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Where Did My Income Trusts Go?

I hope that this newsletter finds you recovered from the turkey-induced torpor of the holidays, looking forward to a new year filled with interesting activities, enriched experiences, and good health (with or without the benefit of fulfilled New Year's resolutions).

In the December issue I discussed the imminent conversion of income trusts into dividend-paying equities. As expected almost all former trusts have now converted to a corporate structure. Many continue to pay the

same cash as before, but now in the form of a monthly dividend; others have changed from monthly payments to quarterly; some have reduced their payments; and some have actually changed their names!

To help reduce the confusion surrounding these changes, I thought it would be helpful to list the trusts held by many of my clients, and show their converted corporations and payment plans:

Trust Name	Corporation Name	New Symbol	2011* Dividend	Freq.*	Previous Distribution
Arc Energy	Arc Resources	ARX	\$1.20	monthly	same
Armtec Infrastructure	same	ARF	\$2.21	monthly	\$1.60
Bell Aliant	same	BA	\$1.90	monthly	\$2.90
Black Diamond	same	BDI	\$1.14	monthly	\$1.08
Bonavista Energy	same	BNP	\$1.44	monthly	\$1.92
Canadian Oil Sands	same	COS	\$0.80	quarterly	\$2.00
Chemtrade Logistics	same	CHE.un	\$1.20	monthly	same
Cineplex Galaxy	same	CGX	\$1.26	monthly	same
CML Healthcare	same	CLC	\$0.75	monthly	\$1.07
Consumers Waterheater	Enercare	ECI	\$0.65	monthly	same
Crescent Point	same	CPG	\$2.76	monthly	same
Data Group	same	DGI	\$0.65	monthly	\$1.16
Davis & Henderson	same	DH	\$1.20	monthly	\$1.84
Enerplus Resources	same	ERF	\$2.16	monthly	same
Firm Capital	same	FC	\$0.94	monthly	same
Fort Chicago LLP	Veresen	VSN	\$1.00	monthly	same
Interpipeline	same	IPL.UN	\$0.90	monthly	same
Just Energy	same	JE	\$1.24	monthly	same
NAL Oil & Gas	NAL Energy Corp.	NAE	\$0.84	monthly	\$1.08
Pembina Pipeline	same	PPL	\$1.56	monthly	same
PennWest Energy	PennWest Petrol.	PWT	\$1.08	monthly	\$1.56
Paramount Energy	Perpetual Energy	PMT	\$0.36	monthly	\$0.56
Superior Plus	same	SPB	\$1.44	monthly	\$1.62
Vermillion Energy	same	VET	\$2.28	monthly	same
Wajax	same	WAJ	\$1.80	monthly	same
Yellow Pages	Yellow Media	YLO	\$0.65	monthly	\$0.80

*projected annual dividend and payment frequency, derived from BMO Capital Markets research analysts and *The Globe & Mail* / Harry Levant, *IncomeResearch.ca*, Jan. 14, 2011; dividends may fluctuate, however, and are not guaranteed.

It should be noted that this list excludes Real Estate Income Trusts (REITS), since these have been largely exempted from the tax changes, and therefore remain as trusts. If you have questions about specific trust conversions that may not appear on this list, please call me for more information: (905) 897-5502 or toll-free at 1-800-387-9314.

Afraid You'll Outlive Your Money? Consider an Annuity

It seems that a week doesn't go by without another report sounding a warning bell about aging Baby-Boomers and our lack of preparedness for retirement. One of the biggest concerns: Longevity Risk - that is, that many of us are likely to live a long time in retirement (20 – 30 years from the traditional retirement age of 65) and that we could out-live our money.

Having a guaranteed income stream for life is one of the best ways to protect against this risk. There are essentially 3 sources of lifetime retirement income:

1. CPP and OAS: for eligible Canadians these government pensions are guaranteed, although for many this income will be insufficient to support their lifestyle (as of Jan. 1, 2011 the maximum payment is \$11,520 per year for CPP and \$6,290.76 for OAS).
2. Defined Benefit Pensions: Some are lucky enough to have a "DB" pension plan through their employer, which will provide a guaranteed monthly payment till death. They are expensive for companies to offer and therefore these types of "gold-plated" retirement plans are becoming less common, especially since the economic downturn has forced many companies to reduce their costs.
3. Annuity Income: a way to provide an additional "pension" for yourself is through investment in an annuity – this strategy might effectively be considered "Longevity Income Insurance".

Annuities – an Overview

Annuities are a financial instrument that you purchase from an insurance company. For a certain lump sum of money, based on your age and gender, they will estimate (via their very carefully calibrated actuarial tables) how long they think you will live, and what interest they believe they will be able to generate on the money over that period of time. The result is a monthly payment that they will guarantee to pay you for the rest of your life. It's essentially the reverse of the concept behind life insurance: in this case, the insurance company is betting that you will die at a certain age and they will be able to stop paying out; you're hoping, of course, that you will outlive their predictions. Generally the older you are when deciding to invest in an annuity, the more the monthly payment will be.

The pro's:

- a. A fixed, guaranteed income stream till death – no matter how old or sick you get.

- b. May be more tax-efficient, relative to interest earned from other guaranteed sources like bonds and GIC's. A "Prescribed Annuity", bought with non-registered money, levels the tax payable over the life of the annuity (since some of your annuity payment is deemed to be a return of capital, tax is applied only to the interest earned).

The con's:

- a. The payment is fixed (generally) which means it buys less as inflation increases over time.
- b. Upon your death the payments cease – whether it's two weeks or twenty years or more after payments begin.
- c. The decision is irreversible – once the money is committed the capital is no longer available to you or your heirs.

The "con's" can be addressed with annuities which have additional benefits, such as a) indexing; b) a life annuity with a guaranteed term, whereby your beneficiaries will receive a payout should you die prior to a specified term; and c) only committing a portion of your wealth to an annuity, allowing other investments to provide additional income, inflation protection, and growth opportunities.

Also, for those who want the certainty of the lifetime annuity payments but also wish to have a nest egg to pass on to children or a favourite charity, an "insured" annuity can work well (it's essentially a life annuity plus a separate life insurance policy which will return the same death benefit to your estate as the original capital you invested in the annuity).

Do you need to consider "longevity risk"? Give me a call to see how an annuity might work for you.

Monthly Investment Feature:

**Black
Diamond
Group**

6.91%^{*}
pre-tax equivalent
annual yield

*prices and yields are as of January 18, 2011, are subject to change, and are not guaranteed. Pre-tax equivalent yield assumes holding these units in a non-registered account, as well as the highest marginal tax rate in Ontario.

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