WINTER 2011

Perspective

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Top ten things to expect in 2011

1 U.S. growth in 2011 will be at least 3%, boosted by the stimulus of the compromise tax bill and quantitative easing by the Federal Reserve. By extension, Canadian growth prospects have brightened as well, leading to an upgrade of our forecast for Canada's economy to grow around 2.7% in 2011.

2 Housing will slowly add to growth in the U.S. for the first time in six years. Housing in Canada should stabilize in 2011.

3 Trade tensions with China could heat up as the U.S. trade deficit continues to widen and the Chinese currency appreciates only moderately.

4 Even with widespread concerns over the Fed "printing money" and stronger oil prices, inflation will be barely above 1%.

5 The three-decade bull market in U.S. Treasuries will finally end and stocks will perform well. The U.S. savings rate will inch upward to around 6%, triple the level before the recession.

6 Despite reports of its imminent demise, the U.S. dollar will hold its own next year, weakening only slightly against a basket of major currencies. The resumption of BoC rate hikes will provide a lift to the Canadian dollar.

7 Commodity prices will rise solidly, despite moderate growth in the G-7 countries, as the emerging market recovery forges ahead at a robust pace. This is a positive for Canada's economy.

8 Oil could test the $100/barrel threshold for the first time since the financial crisis broke open in the fall of 2008.

9 The U.S. unemployment rate will finally edge downward to just 9% as inflation remains muted and interest rates rise only moderately by year end. Canada's jobless rate will also trend lower as the year progresses, staying well below the U.S. rate.

10 The Fed will remain on hold throughout 2011, marking the third straight year of no interest rate changes by the U.S. central bank, and three straight years of zero interest rates. The Bank of Canada will move first, likely raising rates around the middle of the year as the Fed finishes quantitative easing.

Age matters in retirement planning!

When it comes to retirement planning, the question most people ask is "How much money do I need to save?" There is no one-size-fits-all answer. The timing of your retirement can mean the difference between having a retirement nest egg with more than enough, or one that is running out of money and negatively impacting your preferred retirement lifestyle. It is important to do your research before choosing a retirement start date.

The latest BMO Retirement Institute Report *When to retire: Age matters!* explores the impact that retiring at different ages will have on pensions and personal savings. It demonstrates how retirement start dates can impact not only the various sources of income that will fund your retirement lifestyle, but also how much personal savings you will need to accumulate for a financially secure retirement.

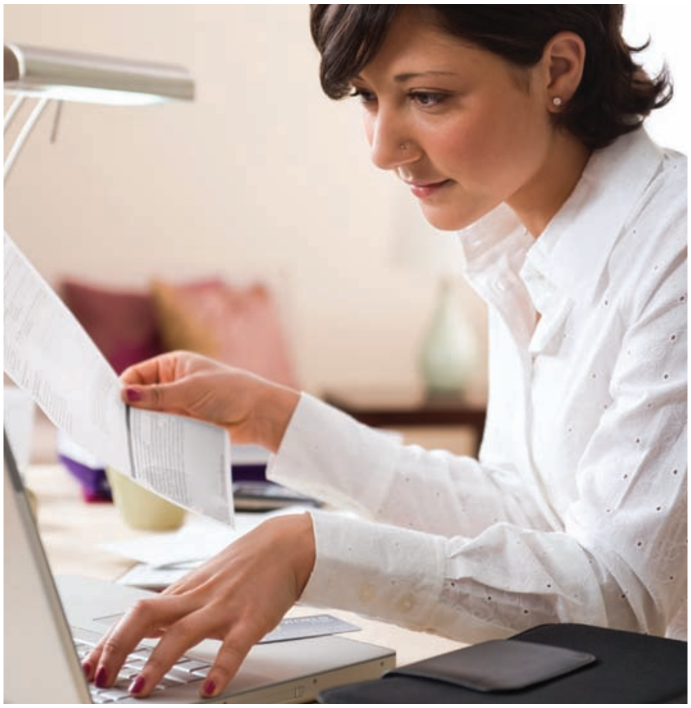
Here is a quick summary of the most common retirement income sources and impact of age on their availability and amount:

INCOME SOURCE	AVAILABILITY AND AMOUNT
Old Age Security (OAS)[1]	Not payable until age 65, so retiring before 65 means you need income replacement for about $6,000 a year until age 65.
Canada Pension Plan (CPP)[2]	Normally starts at age 65, but you can apply as early as age 60 for a permanently reduced benefit, on condition that you have stopped working or you earn less than the allowable maximum pension payment ($934.17 in 2010) for two consecutive months. *This "work cessation" requirement will be eliminated in 2012 as a result of the new CPP legislation.* You can also delay receiving CPP to as late as age 70. Receiving CPP after age 65 will entitle you to a permanent increase of the retirement benefit. *Note that beginning in 2011, changes will gradually be implemented to the reduction/increase percentages for taking CPP before/after age 65 that provide greater incentive to delay receiving CPP. These changes do not apply to the QPP.*
Quebec Pension Plan (QPP)[2]	Main difference from CPP is that you can also apply as early as age 60 under the phased retirement rule: if you are not self-employed and have signed an agreement with the employer to take a pay reduction of at least 20% in view of retirement.
Employer-sponsored defined benefit pensions	For most plans, normal retirement age is age 65, and you can retire early with a pension any time up to 10 years before normal retirement age. Since retirement benefits are typically calculated based on years of service and level of compensation, early retirement normally translates to a smaller benefit. Additionally, most plans reduce your benefit by a predetermined percentage that corresponds to the number of months that you start receiving your pension before reaching normal retirement age, which has the effect of further reducing the benefit amount. You can split DB pension income (for tax purposes) with your spouse/partner at any age.
Personal savings (registered and non-registered)	At the end of the year that you reach age 71, you must collapse your RRSP. If you convert your RRSP into a RRIF, you must withdraw at least the prescribed minimum withdrawal amount from your RRIF every year. You can split RRIF income with your spouse/partner (for tax purposes) only if you are 65 years or older. As a general rule, if you rely on your savings to fund your retirement lifestyle, the earlier you retire, the more savings you need to have accumulated by the time you retire.

The decisions that you make today regarding the timing of your retirement will have important implications for your retirement lifestyle. Contact your BMO Nesbitt Burns Investment Advisor to get a clearer picture of your retirement finances and retire with confidence!

[1] Available to Canadians who satisfy residency requirements. [2] Available if you have contributed to the plan during your work life.

Start the year off right with an RRSP contribution



With the holiday season behind us, it's now time to turn our attention to the year ahead. What better way to start off the New Year than by making your annual RRSP contribution. If you still haven't made your 2010 contribution, don't delay, the deadline is March 1, 2011. If you have already maximized your 2010 contribution, there's no better time than right now to make your 2011 contribution.

The easiest way to find your RRSP deduction limit is to look it up on the Notice of Assessment that Canada Revenue Agency (CRA) sends back to you after you file your annual income tax return. If you would like to verify this amount, here's how to calculate it for yourself:

For 2010, your RRSP contribution amount is based upon your carry forward amount from 2009, plus your current year's contribution amount which is the lesser of $22,000 or 18% of 2009 earned income.

Contribute early

Many RRSP owners make their contributions during the last two weeks of February. By doing so, you effectively lower the value of your RRSP. By contributing on January 1 rather than on March 1 of the following year, the money is in the RRSP for an additional 14 months. Compounding, especially over a number of years, can have a profound effect on the total value of the RRSP. If you contributed $5,000 on January 1 each year for 30 years and earned an 8% rate of return, you would have $57,279 more in your RRSP than if you made your annual contribution on March 1 of the following year.

This is also a great time of year to update your retirement plan to see the difference your contributions will make over the long term. Contact your BMO Nesbitt Burns Investment Advisor to ensure you are still on track to reaching your retirement goals.

Don't forget the tax advantages of making contributions to a Tax-Free Savings Account (TFSA)

As we celebrate the second anniversary of the TFSA, surveys reveal that Canadians are still unclear on the fundamentals of TFSAs and they remain largely unused.

The survey, commissioned by BMO Bank of Montreal and conducted by Leger Marketing, showed that despite the fact that approximately one third of Canadians currently have a TFSA, few know what investments can be held within one.

- Less than half of respondents considered cash to be an eligible investment option.
- One-fifth knew that mutual funds are eligible.
- Only one in four knew that GICs can be included.
- More than one-third have no idea what investments are eligible.

Canadians age 18[1] and over can contribute $5,000[2] annually to a TFSA. Any unused contribution room, dating back to 2009 or the year you turn age 18, carries forward so it can be used in a future year. If you have never contributed to a TFSA, your contribution limit for 2011 will be $15,000. Your annual TFSA contribution limit is reported on your annual Notice of Assessment from Canada Revenue Agency (CRA). In general, a TFSA is permitted to hold similar types of investments as an RRSP. Contributions to a TFSA are not tax deductible for income tax purposes; however your savings, including interest, dividends and capital gains, grow tax-free inside your account.

Contact your BMO Nesbitt Burns Investment Advisor for more information on how to get a TFSA working for you.

[1] Individuals must be the age of majority in their province of residence to open a TFSA with BMO Nesbitt Burns. For B.C., N.S., N.B., Newfoundland, Yukon, Northwest Territories and Nunavut, the age of majority is 19.

[2] The $5,000 annual contribution limit is indexed to inflation and increases will be made periodically in $500 increments.

U.S. estate tax for Canadians — an update

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (the Act). The Act effectively extends the tax cuts provided by the Bush Administration in 2001, while making a number of amendments to the provisions. Although the signing of the new tax bill alleviates the uncertainty surrounding U.S. estate tax, the clarity provided by the legislation is only temporary as the provisions in the new Act will "sunset" or expire at the end of 2012.

Under the new estate tax regime, the U.S. estate tax exemption will be US$5 million (indexed to inflation in 2012) of worldwide estate assets per person and the top marginal rate will be 35%. The exemption level and rates will be effective retroactively from the beginning of 2010 to the end of 2012. Although the tax bill reinstates U.S. estate tax for 2010, the Act generally allows the estate of 2010 decedents to elect out of the new estate tax regime.

If the value of your U.S. assets are worth more than US$60,000, then U.S. estate tax should be considered as part of your estate planning.

How are Canadians subject to U.S. estate tax?

A Canadian may be subject to U.S. estate tax on U.S. situs property if the Canadian owned the property at the time of his or her death even if they are not a U.S. citizen or taxed as U.S. persons (e.g. Green Card holders). U.S. situs assets include, but are not limited to, U.S. real estate and shares in U.S. corporations.

In Canada, the deemed disposition of all capital assets immediately before death results in capital gains tax only on the accrued gains on such assets. U.S. estate tax is imposed on the entire value of the U.S. situs assets owned by a Canadian on the date of death. In addition, because the determination of U.S. estate tax takes into account assets which may not be included in the Canadian tax net at death, there is the potential for a Canadian to owe significant U.S. estate taxes, even after foreign tax credit relief is taken into account.

Do I have to worry about U.S. estate tax?

If the value of your U.S. assets are worth more than US$60,000, then U.S. estate tax should be considered as part of your estate planning.

Although any potential U.S. estate tax liability may be reduced or offset by credits and deductions available under Canadian and U.S. tax law, and under the Canada-U.S. Tax Convention (the "Treaty"), a U.S. estate tax return may still need to be filed even if there is no ultimate U.S. estate tax liability. Failure to file a U.S. return can result in a denial of treaty benefits and credits. In addition, an estate, beneficiary or surviving joint owner may not be able to sell U.S. real property without proof that a U.S. estate tax return has been filed and the tax owing, if any, has been paid.

How is U.S. estate tax calculated? Are there credits available for Canadians?

U.S. estate tax is calculated by applying graduated tax rates to the value of the taxable estate. For 2011, the rates will range from 18% to a maximum rate of 35% which becomes applicable for estate assets that have a value in excess of US$500,000. The resulting liability is then reduced by an estate tax credit called the unified credit that is provided in accordance with the Treaty. According to this provision, Canadian residents can benefit from the unified credit available to U.S. persons on the proportion of the value of their U.S. estate assets vis a vis the value of their worldwide assets. For 2009, this unified credit was based on an exclusion amount of US$3.5 million whereas the applicable exclusion for 2011 has now been increased to US$5 million. As a result, a relieving provision in the Treaty would protect Canadians who have worldwide assets that do not exceed US$5 million in value. Since the unified credit available in 2011 and 2012 will be higher than the amount allowed in 2009, many Canadians will have reduced U.S. estate tax if they die in 2011 or 2012.

There are several strategies that can minimize your exposure to U.S. estate tax. Contact your BMO Nesbitt Burns Investment Advisor to understand your potential exposure and some possible strategies that you can discuss with your estate tax professional.

The impact of marriage on your Will

Many individuals are not aware that, except in Quebec, the act of marrying causes the automatic revocation (cancellation) of the marrying person's Will, if the Will is dated prior to date of marriage. An exception to the rule is where the Will expressly states that it is made in contemplation of the marriage. In that case, the Will is not revoked by the marriage, so long as the marriage occurs within a short period of time.

This law was enacted over a century ago to ensure that property rights of spouses and the future children of the marriage would be protected, at a time when there was no other legislative protection of these family members.

In most of Canada there are now statutes protecting the interests of spouses and future children of the marriage, and the revocation of Wills by marriage law seems archaic. British Columbia, the first province to take the plunge, is on the verge of abolishing this law by enacting new legislation. The new statute, *Wills, Estates and Succession Act* is expected to come into force sometime in 2011, after new probate rules and registry procedures are finalized.

In all other provinces and territories (except Quebec), laws which govern revocation of Wills by marriage prevail. This means that where a marrying person does not make a new Will after the date of marriage, there can be inadvertent devastating results to the existing estate plan. For example, if in your Will you intended to create testamentary trusts for a child (from a prior marriage) and/or other loved ones and you marry after the date of that Will, your Will would be revoked. In effect, the subsequent marriage operates to disinherit the child and other loved ones, in favour of the new spouse. All other testamentary planning (including income tax and probate tax planning) included in that Will would also be overturned by the marriage.

When planning to marry, especially when you have loved ones to consider, it is prudent to discuss the implications of the upcoming marriage with an estate professional.