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THIS ISSUE

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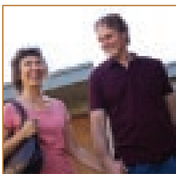

Consider the long-term implications

Using credit wisely in retirement

Today's young-at-heart seniors are more likely to continue using credit to their advantage

Traditionally, Canadian homeowners have focused on being mortgage-free by the time they're ready to retire. While paying down debt continues to be an important objective for many, today's retirees are likely to be far more comfortable using credit than their parents were.

In fact, a 2007 Ipsos Reid survey found that four in ten baby boomers (41%) do not think it's important to pay off their mortgage before they retire. Meanwhile, a 2007 Harris Decima poll suggests that more than one in three Canadians expect to retire with debts of up to $100,000. That includes continuing to carry a manageable mortgage, especially if it enables them to live out their retirement dreams.

NEW EXPECTATIONS

Why are baby boomers planning to use credit to supplement their retirement income? Part of the reason is that expectations about retirement are changing.

Far from slowing down when they leave the full-time workforce, many baby boomers plan to work part time or pursue leisure activities. They're looking forward to travelling, buying vacation property, and pursuing favourite hobbies at home.

Some retirees may also face increased health costs associated with their own or their parents' care. These individuals are likely to see their expenses increase, rather than decrease, post-retirement. For them, borrowing may be an appropriate solution.

BORROWING TO INVEST

Many Canadians are familiar with the benefits of borrowing to invest.* Not only can funds from a low-interest loan be invested for a potentially higher return but, provided the investments are held outside a registered plan, the interest on the loan may be tax-deductible.

This strategy is potentially effective for investors of any age and any employment status. In addition to non-registered mutual funds, stocks, or bonds, popular investments for retirees might include a home that their children can rent from them or a condominium that they might move into themselves at a later date.

SOURCES OF CASH

If you are comfortable carrying debt in retirement, there are a number of ways to borrow. Two of the most popular are home equity lines of credit and reverse mortgages. Both allow you to release some of your

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home's value and turn it into liquid assets.

A home equity line of credit gives you the flexibility to borrow as much as you need (up to your specified credit limit) whenever you want. Interest is charged only on the outstanding balance. Because the line of credit is secured against your house, it generally has a lower interest rate than a non-secured line of credit.

A reverse mortgage can provide either a lump sum or monthly income. In most cases, you stay in your home and don't have to pay anything back. The interest usually accrues until you sell the home or pass away.

Reverse mortgages aren't an appropriate choice for everyone, however. The compounded interest erodes the value of the estate, leaving less for beneficiaries. A reverse mortgage is difficult to undo — if a homeowner decides to cancel, there may be hefty fees or interest penalties.

Personal loans are a simple option for people who have a specific expense and plan to pay off their debt in a fixed amount of time. With fixed and variable interest rates available, as well as various term lengths and payment frequencies, personal loans are easily customized to your needs.

Benefit from low-interest borrowing

Your home is probably one of the most valuable assets you own. It's also a powerful borrowing tool.

For example, with a **CIBC Home Power® Line of Credit**[1], you can access up to 80% of your home's appraised value. Advantages of the CIBC Home Power Line of Credit include:

- **Low rate.** Because the line of credit is secured by the value of your home, you'll benefit from a low, variable interest rate.
- **Convenience.** Once you're approved, you have access to the cash you need whenever you need it. You can access funds by CIBC bank machine, Telephone or Online Banking, *Interac®* Direct Payment, or by writing a cheque.
- **Flexible payment terms.** You can pay the full balance or the minimum payment (interest-only or 3% of your outstanding balance or $60, whichever is greater).

To learn more about the CIBC Home Power Line of Credit, talk to your Financial Services Specialist.

MANAGING DEBT

While debt can be a useful tool for achieving your objectives at any life stage, it's important to manage it wisely. Your Financial Services Specialist can help you:

- Structure debt payments to pay off higher-interest loans first.
- Monitor your debt closely, to ensure that your payments are manageable.
- Review your estate plan. You may want to consider using life insurance to retire the debt when you pass away and preserve your estate for your beneficiaries.
- Develop a borrowing strategy that enables you to enjoy life to the fullest.

Consolidating your debt

Turn many bills into one — and save money

With claims of no money down and no interest for 12 or 24 months, the pitches for retail credit cards can be very tempting. But the fine print behind these offers may be much less attractive. You may have to pay hefty administration fees when you apply. Later on, many purchasers find themselves paying high interest rates after a favourable introductory rate is phased out.

Fortunately, there are less costly ways to access credit. Setting up a personal line of credit, for example, gives you access to a pool of money whenever you need it. You can choose to pay for items directly from your line of credit using your bank card with *Interac* Direct Payment, withdraw cash from a bank machine, or transfer funds from your line of credit to pay bills online or over the telephone. Competitive interest rates are lower than many retail credit cards, and you pay interest only on the amount you borrow.

If you already have a number of retail credit cards, you may want to consider consolidating your balances into a single personal line of credit. This could save you a significant amount of money, as the illustration on page 3 shows.

Consolidating your balances has another significant benefit: it becomes much easier to monitor and control your borrowing. You may also want to consider using CIBC online banking, which provides you with options such as a consolidated view of your investments and your loans. You can review your balances, make additional payments, and view your payment history whenever it's convenient for you.

With a broad range of options available and access to online tools, your CIBC Financial Services Specialist can recommend appropriate credit solutions to help you reach your long-term goals.

Home sweet tax-free home

Your principal residence may be your single largest asset — and it's not taxable

Ordinarily, when you sell a capital asset outside a registered plan, any increase in its value since you purchased it is taxable. But there's one important exception to this rule — your principal residence. No matter how much the value of your principal residence appreciates, the sale proceeds can be tax-free.

Given the long-term rise in Canadian real estate values across the country, this represents a potentially lucrative, tax-free capital gain for many Canadian homeowners. Here's what you need to know to make the most of this valuable provision of the Canadian tax system.

HOUSE RULES

To qualify for the principal residence exemption, you must own your home either on your own or jointly with another person, and you or your family members (spouse or children) must live in your home during at least part of the year.

The dwelling does not necessarily have to be a house. As long as it's your principal residence, you can claim the exemption on an apartment or unit in a duplex, apartment building or condominium, a vacation property, a mobile home, or even a houseboat. It could also be a leasehold unit in a housing unit or a share in a co-op housing corporation.

Only one dwelling can be designated as the family's principal residence in any given year. So if you and your spouse own both a city home and a country retreat, you can designate only one home between you. You can't claim the exemption on the city home while your spouse claims it on the country home (or vice versa).

MAXIMIZING STRATEGIES

If you and your spouse own two properties and you know you'll be selling one or both at some point, you may want to "preserve" the principal residence designation for the property that's likely to increase more in value.

For example, suppose your city home has increased only marginally in value while your country property has skyrocketed, it may be to your advantage to claim the exemption on the latter. Provided you've occupied the property for at least part of every year, the exemption should be available to shelter any increase in its value.

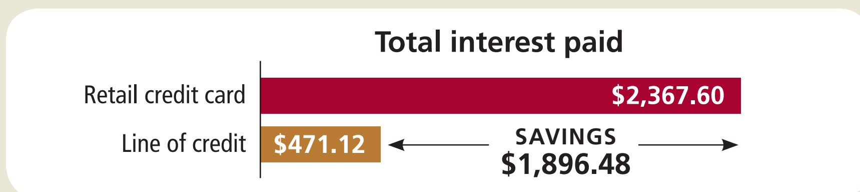
Take a few minutes to consider how you might use your principal residence exemption to maximum advantage. Is your next move to purchase a larger home, using the tax-free proceeds from the sale of your current house as a down payment? Or are you planning to downsize — in which case you may need to think about investing the money you have left over to serve your longer-term needs?

Whatever your plans, it's important to consider this valuable tax advantage when making the decisions that are best for you and your family.

If you're thinking of selling your home, be sure to consult with your CIBC Financial Services Specialist. Life events like this can have a significant impact on your plan, and you want to make sure you don't overlook any potentially valuable opportunities.

The high cost of retail cards

Suppose that you have an outstanding balance of $15,000 on store credit cards charging 28% annual interest and you're planning to pay off the debt completely over the next year. Using a line of credit secured against the equity in your home with a rate of 5.75%** to pay off the balance and then paying off the line of credit over 12 months will save you almost $2,000 in interest.



CIBC CreditSmart® can also help you manage your CIBC *Visa*+ credit cards wisely. This innovative program provides:

- Credit Report Alerts, Fraud Alerts, and Identity Theft Assistance to help protect you;
- Monthly statements detailing your credit card spending by category, such as transportation, restaurants, etc.;
- Online software that enables you to create your own monthly credit card budgets; and
- Spend Alerts when you're approaching your credit limit or have exceeded your budget.†

Thinking of buying in the States?

Your decision may have long-term implications

Over the past year, oceanfront condos in Florida and luxurious vacation homes across the United States have become much more affordable thanks to a high Canadian dollar and attractive U.S. real estate prices. A vacation home south of the border can be a great way to enhance your family's lifestyle, but it's important to be aware of the potential tax, legal, and estate planning consequences before you buy.

Factors you may need to consider include:

- Potential capital gains tax exposure when you sell the property;
- U.S. estate tax exposure when you pass away;
- The possibility of being taxed as a U.S. resident if you spend more than six months of the year there;

- Travel health insurance costs for the time you plan to spend in the U.S., which are likely to rise as you get older; and
- Ongoing costs, such as management fees, property taxes, maintenance, utility costs, and so on.

If you're thinking of purchasing, review the implications on your plan with your Financial Services Specialist and consult appropriate legal and tax professionals.

Enjoy flexibility and be mortgage-free sooner

Choosing the mortgage that's right for you can be challenging in today's crowded marketplace. But it's easier if you focus first on your objectives.

If you're like most homeowners, you probably have two key goals:

- To pay off your mortgage faster; and
- To reduce your interest costs.

One option to consider is the **CIBC Variable Flex Mortgage™**, which helps you do both. You can increase your mortgage payments up to 100% of the regular amount and pay down up to 20% of the original mortgage amount annually while benefiting from the potential savings of a variable rate. Plus, if at any time you find you would prefer the security of a fixed-rate mortgage, you can lock into a fixed-rate term of three years or more at no charge.

For more information about the CIBC Variable Flex Mortgage, talk to your Financial Services Specialist.

*Subject to credit approval and certain terms and conditions. Ask for details. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

**Sample rate for illustration purposes only. Your interest rate and actual savings may vary.

†Transactions must first be posted to your account before they can trigger a spend alert. It may then take up to 24 hours after a triggering transaction is posted for an alert to be sent.

[1] Product not available in Nunavut. To qualify, you must have at least 20% equity in your home. Credit limit must be at least $10,000. Other conditions apply; ask for details.

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