SPRING 2021

PERSPECTIVE

ARCA™ FINANCIAL GROUP

PEOPLE WHO CARE, PLANS THAT PERFORM

Insurance basics

What types of protection are right for you?

Over the years, insurance products have evolved to become more specialized with added features and riders. That makes it possible for individuals to build increasingly customized plans – but it also means it takes a little more work to understand the various solutions available to protect Canadians from different risks.

Insurance falls into two major categories:

- Life insurance, which pays a benefit when the insured person dies, includes term life insurance, whole life insurance and universal life insurance
- Living benefits, which pay a benefit under specific circumstances during the insured's lifetime, include critical illness insurance and disability insurance

These different types of insurance can be combined to help individuals and families meet many high-priority goals, such as covering immediate expenses after death, building a legacy for the next generation, or protecting income in case of illness or injury.

What can term life insurance add to your plan?

Term life insurance is the simplest type of life insurance, and it's often available quickly through an easy application process. It provides protection for a set period of time – the "term." The term may last for a fixed number of years (e.g. 10 years) or until the insured person reaches a certain age (e.g. age 65). At the end of the term, it may be possible to renew the policy or convert it to a different type of life insurance. Should an individual convert their term policy to a permanent policy, underwriting won't be required unless they increase their coverage.

One way to use term life insurance:

Taran and Pari have 20 years left on their mortgage and want to make sure that, if one of them were to die, their house would be paid off in full. They can insure both their lives with a 20-year term life insurance policy, setting the death benefit at the full value of the remaining balance on their mortgage.

They will also have the added flexibility of being able to reduce their amount of insurance in the future, as they pay down their mortgage.

What can whole life insurance add to your plan?

Whole life insurance is permanent insurance that provides guaranteed protection for life, as long as premium payments stay up to date. In addition, some whole life insurance build a tax-advantaged "cash value" within the policy that the insured person can access while alive. On death, beneficiaries receive the death benefit, which is an amount equal to the original face amount, plus any paid-up insurance that was purchased.

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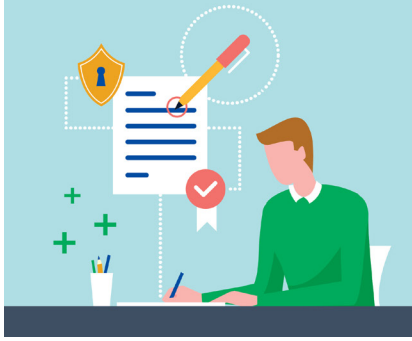
What is a rider?

A rider is a clause in an insurance contract that provides additional protection at an additional cost. Here are just a few examples:

- a child protection rider that adds coverage for a child to an adult's policy
- a total disability waiver rider that allows the insured person to skip premium payments while disabled and unable to work
- a return of premium rider that pays back all premiums if the insured person doesn't experience a covered situation, such as a critical illness



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Manulife Securities

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One way to use whole life insurance:

Min doesn't want her three children to have to pay for her funeral and cover the taxes on her estate after she dies. She considers term life insurance, but she also likes the idea of a policy that will protect her for her lifetime with guaranteed premiums and accumulate a cash value she can withdraw if needed. She chooses a whole life insurance policy that allows her to pay all her premiums in 20 years, with a death benefit sufficient to cover funeral and tax costs on death.

What is paid-up insurance?

Available as a dividend option on a whole life policy, paid-up insurance is additional coverage that a policyholder can purchase using the policy's dividends. It allows policyholders to increase their death benefit, and in some policies, the living benefit cash value.

What can universal life insurance add to your plan?

Like whole life insurance, universal life insurance is permanent insurance that blends life insurance with tax-advantaged investing. It generally offers even more flexibility and features than whole life insurance, including a wider range of investment choices for the "account value" – such as investments linked to equity market growth. It is possible to access the account value during life. Alternatively, the insured person can choose to include the investment portion of the policy in the death benefit to leave an even larger tax-free legacy to beneficiaries.

One way to use universal life insurance:

Elian wants to make sure his two adult children receive equal shares of his estate. He plans to leave his cottage to his son, who spends a lot of time there with his young family, so he needs an equal-value asset to leave to his daughter. A universal life insurance policy will allow him to increase the death benefit over time by investing in a wide range of tax-preferred investments. He can also adjust the death benefit as needed if property values rise (note that increasing the death benefit may require medical evidence).

What can critical illness insurance add to your plan?

When people are younger, they are more likely to experience critical illnesses such as cancer, a heart attack or a stroke than they are to die. Critical illness insurance, ideally purchased while someone is relatively young and healthy, pays a tax-free lump-sum benefit that can be used for any purpose – for example, to fund health care or treatment, cover household and family expenses, protect retirement savings or manage business expenses.

One way to use critical illness insurance:

Kendra is 40 years old and married with two young children. Her best friend was recently diagnosed with breast cancer, and Kendra is concerned about the impact a diagnosis like that would have on her family's ability to pay the bills. With critical illness insurance, she can ensure her family receives a fixed amount of money if she is diagnosed with a range of covered illnesses, including cancer, and satisfies certain other conditions.

What can disability insurance add to your plan?

When people with disability insurance develop a physical or mental health disability that prevents them from working, they can receive regular payments of a percentage of their income. Like a critical illness insurance benefit, this money can be used for any purpose – for example, to replace income, reimburse business expenses or fund a buyout agreement that allows someone else to take over the insured person's business.

One way to use disability insurance:

Paul is 32 years old, runs his own consulting business and recently had a baby with his wife, Kioni. He knows both his business's continued success and his family's standard of living depend on his remaining healthy and able to work. Because he is self-employed, he doesn't have access to disability benefits through an employer, but an individual disability insurance policy can provide the protection he needs.

Putting it all together

A wide variety of life insurance and living benefits products are available to Canadians. Some solutions even combine life insurance, critical illness insurance and disability insurance within a single all-in-one policy. Speak with an advisor who can help assess your unique needs and then recommend the right insurance portfolio to achieve cost-effective protection in your specific situation.

COMPANY ANNOUNCEMENTS

With 2021 here, we're hopeful that a positive change is on it's way and that eventually, as businesses start to reopen their doors, life will return to normal. In the meantime, Arca Financial Group is still working diligently for you. We continue to hold virtual and telephone meetings and hopefully will be able to meet face to face again soon.

If you would like to receive the newsletter by email rather than paper, please let us know by emailing klarisa.mcdonald@manulifesecurities.ca and stating 'newsletter by email' in the subject line.

Reducing your tax bill

New ways to hang onto more of your hard-earned money.

Whether you live in the mountains, on the prairies or enjoy life in a coastal community, Canada is an amazing country to call home. But the reality is that life in this country is expensive. It's estimated that more than 42 per cent of household income now goes to taxes – more than housing, food and clothing combined.[1]

As demands on household budgets continue to increase, it's never been more important to utilize strategies that can help lower your tax bill. While it might feel a bit complicated to figure out, there's a number of tax credits and deductions available. Your advisor or accountant can help you make sense of what will work best for you.

Home office expenses

As thousands of spare bedrooms, dining room tables, and breakfast nooks were quickly converted into makeshift work from home spaces across the country, face to face collaboration became a virtual affair - an ongoing situation for many Canadians. While the isolation from co-workers may feel challenging, a bright spot is that you may be eligible for a work from home deduction.

A new flat rate method introduced by the Canada Revenue Agency (CRA) aims to make it easier to claim work from home expenses for 2020. Those who are eligible can claim $2 for each day they were required to work from home because of the pandemic, up to a maximum of $400. Under the flat rate method, the following criteria must be met:

- Due to the COVID-19 pandemic, you worked from home in 2020, or your employer required you to work from home.
- For at least four consecutive weeks in 2020, you worked more than 50 per cent of the time from home.
- Expenses claimed are directly related to COVID-19 work from home during the specified timeframe.[2]

Some important things to note:

- The flat rate is temporarily available for 2020.
- A T2200 form is required if you plan to use the original detailed method to claim work from home expenses.
- Only one method can be selected, so it's worth using the CRA online calculator to see which method will generate the highest deduction.

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Digital News Subscription Tax Credit

During these extraordinary times, staying informed has never been more important, and now there's a tax credit to help offset the costs associated with digital news subscriptions. The Digital News Subscription Tax Credit (DNSTC) can be claimed on personal income tax returns for the years 2020 through 2024. Depending on how much you spend on digital news subscriptions each year, this annual tax credit could realize as much as $75 in savings each year. The tax credit is calculated at 15 per cent, up to a maximum of $500 in annual subscriptions.[3] News outlets that qualify for this tax credit must be registered with the CRA.

Canada Training Credit

Upgrading your skills is a smart way to stay current with evolving technology, and a new Canada Training Credit is now available to help with these costs. Beginning in 2020, workers aged 25 to 65 can offset training fees for college, university or an eligible institution providing occupational skills training. Canadians automatically accumulate $250 annually, up to a lifetime maximum of $5,000. To use the credit, workers must have earned income between $10,000 and $150,000 and file a tax return.[4]

Pandemic emergency funds

Government funding to help avoid financial hardship brought on by the pandemic has been welcome relief for many households, but this is taxable income that requires your attention. Here are the programs involved:

- Canada Emergency Response Benefit (CERB)
- Canada Emergency Student Benefit (CESB)
- Canada Recovery Benefit (CRB)
- Canada Recovery Sickness Benefit (CRSB)
- Canada Recovery Caregiver Benefit (CRCB)

For CERB and CESB, these programs rolled out in the first wave of federal pandemic support and no taxes were deducted at the source. Therefore, income tax will be owed for the full amount received. The CRSB, CRCB and CRB programs are part of the second wave of federal pandemic support, and 10 per cent of tax is being withheld at the source. It's important to understand if you are in a position where taxes may be owed. Your advisor or accountant can help you look into the finer details of these programs and calculate if you will need to pay additional tax.

RRSPs and TFSAs

Along with the new tax credit programs listed above, a couple of other investment programs can help you establish some savings, while also offsetting taxes.

A Tax-Free Savings Account (TFSA) lets you contribute $6,000 annually and withdrawals are not subject to tax. It can be a great way to save for a trip, a home purchase or even have some retirement funds available outside of a Registered Retirement Savings Plan (RRSP). Unused contribution room is carried forward every year and can really add up. Since the program began in 2009, you could potentially have as much as $75,500 in contribution room.

Another way to shelter against taxes while also planning for the future is setting up regular deposits into an RRSP. Contributions are tax-deductible and investments grow tax-free within the account. While withdrawals are subject to tax, you benefit if your tax rate at that time is less than when you contributed.

Check out this article to learn more about TFSAs and RRSPs and what might work best for you. https://mysolutionsonline.ca/extras/should-i-contribute-to-a-tfsa-an-rrsp-or-both.

Taxes are an important part of maintaining a thriving Canadian economy, where roads are kept in good repair, healthcare is freely available to everyone, and our social programs are maintained. But tax credits and other programs are there to help ensure that you aren't overpaying. A tax refund indicates you may be paying too much. Learn more about tax refunds here, https://mysolutionsonline.ca/extras/ditch-the-tax-refund-mentality, and speak to your advisor about tax strategies that can help you reap more of the benefits of your hard-earned dollars.

[1] Fraser Institute News Release: Average Canadian family spent 42.6% of annual income on taxes—more than housing, food and clothing combined (globenewswire.com)

[2] https://www.canada.ca/en/revenue-agency/news/2020/12/simplifying-the-process-for-claiming-a-deduction-for-home-office-expenses-for-employees-working-from-home-due-to-covid-19.html

[3] https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/deductions-credits-expenses/digital-news-subscription.html

[4] https://www.budget.gc.ca/2019/docs/themes/good-jobs-de-bons-emplois-en.html

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