CI ASSANTE WEALTH MANAGEMENT

WELL-ADVISED

SPRING 2021

THE PANDEMIC AND THE PIGGY BANK

Just over 12 months ago, provinces and territories responded to the COVID-19 pandemic by declaring states of emergency. Restrictions and lockdowns have affected Canadians in different ways, and one of the starkest differences involves savings. Some people needed to tap into their savings, while others saw their savings accumulate.

WHEN INCOME DECREASES

Business owners, professionals and employees working in sectors that suffered from shutdowns lost income or even lost their jobs. If government programs didn't cover the cost of living, funds had to be drawn from somewhere. That's an easy decision if you have cash reserves in an emergency fund, but otherwise it's best to consult your advisor. Each person's best source depends on a variety of factors and could be a non-registered account, Tax-Free Savings Account (TFSA) or line of credit.

Another issue could be whether you should temporarily stop contributing to your registered plans and non-registered account or borrow funds to continue investing. The choice depends on your financial situation and risk tolerance, so you can ask for our advice and guidance.

WHEN SAVINGS INCREASE

Many Canadians whose income has been unaffected by the pandemic have increased savings. After all, shutdowns bring savings on dining out, gym fees, vacations and daycare – and working from home means saving on new clothes and commuting.

When these savings are significant, you've got a decision to make. Do you splurge on a luxury item, apply the savings to your wealth plan, or perhaps do both? You can always consult us about the best wealth planning option, whether it's paying down debt, bolstering education savings, adding to retirement funds or helping to achieve other financial goals.

It's the pandemic that has made savings a recent issue, but anytime you need to draw on savings or decide how to use extra savings, talk to us about your decision. ■

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Should your child file a tax return?

It's beneficial to file a return if your child falls under any of these three categories:

1. Your child attended a post-secondary institution. Filing allows the student to claim the tuition tax credit or carry it forward.

2. Your child earned income, regardless of their age. If their employer deducted income tax from their paycheques, your child may get a refund. Also, reporting income creates Registered Retirement Savings Plan (RRSP) contribution room.

3. They are 19 or older. Your child may qualify for the GST/HST credit, payable each quarter. Income is not required.

WAYS TO USE A TFSA IN RETIREMENT

During income-earning years, a Tax-Free Savings Account (TFSA) can be used to fund numerous expenses: a child's education, family trips, a wedding – just about anything. Once you retire, you'll discover that a TFSA is just as versatile, helping you to meet a variety of needs unique to retirement.

CONTINUE TO CONTRIBUTE

Many people in traditional retirement years still earn income from part-time work, consulting, a business or rental property. You cannot contribute new money to a Registered Retirement Income Fund (RRIF), but you can use your TFSA to continue making contributions to a tax-advantaged vehicle.

Even if you don't have earned income, you may find that your minimum required RRIF withdrawal leaves you with more retirement income than you need. If you take a portion of the after-tax RRIF withdrawal and make a TFSA contribution, you allow the proceeds to grow tax-free.

Another source can be investments in a non-registered account that you gradually transfer to a TFSA. Note that in making this move, non-registered investments are taxable when they're sold or transferred in-kind, but they would always be subject to tax eventually. This way, you pay tax now, then benefit from future tax-free growth and tax-free withdrawals.

DRAW TAX-FREE INCOME

The ability to draw income that's completely tax-free makes a TFSA a flexible tool to carry out a number of retirement income strategies. Here are just a few examples of many applications.

Say that a retiree requires more income in a particular year, but sits at the upper threshold of a tax bracket. Instead of drawing taxable funds that would be subject to greater taxation, this individual could withdraw TFSA funds.

Similarly, a retiree could be in a position where additional retirement income, needed to support their lifestyle, would result in a clawback of Old Age Security (OAS) benefits. Withdrawing from their TFSA solves the problem, as these non-taxable funds aren't included as income for tax purposes.

A retiree could be following a strategy that defers Canada Pension Plan (CPP)/ Quebec Pension Plan (QPP) and OAS benefits to age 70, aiming to maximize the benefits' value over time. During the years before their government benefits begin, the retiree can access tax-free TFSA funds to supplement other sources of taxable income.

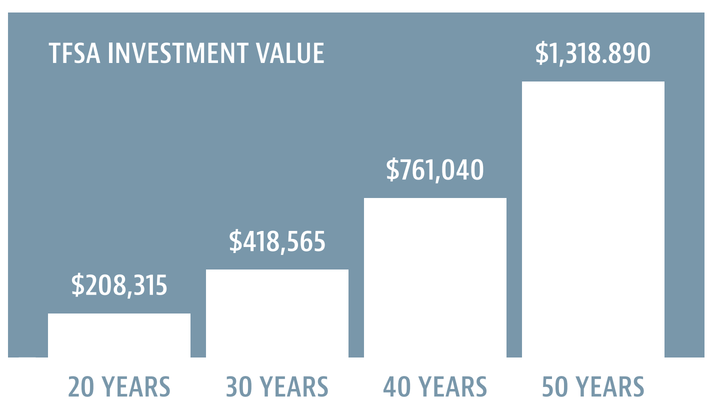
Tax-free funds are also practical to cover large expenses, such as renovations, travel or long-term care. In this case, there's the option to replenish the TFSA with funds from a non-registered account.

LEAVE TAX-FREE FUNDS

TFSAs can be ideal in planning your estate, as you can leave funds to a beneficiary without the need to plan for taxation.

If you have a spouse, it's usually best to designate each other as "successor holder." This way, the successor holder simply takes over the late spouse's TFSA without any complications. It's hassle-free and a simpler transaction than naming a spouse as beneficiary. But if you're leaving TFSA assets to a child or other heir, you do designate them as beneficiary, and they'll receive the proceeds tax-free.

A TFSA can be used to help offset an estate's tax liability. One way is to name the estate as beneficiary, so TFSA assets can be applied to the tax payable. Another way is to name a charity as beneficiary, in which case the charity receives the proceeds, and tax can be offset by the donation tax credit. ■



Investment value based on annual contributions of $6,000 and an average annual rate of return of 5.00%.

The above table is for illustrative purposes only and does not intend to illustrate the performances of any investment or portfolio.

WHEN SHOULD YOU START CPP/QPP AND OAS BENEFITS?

Start government benefits sooner and you collect a smaller monthly benefit, but right away and for a longer time. Delay the start and you receive a larger monthly benefit, but must bridge the waiting period with other resources.

Knowing when to start isn't always easy, and even many financial experts offer vastly different opinions. Some retirement planners say to begin Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefits as soon as you retire, even if it's age 60. A recent report from the Canadian Institute of Actuaries recommends deferring the start of CPP/QPP benefits, even to age 70.[1]

To help understand the situation, here's a look at key reasons why Canadians choose to start benefits sooner, later, or at the traditional time.

STARTING BEFORE 65

One reason someone may start CPP/QPP benefits before age 65 is quite simply that they have retired and need the money to meet retirement income needs. Another is having a medical condition or illness that causes concern over a shorter-than-average life expectancy, prompting the individual to take advantage of benefits now.

Some people choose to collect CPP/QPP benefits sooner even if they have considerable sources of retirement income. Outlasting their savings is not an issue, so they start government benefits now, preserving more of the funds that may ultimately go to the next generation.

This chart uses $1,000 as the age 65 monthly amount. The maximum monthly benefit for 2021 is $1,203.75. The average amount for new beneficiaries was $689.17 (October 2020).[2]

Monthly CPP/QPP benefit when starting before 65					
60	61	62	63	64	65
$640	$712	$784	$856	$928	$1,000

Canadians who start their benefit at age 60 receive 36% less than if they started at 65.

DEFERRING TO AFTER 65

A clear situation where someone may choose to defer benefits to after 65 is if they're still working full time. First of all, they won't need the extra money. Second, CPP/QPP benefits increase income and are taxable, so taking benefits could result in a larger tax bite.

Some retirees may choose deferral to receive a greater amount of total benefits over time, counting on living to the average life expectancy or longer. By their early 80s, a retiree who started CPP/QPP benefits at 70 would accumulate more total benefits than if they had started at 65.

Monthly CPP/QPP benefit when deferring to age 70					
65	66	67	68	69	70
$1,000	$1,084	$1,168	$1,252	$1,336	$1,420

Canadians who start their benefit at age 70 receive 42% more than if they started at 65.

STARTING AT 65

A retiree may start benefits at age 65 instead of deferring because they're counting on the funds to support their retirement lifestyle.

But even if a retiree has the resources to easily make the deferral, they may still decide to begin CPP/QPP benefits at 65 because they feel uncomfortable turning down years of benefits. Compare the following scenario to the examples in the previous two tables. A person who opted for $1,000 per month of CPP/QPP benefits at age 65 would have received $60,000 by age 70. Say that they also began the Old Age Security (OAS) benefit at age 65 ($615.37 monthly as of March 2021), instead of deferring OAS to age 70. That person, by age 70, would accumulate government benefits of almost $100,000.

MAKING YOUR DECISION

As you can see, there are various reasons why it can make perfect sense to start government benefits at age 60, 70 or any age in between. Sometimes it's about the math, and other times it's personal.

We encourage you to speak with us when it's time for you to choose. Often the timing decision involves coordinating government benefits with retirement income you withdraw from registered and non-registered sources. Tax implications can affect timing. Also, we can discuss various timing strategies with you. For example, if you have a spouse, you can potentially choose four different years to begin receiving CPP/QPP and OAS benefits.

[1] Canadian Institute of Actuaries and Society of Actuaries, *The CPP Take-Up Decision*, 2020.

[2] Government of Canada, *Canada Pension Plan: Pensions and Benefits Payment Amounts*, December 31, 2020.

CALCULATING THE BENEFITS

You can choose to receive CPP/QPP benefits as early as age 60 or as late as age 70. The monthly benefit is based on the amount you are entitled to receive at age 65. If you begin earlier, the age 65 benefit amount is reduced by 0.6% for each month before 65, a decrease of 7.2% per year. If you defer benefits, the age 65 amount is increased by 0.7% for each month after 65, an increase of 8.4% per year.

OAS benefits normally begin at age 65, but you can defer the payments up until age 70. By deferring, the amount you would have received at 65 is increased by 0.6% each month, a 7.2% increase per year. That's a 36% increase when deferring to age 70.

For CPP/QPP and OAS, the monthly benefit amount you start with remains the same for as long as you live, except for increases tied to inflation.

THINKING OF PURCHASING A VACATION PROPERTY?

It's a curious fact that we Canadians, depending on where we live, call a vacation home by different names – a cottage, chalet, country house, camp or cabin. But what they all have in common is that so many owners call their vacation property a source of cherished family time and lifelong memories.

If you ever consider such a purchase, it's important to weigh the enchantment of vacation property ownership against the commitments of owning a second home.

ASSESS FINANCING

Numerous financing methods are available, but often the choice boils down to three options, sometimes used in combination. You can take out a second mortgage, using your principal residence as collateral. You can refinance your existing mortgage to access the equity in your home. Or you can use the equity in your home to take out a home equity line of credit. You'll want to come up with a plan and examine dollar figures to determine whether your dream property is affordable.

UNDERSTAND THE COMMITMENT

You must also account for all of the costs, and there are many, beyond the purchase price. To start, you'll have the costs of beds, furniture, appliances and watercraft – and moving expenses. Then you've got to budget for the ongoing expenses of property tax, utilities, insurance, major repairs and any renovations.

Keep in mind another cost of ownership – time. Consider that some weekend getaways could include chores like fixing the broken downspout, mowing the lawn and driving to town to refill the propane tank. For some people, spending time on upkeep is reason to consider renting instead of buying. But others believe it's a small price to pay for all of the relaxing, fishing, swimming, boating and roasting marshmallows.

CONSIDER ESTATE PLANNING

It's important to know that purchasing a vacation property typically means that down the road you'll be adding tax and estate planning matters to your plate. A potentially large tax bill on a property's capital gain is payable upon transfer of ownership, whether it's a sale or handed down to children in a will. At some point, you'll need to choose which of several transfer methods best suits your tax situation, and decide how to cover the tax liability.

ASK FOR OUR INPUT

One of the most important components of your wealth plan is saving for retirement, which may be affected by the purchase of a second property. We can look at the financing and other costs to help you determine if you can manage the purchase comfortably – without placing the timing or nature of your retirement at risk. Of course, we can also factor in whether the vacation property is part of your retirement plan. With our financial advice and guidance, you can feel confident that your final decision was the right one for your circumstances. ■

CLAIMING HOME OFFICE EXPENSES

Thankfully, the Canada Revenue Agency (CRA) has made it easy for employees to claim home office expenses if you spent more than half of your working hours at home for at least four consecutive weeks in 2020 due to COVID-19. Here are the options available to claim a deduction.

FLAT-RATE METHOD

With the temporary flat-rate method, you can claim a deduction of $2 for each day you worked at home, to a $400 maximum. It's as simple as completing one line on form T777 Short (form TP-59.S-V in Quebec). You don't need to keep track of home office expenses or ask your employer to submit a form.

DETAILED METHOD

If you're eligible for more than the $400 deduction, you can use the detailed method on form T777 Short (form TP-59.S-V in Quebec). Expenses include office supplies, utilities, internet, maintenance and cell phone charges related to work. You can use the CRA's calculator to see if you'll come out ahead. Go to canada.ca, search "home office expenses for employees" and choose "calculate your expenses." Note that you need to keep supporting receipts and records, and your employer must complete form T2200S (form TP-64.3-V in Quebec).

TRADITIONAL METHOD

You can use the usual T777 and T2200 forms (TP-59-V and TP-64.3-V in Quebec) if you're claiming expenses unrelated to a home office, such as motor vehicle and travel expenses. These forms also apply to employees required to work from home before the pandemic. ■
