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Thomas is self-employed and has a degenerative illness he expects will render him unable to work at some point. But with only $14,000 in his RRSP, he wonders if he'll ever be able to retire.

# Double trouble?

## *Couple fears illness, no pension could wreak havoc on retirement*

Joel Schlesinger

*In the first of a two-part Money Makeover, experts on disability tax programs weigh in on this couple's options.*

**Next week: Building their retirement plan**

THOMAS faces a double-barrelled financial quandary that likely quite a few middle-aged people encounter as they reach their fifth decade.

He and his wife, Jane, are self-employed and they worry about how they'll manage when they retire.

"I'm not even sure we can retire," says Thomas, 49.

Complicating matters, he has a degenerative illness that doesn't prevent him from doing his job, but he finds doing the simple tasks such as getting out of bed, dressing himself and even walking increasingly difficult.

"Do I need help getting dressed in the morning? Ninety-nine per cent of the time, no," he says.

But he says he expects the day will come when he can no longer do his job, and with only about $14,000 in his RRSP, he is anxious about retirement.

Recently, Thomas looked into whether he qualifies for any disability tax credits, grants or programs, but a firm specializing in disability tax credits told him he didn't qualify.

"Their questions were 'Can you walk one city block without a cane or a walker?' which I can, but it probably takes me longer than a normal person," he says. "They said, 'Sorry, you don't qualify under the guidelines.' "

Still, he says the discussion with the firm was only a short phone conversation and he wonders if he wasn't brushed off a little prematurely.

"I know people who are collecting disability benefits who are really no more disabled than myself."

Thomas says he wants advice, and he and his wife also want a plan of attack to deal with the inevitable: living on a reduced income in retirement.

In Part 1 of this two-part *Money Makeover*, a Winnipeg firm often recommended by the Society of Manitobans with Disabilities provides Thomas with advice on what tax programs might apply to his situation.

**MONEY MAKEOVER**

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SUSANA Scott and Coral Hetherington, Canada Pension Plan and disability tax credit advocates at Brematson and Associates, work exclusively with disabled people applying for government tax credits and benefits.

The first step, and the key to determining whether Thomas qualifies for most benefits, is to apply for the disability tax credit.

"The credit is retroactive a maximum of 10 years," Scott says. "If approved, the (Canada Revenue Agency) will reassess his taxes going back to the year that the doctor has certified his impairment met the criteria, limited to that 10-year rule."

The credit can be substantial, resulting in a tax refund of about $1,800 to $2,000 a yea, and if his past tax filings are reassessed, he could receive more than $20,000, including interest, from the CRA for the last 10 years if his doctor determines he qualifies for the credit that far back.

But it all hinges on his physician filling out a T2201 tax form, and in many cases an additional clarification questionnaire sent to the doctor after the initial application.

For the doctor to determine whether Thomas qualifies, he would have to be unable to carry out one of the functions of daily living, identified by the CRA, or take an inordinate amount of time to perform one of them, Scott says.

These functions include walking, dressing or preparing meals, but work-related activities are not part of the criteria.

"The Canada Revenue Agency does not define 'inordinate,' " Hetherington says. "The only basis for that in the legislation is the doctor is instructed to assess the patient relative to someone of a similar chronological age who doesn't have the marked restriction."

In Thomas's case, he might qualify because he's indicated it does take him longer to do some of these functions than a healthy individual of his age group.

"In other words, compared to a person of the same age, walking a city block, as an example: Can Thomas keep pace, or does it take him much longer to walk the same distance as a person the same age as him?" she says. "The doctor is not supposed to compare him to a 20-year-old or a 90-year-old; he's compared to a 49-year-old without the impairment."

If his family doctor or specialist agrees he has difficulty with one of these daily functions and signs the forms, Thomas will qualify for the tax credit.

That means he can also apply for a Registered Disability Savings Plan (RDSP), in which he can invest after-tax money that can then grow tax-sheltered. At this stage, however, a TFSA (tax-free savings account) would likely be equally as useful because he likely no longer qualifies for the Canada Disability Savings Grant.

If he were to qualify for the RDSP, for every dollar of the first $500 he contributes to the plan each year, he would receive $3 in grant money. On the next $1,000 of annual contributions, he would receive $2 in grant money for every dollar he contributes. The maximum grant is $3,500 a year, to a lifetime maximum of $70,000. But for families with incomes over $81,941, the grant matches only $1 for every dollar contributed to the plan, to a maximum of $1,000 annually.

The problem for Thomas is that eligibility for the grants stops after age 49.

Though he might qualify for this year and possibly retroactively to 2008 when the program began, it's likely a longs hot because he has to first qualify for the disability tax credit, and that can take time, Hetherington says.

Looking forward, Thomas might find in the next few years he is unable to work. At that point, he might be eligible for the disability benefit under the Canada Pension Plan (CPP).

"The criteria for CPP disability is that he must be under the age of 65, stopped working because of his medical condition and have made valid contributions to the Canada Pension Plan," Scott says. "His disability must be severe and prolonged and must prevent him from being able to work at any job on a regular basis."

So though he might not be able to do his current job, if it's deemed he can work a desk job, he doesn't qualify. The plan does allow for recipients to retrain so they can work, but if he doesn't qualify in the first place, it doesn't help him, Hetherington says.

Although Employment Insurance programs help individuals retrain while receiving the benefits, as a self-employed worker, Thomas hasn't paid into the plan and, once again, doesn't qualify.

"It's a catch-2," Hetherington says. "There's a big hole for self-employed people."

Although his situation is discouraging, Thomas shouldn't give up hope. He should at least apply for the disability tax credit because his physician may find he does meet the disability requirement.

"The weight of the decision is on the doctor," Hetherington says. "If the doctor does nothing, then there's nothing anyone can do for you."

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### Thomas's and Jane's finances

**▼ INCOME**
**Thomas:** $72,471 annual business income ($3,900 monthly net)
**Jane:** $35,000 annual business income ($2,000 monthly net)

**▼ EXPENSES**
**Monthly:** $2,185.76

**▼ DEBTS**
**Mortgage:** $100,000 owing at 2.5 per cent variable, $358 bi-weekly payments on home assessed at $300,000

**▼ ASSETS**
**Thomas RRSP:** $14,000 in mutual funds
**Jane RRSP:** $103,000 in mutual funds
**Home equity:** $200,000
**TFSA:** $3,500 in savings
**Cottage lot:** $35,000

## MISTAKES

Continued from B12

"Market value" — stock price — is often driven by collective investor emotions, specifically fear and greed. Fear drives a sell-off, and greed compels people to buy when prices are high.

But the "fundamental value" of a stock is driven by its actual business — earnings, debt load, growth prospects and cash flow.

During these volatile times, the stock price can substantially undervalue the "fundamental" or intrinsic value of a company because market anxiety often pushes stock prices lower than the long-term, fundamental value of a good firm.

Fundamental-value investors such as Warren Buffet buy and hold for the long term, but it's during tougher times that they find the "buy low" opportunities.

So despite the expected volatility for the next few years, those who can invest prudently today should expect to be rewarded over the next two to three decades, Moore says.

The reasoning is this: Even if the developed world — the United States and Europe — waxes and wanes economically, growth in the developing world will eventually drive the global economy. In turn, well-positioned companies — regardless of where they're headquartered — will benefit.

"You've got hundreds of millions of people in the developing world who are learning what it is to be a consumer," Moore says. "They want to buy a car, a fridge and a house."

Over the short term, returns for firms invested in emerging economies like Brazil, India and China may have their ups and downs, but growing populations, coupled with limited resources, eventually lead to higher prices for consumer goods and, more importantly, for the commodities needed to produce them.

Already, many developing nations are feeling the supply-and-demand price pinch for the most basic of all commodities, food.

It's a topic Union Securities will be discussing next Saturday at the Winnipeg Free Press News Café. Entitled *Investing in Food, Fertilizer and the Future*, the seminar will examine the long-term upside for commodity prices and Canadian firms involved in food production, such as Potash Corp. and Viterra.

The seminar will also take a look at the other side of the investment coin for commodities — the short view.

"The real thing we do like about investing in food and fertilizer — really, we're talking about commodities futures — is you don't have to be long all the time," says Joseph Alkana, an adviser with Union.

Although retail investors should have a bullish, long-term outlook, many are catching on to hedging strategies traditionally used by institutional investors, Alkana says. These strategies involve positioning most of the portfolio for long-term gains while using specialized investments that are inversely related to the movement of the market. Essentially, when prices fall, these investments increase in value. In the past, generating returns off falling prices was possible only using specialized strategies like short-selling, or investing in options or futures.

These can be complex investments, requiring expertise, and they can involve more risk than most people are willing to stomach. Today, however, the average investor can buy exchange-traded funds (ETFs) that provide the same strategy without the complexity.

Still, these strategies are short-term and involve medium to high risk, so investors need to do their homework, he says.

But the benefit is that a little money at risk in your portfolio can go a long way to hedging the risk to your overall portfolio against short-term pain.

And Alkana says making calls on commodities prices is one of the more efficient ways to employ the "short" strategy, because rather than picking a specific company or market, you're making a bearish call on a broader investment that characteristically exhibits extreme downside volatility.

"When commodities do come down, they come down very quickly," Alkana says.

Although many commodities are generally expected to trend upward in price over the long term, that doesn't mean they rise in a steady line. Dramatic price decreases can be expected along the way, and a "short" position can take advantage of those drops and help smooth out overall portfolio returns over the long haul, he says.

"The gains for being short on certain plays — even though you're long-term bullish — those are also very nice gains to have as well."

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