fund. In plain language, the fee is deducted daily and the price or Net Asset Value of investment funds in the paper or online reflect the true value NET OF FEES. Mutual Funds also report their rates of return NET OF FEES. On a \$10,000 investment, 1% service fee is \$0.27 per day or roughly \$8.33 a month. This is what gets paid to the advisor's FIRM per \$10,000, not to the advisor themselves. From that, the firm must deduct costs such as regulatory fees, insurance, mailings to you, staff costs, rent and all the costs of doing business. The remaining amount gets paid to the advisor based on agreed upon terms between the firm and advisor, and then the advisor uses that to pay his or her expenses, taxes and costs of doing business.

So to be clear, what will be reported is what is paid to the advisor's firm GROSS of their expenses. Other amounts that will be reported are the commissions one is paying on those investments be they front end/switching/back end commissions or annual account fees. Fortunately, I run a practice based solely on service fees and DO NOT CHARGE commissions for purchasing, switching, advising or selling any investment.

Another important thing to consider is that as your account grows in value, there are thresholds that start to lower fees charged overall. Those levels start at \$100,000 per fund. As accounts grow and cross thresholds of \$250,000, \$500,000 and beyond, fee reductions occur and I try to move people to the high net worth or Private Wealth options that are available. I am fee conscious and I want to make sure you are being served the best way possible.

The most important thing to understand is that I do more than simply invest people's money. I advise on their taxes, businesses, insurance needs, wills, family financial planning, child education planning just to name a few. People use our services as much as or as little as they wish. However, financial planning is more than just a simple process, it requires your involvement too. Give us a call, set up an appointment, and get involved. It is, as I have always said, "Your money."