



CREDIT UNION

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JULY 2020 - SEPTEMBER 2020

# Quarterly Newsletter

## Should You Choose A Reverse Mortgage?

Canadians homeowners over the age of 55 are choosing reverse mortgages at a rapidly increasing rate. But are they the ideal solution to stretch a budget and generate cash flow? Or are they a slippery debt management slope with hidden costs and disadvantages? Like any lending product, the answer to these questions is different for everyone, but understanding how reverse mortgages work, along with their pros and cons, is the best way to determine if it's something that could benefit your life and long-term financial well-being.

### How They Work

A reverse mortgage allows homeowners aged 55+ to leverage their equity as a source of income while they continue living in their homes. The very attractive icing on the cake is that there is no repayment - at all - until they sell their home or pass away. If this sounds too good to be true, it just might be. On the other hand, reverse mortgages offer homeowners facing financial difficulty several unique advantages. Here's how they work.

Where a conventional mortgage provides you with funds to buy a home, a reverse mortgage gives you funds from the home you already own to use as you see fit. In order to qualify for a reverse mortgage, you (and your spouse if you're married and own the home together) must be at least 55 years old. While you don't have to prove your income to qualify for the mortgage, how much you can actually borrow depends on your home's condition, value and type, where you live, your age(s), gender(s) and how much debt you have.

*"Through all the paperwork, documents, and decision-making I thankfully had my Rapport financial advocate, in what felt to be right by my side. She was so gracious and understanding and was willing to explain whatever was necessary (sometimes more than once) and I feel she made the transition and the whole experience as pleasant and efficient as it could possibly have been. I am so glad she was there to help me".*  
As told by a Rapport Member

### Member Assistance

416.314.6772 | 1.888.516.6664 | [help@rapportcu.ca](mailto:help@rapportcu.ca) | [rapportcu.ca](http://rapportcu.ca)



# Should You Choose A Reverse Mortgage?

(continued from front cover)

To maintain eligibility, you'll also have to agree to:

- maintain the home to ensure equity continues to grow
- remain in the house as your principal residence
- pay property tax
- keep valid homeowners insurance in place

In terms of the costs, there are fees for setting it up and interest rates are higher than a conventional mortgage or secured line of credit.

5-Year Fixed Conventional Mortgage\*

2.99%

Secured Line of Credit\*

3.50%

Reverse Mortgage Rate\*

4.99%

*\*rates are for illustration purposes only and may not reflect current posted rates*

Interest is calculated daily, added to the loan balance monthly and paid in full when the loan matures. A reverse mortgage loan is considered to mature when:

- your home is sold
- you and/or your surviving partner move out of the home
- you or your surviving partner pass away

Your reverse mortgage can also be revoked if you've failed to keep the home in good repair or haven't paid your property taxes and homeowner's insurance. Under these circumstances, the loan plus interest must be paid back immediately.

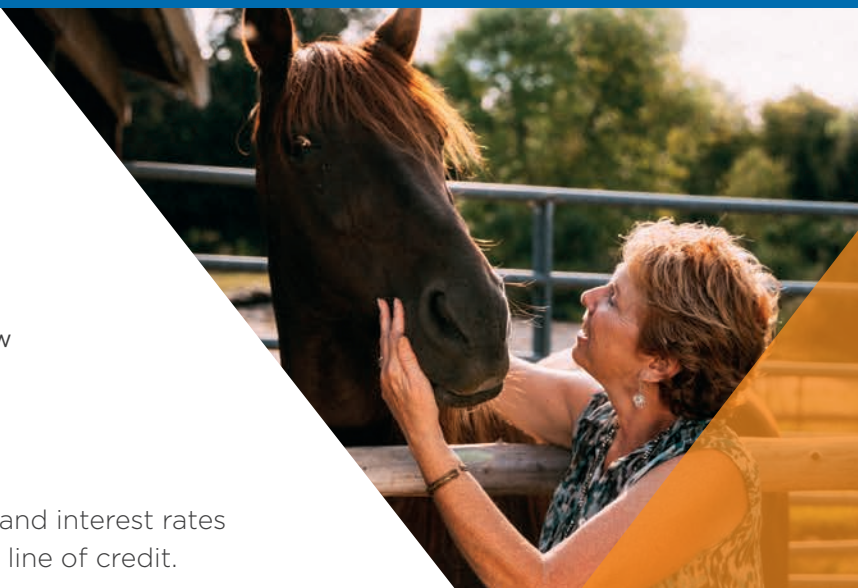
## Benefits Of A Reverse Mortgage

- You will have no monthly mortgage payments.
- Your mortgage will not need to be repaid until you sell your home or you or your surviving partner pass away.
- You retain ownership of your home.
- You can repay the loan at any time, although penalties will apply. Make sure you read the fine print to understand how these are calculated.
- You don't need to prove income to qualify. You just have to have sufficient equity in your home.
- Once you've paid off and closed any outstanding mortgage, loans or lines of credit secured by your home, you can use the funds for anything you'd like.
- Funds can be received as a lump sum, payments over time or a combination of both.
- Funds from a reverse mortgage are tax-free income, so they won't impact any Old Age Security and Guaranteed Income Supplement you may be receiving.
- Reverse mortgages have a negative equity guarantee, which means that the amount you owe can never exceed the value of your home, provided you keep it in good repair.
- Interest paid on the reverse mortgage can be tax-deductible if you used the proceeds to earn investment income (interest or dividends).

## Drawbacks Of A Reverse Mortgage

- Aside from paying for an appraisal and independent legal advice before approval, closing and administrative fees that range from \$995-\$1,795 are deducted from funds you'll receive.
- Interest rates are higher than standard mortgage rates because the lender has to wait to get its money back from you. Current rates for reverse mortgages in Canada range from 4.09% to 6.63%\*.
- You'll be subject to a penalty if you sell your home or you or your surviving spouse pass away within three years of taking out the reverse mortgage.
- There are limited options in terms of lenders for reverse mortgages in Canada.
- The amount you can borrow varies dramatically based on the amount of your current debt, geographic location, the type of housing you own as well as your age and gender.
- As the interest has a compounding effect, the amount of your reverse mortgage increases over time. If you borrow \$100k, with compounded interest added to the principal, that amount doubles to \$200k in less than 15 years.
- Your estate will have to repay the mortgage and interest in full within a set period of time when you or your surviving spouse die and may not work within the timeline typically required to settle an estate.

*\*rates are for illustration purposes only and may not reflect current posted rates*







## Should You Choose A Reverse Mortgage? *(continued)*

If you're feeling financially unprepared as you approach retirement, you're not alone says Rapport Branch Manager Gabrielle Allen, "Older Canadians are finding themselves burdened with debt as they head into retirement and it's hard to manage that on a fixed income. However reverse mortgages would not be my first recommendation for the majority of situations primarily due to very high fees and interest rates, as well as the limitations this type of mortgage has associated with it. I would first explore other options such as traditional mortgage financing, potentially down sizing, or decreasing expenses through budgeting." Gabrielle says a reverse mortgage is far from their only option "While a reverse mortgage may seem ideal on the surface, it can be risky. It's a good idea to explore options with your Rapport financial advocate who can give you a big-picture view of what's best for your unique situation."

The financial advocates at Rapport are here to help you do just that. Your financial wellness is our number one priority and we'll help define a path that moves you forward without compromising your financial health long term.

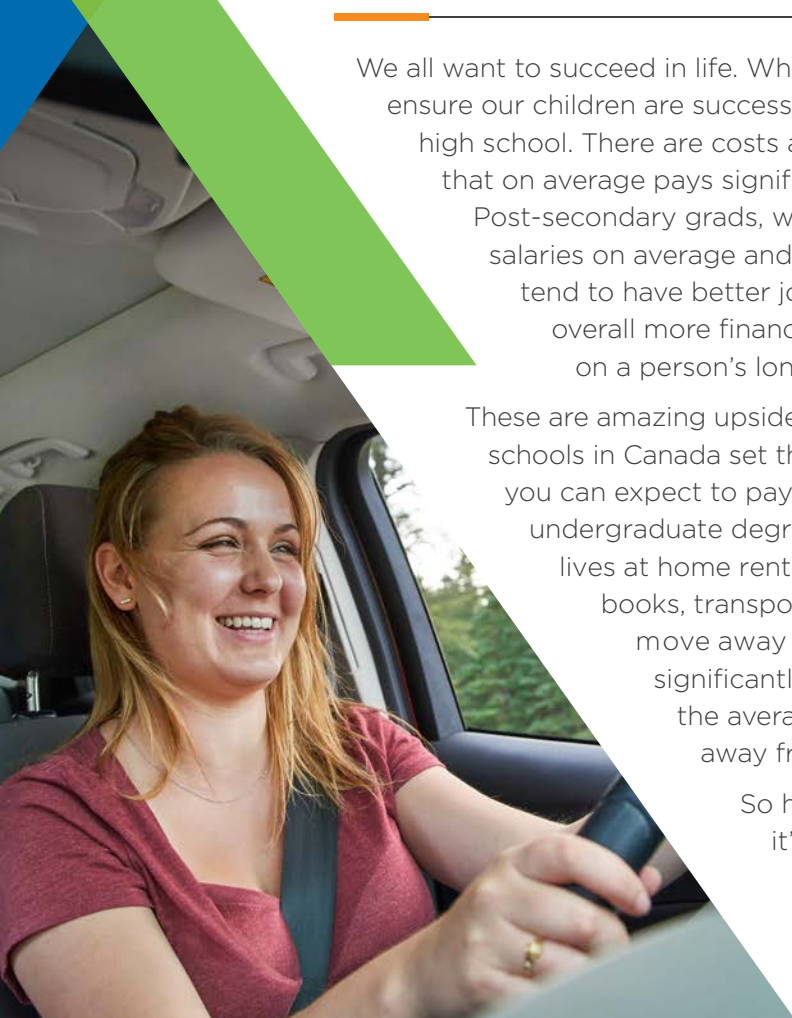
## Saving For Your Child's Education

We all want to succeed in life. When we become parents, we want to do all we can to ensure our children are successful, too. For lots of kids that may mean education beyond high school. There are costs associated with this education, and it's an investment that on average pays significant dividends for your children well into the future.

Post-secondary grads, whether university, college or trade school, earn higher salaries on average and have more choice when it comes to careers. They also tend to have better job security, greater opportunity for advancement and overall more financial stability. This stability can have a significant influence on a person's long-term financial wellness.

These are amazing upsides, but what does it actually cost? While post secondary schools in Canada set their own fees and can vary from program to program, you can expect to pay an average of CA\$6,850 per year or \$27,350 for a 4-year undergraduate degree. Tuition is only part of the expense. Even if your child lives at home rent-free while going to school, there's also the cost of books, transportation and entertainment to factor in. For those that move away to go to school, rent, food and travel drive the costs up significantly. A recent survey of more than 23,000 students reports the average cost of post-secondary education for students living away from home is \$19,500 per year.

So how do parents save enough to cover these costs? Ideally, it's good to start early to ensure a healthy portion of the funds required are available when your child graduates from high school. There are other viable options to consider as well.



# Saving For Your Child's Education *(continued from page 3)*

## Registered Savings Programs

Registered Education Savings Plans (RESPs) are a powerful savings vehicle. Ideally, they should be started as early as possible in a child's life. RESPs also offer added bonuses:

- The Canada Education Savings Grant (CESG) is an incentive program that adds 20% to the first \$2,500 in contributions made into an RESP each year, up to as much as \$7,200.
- If your child has an RESP, they may also be eligible for the Canada Learning Bond (CLB), an initiative to reduce barriers to higher learning for children of low-income families.

## Self-directed Savings Plans

A self-directed savings plan can be started at any time using a wide variety of savings tools. There are no restrictions in terms of minimums, maximums and investment choices. You could also consider formal or informal trust accounts to help mitigate taxes.

## Scholarships, Bursaries And Grants

There are scholarships, grants and bursaries available to students staying in Canada for their post-secondary education. It requires a little time to research and complete the applications, and the pay-off is 'free money' and recognition that could go a long way for your child. While each school offers its own awards based on specific eligibility criteria, below is a list of other resources for you or your child to explore:

- [Universitystudy.ca](http://Universitystudy.ca)
- [Scholarships Canada](http://Scholarships Canada)
- [Government of Canada Student Scholarships](#)
- [Government of Canada Student Grants](#)

Did you know Rapport also offers students graduating high school or currently enrolled in post-secondary studies a scholarship? Ask your branch for details.

## Student Loans And Financial Aid

### FEDERAL LOANS

The Government of Canada offers student loans to full-time and part-time students. The amount you receive depends on several factors, including where you live, family income, tuition, fees and living expenses. While these loans can cover or offset the cost of education, they need to be repaid, with interest. Learn more about the eligibility criteria [here](#).

### PROVINCIAL ASSISTANCE

Once your child has been admitted to a full-time program, they could also qualify for provincial assistance. In Ontario, applications can be made to the Ontario Student Assistance Program (OSAP). Explore the eligibility calculator [here](#).

### STUDENT LINE OF CREDIT

Your child may also qualify (sometimes with a co-signer) for a student line of credit.

Post-secondary education is one of the best investments you can make for your child's future. Understanding the cost and how you will cover it is important to your future and financial wellness too. Our Financial Advocates can offer you advice, planning tools and investment options to customize a savings plan that's right for your family and your child's education. Your family's financial wellness is our priority. We're here to do all we can to help you - and your children - move towards greater financial health and capability.





# What You Can Contribute To Your TFSA

Tax-Free Savings Accounts - or TFSAs - are powerful savings tools not only because they're registered accounts that allow you to hold both savings and investments, but they have significant tax advantages as well.

A TFSA is a great way for individuals who are 18 years or older to set money aside, tax free, throughout their lifetime. Inside a TFSA, all of your savings and investments grow tax-free so you don't pay taxes on that growth. You're also not taxed when you make withdrawals and can re-contribute to your TFSA the following January. A TFSA also won't jeopardize your government pensions.

Sound amazing? It really is. One of the complicated things about TFSAs is how much you can contribute to them each year. Since introducing them as a savings tool in 2009, the federal government announces the annual maximum contribution each year (see Table 1). The maximum is \$6,000 for 2020. The good news is that unused contribution room from previous years can be rolled over into future years. This amount depends on the year you turned 18 (see Table 2) and if you already have a TFSA.

If you'd like to contribute to a TFSA this year and aren't sure how much you're allowed to invest, here are a couple of simple ways to determine that amount.

## If You're Opening A TFSA For The First Time In 2020

Your contribution room depends on the year that you turned 18. Using Table 2 above, choose the year you turned 18. The corresponding TFSA limit is what you can contribute in 2020.

## If You Already Have A TFSA

If already have a TFSA and have deposited money over the years, use the information in Table 2 along with the formula below to determine your contribution room for this year:

1. Choose the year you turned 18 and the corresponding TFSA limit for 2020.  
Add the total amount of withdrawals you made (if any) from your TFSA last year.
2. Subtract all of your previous contributions from earlier years.
3. The resulting number is your current maximum contribution.

When possible, members should definitely be maxing out their TFSA's rather than hold non-registered assets, especially if earning interest. If you've contributed to a TFSA in previous years, you can also log into your CRA account online to determine your total contribution limit. You can also call the Tax Information Phone Service (TIPS) at 1-800-267-6999, but be sure you've got all of the authentication documents that CRA requires before you call.

Whether you're opening one for the first time or want to understand how much you can add to your existing TFSA, one of our Financial Advocates would be happy to explain the best way for you to use a TFSA and other financial products to improve your financial wellness in 2020. Contact us today to learn more about TFSAs and if they are right for you.

TABLE 1 -  
Annual Limits Since 2009

Year	TFSA Limit
2020	\$6,000
2019	\$6,000
2018	\$5,500
2017	\$5,500
2016	\$5,500
2015	\$10,000
2014	\$5,500
2013	\$5,500
2012	\$5,000
2011	\$5,000
2010	\$5,000
2009	\$5,000

TABLE 2 - TFSA Limit For 2020  
Based On When You Turned 18

Year you turned 18	Your TFSA Limit for 2020
2009 or earlier	\$69,500
2010	\$64,500
2011	\$59,500
2012	\$54,500
2013	\$49,500
2014	\$44,000
2015	\$38,500
2016	\$28,500
2017	\$23,000
2018	\$17,500
2019	\$12,000
2020	\$6,000



Amazing stories.  
Well told.

What does life on your terms mean to you?  
We'll help you get there. **Let's talk.**



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