WELL-ADVISED

FALL 2021

RETIREMENT AND THE "WHERE" FACTOR

Have you thought about *where* you'll enjoy your retirement? Hundreds of thousands of Canadian retirees believe the best place to spend winter is in the U.S. Sun Belt and other warm destinations. Many purchase vacation properties in Canada where they stay for long stretches throughout the year. Some are quite happy to stay put and others move to be closer to their children and grandchildren. Travelling the world is the dream of many retirees, and then there are those who move abroad permanently.

YOUR INVESTMENT OBJECTIVE

At first, planning where you'll spend retirement is all about a lifestyle choice. But it's also a key factor in determining your retirement savings goal. A retiree who plans to downsize and move closer to their grandchildren may have very different financial needs than someone who wishes to travel the world. So it's important to keep us informed, even if you're just at the idea stage. The "where" factor may affect your investment objective, retirement income needs and the date you plan to retire.

TAX MATTERS IF LIVING ABROAD

If you plan to move permanently to another country or live several months a year abroad, you should consult with a tax expert who can provide specific advice on your situation. Take the example of a Canadian retiree who spends winters in Florida. They may be advised to file the Internal Revenue Service (IRS) form 8840 each year to claim their closer connection to Canada so they're not classified as a U.S. resident for tax purposes. If this retiree decides to purchase a Florida condo and rents it out a couple of months a year, they must file a U.S. tax return to report rental income – or face penalties and interest charges. Seeking tax advice up front can make all the difference between enjoying your retirement and dealing with unpleasant surprises. ■

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Get a head start on year-end to-dos.

Start planning your year-end financial to-dos to avoid a hectic December. For example, if you plan on a Tax-Free Savings Account (TFSA) withdrawal in the near future, withdrawing funds before the end of 2021 enables you to replenish the funds anytime during 2022. But if you withdraw those funds January 1 or later, replenishing them must wait until 2023. Timing also matters for a Registered Education Savings Plan (RESP). To receive the maximum $500 Canada Education Savings Grant (CESG) for 2021, you must contribute at least $2,500 to your RESP this year, by December 31.

WHY FINANCIAL LIFE SHOULD INVOLVE BOTH SPOUSES

If you're like most couples, each spouse ends up assuming responsibility for certain roles. Usually, that's all well and good – but not when it comes to financial life. Here are several reasons why you're better off when both spouses are involved in wealth management.

APPROACH GOALS MORE EFFECTIVELY

Very often in money matters, two heads are better than one. Say that one spouse is determined to purchase vacation property, but the other is unsure whether all family members will enjoy that kind of getaway. Together, they may decide to rent a vacation home for a couple of seasons before making a large financial commitment.

Sticking to investment goals is also easier when both spouses work together. Perhaps it's about not withdrawing funds for a luxury item from a Tax-Free Savings Account (TFSA) that you designated for retirement savings. Or, when markets are down, a second voice can help maintain the discipline to continue investing.

AVOID POTENTIAL CONFLICT

What happens if one spouse controls financial matters and makes a decision the other spouse ends up questioning? That's a conflict that could have been avoided if both spouses had been involved at the outset.

Perhaps the spouse solely in control loans a large sum to a sibling for a business start-up, the venture fails, and the loan isn't paid back. Now the other spouse wishes there had been more discussion and input around the decision.

EMBRACE COMPROMISE

Involving both spouses is often helpful in cases when spouses have different views about money matters. For example, an aggressive investor and a conservative investor share a non-registered investment account and, with guidance from their advisor, strike a balance between their two risk levels. The aggressive investor doesn't take on potentially excessive risk, and the conservative investor benefits from greater market opportunities.

Or perhaps one spouse is more of a live-for-today spender and the other a compulsive saver. By embracing compromise, the couple is better able to enjoy life now while also putting enough away to secure a comfortable retirement.

CONTINUE DURING RETIREMENT

Developing the habit of involving both spouses in financial matters puts a couple in good stead when retirement arrives. That's because decisions must be made about completely new areas, including retirement income, tax and estate planning, and charitable bequests.

For example, say that a retired couple has significant funds designated as an inheritance for their children. Do they keep the funds invested in equities because of the potentially long time horizon? Or do they invest conservatively with the primary aim of preserving capital? It's an important decision that should involve not only the advisor, but both spouses too.

THE BOTTOM LINE

Spouses don't need to share financial tasks fifty-fifty – that's unrealistic for many couples. What should be shared is information about their finances. Both spouses, ideally, should have at least a general understanding of their investment program, insurance, loans and estate plans.

Also, both spouses should be able to openly discuss their own thoughts about the couple's financial life and make decisions together. That kind of involvement is healthy for the relationship and enables a couple to meet their financial goals more effectively. ■

FINANCIAL MATTERS AND THE WIDOWED SPOUSE

If one spouse controls a couple's finances and passes away first, the widowed spouse may feel unprepared and overwhelmed. Yes, the advisor would guide them through all financial matters, but the widowed spouse would be more at ease if they were familiar with their finances.

FULL FINANCIAL PLATE

A widowed spouse must deal with just about every component of wealth planning. If their spouse had life insurance, they'll want to know how to use or invest the proceeds. If the widowed spouse receives rolled-over investments from their spouse's registered retirement plan, they must plan for the assets' eventual tax liability. Investments may need to be re-allocated to suit the widowed spouse's risk tolerance. Add education savings to the list if the widowed spouse is younger, or retirement income and estate planning if they're older.

SOLUTION: SHARE INFORMATION

If both spouses are always informed about the couple's financial life, the widowed spouse can manage wealth planning more comfortably. That's why financial literacy is important and why both spouses should be familiar with the couple's financial matters. ■

LESSER-KNOWN WAYS TO PROFIT AND SAVE

We all like to learn about tips and tricks to get ahead financially, but not all of them are widely known. Here's a collection of lesser-known wealth management strategies for everyone, from students to seniors.

A WIN-WIN FOR CRITICAL ILLNESS INSURANCE

Did you know you can purchase critical illness insurance and get back all of your premium dollars if you don't make a claim? The return-of-premium feature is offered by several Canadian insurance companies, at an extra cost. So, if you suffer a heart attack, stroke, cancer or other covered illness, you receive a lump sum to help you cope financially. If you don't suffer a covered illness, you get your money back. Your premiums are returned after a specific term or age, for example, after 20 years or at age 65.

USING THE MEDICAL EXPENSE TAX CREDIT

Tax preparation companies often name the medical expense tax credit as one of Canadians' most underused credits. If you go to the dentist and your group plan covers all but $80 of the visit, that $80 is an eligible medical expense. So is any portion you pay of the premiums for your group health benefits. Many Canadians don't know that eyeglasses, laser eye surgery, crutches and orthopedic inserts are all eligible expenses. You can see which expenses you can claim in the *RC4065 Medical Expenses guide* [1] on the canada.ca website. The credit usually has the greatest impact when the lower-income spouse claims the couple's or family's combined medical expenses.

WHEN YOU WANT TO CONTROL AN INHERITANCE

When leaving an inheritance, there are many reasons someone may prefer that a beneficiary receive gradual payments instead of one lump sum. The most well-known method for doing so is establishing a trust. But there's another way to do it without all the complexity and cost. It's called an annuity settlement option, and it's available through a life insurance policy, segregated funds or guaranteed investment funds. You decide whether your heir receives payments for a specified number of years or for life, and you choose the frequency of the distributions, from monthly to annually.

IF ONE SPOUSE WAS A STAY-AT-HOME PARENT

The Canada Pension Plan (CPP) offers an enhancement for parents who stopped working or reduced their work hours to raise young children. The "child-rearing provision" is based on each year a child is under 7 while the parent is the primary caregiver. A calculation is made that takes the parent's average earnings during the five-year period before the child's birth or adoption, then applies pension credits to the caregiving period – increasing the pension amount.

CREATE A MINI-RRIF TO SAVE TAX

This tip is implemented in the year you turn 65 and takes advantage of the pension income tax credit. It's a 15% federal credit on up to $2,000 of eligible pension income, which includes Registered Retirement Income Fund (RRIF) withdrawals. From ages 65 to 71, you create a mini-RRIF. Just convert enough funds from your Registered Retirement Savings Plan (RRSP) to a RRIF that enables you to withdraw $2,000 from your RRIF each year. That triggers the tax credit. When you convert your RRSP to your RRIF by the end of the year you turn 71, the strategy is no longer needed.

Please get in touch with us, your insurance advisor or tax expert if you'd like more information on any specific strategy. ■

[1] *RC4065 Medical Expenses – 2020* - https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4065.html

WHY STUDENTS SHOULD FILE A TAX RETURN

Even if a student had no income or didn't earn enough to owe tax, filing a tax return can still pay off. Here are the most common reasons to file.

POTENTIAL TAX REFUND

If a T4 slip shows that the employer deducted tax, the student may be eligible to get some or all of the amount refunded.

TUITION TAX CREDIT

Students can claim the cost of post-secondary tuition. If they can't use the credit now, they can carry it forward or transfer the credit to a parent, grandparent or spouse.

GST/HST TAX CREDITS

Students need to file a tax return to be eligible for the GST/HST tax credit. They can start receiving quarterly payments in the year they turn 19.

RRSP CONTRIBUTION ROOM

If a student has earned income, they can start building RRSP contribution room by filing a tax return now. Down the road, they'll be glad they reported the income.

SHOULD YOU HELP YOUR CHILD BUY A HOME?

Most parents who think about helping a child buy a home have something in common. When they bought their first home, it was significantly easier to make the down payment than it is now. Today, real estate prices have escalated, mortgage regulations are stricter and the cost of living is higher. So a parent might feel it's reasonable to step in and help a child become a homeowner.

BENEFITS FOR YOUR CHILD AND YOU

If a child needs help to make the down payment, the parents' assistance can enable the child to move into a home of their own perhaps several years earlier than without the help. The parents' financial assistance can also make the difference between the child owning the home they set their heart on and having to compromise. But it's not only the child who may benefit. Parents are able to witness the support they're providing – which doesn't happen when assets are only left in a will. Also, the child would typically receive funds through a will when they're already established, versus an advance on their inheritance now that can make a significant difference to a child who's starting out.

POTENTIAL CONCERNS

As promising as helping out sounds, it's not for every parent. Some parents worry that it sets an undesirable precedent – that the child will expect more financial help down the road. Other parents worry that the child will acquire a sense of entitlement and not develop financial independence. Another concern is that the young couple is only being set up to face more financial hurdles they're not ready to meet, whether from starting a family, covering expensive home repairs or dealing with unexpected hardships such as job loss. Also, if you have two or more children and help one buy a house, you'll need to avoid conflict among siblings by adjusting your will accordingly or giving advances on the other children's inheritance.

ASK FOR OUR GUIDANCE

The decision to open the Bank of Mom and Dad is part personal, part financial – and we're here to help you with the financial side. First, we can determine if the amount you're considering, whether for one or more children, will have any impact on meeting your retirement savings goal. We can help you decide whether your assistance comes in the form of a cash gift, signing as guarantor on the child's mortgage or another method. Note that with today's restrictions, many mortgage lenders will accept a gift from parents toward their child's down payment, but will not accept funds given as a loan. Finally, if you decide to gift cash, we'll advise on how you access the funds from savings and investment accounts in the most tax-efficient manner. ■

BORROWING TO INVEST

Is borrowing to invest a good idea? All you need to come out ahead is a return on your investment that's greater than the interest you pay on the loan. That makes it especially tempting when the market is climbing and interest rates are low, such as right now.

Say that an investor contributes their maximum allowable amounts to their Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA). This individual also invests in a non-registered account, and they're thinking about borrowing to increase their non-registered investments. The extra boost can help them retire earlier or more comfortably. It all sounds good. What could go wrong?

CONSIDER THE RISKS

Borrowing to invest means accepting three risks. First is the impact of a falling market, which no one can predict. Your loss is not only your investment's decreased value but also the loan interest you're paying. When you invest with borrowed funds, market losses are magnified.

The second risk is rising interest rates. Any increase in the cost of borrowing reduces your potential gains.

Finally, your financial situation could change. Whether from illness, job loss or any unexpected calamity, you could find yourself in a position where loans become a burden.

WE'RE HERE TO HELP

Borrowing to invest can be an effective way to meet a financial goal, but it must be practised with caution – and it's certainly not for everyone. If you're thinking about this strategy, please talk to us. We'll offer guidance based on your financial situation, investment objective, time horizon and personal risk tolerance. ■