

WELL-ADVISED

FALL 2024



HOW FALLING INTEREST RATES AFFECT INVESTMENTS

The Bank of Canada's interest rate cut in June was slight, yet significant. It was the first rate reduction in more than four years and a signal of cuts to follow, which we're already seeing.

One of the first things that interest rate cuts bring to mind is lowering the cost of borrowing, but they can also affect investment performance.

CHANGES TO FIXED INCOME

When rates were higher, some investors chose guaranteed investment certificates (GICs) and money market funds with dollars they normally allot to bond investments. Lower rates make GIC and money market returns less enticing to meet long-term goals.

Interest rate cuts are generally good news for current bond investors. New bonds pay lower rates, which makes older, existing bonds with higher yields more valuable in the bond market.

EQUITY INVESTMENT CONSIDERATIONS

Interest rate cuts potentially support the stock market, as they reduce the cost of corporate borrowing and encourage

customer spending. Historically, certain sectors (for example, real estate, utilities, consumer discretionary and information technology) benefit more than others. However, several factors affect stock market performance, so rate cuts alone cannot guarantee market success.

It's debatable whether it's desirable to buy specific equity investments in an effort to benefit from decreasing rates. Some money managers take an active approach, favouring companies in sectors they believe will outperform in a lower interest rate environment. Others believe in maintaining well-diversified portfolios that are designed to perform well in the long term, without basing investment choices on anticipated market changes. Each approach has its followers; it's really a matter of which suits an investor's risk tolerance and personal preferences.

Note that this time around, any effects that interest rate decreases have on investments may be gradual. Incremental cuts starting at 0.25% take time to work their way through the economy. ■



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In the past several months, perhaps the most consequential change involving our economy has been the Bank of Canada's cuts to the benchmark interest rate—cuts made possible by easing inflation. Changes in the economy can affect our investments, and the article on this page points out the influence of falling rates on cash, bond and equity investments. If you have questions about how these cuts may affect your short-term or long-term investments, please contact us. In fact, get in touch whenever you have concerns about any changes in the economy or markets—whether related to interest rates, inflation, market downturns or upswings.

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WILL YOU RETIRE AT THE SAME TIME AS YOUR SPOUSE?

You may think the vast majority of couples retire at the same time. However, the last time Statistics Canada reported on Canadians retiring together or not, only about 30% of couples retired together.¹ Also, an Ameriprise Financial survey conducted this year showed that a majority of American couples retire at different times.²

Here's a look at why couples retire together or apart and how each choice comes with its own benefits and concerns.

RETIRING TOGETHER

Retiring at the same time just seems to be a natural choice—and for a great many couples, it is. It's a time you dreamed of, now it's a reality, and you have the pleasure of beginning this new chapter together. Also, you enjoy more of your retirement years in each other's company.

However, a couple must be sure both spouses are genuinely agreeable. A spouse who still enjoys working and retires only for the sake of retiring together may feel regretful. Alternatively, if a spouse is older and postpones their retirement date just to synchronize the couple's retirement, they may have fewer years of being active and energetic as a retiree.

REASONS FOR A STAGGERED APPROACH

Retiring at different times is often based on personal situations, but sometimes the choice is primarily for financial reasons.

Age gap. When a couple has a significant age gap, it's quite common for the older spouse to retire first.

Health issues. One spouse may develop an illness, disability or medical condition that makes work a challenge or impossible, so they retire earlier than their partner.

Career satisfaction. Take the case of a couple where spouses are the same age or close in age, and they reach a traditional retirement age. One spouse is ready to leave the nine-to-five world behind and start the next chapter of their life. However, the other enjoys their role as a mentor in the workplace and finds their work stimulating and meaningful—they want to continue with their career.



Many people work past the traditional retirement age for a variety of reasons, including having friendships at work, wanting to keep busy, feeling that their identity is tied to their career or knowing they're helping others. Interestingly, about one in six physicians in Canada is 65 or older.³

Financial need or incentive. One spouse may be in a better position than the other to work longer to meet the couple's retirement savings objective. Also, with the continued income, the retired spouse may be able to delay collecting government benefits and possibly delay withdrawals from retirement savings.

A couple may have planned to retire together, but one spouse's employer offers an early retirement package that the spouse accepts.

A staggered retirement may come with challenges. In some cases, the working spouse may feel envious of their partner's life of leisure. Or the retired spouse may feel held back from travelling or moving.

MAKING YOUR DECISION

It's important to be open with your spouse when planning your retirement dates to be sure both of you will embrace your choice and not have regrets. When the decision between a synchronized or staggered retirement involves your financial life, as it often does, please ask for our help. We can provide financial projections to show you how various scenarios affect your savings and retirement income. ■

¹ Statistics Canada, "Retiring Together, or Not," Perspectives on Labour and Income, 2008.

² Ameriprise Financial, "Couples, Money and Retirement," 2024.

³ Canadian Institute for Health Information, "Supply, Distribution and Migration of Physicians in Canada, 2022," 2023.

WHEN PLANS CHANGE

A couple may establish a plan for their retirement dates, but an event or situation arises that calls for a change from a synchronized retirement to a staggered retirement, or vice versa.

Say that a couple, Lisa and Eddie, planned to retire together in three years. However, Lisa's mother suffers a stroke and needs

help to live on her own. Lisa wants to leave her job to care for her mother, and the couple meets with their advisor to see how this arrangement would affect their retirement plans. Together, they determine that if Lisa retires now and Eddie works for five years, the couple will still meet their retirement savings objective.

Another couple, Calvin and Shanaya, originally planned to retire at different times. Shanaya is five years older and the idea was that each spouse would retire at age 65. When Shanaya is a year away from retirement, Calvin receives a considerable inheritance, which allows Calvin to retire when he reaches age 60—at the same time as Shanaya. ■

A NEW FAMILY CALLS FOR A NEW ESTATE PLAN

In a typical estate plan, each spouse leaves their assets to the other. When the second spouse passes away, assets are distributed to the children. However, an estate plan is not usually typical when you remarry and have children from a prior marriage.

When you remarry, you'll update your will and beneficiary designations—and you may change your estate plan to provide for your children upon your passing. In a blended family where both spouses bring children to the marriage, each spouse may revise their estate plan in this way.

One reason, among others, is that after a spouse passes, the other spouse could use the estate assets in ways that don't provide for the children of the deceased spouse. Perhaps they launch a business that fails or remarry and leave their assets to their new spouse.

Here are several common ways to provide for children upon remarriage.

ENTER INTO A MARRIAGE CONTRACT

Marriage contracts can serve a variety of purposes, including meeting the unique needs of a second marriage. Each spouse can protect their assets, provide for their partner and specify which assets will be left to their children. The inheritance for your children is safeguarded as the terms of the marriage contract take precedence over any future changes to either spouse's will.

PURCHASE LIFE INSURANCE

A permanent life insurance policy can be an important estate planning solution when you have children and remarry. You can leave estate assets to your spouse and provide for your children by designating them as life insurance beneficiaries. The insurance proceeds are tax-free and pass directly to your children outside of your estate. Also, you ensure that your children receive the full amount you intend from the time you pay the first premium.

OWN A SHARE OF THE HOME

In a first marriage, couples usually own a home as joint tenants, where one spouse owns the home after the other passes away. However, in a second marriage, you may prefer to own the home as tenants in common, which gives each spouse a share of the property. When a spouse passes away, their share can go to their children.

Note that in Quebec, a couple can only own a property as tenants in common.

GIFT ASSETS DURING YOUR LIFETIME

You can lessen the planning required to distribute assets through your estate by helping out a child financially during your lifetime; for example, you could gift them funds for a down payment on their first home. However, you must be sure—with our



guidance—that these gifts don't jeopardize your wealth plan. Also, for the sake of a healthy relationship, this method should have the blessing of your spouse.

ESTABLISH A SPOUSAL TRUST

When you include a spousal trust in your will, you take care of your spouse and your children. Upon your passing, trust assets provide income for your spouse during their lifetime. When they pass away, trust assets are distributed to your children. You can stipulate terms for the trustee to follow and may wish to allow your spouse to receive payments from the trust's capital if needed and warranted.

You are best off consulting a lawyer when deciding which approach to choose. Also, your lawyer can outline other methods available, such as creating a trust for a child or bequeathing specific assets to children in your will. ■

COMMUNICATION IS KEY

Deciding how you'll ensure assets are distributed to your children begins with determining which method or methods you and your spouse can agree to. For example, one spouse may be open to a marriage contract, while the other may be against it.

Once you've selected a particular approach, share your thoughts about why you made that choice. In a marriage, it's beneficial for spouses to be transparent about financial decisions.

In some cases, you may also want to tell your adult children that they'll receive an inheritance. This communication can promote harmony between your children and your spouse, since it means your children won't worry that your spouse will receive all your estate assets.

You should also talk to your spouse and children about who you are appointing to administer your estate. Whether you designate one of them or another person, your spouse and children should be comfortable with your choice. ■



WHY TAX DEFERRAL WORKS

Whenever you have a chance to defer paying tax, a common thought is, "Why pay tax now when I can pay it later?" However, there's more to the story than simply postponing the tax bill.

Tax deferral offers three potential benefits. First, paying taxes in the future gives you more funds to meet your current financial needs. Second, the tax liability may be reduced if you have a lower marginal tax rate when the tax becomes payable. Third, when tax is deferred on investments, your investments have greater potential to grow and compound.

Depending on the tax deferral situation, one or more of these benefits may apply. Here are some common and less well-known tax deferral opportunities.

BUILDING WEALTH

When you contribute to a Registered Retirement Savings Plan (RRSP), your tax deduction results in more disposable income to support your lifestyle now. In addition, your contributions grow on a tax-deferred basis for greater compound growth.

Even a non-registered account can offer tax deferral to a certain degree. Equity investments are only taxable when sold, so any investments you buy and hold for a longer period of time have greater potential for growth. Also, when you wish to sell an equity investment, you could defer the transaction to a year of lower income to reduce the tax on capital gains. However, note that you should not make investment decisions solely for tax reasons.

SELLING PROPERTY

The capital gains reserve can be claimed when selling capital property, such as a vacation property, stocks or mutual funds. You spread the sale over a maximum of five years, provided you and the purchaser agree. Instead of facing one large tax bill on capital gains, you're able to pay smaller annual amounts—a strategy that potentially results in paying less tax overall.

DRAWING RETIREMENT INCOME

Your retirement income may come from a variety of sources, and one vehicle might be a mutual fund or other investment that includes a return of capital in its distributions.



A return of capital is often desirable as retirement income because it's not taxable, so you keep more of the distributions to support your retirement lifestyle. It's also a form of tax deferral. You'll eventually pay tax on capital gains either on your regular distributions many years down the road or when the investment is sold—and if your tax bracket is lower at that time, you pay less tax.

PRESERVING ESTATE ASSETS

Upon your passing, the tax liability on your registered retirement plan assets and non-registered capital property can be significant. However, the tax is deferred if you leave these assets to your spouse. This results in more assets available for potential growth and to provide for your spouse's retirement. ■

HAVE YOU REVIEWED YOUR CHOICE OF EXECUTOR?

Events in your life or changes involving the person you designated may call for a review of your executor—also known as a liquidator, estate trustee or personal representative, depending on the province.

WHEN THE ISSUE INVOLVES YOUR EXECUTOR

If your executor has moved to a different province or a considerable distance away, you may wish to choose someone who lives closer to you. Also, if the person has experienced conditions that affect their physical health or cognitive abilities, you may

want to choose another executor who is more able to assume this significant responsibility. Age could be an issue if you named the person decades ago and want an individual who is less likely to predecease you.

Even when these specific situations don't apply, you may want to confirm with your executor that they're still comfortable fulfilling these duties. They may have had second thoughts but not told you yet.

WHEN IT'S ABOUT YOU

Upon separation or divorce, you'll want a new executor if you had designated your

ex-spouse. Conversely, if you've married since making your will, you may wish to appoint your new spouse as executor. Some couples name each other as executor but change the designation to an adult child when the couple reaches their senior years.

Alternatively, your estate might become more complex and you may want a professional or trust company as the executor. Another option in this situation is to appoint a co-executor so duties can be shared.

It's a good idea to review your choice of executor every few years or when a life event occurs that may prompt a change. ■

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