THE POWER OF SAVINGS

SAVING LETS YOU REALIZE YOUR DREAMS WITHOUT RACKING UP ENDLESS DEBT. IT GIVES YOU A FINANCIAL CUSHION TO PAY FOR UNFORESEEN EXPENSES. IT GIVES YOU THE FREEDOM TO CHOOSE.

BY GILLES DROUIN

A FEW TIPS...

...to get you to start—and keep—saving money while cutting back on your expenses:

- Set a specific goal with a clear timeline. Write it down!
- Set up an automatic savings program so you don't "see" the money.
- Visualize your goal by displaying a photo representing it in a visible location.
- Wait at least 24 hours before making any unplanned purchases.
- Leave your credit card and debit card at home occasionally.
- Keep just one credit card, and pay the balance at the end of each month.
- If you pay something off (home, vehicle, etc.), continue making equivalent payments to a savings account.
- Give yourself a weekly allowance (spending money) for small expenses

PIERRE JOOSTEN

“As a society, we don’t save enough. Low interest rates are driving this trend by encouraging us to borrow even more rather than save.” - Pierre Payeur, Senior Advisor with Desjardins Wealth Management and Life and Health Insurance.

SAVE YOURSELF UNNECESSARY WORRY

GIVEN THE MANY BENEFITS OF SAVING, YOU HAVE TO WONDER WHY WE AREN’T ALL BIG SAVERS

In 2011 Quebecers saved a measly 1.6% of their income, but that proverbial rainy day is bound to come along sooner or later. “My father always said that a penny a day keeps the worry away,” says Pierre Payeur, Senior Advisor with Desjardins Wealth Management and Life and Health Insurance.

“Most people have a hard time saving,” he says. “For a long time now, we’ve been living in a very consumption-oriented world. As a society, we don’t save enough. Low interest rates are driving this trend by encouraging us to borrow even more rather than save.”

Money got you stressed?

“Saving takes effort,” says Martine Marleau, budget advisor with Association coopérative d’économie familiale de l’est de Montréal (ACEF). “And we live in a society of instant gratification. People are short sighted. We live in the moment. I need such and such product, so I’m going to buy it now. Saving is just the opposite: I’ll save, and then I’ll buy.”

Of course, there is necessary debt—good debt, like buying a home—that helps us create and build wealth. Obviously a credit card comes in handy provided you plan how to use it and pay off the balance every month. But constantly living off credit comes with its share of stress.

“We have a choice—have a love-hate relationship with money or have a healthier one where ‘more’ doesn’t equal ‘better’,” says stress management specialist Dr. Robert Béliveau. He advocates meditation and other stress management strategies and gives presentations about money as a source of stress. “During my talks, I encourage people to pay attention to the way they think about money, to ask themselves what money means to them. I tell them they need to learn to save. Not to accumulate wealth—because money is only good when it is used—but to give themselves the flexibility to make choices.”

For a lot of people, money is synonymous with security. “In which case, the question is ‘How much money do you need to feel secure?’ And in many cases the answer is always ‘more’,” says Béliveau. “In fact, no amount of money can buy you security.”

For many people, buying is a way to pamper themselves, to make themselves feel happy. “A lot of people practise retail therapy,” says Béliveau. “They don’t feel good, but they work hard so they treat themselves to a little shopping spree. When the bill comes in, they have to keep working hard. A lot of people are trapped in this vicious circle. Most people today fall into the trap of living beyond their means.”

When we think about money, Béliveau says we should first make the distinction between needs and wants. “If

FIVE RULES FOR REACHING A FINANCIAL GOAL

BY PIERRE PAYEUR

1 Determine what the money will be used for.

2 Set a priority: capital protection or returns.

3 Create an investment strategy that addresses the first two points.

4 Stay the course by following your strategy.

5 Review the situation annually.

it's a need, it doesn't go away. If it's a want, it will pass," he says. We need money to satisfy our basic needs and provide a certain quality of life, which doesn't necessarily mean surrounding ourselves with more of the latest stuff. Most of all, Béliveau recommends that people become aware of their behaviour in order to get out of autopilot mode, which drives them to mindless consumption.

A little bit at a time

According to Marleau, "Having your finances in order doesn't mean living within your means, it means living below your means. Some people we see should be able to easily save instead of maxing out their credit and leaving themselves with no financial cushion."

A nest egg is built up a little at a time. "You're rich when you live debt-free," says Marleau. "Whether you have just $500 or $1,000 set aside, it's something, and you have money for a rainy day. That little cushion provides peace of mind."

"You first need to think about saving, without concern for potential returns," Marleau says. As your savings grow, you can think about investing some of it.

Making more money is not the way to save; you have to cut back on your expenses. "People who manage to save are the ones who track their expenses closely," says Payeur. "If you reduce some of your discretionary spending, you'll boost your savings."

You should include saving in your budget, even when your budget is tight. "When people buy a home," explains Payeur, "they shouldn't make themselves house poor. They should always have enough money to make their mortgage payments and cover any unforeseen expenses." ■

THE SAVINGS LADDER

Sophie Sylvain recommends using the savings ladder, a strategy to maximize your savings that requires minimal effort over a two- to three-year cycle. Here's an example based on an annual income of $55,000. You can do the same thing with a smaller amount.

2013

You invest $5,000 in Capital régional et coopératif Desjardins (CRCD).

2014

You put your $2,500 provincial tax credit in your RRSP (50% credit) right away.

2015

Your RRSP contribution gets you a tax refund of about $960, which you put into your TFSA.

Result

The $5,000 investment is now worth $8,640, not counting the return on your investments.

CRCD SHARES TOO RISKY FOR YOU?

Start building your ladder with a $5,000 contribution to your RRSP, then put the tax refund ($1,920) in your TFSA. In two years, you'll have $6,920.

Slight variation: Instead of contributing to your TFSA, put it all in an RESP to take advantage of government grants.

PIERRE BÉDARD

Sophie Sylvain, Business Development Advisor with Desjardins Wealth Management and Life and Health Insurance

BUDGETING: A MUST!

BUDGETING…YES, WE SAID IT. BUT BUDGETING IS MUCH MORE THAN A TEDIOUS, PAINFUL EXERCISE.

"At first glance, budgeting may seem daunting," says Marleau. "But it's actually straightforward. You just plan your expenses based on your income." It's easy to record income from salary, and many expenses are recurring (mortgage, auto loan, cable, etc.).

Marleau suggests keeping track of other expenses for two or three months. "Many times people are surprised that some supposedly small expenses are bigger than they thought," she says.

Local ACEFs offer budgeting classes. You can also log on to Accès D on the Desjardins website. Under the "My budget" tab is a handy tool that will automatically track your expenses.

"Your budget is a reflection of your choices," Marleau says. So you need to take time to look at your expenses, then think about your values and set goals.

Goals

Most people are not motivated to save for the sake of saving; they need a goal to save toward. "In my experience, people with vague goals usually don't put serious savings strategies in place," says Jean-Michel Breton, a financial planner with Caisse Desjardins de Sainte-Foy. "The more specific their goals, the easier it is to find the motivation to save."

As for investment strategies, Desjardins caisses now recommend that members use a goal-oriented approach and devise a financial plan to help them reach their desired goals.

> "The best way to save is to automatically set money aside on a regular basis."
>
> – Pierre Payeur

"The financial plan can be for one or more goals, like retiring; buying a cottage, home or condo in Florida; or saving for the kids' educations," says Breton. Once a clear goal is set, the financial advisor will recommend an investment strategy tailored to that goal. "The financial plan establishes a detailed strategy with a timeline," says Breton. "We also set aside specific times to review the plan."

The goal must also have a clear timeframe. Do you want to meet your goal in 2 years, 5 years, 25 years? This is where the budget comes in again. How much can you put toward your goal every month or two?

"The best way to save is to automatically set money aside on a regular basis," says Payeur. People usually cannot put a lot of money in their savings account all at once. Including regular saving in your budget is the only way to meet your goals. "The idea is to never 'see' the money," says Breton. "With direct deposit, the money goes in automatically."

Based on this information, your advisor will be able to fine-tune your financial plan and, most importantly, choose investments that are right for your goal. For instance, for short-term goals (one to five years), very low risk invest-

CO-OPME

THE DESJARDINS EDUCATION AND COOPERATION PROGRAM IS ONLINE

The Co-opme section of the Desjardins website is a great tool to help you make the right decisions regarding your personal finances. You'll find action plans, useful tips and suggestions on how you can make responsible choices.

Co-opme also allows you to interact with Desjardins experts via three different blogs focussing on financial management, youth and Desjardins initiatives. Visit the site often for new content: desjardins.com/co-opme.

ments are best. For longer-term goals, such as retirement, you can take on more risk if there is greater potential gain. But it isn't always necessary or even advisable to take on too much risk (see Pierre Payeur's table).

Financial plans are a concrete way to quantify your goal, determine how often you should put money away, come up with a strategy, set times to correct course as needed (e.g., by reducing risk) and protect principal as you get closer to your goal. "In other words," says Breton, "it's a way to determine the best plan of action for reaching your goal."

RRSPs, TFSAs, RESPs and more

There's no shortage of investment vehicles that can help you save. "The government encourages us to save through tax breaks," says Payeur. In addition to registered retirement savings plans (RRSPs), there are also tax-free savings accounts (TFSAs) and registered education savings plans (RESPs). These three products are used to grow income and principal—the biggest budget item—tax-free.

TFSAs are especially effective. Though they cannot be deducted from your income the way RRSPs can, they are completely exempt from taxes on investment income, including capital gains (except for dividends on US stocks). "TFSAs are really good long-term investments," explains Sophie Sylvain, a Desjardins business development, wealth management and life and health insurance advisor. "But most people use TFSAs only for a short time, so they don't see as many of the benefits because of today's low interest rates."

And don't forget about tax credits on Capital régional et coopératif Desjardins shares and contributions to labour-sponsored funds. In short, there's no reason not to start saving today. ■

MY BUDGET ON ACCÈS D: NEW FEATURES

HAVE YOU HEARD OF MY BUDGET? IF NOT, YOU OWE IT TO YOURSELF TO LEARN ABOUT THIS GREAT AUTOMATED TOOL. IN JUST A FEW CLICKS, YOU CAN KEEP CLOSE TABS ON YOUR BUDGET. AND GIVEN HOW WELL MY BUDGET HAS BEEN RECEIVED, THE DESJARDINS TEAM HAS JUST ADDED NEW FEATURES LIKE THE PROJECTS SECTION. HERE'S A LOOK AT WHAT'S NEW.

BY ANNIE BOUTET

Since last summer, members registered for Accès D have had access to My budget free of charge. This secure, easy-to-use tool provides a complete picture of members' income and expenses organized into 16 categories, including housing, entertainment and health care, etc. Members can even create their own categories based on their needs. The tool eliminates the tedious step of entering everything by hand. Members can get an overview simply by clicking on the tab. "We've just added new features, so it makes more sense than ever for members to start using the tool today to get a clear picture of their situation and take charge of their personal finances," says Arnaud Frotier, a Desjardins multichannel business strategy advisor.

BRING ON THE GOALS

These new features will help members adjust their spending to generate a surplus and set short-term savings objectives in the new Projects section. Members can link their objectives to short-term saving products, like a TFSA or a regular, term or regular deposit savings account. It makes it easy to keep track of how much you've saved toward your goal.

"You can even have more than one goal at a time," adds Frotier. "The application includes five pre-set categories, i.e., Emergency fund, Electronics, Trip, Renovations and Automobile. These are the types of goals members usually have, but they can also create their own goals in the Other tab."

Of course, managing your budget is easier if you do all your financial business with Desjardins. Even so, with the enhanced version, you can now also add transactions completed with other financial institutions. When members make withdrawals, they can even indicate where the money was spent using the categories. "The idea is to give members the most accurate picture possible of their finances," says Frotier.

ALWAYS MOVING FORWARD

Good news for smartphone users! The team has included the My budget feature in the Accès D icon in the Desjardins mobile app. This makes Desjardins the first financial institution in Canada to offer this type of mobile tool. "Members can do everything on the mobile app that they can do on their desktop computers. The only drawback is that goals can't be added on a mobile device," says Frotier. "But you'll still be able to keep track of your current goals."

WHEN LIFE HAS OTHER PLANS

AFTER A BIG JOB CHANGE, WHAT DO YOU NEED TO DO TO KEEP YOUR RETIREMENT PLAN ON TRACK? WHAT SHOULD YOU DO WITH YOUR SEVERANCE PACKAGE AND PENSION FUND? ANGELA IERMIERI TAKES A LOOK AT LOUIS'S SITUATION.

BY ANGELA IERMIERI, DESJARDINS FINANCIAL PLANNER

"Louis will have to consider the tax consequences of his investment options and make sure his assets grow as profitably as possible so as to best meet his needs."

– Angela Iermieri

Louis, 51, had been working as a chemist for the same company since 1988, but his employer recently decided to relocate. So after over 20 years of service, Louis lost his job.

His former employer gave him a severance package plus the accumulated value of his pension fund. Fortunately he was able to find a new job in the same field, but his new employer doesn't have a pension fund.

Louis is looking for advice on how he's going to have to adjust his retirement plan so he can retire on schedule without changing his lifestyle.

Due to his recent job change, Louis has to decide what to do with the money he received. He'll have to consider the tax consequences of his investment options and make sure his assets grow as profitably as possible so as to best meet his needs.

Managing his assets soundly

First off, Louis needs to invest the $55,000 severance package he received. Under current tax law, any worker who receives a severance package can transfer up to $2,000 into his or her RRSP for every year of service completed prior to 1996.

Louis began working for the company in 1988, so he can transfer funds for the years 1988 to 1995 (8 years). This means he can transfer $16,000 to his RRSP without affecting his contribution room.

He also has $10,000 in unused contribution room, so he can put some of the remaining $39,000 in his RRSP. The other $29,000 from his severance package will be taxed, but should be invested in a tax-free savings account (TFSA) so that future investment gains will grow tax-free.

Severance package: $55,000
Eligible RRSP transfer: - $16,000
Unused RRSP contribution room: - $10,000
Severance that will be taxed: $29,000

Where to put money from the retirement fund

The $300,000 from his pension fund will have to be transferred to a locked-in retirement account (LIRA). A LIRA is a retirement account like an RRSP, but there are legal restrictions as to when you can access it, hence the name locked-in account. It must be used for retirement, just like a pension fund.

When Louis wants to start withdrawing money from it, he'll have to either purchase a life annuity from an insurance company or convert the LIRA into a life income fund (LIF), which will provide retirement income until he dies.

Retirement income is calculated based on age, LIF balance and the LIF benchmark rate. At the start of each year, his financial planner will calculate the minimum and maximum amounts he may withdraw from his LIF that year. Money taken out will be taxable.

Making smart investments

Since he plans to work another 14 years before retiring, the money in his LIRA needs to be placed in investment products that match his investor profile. His financial planner[1] will recommend a highly diversified portfolio that will likely include mutual funds[2] so he can reach his retirement objectives.

Continuing to contribute to his RRSP

Since his new employer doesn't have a pension fund, Louis will have to continue to contribute to his RRSP and make the contributions his former employer used to make if he wants to meet his retirement goal.

Louis already has $65,000 in his RRSP, so if he starts contributing 10% of his gross salary ($8,000) each year and gets a 5% return on his portfolio, he can expect an annual retirement income of $35,000 from his investments starting at his target retirement age of 65.

Including his Régie des rentes du Québec pension and Old Age Security pension, he could receive 70% of his current salary, or a total income of about $50,000 a year. ■

1. Desjardins financial planners act on behalf of Desjardins Financial Services Firm Inc.
2. Desjardins Funds are offered by Desjardins Financial Services Firm Inc., a Desjardins Group company. The Desjardins Funds are not guaranteed, their value fluctuates frequently and their past performance is not indicative of their future returns. Mutual fund investments can be subject to commissions, trailing commissions, management fees and other costs. Please read the simplified prospectus before investing.

LOUIS THE CHEMIST
Finances
New salary: $80,000
Severance package from former employer: $55,000
Pension fund: $300,000

CURRENT RETIREMENT PICTURE
Retirement age: 65
Retirement income: $35,000 a year from his RRSP, TFSAs and pension fund, plus government pensions.
Retirement goal: retirement income of about 70% of his salary, i.e., $50,000

LOUIS'S PORTFOLIO AT AGE 51

RRSP	Breakdown	
	■ Value before job loss	$65,000
	■ Severance package amount eligible for direct transfer	$16,000
	■ Severance package amount put into RRSP (unused contribution room)	$10,000
		$91,000
LIRA	Amount transferred from pension fund	$300,000
TFSA	Taxable portion of severance package, net of tax paid ($29,000 – $9,000)	$20,000
Total portfolio		**$411,000**

Paul's contributions to his wife Lorraine's RRSP, just like contributions he makes to his own RRSP, reduce his RRSP room and give him a tax deduction.

CONTRIBUTING TO YOUR SPOUSE'S RRSP: A MATTER OF INCOME

WHAT DO YOU NEED TO KNOW TO MAKE CONTRIBUTING TO YOUR SPOUSE'S RRSP BENEFICIAL AND WHEN SHOULD YOU TAKE ADVANTAGE OF INCOME SPLITTING?

BY SYLVIE POITRAS, DESJARDINS SENIOR TAX ADVISOR

To determine whether it makes sense to contribute to your spouse's RRSP, you need to consider what your individual incomes are likely to be when you take money out of the account, not when you put money in.

Take the case of Paul and Lorraine.

They expect to have different incomes when they retire, so they should contribute to the RRSP of the person who will be making less when they withdraw money. In this case, it's Lorraine.

Paul's contributions to his wife Lorraine's RRSP, just like contributions he makes to his own RRSP, reduce his RRSP room and give him a tax deduction. So, in the contribution year, his taxes will be the same whether he contributes to his own RRSP or his wife's.

Taxes on withdrawals and the 3-year rule

The RRSP Paul contributes to on behalf of Lorraine belongs to her. When Lorraine withdraws money from the RRSP, she will owe the taxes on the withdrawal provided that Paul did not contribute to an RRSP for Lorraine during the withdrawal year or the previous two calendar years. If he did, Paul will have to pay taxes on the withdrawal up to the amount of contributions he made during that period. This is what is commonly referred to as the **3-year rule**.

A concrete example of the 3-year rule

- **A** Paul contributed $3,000 a year to Lorraine's RRSP for a number of years.
- **B** He made his last contribution on February 15, 2010.
- **C** Lorraine withdrew $3,500 from the RRSP in February 2012.

What happens?

Paul will have to pay taxes on $3,000. Under the 3-year rule, he has to pay taxes on withdrawals up to the amount of contributions he made to Lorraine's RRSP in the withdrawal year (2012) and the previous two calendar years (2011 and 2010). Lorraine will be taxed on the remaining $500.

If Lorraine had waited until 2013 to withdraw the money, the entire withdrawal would have been considered her income since the 3-year rule would not apply.

So, before you start making withdrawals, it is best to wait until the 3-year rule no longer applies so that, as planned, withdrawals are considered income of the spouse with the lower tax rate.

The 3-year rule does not apply to compulsory minimum annual withdrawals from RRIFs originating from a spousal RRSP.

Income splitting and contributions

Even though, as of 2007, you can split certain eligible retirement income with your spouse (e.g., income from a retirement fund at any age, RRIF withdrawal at age 65 or later[1]), you may still want to contribute to your spouse's RRSP for tax reasons. It makes sense when the spouse with the higher income has a lot of income that is not eligible for splitting.

So, despite splitting their income, if this couple had to withdraw money from their RRSP during retirement, in our example, it would be better for Lorraine to withdraw the money instead of Paul since her marginal tax rate after splitting (based on 2012 data) would be 28.5% vs. Paul's 38.4%. Therefore this couple would be best off contributing to Lorraine's RRSP.

The most important thing to remember is that retirement income splitting concerns only a portion of your income. What's more, it is generally not permitted until age 65 for RRIFs. Contributing to your spouse's RRSP lets you split all your income at any age, subject to the 3-year rule. ■

1. An RRSP may be transferred to a RRIF anytime on or before the last day of the year in which the plan holder turns 71.

> Contributing to your spouse's RRSP may be a good tax strategy if you think your tax rate will be higher than your spouse's when you take money out of the account.

EXAMPLE OF EXPECTED RETIREMENT INCOME:

	Paul	Lorraine
Eligible split income	$20,000	$20,000
Other retirement income	$12,000	$3,000
Investment or rental income	$13,000	$0
Income after splitting	$45,000	$23,000

DESJARDINS SECURITIES 2013 MARKET OUTLOOK

ECONOMIC REALISM, MARKET OPPORTUNISM

Michel Doucet, Desjardins Securities portfolio manager, and Jean-René Ouellet, Desjardins senior analyst

Desjardins Securities is projecting modest economic growth, offering investors good stock market opportunities.

STOCK MARKET EARNINGS SHOULD RISE APPRECIABLY IN 2013. BUT OPTIMISM ABOUT THE MARKET'S NEXT FEW MONTHS SHOULDN'T PROMPT INVESTORS TO BUY UP JUST ANY OLD STOCKS. DESJARDINS SECURITIES PORTFOLIO MANAGER MICHEL DOUCET AND SENIOR ANALYST JEAN-RENÉ OUELLET SHARE THEIR TWO CENTS

BY GILLES DROUIN

Desjardins Securities (DS) is forecasting an 8% jump in corporate share prices in 2013. When average dividends of 2% are included, investors who aren't afraid to overlook prevailing market sentiment could see the value of their stock portfolios climb about 10% by the end of 2013. That means a balanced portfolio of stocks and bonds would rise 4% to 5% in value (see box).

Rose-coloured glasses?

Is DS looking through rose-coloured glasses? True, the economy will grow modestly—but it will grow. "China is stabilizing, Europe is rebuilding its economic base after experiencing serious problems and the American economy is gradually recovering and should grow about 2%," explains DS portfolio manager Michel Doucet.

Pessimistic managers

The current consensus is still gloomy, however. "Most portfolio managers are pessimistic," says Doucet. "But we have a contrarian approach that bucks market sentiment, and that's why we're increasing the stock portion of our balanced portfolio."

DS senior analyst Jean-René Ouellet is more concerned about investor positioning than the economic environment when devising investment strategies. "Everyone is on the sidelines, so it's a great time to invest," he says.

Many investors who consider the stock market too risky are turning to bonds instead, despite their paltry rates of return. "About $1 trillion has moved from equity funds to bond funds," explains Doucet. Many investors are waiting for a steady stream of good news before returning to the stock market. "The situation could turn on a dime once some of that money flows back into the stock market," according to Doucet.

Desjardins Securities is projecting modest economic growth, offering investors good stock market opportunities.

Rigorous selection

Optimism about the market's next few months shouldn't prompt investors to buy up just any old stocks. That's never a good investment strategy. "Quality is still very important," stresses Ouellet. "We aren't going after speculative securities. We're looking for proven companies with solid balance sheets, good management and strong self-generated cash flows whose shares are trading at a reasonable price."

That is why DS is recommending large cap stocks—shares of large companies that are paying dividends, like Canadian banks, telecoms, utilities, pipeline companies and highly diversified land trusts—that meet the selection criteria.

Portfolios should also include some stocks with stronger growth prospects. American tech firms as well as industrial and energy companies have Doucet's attention.

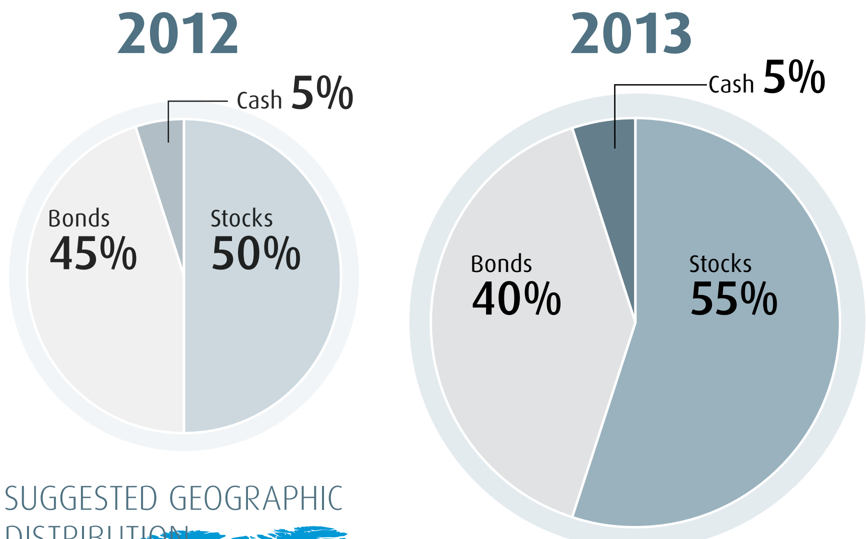
He says it's important for clients to understand the difference between what they want and what they can have. "If we had a 3-year AAA bond with a 10% yield, we'd sell it." With today's low interest rates, he says investors living off their portfolios can and must up their risk slightly by increasing the share of stocks in their portfolios.

"Going with large caps doesn't expose investors to undue risk, and it paves the way to solid growth and dividends," adds Doucet. "Because interest rates are low, retirees have no choice but to increase the stock portion of their portfolios if they want to maintain their income." ■

RECOMMENDATION

SLIGHTLY MORE STOCKS IN 2013

BALANCED PORTFOLIO RECOMMENDED BY DESJARDINS SECURITIES (DS)



SUGGESTED GEOGRAPHIC DISTRIBUTION