CI ASSANTE WEALTH MANAGEMENT

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IS DOWNSIZING THE RIGHT DECISION?

When retirement is on the horizon or you're already retired, you may start to think about downsizing. Often, it's a difficult decision that involves considering a variety of financial, psychological and practical factors.

SELLING VERSUS STAYING

Homeowners are commonly motivated to sell when their home represents a sizable proportion of their net worth and they wonder how unlocking that capital might enhance their retirement lifestyle. However, the decision to sell isn't always financial. Your home might be close to work, but now you want to be closer to nature. You might want a condo to make life easier—no more shovelling snow, mowing the lawn or replacing a roof or furnace. Perhaps you plan to spend warm months at your vacation property and enjoy wintertime down south.

While you're thinking of selling, you might also be weighing reasons to stay, and there could be several. Your home may be the place you feel most comfortable. You might want to avoid the stress of moving and finding a new doctor and dentist. You may wish to keep your home as the family's gathering place for holidays and visits. Perhaps you want to keep a larger home if your aging parent moves in or an out-of-work child returns temporarily. Your estate plan may also include leaving the family home to your children.

MAKING YOUR DECISION

While you consider the personal side of things—the psychological and practical factors—you can involve us to assess the financial situation. For example, we can look at the net gain of downsizing after accounting for the cost of your next home, and project the impact on your income or other retirement needs and goals. You'll feel more confident and comfortable about your decision when you have all of the personal and financial factors in front of you. ■

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In a couple, both spouses should be knowledgeable about their financial life. The article on Page 3 talks about the need for a retiree to learn about new financial matters during retirement. It's important for each member of a couple to stay informed. If one spouse controls the finances and passes away first, the widowed spouse may feel overwhelmed taking over all of the financial responsibilities. This doesn't mean both spouses must become investment and wealth planning experts, but it's helpful for both to have a general understanding of their investments, retirement income sources and estate plans.

*Insurance products and services provided through Dean Falkenberg Corporate Life Insurance and Estate Services Ltd., an independent company unrelated to Assante Financial Management Ltd.

WAYS TO SAVE FOR A CHILD'S EDUCATION

A Registered Education Savings Plan (RESP) is widely acknowledged as the number one way to save for a child's education. However, many Canadians use an RESP as the foundation and complement the plan with another investment vehicle.

Why would parents or grandparents choose an additional way to invest? Usually, it's to accumulate more savings or gain enhanced flexibility.

WHEN COSTS MAY ESCALATE

You could plan your education savings goal around expected costs, only to experience the unexpected. Perhaps throughout their school years a child always talked about being a teacher, but in Grade 12 they decide to become a physician—at three times the tuition. Or after a couple of years in university or college, they want to begin a different program, requiring extra years of funding. A student might complete a college program and then decide to enrol in a university program, or vice versa. Your child or grandchild might receive a bachelor's degree and decide to pursue a graduate degree. Perhaps they want to attend a higher-tuition university in the U.S. or abroad.

If you plan for average education costs and the actual costs exceed your education savings, you may need to cover the difference with funds from somewhere else.

VEHICLES TO GET YOU THERE

Several options are available to save for post-secondary education. Here are the most common vehicles.

RESP. You can contribute up to $50,000 for each child, with no annual limit. RESPs offer tax-deferred growth, but for many investors the most compelling benefit is the Canada Education Savings Grant (CESG). The first $2,500 you contribute each year triggers a $500 deposit into your plan. That's like getting an immediate 20% return on your investment. You can receive up to $7,200 in CESG money per child.

Tax-Free Savings Account (TFSA). With tax-free growth and withdrawals, your TFSA can be an ideal way to supplement education savings. In addition to withdrawals being tax-free, they don't require special planning. Withdrawals from an RESP, some of which are taxable, can involve planning in two situations. One is when pay from a summer job or co-op placement places a student's income beyond the personal exemption amount. The other is when the child doesn't pursue post-secondary education or if unused funds remain in the plan.

In-trust account. An in-trust account, also known as an informal trust or "in-trust for" (ITF) account, is a non-registered account that a parent or grandparent can set up—quite easily—for a minor child. Typically, it's used for investing in equities—as capital

gains are taxable to the child, which usually results in little or no tax to be paid. Interest and dividend income are taxable to the contributor, unless that income is realized from contributions of Canada Child Benefit payments or an inheritance. Note that you must file a T3 return each year to report trust income. Also, be aware that the account's assets belong to your child or grandchild upon reaching the age of majority.

In-trust accounts with investment earnings taxable to a minor are not available to Quebec residents.

Non-registered account. A simple option is to dedicate a non-registered investment account to education savings. If a parent with low income opens an account, this choice could offer investment growth with little or no tax payable.

Talk to us if you're thinking about supplementing your RESP with another investment vehicle. We can discuss the various options and recommend one or more choices that suit your personal situation. ■

UNDERGRADUATE TUITION FEES

Source: Statistics Canada, "Canadian undergraduate tuition fees by field of study," 2022/2023

WHEN YOU RETIRE, FINANCIAL LITERACY EXPANDS

Wealth planning doesn't retire when you do—it just changes. Now financial life is largely about making the most of the wealth you've accumulated. You'll be learning about new rules, products and strategies that involve a broad range of financial considerations.

Fortunately, your expanding financial literacy doesn't have to happen all at once. You can acquire new knowledge gradually as needs arise.

FROM ACCUMULATION TO DECUMULATION

When you have retirement savings in your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), Tax-Free Savings Account (TFSA) and non-registered account, how do you know which source to tap first for income? You'll learn that there's no formula to follow. It depends on each retiree's particular tax situation, government benefits strategy and estate planning goals. We'll work with you to develop a plan that suits your circumstances. This may be a balancing act in which you draw varying amounts from multiple sources.

Along the way, you'll also learn about splitting pension income, making RRIF withdrawals strategically and ensuring you don't outlive your savings.

PLANNING YOUR ESTATE

Although estate planning typically begins in your working years, new factors often arise during retirement.

Controlling an inheritance. If you have reason to control how an heir receives their inheritance, you'll want to know about trusts. Situations include being in a second marriage and wanting to leave an inheritance to children from your first marriage, having minor beneficiaries, and preferring that an heir receives funds over time instead of in a lump sum.

Covering tax. You'll learn about ways to minimize the tax on your estate's assets, such as gifting certain assets now to limit their appreciation or transferring assets to your spouse upon your passing. Also, you'll develop a plan to cover the tax liability that is ultimately payable by your estate.

Using life insurance. One way to offset the tax on estate assets is through a permanent life insurance policy. Life insurance can also help equalize inheritances—for example, when one child takes over the family business and the other child receives insurance proceeds. With life insurance, the financial need is taken care of as soon as

you pay the first premium and proceeds are received tax-free, but the cost of the premiums must be weighed against other funding solutions.

REPURPOSING YOUR TFSA

In retirement, your TFSA could become a tax-free environment for any funds from your minimum required RRIF withdrawals that you don't require as retirement income. Also, you can take advantage of the tax-free nature of TFSA withdrawals in several ways, such as minimizing any clawback of Old Age Security (OAS) benefits or preventing your income level from being pushed into the next tax bracket. You'll also find out about different ways TFSA assets can be used in estate planning, either to help manage taxes on your estate's assets or to leave as an inheritance.

INVESTMENT CHANGES

When you've been investing for decades, there's not a lot that's left to learn. However, you may be introduced to several products and strategies designed for the retirement years. For example, you can choose new non-registered investment funds that provide tax-efficient monthly income. To safeguard against withdrawing funds when the market is down, some retirees draw their income from a cash reserve that they replenish periodically. ■

WE'RE HERE TO HELP YOU

Wealth planning in this new chapter of your life involves many decisions you haven't faced before. However, with our help, you'll find that your financial life during retirement goes smoothly.

Stay informed. We'll educate you on each new topic so you feel comfortable, not intimidated.

Explore options. When a wealth planning matter arises, we'll outline the available options. For example, say that a retiree wants to give financial support to grandchildren of varying ages. The first choice is whether to give funds now, leave an inheritance or both. If it's now, will the funds be for education costs, a down payment on a home or any future use? If it's an inheritance, will grandchildren be named in the will or designated as beneficiaries of a life insurance policy or a registered plan?

Be well-advised. If a decision is simply based on personal preference, we'll let

you know. When a solution depends on your unique financial situation and goals, you can trust us to recommend the product or strategy that best meets your needs. ■

TRANSFERRING THE FAMILY VACATION PROPERTY: NOW OR LATER?

Across the country, a vacation property may be known as a cottage, cabin, chalet or camp. One thing they all share is a looming tax liability.

When a vacation property is sold or transferred, the owner must pay tax on the capital gain. If an individual purchased a vacation property for $300,000 and sold it for $800,000, they would realize a capital gain of $500,000. Fifty percent of the gain is taxable, so their taxable income would increase by $250,000 in the year of the sale or disposition.

WHEN SOONER IS BETTER THAN LATER

The larger the potential capital gain, the more important it is to manage the resulting tax, including *when* to make the sale or transfer. Let's say a vacation property owner plans to hand down the property to their children. The tax liability is manageable today, but could become a burden in the future as the property's value continues to increase. In this case, the parent can sell or gift the property now, and cover the tax amount while it's affordable.

Using a lesser-known strategy. You can make the tax liability even more manageable with a strategy that uses the capital gains reserve—a provision that allows you to defer a capital gain over a period of up to five years. The property is technically sold, but the children pay with promissory notes, structured so that you pay a portion of the tax each year during the deferral period. This means you can make five smaller payments instead of paying the entire tax bill in the year of the transfer. You can forgive the promissory notes in your will, making the vacation property a gift.

Choosing your principal residence. If the value of your vacation property is expected to appreciate more than the value of your home, you can designate your vacation property as your principal residence. You only need to "ordinarily inhabit" the property at some point during the year. Thanks to the principal residence exemption, after you make this designation capital gains won't be a factor when transferring the vacation property during your lifetime or through your will.

WAITING UNTIL THE WILL

When you leave the vacation property to your children in your will, it's prudent to plan how you'll cover the tax liability. You can leave it to your estate administrator to liquidate estate assets. Some individuals purchase a permanent life insurance policy to cover the estimated tax bill. Another option is to establish a dedicated savings account, such as your Tax-Free Savings Account (TFSA), to cover or help offset the eventual tax on capital gains.

Additional choices are available to transfer a vacation property and cover the tax liability. Contact us to discuss the pros and cons of all options relevant to your situation. ■

HAVE YOU NAMED A TRUSTED CONTACT PERSON?

The Canadian Securities Administrators, an umbrella organization of provincial and territorial securities regulators, introduced a measure two years ago to help protect investors' financial interests. Investors could give their advisor the name of a "trusted contact person."

MEETING A NEED

An advisor can contact this individual if the advisor believes the investor may be losing their ability to make sound financial decisions or could be vulnerable to financial exploitation or fraud.

Much of the need for a trusted contact person is to protect investors at older ages when they may develop dementia or another cognitive impairment, but investors may also benefit from this help at a younger age. For example, someone who suffers a serious illness could be taken advantage of by a caregiver.

AN ADVISOR'S UNIQUE POSITION

A wealth advisor may notice changes in an investor's behaviour or signs of exploitation that could jeopardize their assets. Perhaps an investor is becoming confused about financial concepts they had understood before, or they've been making large, unexplained withdrawals.

An advisor could reach out to the trusted contact person to discuss their concerns. The contact person might offer helpful information to the advisor, have a discussion with the investor or take other steps to address the situation.

If you haven't yet named a trusted contact person, consider naming a family member or close friend. Keep in mind, the Canadian Securities Administrators recommends that you choose a different person than your power of attorney or mandate representative, to provide an additional level of security. ■

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