InTouch

Basic Financial Services Inc. | Sterling Mutuals Inc.
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QUARTER 3 – 2023

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Our customized services include:

- Retirement Income Planning
- Investment Management
- Asset Planning
- Wealth Protection
- Risk Management
- Tax Planning

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Welcome to the third issue of In Touch for 2023. We hope this issue provides you with valuable information, which will allow you to make strong financial decisions.

What's Happening

As we continue enjoying the beautiful fall weather and colours, we have been quite busy here at Basic Financial with our Fall reviews. As you know, Fall reviews are what we call "very planning focused".

As planners, one of the values we add to our clients is understanding the nuances of retirement income and taxation. Part of our strategy is to review clients' "Registered" accounts such as RRSP, LIF (LIRA) and RRIF's, with a number of goals in mind:

1. Potentially help reduce your Life-Time Tax bill – We work closely with accountants, who do a wonderful job at providing advice on the current tax year. We collaborate with the accountant by looking out 2, 5, 10 or even 20 years and ask, "is there something we could do today to help reduce your Life Time Tax bill in the future?"

2. Potentially avoid the loss of government benefits in retirement – Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and other government programs are changing regularly, and it's our job to understand the nitty gritty of these programs and help translate them into strategies which may benefit you.

3. Identify any income splitting / sharing opportunities – Our in-depth planning process allows us to identify these opportunities and capitalize on them to ensure you have maximum retirement income.

4. Ensure your investments are properly allocated – A simple strategy is to continually top-up or contribute to your Tax Free Savings Account (TFSA) each year and ensure any growth will stay in your hands tax free.

Every one of our clients' situations is unique, so we take a customized, hands on and pro-active approach to planning.

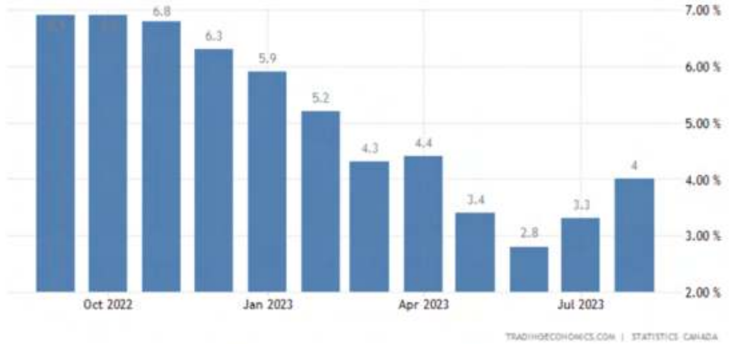
In the Community

Basic Financial was once again able to participate in Kerry's Head for the Hills Trail Race in Support of BIAN on October 14th. The Brain Injury Association of Niagara is committed to empowering and maximizing the quality of life for individuals living with the effects of an acquired brain injury and their families through support, social activities, community and peer opportunities, advocacy, and information. It was an honour participating in such a worthy cause. For more information on how you can help or tap into some valuable resources, please visit www.bianiagara.org

Market & Economic Update

And just like that, Fall has arrived and it seems the holiday earnings season is right around the corner. After starting the year strong, the markets pulled back somewhat in the third quarter (July-September) of 2023, with the main dip in September. This year (January 1st to September 30th) the Canadian market (TSX) is up 0.81%, the MSCI World Index is up 9.63% and the US (S&P 500) is holding strong at 11.68% in Canadian Dollars terms. Many of our Fund Mangers have helped capture much of the growth while attempting to limit the downside this past quarter.

If you read last quarters' update, you would have noticed a downward inflation trend up-until May. Inflation unexpectedly popped back up in July and August helping contribute to market volatility we experienced in the third quarter of this year.



With inflation rising, there is renewed fears that interest rate hikes might be on the horizon. Currently the Bank of Canada's overnight rate (this is the most quoted rate in the media) has been at 5.00% since early July 2023. I would not be surprised if the Bank of Canada raised rates by another 0.25% - 0.50% during the October 25th or December 6th interest rate announcements.

There is tempered optimism among many professional money managers the rough patch is behind us. Bespoke Investments posted that September is generally a weak month in the markets highlighting returns of the S&P 500 the past 4 years (all negative), followed by the market rebound the remaining 3 months of the year (Oct-Dec) which were all positive. There is hope this trend continues this year.


Bespoke
@bespokeinvest

Last four Septembers for the S&P:

2020: -3.92%
2021: -4.76%
2022: -9.34%
2023: -5.19% (thru 9/26)

Last three Q4s:

2020: +11.69%
2021: +10.65%
2022: +7.08%
2023: ?

Overall, 2023 is shaping up to be a normal year in the markets with some ups and some downs. There have been many headlines and short-term news stories providing both euphoria and fear to the investor community. Staying invested, working with a professional and ensuring your asset allocation is suitable for you is one of the best strategies you can have during any market, including this year.

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Market volatility can cause worry and doubt. The chart below shows how many investors feel during those ups and downs. When markets start to recover, those who stayed invested tend to feel relieved they stayed invested.

Launch of the FHSA
As I mentioned last quarter, Canadians now have a new acronym to remember – FHSA (Tax-Free First Home Savings Account). Adding to the ranks of the RRSP, TFSA and RRIF, this account is geared towards first-time homebuyers in allowing them to save up-to $40,000 "tax-efficiently" over a 5-year period. Over the next number of months, we will be reaching out if we feel the FHSA might be suitable for you. If you have any questions for yourself or family members regarding the FHSA please contact us and we will be happy to help.

Sources:
https://tradingeconomics.com/canada/inflation-cpi
https://twitter.com/bespokeinvest/status/1706765271938085170
https://www.fidelity.ca/en/stayinvested/

As always, please feel free to reach out if you have any questions, comments or would like to book some time to review your specific situation. We offer both face-to-face or electronic meetings via Zoom. If you feel the information above may be helpful to a family member or friend, feel free to share or visit our website www.basic360.ca

Sincerely, your team!

Articles of Interest

Making a plan: How to withdraw money from a retirement account

Canadians have quite a few options for retirement savings. But before you look at when to retire and start withdrawing, create a plan first.

By Allan Norman, MSc, CFP, CIM

Ask MoneySense
I have a $180,000 DC pension plan from my old employer, and I have to decide whether to transfer it to a LIRA within Manulife as a personal plan (where the group plan is right now), or to transfer to another LIRA (ETF direct investing with my bank).

I am 52 and am considering retiring at 55. I have about $120,000 in RRSP. I also have an LAPP of approximately $600 a month, if I start collecting it at age 65.

My husband is 53 and will be retiring in two years with an RRSP of about $37,000 and a DBPP of approximately $33,000 a year, if he retires at 65. It is between 0.3%-0.4% less if he retires at 55.

I can start collecting CPP at 60 ($600), 65 ($940), and 70 ($1,335); while my husband can start at 60 ($669), 65 ($1,045), and 70 ($1,484).

We currently have a mortgage of $280,000 and will have about $230,000 by the time he retires, approximately nine more years to pay or longer at higher interest rate. Our kids will be finished in university in two years.

What is the best strategy for my DCPP/LIRA? Is it possible for us to retire at age 55 and still manage to pay our mortgage? What will be our best strategy in terms of withdrawing from all our pensions?

—Beni

What's the best strategy for pension plan and retirement savings withdrawals? Set up a plan

Beni, you may be putting the cart before the horse. You're asking for advice, but what is your plan? Without a plan, any financial advice may be completely useless. And, based on your numbers, I can't say for sure if you are able to retire at age 55.

By "plan," I mean for you to explore what you want in retirement. What is it you really want to do? With retirement comes an almost blank slate, where you can design the life you want. You can either let your retirement years happen or you can be proactive and create a life of no regrets. You don't have to have the perfect plan, because things will always change, but you do need a starting point. Every year, update your plan to keep the assumptions honest and to make changes as you see fit.

Start your plan by taking note of your current lifestyle and related expenses. Next, project these costs for the future to discover the truth about your money—what will your money do for you? Then, based on your projections, ask yourself: What are your possibilities? Once you know what's possible, you can set some financial goals for the lifestyle you want. Now you have to set up a plan, to which financial advice can apply.

What to know about DC pension plan withdrawals

Now, let me give you a few general thoughts, which may or may not fit the plan you come up with.
The taxation and withdrawal rules on a defined contribution (DC) pension are the same whether you keep it where it is or move it to your own plan. Base your decision to move the DC plan on the investments available, costs and the advice provided by the financial institution holding your account.

Your retirement income needs to dictate when to start withdrawing from the DC account and your registered retirement savings plan (RRSP). No one knows how long they will live for, but most people accept the notion that they will slow down in their later years.

What can you withdraw from registered retirement savings accounts?

So, Beni, what do you think of this idea? Why not spend all of your RRSP money by age 80, and then as much as you can from your DC plan? The DC money will convert into a life income fund (LIF), and then you transfer 50% of that to your RRSP or your registered retirement income fund (RRIF).

If you spend all your RRSP/RRIF money by age 80, you will still have your Canada Pension Plan (CPP), Old Age Security (OAS) and pension income for a total income of about $80,000 a year in today's dollars, plus the income from your LIF. And, you also have your home equity as a backup. Would an income of $80,000 at age 80 be enough for you?

Check to see if your pensions are indexed to inflation, and if there is a bridge benefit that drops off at age 65. DC pension/LIF and RRSP/RRIF are all taxed the same (by income tax bracket), so there is no tax reason for starting one sooner than the other. However, maximum withdrawal amounts apply to DCs/LIFs, so start withdrawing from them first, followed by RRSP/RRIF.

You may have heard that it makes sense to draw extra from your RRIF and contribute to your tax-free savings account (TFSA). If you follow a plan that has you spending your RRIFs by age 80, I recommend you only draw what you need from your RRIF and not take the extra to add to a TFSA. That extra withdrawal may push you into the next tax bracket and/or affect government credits/benefits.

I bet you are also reading that you should delay your CPP to age 70. Well, the math says if you delay CPP, you will have a higher guaranteed income for life. This is added income protection if you spend all your savings by 70 and your only income is CPP and OAS. But it also means you may have less income to keep up your lifestyle in the early years of your retirement. A good pension offers you more flexibility when deciding when to start your CPP.

Finding qualified advice for retirement plans and savings withdrawals

Finally, consider what will happen to your income when one of you dies. Your total CPP income will be reduced and it will be based on the survivor's maximum CPP at age 65. You will receive a CPP death benefit of $2,500, which is taxable. One OAS pension will cease, and you will no longer be eligible for pension splitting. Plus, there will likely be changes to the income from your workplace pensions.

So, there you have it, Beni: a few quick thoughts that may or may not align with your future plans. My main suggestion for you is to first visualize or create the life you would like to have. Most financial planners have the tools and software to help you do this. Once you have your life plan, your planner, using their software, will demonstrate financial strategies and tactics supporting your plan.

What to know about withholding tax in retirement

Most retirees have taxes owing at the end of the year. Should you adjust the withholding tax on your pension as to not owe too much nor have to wait for a refund?

By Jason Heath, CFP

Ask MoneySense

I retired last year, age 66. Single, no dependents. I found out my pension wasn't withholding enough tax from source (5%), so I asked for an additional 15.05% to be withheld, to meet my combined federal and Ontario tax bracket (20.05% total).

I got a whopping refund of $5,000 after all deductions were made on the tax forms (basic personal amount, pension credit, age amount). But I could sure use that money during the year. Should I request less additional tax to be withheld from my pension in future?

—LT

Withholding tax in retirement

When you are a salaried employee, unless you start a job mid-year or have other extraordinary income, tax deductions or tax credits, you should be pretty close to even when you file your tax return—that is, most people have no tax owing or refund payable.

Retirement is different. In retirement, you tend to have income from multiple sources, and some do not require any withholding tax at all. For example, the Canada

Pension Plan (CPP) and Old Age Security (OAS) generally have no tax withheld unless you elect to have it withheld optionally. One exception with OAS is if your income exceeds the clawback threshold, in which case, an OAS recovery tax may apply. For 2023, the income recovery threshold begins at $86,912. Income over this amount may lead to a withholding tax on OAS for the July 2024 to June 2025 payment period.

Minimum registered retirement income fund (RRIF) withdrawals do not require withholding tax either. Non-registered investment income is generally not subject to withholding tax. One exception is foreign income like U.S. dividends, which typically has 15% tax withheld (this can be claimed as a foreign tax credit on your tax return).

Why most retirees have taxes owing

This lack of withholding tax tends to lead to tax owing for most retirees. If you owe tax in multiple years, you may end up being asked by the Canada Revenue Agency (or Revenue Quebec for Quebec residents) to remit quarterly tax instalments.

I see what you tried to do, LT, by requesting the 20.05% withholding tax on your pension. That happens to be the lowest marginal tax rate in the province of Ontario. However, everyone is entitled to a federal and provincial basic personal amount that results in at least some of their income being tax-free before the lowest tax rate applies.

Federally for 2023, the amount is $15,000. Provincially, the basic personal amounts range from $8,481 to $21,003. Once you add in other tax deductions or credits, like the pension income amount and age amount you mentioned, LT, you may have even more things reducing your tax payable.

When you receive a defined benefit pension plan payment from your former employer, they have to follow the payroll tables and withhold tax accordingly. However, these tables assume that you have no other income. If you have a lot of other income, the withholding tax can end up being too low. If your income is low, and you have deductions and credits, the withholding tax may be too high.

How to fix a withholding tax issue

Both can be rectified, LT. You can request additional tax be withheld voluntarily to avoid a balance owing when you file your tax return. This can help you avoid spending money that you should instead put aside over the year because too little tax was withheld. You can also submit federal and provincial TD1 forms to the pension plan payer to reduce withholding tax based on your standard tax credits. If you have other extraordinary tax deductions or credits like spousal support payments or large medical expenses or donations—to name a few examples—you can submit T1213 Request to Reduce Tax Deductions at Source to the CRA for approval.

Should you request more tax be withheld?

Most taxpayers prefer to get a refund over owing tax, and in fact, the majority of taxpayers get a refund when they file their return. That said, when you have to wait all year to get your refund, it is like giving an interest-free loan to the government.

Perhaps the perfect outcome for a taxpayer is to owe $2 of tax. According to the CRA, if your balance owing is $2 or less, you do not have to make a payment.

In summary, LT, you can try to fine-tune your tax situation by requesting additional tax to be withheld or by completing the proper forms to allow the pension payer to reduce withholding tax. Income, deductions and credits can vary from year to year, though, so you should expect to have some variability regardless.