Assante®
WEALTH MANAGEMENT

WELL-ADVISED

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Did you make any New Year's resolutions this year?

It's not too late to make a financial resolution for 2019. Establish a retirement date. Assign power of attorney. Decide on that vacation property purchase. Pay down your line of credit. Save for and purchase the luxury item you've been wanting. Donate more. Gift funds for your child's Tax-Free Savings Account (TFSA). Think it over and set a goal that is meaningful to you.

Resolutions are easier to keep when you have support, and we're here to back you up. Please reach out for our help or guidance anytime.

THE INVESTMENT FACTOR YOU CAN CONTROL

You can't control the direction of the markets or the return on your investments, but you have complete control over the amount you save and invest. And the amount you regularly invest may be the difference in meeting your financial objectives or not. Here's a look at some life situations that typically call for investing more.

Stay on track

When investors with a lower risk tolerance have a conservative portfolio with lower potential returns, they must regularly contribute larger amounts compared to more aggressive investors with similar financial objectives and time horizons. Also, investors of any natural risk tolerance typically make their portfolios more conservative in the years approaching retirement. As this adjustment reduces growth expectations, investors may need to increase contribution amounts to keep their portfolios aligned with their investment objectives.

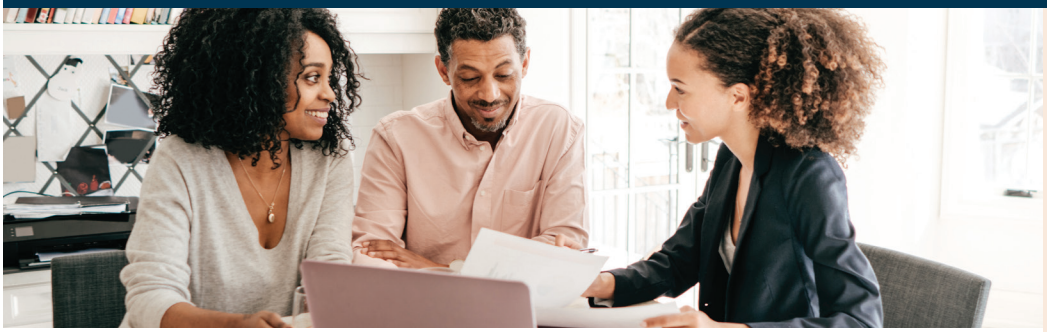
Capitalize on opportunities

When cash flow increases, you gain the opportunity to boost the amount you regularly invest. Such an increase may result from a salary raise, children becoming financially independent, a spouse re-entering the workplace, or finally paying off the mortgage. Ramping up contributions could lead to an earlier retirement or enjoying an enhanced retirement lifestyle.

Teach your children

Young adult children haven't experienced the results of compound growth and may be less motivated to save and invest. Or they may be financially unable to start just now. Imagine giving a child a cash gift that she or he deposits into a registered plan. Let your child know that at a 5% annual return, the single deposit will more than double after 15 years. In other words, most of the money is investment growth – not the original contribution. Your child may appreciate the value of saving.

If you ever wish to discuss your regular contribution amounts or investment objectives, please feel free to get in touch with us. ■



ARE RRSPS STILL THE BEST CHOICE?

In retirement, there's a tax-saving strategy called "topping up to bracket." It's used when funds in a Registered Retirement Savings Plan (RRSP) or a Registered Retirement Income Fund (RRIF) will eventually be withdrawn when you're in a higher tax bracket. The idea is to withdraw funds from your RRSP or RRIF in an amount that takes you to the upper limit of the marginal tax bracket you are in currently. You don't actually need this money to support your retirement lifestyle – you invest the funds in a Tax-Free Savings Account (TFSA) or non-registered account. However, by making the withdrawals now at a lower tax rate, you save tax in the long run.

The usefulness of this strategy has led some investors to question the value of choosing an RRSP over a non-registered account. All withdrawals from an RRSP or RRIF are taxed as income at the individual's marginal rate. But in a non-registered account, dividends and capital gains are taxed more favourably. Based on taxation upon withdrawal, should a non-registered account be the investment vehicle of choice?

Why RRSPs win out

Financial experts have compared the after-tax performance of RRSPs with that of non-registered investments under numerous time horizons, with model portfolios representing a variety of asset allocations – including equity-focused portfolios. RRSPs win out over non-registered accounts, provided the amount of the RRSP tax deduction is invested each year in a non-registered account.

It's the tax advantages that are essential to RRSP performance. The ability to deduct your RRSP contribution from taxable income is a significant advantage over investing in a non-registered account. Also, an RRSP gives your investments tax-deferred compound growth. Tax deferral makes quite a difference when it comes to rebalancing. Imagine that an investor approaching retirement wants to redeem equity investments and purchase fixed-income investments. Such a move would have no tax consequences within an RRSP, but in a non-registered account could trigger considerable tax on capital gains.

More than performance

RRSPs also motivate you to invest regularly since contributions provide a substantial tax deduction every year. And you're less likely to tap into retirement savings when withdrawals are taxable, trigger withholding tax and cause loss of contribution room.

Another advantage of RRSPs over non-registered investments surfaces during retirement. Retirees age 65 and older can transfer up to 50% of RRIF income to their lower-income spouse, splitting income to reduce overall tax.

Your RRSP and TFSA work together

We've focused on RRSPs versus non-registered accounts as this comparison has been a source of debate, but TFSAs also outperform non-registered investments. Investors should maximize their RRSP and TFSA before investing in a non-registered account. With a TFSA you pay no tax on interest income, dividends or capital gains for tax-free growth within the account. And withdrawn funds are not only tax-free, they don't affect a retiree's eligibility for Old Age Security (OAS) benefits.

To return to where we began, topping up to bracket is simply an effective tax strategy – not a reflection of RRSP performance versus that of a non-registered account. However, there can be exceptional circumstances when an individual would be better suited to choosing a non-registered account over an RRSP. Such a situation could be when an individual close to retirement invests in equities and expects to be in a higher tax bracket when withdrawing funds for retirement income.

Please talk to us if you have any questions or concerns about the way your current or future contributions are allocated among registered and non-registered investment vehicles. ■

RRSPS FOR OWNERS OF A BUSINESS

If you want to make tax-deferred investments in an RRSP, you would draw a salary from your corporation to gain earned income that creates RRSP contribution room. Or you can save for retirement, also on a tax-deferred basis, by leaving excess funds in an investment portfolio within the corporation – eventually to be withdrawn as dividends. Each option has its advocates and advantages, so it's a decision to make with your advisor, tax expert or accountant.

You could try to base your decision on which method delivers the greatest after-tax amount. Depending on your time horizon, investment holdings and provincial tax rates, one method may stand out as a clear choice.

Investing within the business can be the simpler method, as taking a salary puts you on the payroll. So there's additional paperwork, and you must make Canada Pension Plan (CPP) contributions.

A reason to favour an RRSP involves the passive income rules, effective for the 2019 tax year. Leaving more than $50,000 of passive income within the corporation in any year could result in a higher tax rate on active business income. When you remove funds as salary to make RRSP contributions, you reduce passive income. ■

WHEN LIFE CHANGES, SO DO FINANCIAL PLANS

Life is what happens to you while you're making other plans, the saying goes. We just never know when the unexpected may happen. Here are four scenarios that look at various life changes and how financial plans adapt to evolving needs.

Tara launches a business

After 20 years in management, Tara lost her job in a reorganization. Her friends, who loved Tara's home-baked scones, often told her to open her own shop. So she took the plunge and opened Tara's Tea & Scones.

With no track record as an entrepreneur, Tara's start-up capital came largely from her Tax-Free Savings Account (TFSA), which she plans to replenish. Tara worked with her advisor to develop a new financial plan. This includes the purchase of disability and critical illness insurance that would help pay for a contract person if an illness or injury prevents Tara from working. She also made her investment portfolio more conservative, as she was assuming enough risk launching the business.

Denis and his blended family

Denis had been divorced for three years, paying spousal and child support. He didn't expect to remarry and become a stepdad to two young boys.

Denis and his wife Gina have found that communication and fairness go hand-in-hand with financial planning. Denis discussed the challenge of providing his stepsons with the same level of financial support for education savings, summer camp and vacations that he has committed to his daughter, Natalie. They determined that Denis would focus on education savings, which had been lacking for the boys. Denis and his advisor developed a plan that includes catching up on missed grant money for the boys' Registered Education Savings Plan (RESP).

For his estate plan, Denis and his advisor are leaning toward a spousal trust to be funded by estate assets. Gina would receive lifetime income from the trust and, after her passing, trust assets would go in installments to his daughter.

Geoffrey is now alone

Geoffrey's wife recently passed away. She managed all of the finances and now Geoffrey, in his late 60s, is getting help from his late wife's advisor. Geoffrey's son administered the estate and oversaw the registered plan transfers and rollovers.

Geoffrey is overwhelmed by the task of managing the Registered Retirement Savings Plan (RRSP), TFSA, non-registered account and Registered Retirement Income Fund (RRIF) his wife opened for the pension credit. His advisor learns that Geoffrey has two main worries – handling all the logistics and being at the mercy of the markets. His wife had chosen balanced portfolios, whereas Geoffrey is more comfortable with conservative investments.

The advisor comforts Geoffrey by letting him know there's no rush. They'll deal with each account and transaction one at a time. Portfolios will be adjusted to focus on fixed income and guaranteed vehicles, with some investments sold to purchase a life annuity.

Ravi, Aisha and two generations

A few months ago, Ravi and Aisha were comfortably adjusting to life in their empty nest. Retirement is approaching and they talked about travel destinations. But their son who recently graduated from university is now moving back home; he has decided to apply to law school. And Aisha's mother has suffered a stroke and needs constant care.

Financial plans are changing. Ravi and Aisha hadn't banked on their son pursuing a law career, and they want to cover education costs. Aisha wants to leave her job and care for her mother who would move to Ravi and Aisha's home.

The couple can afford all of this, but costs would come from savings designated for retirement. They consult their advisor, who puts costs together and shows the effect on their savings and retirement dates. With this financial information, Ravi and Aisha can better decide what choice is best for everyone.

Your life may follow a different path than those in the above scenarios, but we all encounter life changes. And when changes do occur, please let us know. We'll work with you to ensure your financial plan continues to meet your needs and life goals. ■

'I'D LIKE TO TALK TO YOU ABOUT A LOAN.'

If you haven't experienced it already, you may one day. A friend or relative is in dire straits and asks you for a loan. In some cases your instincts might tell you right away how you feel about the request. If the person is a loved one with a genuine need you may be only too glad to help out. But if this person spends recklessly and always looks for handouts, you may be dead against supporting their undisciplined lifestyle.

The more difficult situations are those in the grey area when you're not quite sure what to do. It's a very personal decision, but some issues and guidelines may help you figure out your approach.

Factors to consider

Start by assessing whether the amount affects your own financial plans. If the loan is smaller, you may have no issue. But if the friend or relative is raising capital to launch a business, you must determine if the loan interferes with your own savings and goals.

You may be concerned that word will get out about the loan and you'll be perceived as the lender of money to other friends and relatives. The potential snowball effect, more than the loan itself, could dissuade you from helping out.

Perhaps most important is to imagine how you'd feel toward your friend or relative if the loan is not fully repaid, if at all – even if the borrower still intends to pay you back... eventually.. If you imagine there being resentment, you may need to weigh a good deed for a close person against the possibility of a damaged relationship. If you foresee no ill will, and your friend or relative is in a difficult situation, you might even consider giving the funds as a gift.

You may want to involve your spouse in determining your course of action. The discussion could help in your decision and it can only be beneficial if you and your spouse are in agreement.

When you say yes

Unless you have reason to leave the loan open-ended, you may be more reassured making the loan and the borrower might feel more comfortable accepting the money if you both establish repayment terms. The amount could be repaid in installments if that's helpful, or in full if the borrower is just waiting for an expected lump sum to come in.

If you say no

When your cash situation is the reason you don't want to make the loan, you may find it easier saying no to your friend or relative. Otherwise, you may want to explain that the reason for not making the loan is nothing personal. You understand that money issues can jeopardize friendships or relations with family and that's not a chance you want to take – with anyone. ■

SHOULD YOU NAME AN ADULT CHILD AS EXECUTOR?

When deciding on an executor, or liquidator in Quebec, it's quite common to name an adult child to administer the estate. But if you have more than one child, it's a decision to make with caution. Here's a look at the pros and cons of going this route when siblings are involved.

You can name two or more children as co-executors. Potentially, this can be ideal – you treat your children as equals, and they share the workload. But if the children live in different cities, they'll face challenges to meet together at the lawyer's and accountant's office and the bank – and documents must be signed by all co-executors. Also, any disagreement on administration issues will cause frustration and delays.

Naming one of the children as executor simplifies matters. It's easy to arrange meetings with the lawyer and accountant, and decisions can be made quickly. The other child, or children, may even be relieved that someone else is doing the work. However, if the other children take exception with the executor's judgement calls, the efficiency won't be worth the discord among siblings.

Solutions to consider

You can discuss the executor decision with your children, either together or separately, to get a sense of how smoothly you envision the process would go – and to determine whether you'd name one executor or co-executors. If you have second thoughts about naming a child as executor, you might consider choosing your spouse, another family member, a family friend, your lawyer or other professional, or a trust company. ■