CI ASSANTE WEALTH MANAGEMENT

WELL-ADVISED

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DEAN FALKENBERG
Financial Advisor

ASSANTE FINANCIAL MANAGEMENT LTD.
DEAN FALKENBERG CORPORATE LIFE INSURANCE AND ESTATE SERVICES LTD.
#2-11116 100 Avenue
Fort St John, BC, V1J 1Z8
Tel: 250-785-9603
Toll Free: 1-877-461-5140
Email: dfalkenberg@assante.com

Be aware of COVID-19 fraud.

It's happening through texts, phone calls and emails. From March 6 to September 30, 2020, the Canadian Anti-Fraud Centre reported 5,242 cases related to COVID-19, with victims losing $6.2 million. Fraudulent schemes involve test kits, decontamination services and assistance in collecting government benefits, among others. Some scammers pose as Canada Revenue Agency officials and create replicas of Government of Canada websites. They're after social insurance numbers, bank account numbers and credit card information.

So don't click on links related to COVID-19 or reveal any personal information over the phone until you can confirm the source is legitimate.

HOW DID YOU REACT TO MARKET VOLATILITY?

When your investment program was established, you answered questions that helped determine how much risk you were able to tolerate. You had to imagine how you would react to a significant loss in portfolio value.

But imagination isn't needed when reality hits – just take yourself back to the COVID-19 fallout of March 2020. Major stock markets tumbled by 30 percent or more and investors had to contend with portfolio values plummeting. In the midst of the market downturn, how did your reaction compare to what you had expected?

MORE ANXIOUS THAN EXPECTED

If your stress level skyrocketed as the markets fell and you literally had trouble sleeping at night, you may need a more conservative portfolio. Such a move may also involve a look at your financial objectives or the amount you save and invest, but it's a consideration worth exploring. Your investments shouldn't cause you great anxiety.

REACTED AS ANTICIPATED

No investor is expected to remain perfectly calm when markets are plummeting. But if you stayed *reasonably* even-keeled, you're likely fine keeping your portfolio as it is. Even-keeled would mean you looked at your portfolio with a long-term view, didn't have the urge to sell while your portfolio value was dropping and felt comfortable to continue making regular contributions.

LESS ANXIOUS THAN EXPECTED

Investors who took the market downturn well in stride, surprising themselves, don't typically adjust their portfolio as a result. However, some investors who had downplayed equities out of an abundance of caution might be ready to increase the proportion of equities in their portfolio. This may especially be the case if they have lived through market downturns before and experienced the recoveries.

If you ever find yourself reacting differently to market swings, please talk to us. We'll help make sure your portfolio remains aligned with your tolerance to risk. ■

STRATEGIES AND TIPS TO BOOST YOUR RRSP

With the Registered Retirement Savings Plan (RRSP) contribution deadline around the corner, it's only natural to have contributions on the mind. But there's more to RRSPs than making regular contributions. Here are some ways to help you or a family member get more from an RRSP, now or in the future.

INVESTING YOUR RRSP TAX REFUND

To appreciate how you could wisely use your annual RRSP tax savings or refund, jump ahead to retirement income from your RRSP or Registered Retirement Income Fund (RRIF). These withdrawals will be taxed at your marginal tax rate. But you can help offset that tax by investing your RRSP tax savings or refund each year. Depending on your situation, tax savings can be invested in your RRSP, Tax-Free Savings Account (TFSA) or non-registered account.

DEFERRING THE TAX DEDUCTION

You don't need to claim your RRSP tax deduction in the same year that you made the contribution – you can claim the deduction in any future year. Deferring the deduction can pay off when you expect your income to increase, resulting in a higher marginal tax rate. If someone contributes $10,000 to their RRSP and is taxed at the marginal rate of 30%, they save $3,000 in tax. But if they make the contribution and defer the $10,000 deduction until a year their marginal tax rate is 40%, they would increase their tax savings to $4,000.

OPENING A SPOUSAL RRSP

Even though retirees can now split up to 50% of eligible pension income, a spousal RRSP can still offer tax advantages when one spouse is in a lower tax bracket.

Retiring before 65. Pension income splitting is only available when you're 65 or older. But if you retire before 65, you can draw retirement income from the spousal RRSP or RRIF. Just plan for attribution rules – if you make spousal RRSP contributions in the year of withdrawal or two preceding years, withdrawals are taxable to the higher-income spouse.

Splitting more than 50%. By withdrawing from a spousal RRSP or RRIF, you can split more than 50% of pension income. This tactic could save tax if you also have employment, rental or business income.

Earning income past 71. You must convert your own RRSP at 71, but if you earn income and your spouse is younger, you can contribute to a spousal RRSP until the end of the year your spouse turns 71.

REDUCING TAX FROM YOUR PAYCHEQUE

Are you an employee who has tax withheld from your paycheque and receives an annual RRSP tax refund? That refund is your own earnings that have sat in the government's hands, much of it for more than a year. But there's a way to receive immediate tax breaks throughout the year with each paycheque. You need to complete form T1213, Request to Reduce Tax Deductions at Source, available on the Canada Revenue Agency (CRA) website. Quebec residents must also complete form TP-1016-V, *Application for a Reduction in Source Deductions of Income Tax,* located on the Revenu Québec website.

HAVING YOUR CHILDREN CREATE RRSP ROOM

Do you have a child who has earned money during the year from a summer job, part-time job or their own enterprises? Whatever your child's age, you may want to encourage them to file a tax return, perhaps with your assistance. By reporting earned income, they create RRSP contribution room they can use later in life.

You could also go a step further. Help your child to open an RRSP – there's no minimum age requirement. Then gift money to your child to use that contribution room now, while deferring the tax deduction to a future year.

DONATING AN RRSP TO REDUCE TAX

Say a retiree is in a position to foresee they'll be left with a significant balance in their RRSP or RRIF. These assets, taxed as income on the final tax return, sometimes represent the largest tax liability the estate faces. Here's where the donation tax credit comes in. If the retiree names a charity as beneficiary of the RRSP or RRIF, the charity receives the plan's proceeds and issues a tax receipt to the estate. The donation tax credit is applied against the tax liability, potentially offsetting 100% of the tax payable on RRSP or RRIF assets. ■

RETIREMENT PLANS CHANGING? EVALUATE AND PIVOT

It's always helpful to have a retirement date in mind and imagine how you want to spend your retirement years. But there can be turns in the road. Situations may arise that cause you to change your plans in order to achieve your retirement goals.

Here's a variety of fictional scenarios reflecting real-life situations that lead to changes in retirement plans.

Planning to sell the business. Kevin and Lynn, a couple who own and manage an independent gym, planned on selling the business to help fund their retirement. Unfortunately, the planned time to put the business up for sale coincided with the arrival of the COVID-19 pandemic. The fitness industry was hit hard, and prospects of a sale, during this period, turned dim. The couple are very comfortable postponing their retirement until a time, hopefully not far off, when potential buyers are confident in the gym's continued success.

Dealing with divorce. Sylvie, a real estate broker, had planned to retire in her early 60s, and she was on track financially – until her divorce. After dividing the property and paying for legal fees and spousal support, Sylvie needed to examine her retirement plans. She found a compromise that suited her perfectly, planning to keep her target retirement date, but choosing semi-retirement for the first several years.

Facing greater expenses. Philip, a medical lab technician, is a few years away from retirement. He planned on a quiet retirement, content to visit friends and enjoy his favourite pastimes. That all changed when he met Gia. She's a few years younger and wants to travel the world in retirement, and Philip is on board. Philip will postpone his retirement to align with Gia's, which also works out because he needs to fund a more expensive lifestyle.

Putting health first. Hassan had a high-stress position as sales director of a technology firm when he suffered a heart attack. After recovery, Hassan decided to take a new position with a low stress level, even though his income would decrease and he'd fall short of his nest egg objective. When he reached traditional retirement age, Hassan continued to work reduced hours, retiring gradually – with the peace of mind knowing he wouldn't outlive his savings.

Caring for a parent. At age 55, Mei, along with her husband, made a difficult decision. Mei decided to leave her job to care for her mother, who had suffered a stroke. The couple had similar incomes, and they had to consider how Mei's lost income would impact their retirement plans. They were both satisfied to compensate for the shortfall in savings in two ways – downsizing their home and modifying their retirement lifestyle to suit their retirement income.

Helping a family member financially. A couple of times, Mariam and Kalim helped their adult son financially, most notably, helping him get back on his feet after a failed business venture. The financial outlay was enough to affect their nest egg. The couple didn't want to postpone retirement, so they decided to increase the amounts they invest for several years before retirement – a move made easier with their mortgage and high-interest debt already paid off. ■

FOUR WAYS TO PIVOT

Each of these scenarios involved one of the following ways to pivot when life situations cause you to change your retirement plans.

1. **YOU CAN POSTPONE YOUR RETIREMENT DATE.**
   This method not only enables you to increase your nest egg, but reduces the number of years of retirement you must fund.
2. **EARN SOME INCOME IN TRADITIONAL RETIREMENT YEARS.**
   You might get reduced hours from your regular job, work as a consultant or start your own business.
3. **SAVE MORE IN THE YEARS PRECEDING RETIREMENT.**
   These dollars can help build a cash reserve for income during the initial years of retirement or be invested in equities to potentially grow and help fund the later years of retirement.
4. **MODIFY YOUR RETIREMENT LIFESTYLE.**
   If you wish to keep your original retirement date, you'll find numerous ways to spend less while still having a pleasant and fulfilling retirement.

SAVE TAX BY SPLITTING INCOME WITH CHILDREN

When you think of income splitting, what first comes to mind is likely moving taxable income to a lower-income spouse. But several income splitting opportunities with children are available and worth exploring. The more income you can transfer to others in a lower tax bracket, the more tax you save as a family.

TAX SAVINGS WITH MINOR CHILDREN

Under attribution rules, when you give a minor child investments or cash for investment purposes, all resulting interest and dividends are attributed back to you for tax purposes. But capital gains are taxable in your child's hands.

A minor can't have their own investment account, but you can invest on their behalf by opening an in-trust account at your bank or other financial institution, with your child as beneficiary. If you choose equity investments generating capital gains, tax will be payable to your child at their lower marginal tax rate. The account must be used to benefit the child, for example, to help cover post-secondary education costs.

In-trust accounts are relatively easy and inexpensive to set up, but the child controls the funds upon reaching the age of majority. You can gain more control over the assets by establishing a formal trust, which involves greater expense and legal guidance.

Keep in mind, too, that a Registered Education Savings Plan (RESP) is an effective income-splitting vehicle. For each child, you can contribute up to $50,000 that grows tax-deferred, with taxable portions of withdrawals taxed in the student's hands. Often, no tax is payable, thanks to the basic personal tax credit.

GIFTS TO ADULT CHILDREN

There is no attribution when you give cash or assets to an adult child – tax is not payable by you on any interest, dividends or capital gains resulting from the gift. This makes gifts to a child especially beneficial when a child is starting out.

Your child can open a Tax-Free Savings Account (TFSA) upon turning 18, but may not be ready to contribute for a number of years. You can gift cash to your child so they can make TFSA contributions and start saving for a car, home or any financial goal. Later, when your child enters the work force, they'll start building Registered Retirement Savings Plan (RRSP) contribution room, but may not be in a financial position to contribute. But with a cash gift from you, they can begin saving for retirement in an RRSP, and you'll have transferred your dollars to a tax-deferred environment.

Years later, you might gift funds that your child invests in a non-registered account, subject to tax at a lower marginal rate than yours. Perhaps you'll even help your child make a down payment on a home, which could ultimately have no tax consequences with the principal residence exemption. ■

TAPPING AN RRSP FOR A HOME OR AN EDUCATION

At some point, a family member, or even you, may consider the Lifelong Learning Plan or Home Buyers' Plan. Both allow Registered Retirement Savings Plan (RRSP) withdrawals on a tax-free basis, provided funds are repaid according to plan rules. An individual can withdraw up to $20,000 under the Lifelong Learning Plan to help cover their own or their spouse's education costs. Those who qualify as first-time buyers can use the Home Buyers' Plan to withdraw up to $35,000 to apply toward a home purchase.

NEW PROVISION FOR SEPARATING COUPLES

As of 2020, Home Buyers' Plan eligibility was extended beyond first-time buyers to Canadians who recently had a breakdown of their marriage or common-law partnership. This provision recognizes that one or both individuals may need a new home at a time they face financial challenges. Also, it can help one person buy out the other's interest in the home they had shared.

DOES TAPPING AN RRSP MAKE FINANCIAL SENSE?

Making a significant RRSP withdrawal means losing years of potential tax-deferred compound growth while funds are repaid. So other funding sources should be explored. But if an RRSP is the best or only choice, either of these plans can still offer financial benefits. Someone can use the Lifelong Learning Plan to enroll in an educational program that leads to a higher-paying career – and larger RRSP contributions. The Home Buyers' Plan can pay off if it makes the difference between owning versus renting, or avoiding the cost of mortgage insurance. ■

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