ASSANTE
WEALTH MANAGEMENT

WELL-ADVISED

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IS AN RRSP STILL WORTHWHILE?

There's a myth that surfaces every once in a while. It suggests a Registered Retirement Savings Plan (RRSP) isn't worthwhile because of the tax on eventual withdrawals.

The myth is based on comparing RRSPs and non-registered accounts only by the taxation of withdrawals. All RRSP or Registered Retirement Income Fund (RRIF) withdrawals are taxed as income at your marginal tax rate, while retirement income drawn from a non-registered account that includes equity investments is taxed more favourably.

WHY RRSPS COME OUT AHEAD

While this comparison is fair as far as it goes, it ignores the amounts of the original contributions. Say that an individual wants to invest $10,000 of their taxable income and has, hypothetically, a 35% marginal tax rate. If they make a non-registered investment, they pay $3,500 in tax and invest $6,500.

However, if they choose an RRSP, they can contribute the entire $10,000. Furthermore, the $10,000 contribution is deducted from their taxable income. Instead of paying $3,500 in tax, they receive $3,500 in tax savings or as a tax refund. The larger annual contribution amounts, growing tax-deferred, enable an RRSP to provide greater retirement income than non-registered investments, even after accounting for the taxation of withdrawals.

MANAGING TAX

Keep in mind there are ways to manage and effectively minimize the tax on RRIF withdrawals. For example, once you're 65, you can transfer up to 50% of your RRIF income to your lower-income spouse, splitting income to pay less tax overall. Another strategy, known as "topping up to bracket," involves withdrawing RRSP or RRIF funds to the upper limit of your current tax bracket to potentially reduce your tax bill down the road.

ADDITIONAL BENEFITS

RRSPs offer built-in discipline, important for retirement savings. You're motivated to save every year, as contributions reduce your taxable income. Also, you're less likely to spend retirement savings on vacations or other discretionary expenses since withdrawals are taxable at your marginal rate. ■

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Is your family the average Canadian family?

It turns out there is no average family. The most common Canadian household type is the single-person household, and this newsletter includes an article on singles' unique financial needs. In fact, each type of marital status and family arrangement calls for its own customized plan. Each wealth planning component may be managed differently depending on whether you're single, a couple with children, a couple without children, single with children or in a blended family. We understand the unique financial needs of your life situation—and, if anything changes, we'll modify your plan accordingly.

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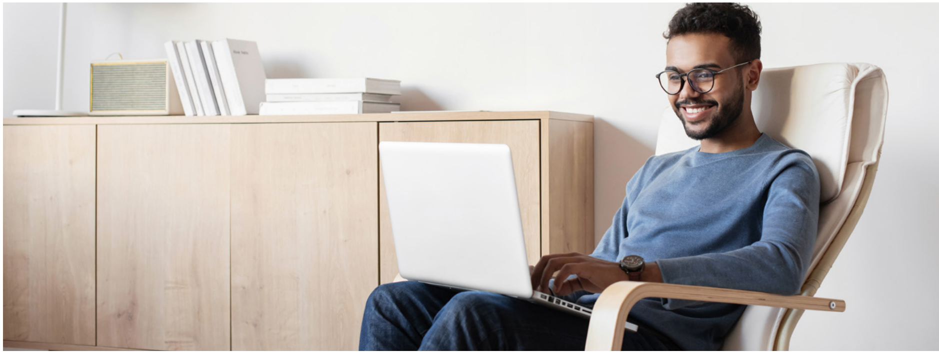
WEALTH PLANNING IS DIFFERENT WHEN YOU'RE SINGLE



According to Statistics Canada, the number of Canadians living alone has reached a record high. In fact, the one-person household is the most common household type.

Financial life is different for singles compared to families or couples without children. Here are some of the ways singles can plan for those differences.

CREATING A SAFETY NET

Spouses in a couple have the luxury of a second income for support if they lose their job or face another financial hardship. When you're single, it's prudent to create a financial safety net to safeguard against a period of lost income.

If you're self-employed or a business owner, it's important to have disability insurance to help replace your income if an illness or injury prevents you from working. Critical illness insurance is worth considering as well. It pays a lump-sum benefit if you're diagnosed with cancer, a heart attack or a stroke.

Even if you're an employee with group health benefits, you should review the details of your insurance—including how long disability benefits last and the benefit amount of any critical illness insurance. You may want to supplement your coverage with a personal insurance policy.

An emergency fund is especially vital when you're single. Build an emergency fund of liquid savings in your Tax-Free Savings Account (TFSA) or non-registered savings account to cover at least several months of living expenses.

PLANNING FOR RETIREMENT

A couple with two incomes can share mortgage payments, household expenses, car payments and a variety of other living costs. A single person must cover these significant expenses on their own, and that can require extra planning or budgeting to put away enough for retirement.

Developing and sticking to an investment plan is critical when you'll be the only source of income to support your desired retirement lifestyle.

STAYING ON TOP OF ESTATE PLANNING

When you're single, it can be easy to put off making a will. However, you'll have reason to get it done if you identify one or more beneficiaries—perhaps a relative, close friend or charity.

Naming an executor is different when you're single, as a spouse or adult child are common choices. You may wish to name a sibling, friend or professional executor, such as your lawyer, accountant or a trust company.

ENJOYING RETIREMENT

Retirement as a single person may come with extra freedom, since there's no need to compromise on retirement lifestyle decisions. However, couples do have some advantages. A couple can use pension income splitting to reduce their overall income tax. If one spouse has failing health and needs assistance with daily living, the other can help.

As a single retiree, you can help counter these drawbacks with a cash cushion, accumulated before retirement. Think of it as a retirement emergency fund. If you ever need to hire a private healthcare provider, you'll have the resources, and the fund can help meet any other unexpected costs that may arise.

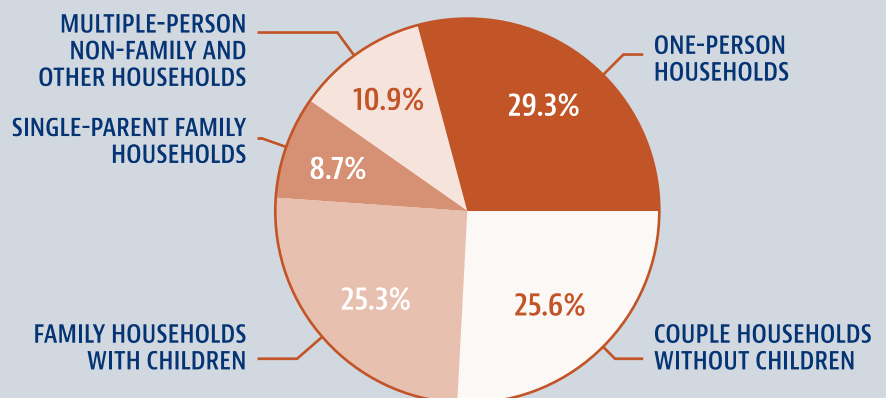
TALK TO US

Another big difference between couples and singles is that couples have someone with whom to discuss wealth planning matters. When you're single, you may not feel comfortable discussing these issues with a family member or friend. Please feel free to talk to us. We can be a sounding board to help you make informed financial decisions. ■

CANADIANS BY TYPE OF HOUSEHOLD

A couple with children is often viewed as the traditional household, but there are slightly more households composed of a couple without children—and the one-person household is most common. ■

Source: Statistics Canada, "Distribution of households by household type," 2021



MAKING THE MOST OF A FIRST HOME SAVINGS ACCOUNT

Months after the federal government launched the First Home Savings Account (FHSA), more than 20 financial institutions are offering FHSAs, and Canadians are opening accounts by the tens of thousands.

If you have a child or grandchild eligible for an FHSA, here are some strategies and considerations to help with your and their decisions.

WHEN TO OPEN AN FHSA

Your child or grandchild can open an FHSA at 18 or 19, depending on the province. However, they must consider that the account can only remain open for up to 15 years. Do they feel certain they'll want to purchase a home by their early 30s? After all, according to Statistics Canada, just 52% of Canadians aged 30 to 34 own their own home.[1] While one person may feel comfortable opening an FHSA as a teen, another may prefer to wait until their early 20s. Either way, they'll be starting to save within an FHSA early in life, and their contributions will have plenty of time to grow and compound tax-free.

Note that an FHSA account holder has another avenue open if they don't buy a home within 15 years. They can transfer FHSA funds into a Registered Retirement Savings Plan (RRSP), and then use the RRSP Home Buyers' Plan (HBP) to buy a home later—but the HBP only makes $35,000 available.

USING TFSA FUNDS

If your child or grandchild opens an FHSA and already has a Tax-Free Savings Account (TFSA), they can make a TFSA withdrawal and contribute the funds to the FHSA. This transaction provides a valuable tax deduction in the amount of the contribution.

HELPING YOUR CHILD OR GRANDCHILD

When many people think of helping a child or grandchild make a down payment, they picture themselves gifting the funds when the home is being purchased. However, your gift will have a greater impact if you give funds earlier for your child or grandchild to contribute to an FHSA. In this case, they will benefit from tax deductions, tax-free growth and a tax-free withdrawal.

PLAN FOR THE INVESTMENT OBJECTIVE AND TIME HORIZON

A home is likely to be the largest purchase of an FHSA investor's lifetime, so it's important not to be too risky with the asset allocation. Someone who opens an account with the intention of becoming a homeowner in five or six years would be wise to focus on less risky fixed-income investments. An account holder in their early 20s may be fine favouring equities if they imagine buying a home in about 10 years—but even they need to make their FHSA more conservative as their time horizon shortens.

CONSIDER TAX DEDUCTION STRATEGIES

For students or those just starting a career, the tax deduction from an FHSA contribution might not save a significant amount of tax. In this case, the account holder can carry forward the deduction to any future year when their income is higher and they can save more tax.

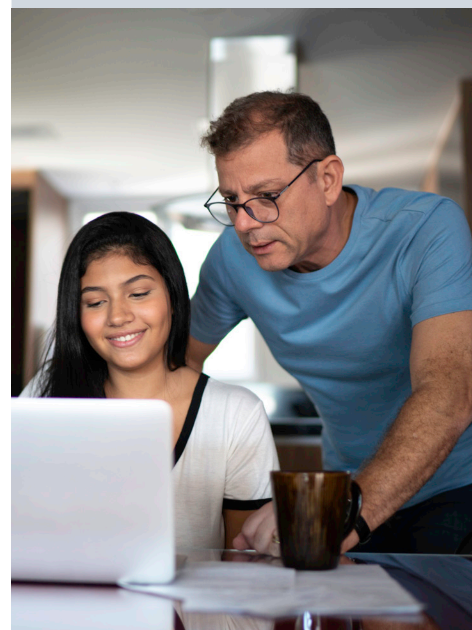
If taking the deduction is worthwhile, consider this strategy: take the value of the tax savings from the deduction and contribute that amount to a TFSA, which can also be applied toward an eventual down payment. ■

[1] Statistics Canada, "Younger adults are less likely to own their homes," 2021.

HOW THE FHSA WORKS

Eligibility: To open a First Home Savings Account (FHSA), you must be a resident of Canada and at least 18, or the age of majority in your province. You must be a first-time home buyer.

Contributions: You can contribute up to $8,000 annually to a maximum amount of $40,000. If you contribute less than $8,000 in any year, you can carry forward the unused amount only to the following year.



Tax treatment: Contribution amounts are deducted from taxable income, either for the current tax year or any future year. Investments grow tax-free, and funds are withdrawn tax-free.

Duration: An FHSA can remain open for up to 15 years (or the end of the year you turn 71).

Investments: You can hold the same types of investments allowed in a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA).

Transfer to an RRSP: If you don't use FHSA funds to purchase a home, you can transfer the funds tax-free to your RRSP without affecting your RRSP contribution room. Otherwise, withdrawn funds are fully taxable. ■

TAKE ADVANTAGE OF FAMILY AND CAREGIVING BENEFITS

When you raise a child or help support a dependent family member, you're sure to face extra costs. Here are some common family and caregiving situations and associated benefits from the federal government that can help you meet your financial needs.

Expecting a child, having a newborn or adopting a child. Maternity benefits can begin after giving birth or as early as 12 weeks before the due date, and the mother can receive this benefit for up to 15 weeks. Parental benefits can be received by one parent or shared by both parents after the birth of a baby or the adoption of a child. Parents can share these benefits for up to 40 weeks, or they can choose extended parental benefits for payments up to 69 weeks but with a lower weekly amount. Maternity and parental benefits are received as employment insurance payments. Note that in Quebec, maternity, paternity, parental and adoption benefits are managed through the Quebec Parental Insurance Plan.

Raising a child under age 18. To help with the cost of raising a child, the Canada child benefit provides a tax-free monthly payment until your child reaches 18. You can apply when you register your child's birth; otherwise, apply online using My Account or by mail with a Canada child benefit application.

Raising a child who has a disability. If you have a child under 18 who has a severe and prolonged impairment in physical or mental functions, you may be eligible for the child disability benefit, which pays a tax-free monthly amount. You'll receive the benefit automatically, without the need to apply, as long as you receive the Canada child benefit and your child is eligible for the disability tax credit.

Caring for a family member who is critically ill or injured. If you take time away from work to care for your child or an adult family member who is critically ill or injured, you may be eligible for the family caregiver benefit. Your involvement can be participating in physical care or providing emotional support. The benefit provides employment insurance payments for up to 35 weeks when caring for a child or up to 15 weeks when caring for an adult. An illness must be recent and not an already existing chronic condition, and the illness or injury must be certified by a medical doctor or nurse practitioner.

Providing end-of-life care to a family member. If you have a family member who has a serious medical condition and a significant risk of death within six months, the compassionate care benefit can help you take time off work to participate in their care or provide emotional support. It provides up to 26 weeks of employment insurance payments. ■

DO YOU CHECK YOUR BANK AND CREDIT CARD TRANSACTIONS?

Recently, a British Columbia resident discovered they had unknowingly been paying another person's cell phone bill for five years. That's the sort of false charge that could have been caught and stopped immediately by regularly monitoring transactions.

HOW FALSE CHARGES OCCUR

False charges can arise in numerous ways. The bank or credit card company may make an error. You may sign up for a one-month trial subscription that automatically renews every month. A store may inadvertently charge you twice or fail to process a return.

Or perhaps you're a victim of fraud. Scamming methods include phishing emails and phone calls, accessing data over public Wi-Fi, acquiring names and card numbers through a company data breach, and scanning a card's magnetic stripe with a skimming device.

MONITORING TRANSACTIONS

Unless you make it a habit, it's easy to let up on checking your purchases. You should monitor your bank account transactions and credit card statements at least monthly. That includes statements for a credit card you only keep for emergencies. Some people prefer to check weekly if it's onerous going through 30 days of transactions.

Note that sometimes a merchant's name shows up that you don't recognize because it's the name of the merchant's parent company. You can verify the associated purchase if you keep your receipts, record transactions or use an app that tracks purchases.

An additional way to monitor transactions is to sign up for alerts, which can help identify fraud. Some financial institutions allow you to receive text, email or app notifications when a credit card or debit card transaction is made on your account. ■

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