Assante®
WEALTH MANAGEMENT

WELL-ADVISED

SPRING 2019

Thomson Financial Partners
Assante Capital Management Ltd.
101 McIntyre Street West
North Bay, ON P1B 2Y5

Tel: 705-476-5422
Toll-free: 1-800-461-9519
Fax: 705-476-0913
email: tfp@assante.com
www.ThomsonFinancialPartners.ca

Doing any spring cleaning? You might have financial clutter – different savings and investment accounts at various financial institutions. That makes it confusing to keep track of investments. When you consolidate accounts, you improve investment monitoring, asset allocation, rebalancing and costs. If you have financial clutter, talk to us about consolidation.

HOW TO KEEP YOUR TFSA ALIGNED WITH YOUR GOALS

This year, you can contribute $6,000 to your Tax-Free Savings Account (TFSA), bringing the cumulative total of allowable TFSA contributions to $63,500, or $127,000 between a couple. This means that a TFSA can help meet any investment objective.

Your first decision

You need to look at all components of your financial plan and decide where TFSA investments can help you the most.

Education. To meet today's increasing education costs, a TFSA can boost savings from a Registered Education Savings Plan (RESP), and a couple with more than one child can dedicate both accounts to the goal.

Retirement. As a retirement savings vehicle, a TFSA builds an income source that's tax-free and doesn't affect eligibility for Old Age Security (OAS) benefits.

Estate planning. A TFSA has great flexibility for estate planning purposes – providing heirs with a tax-free inheritance, offsetting taxes payable by your estate or leaving a charitable gift and claiming the charitable donation tax credit.

Tax planning. As an income-splitting strategy, funds can be gifted to your spouse, children or grandchildren which they contribute to their own TFSAs.

Savings. A TFSA is always ideal when saving for a short-term purchase, as withdrawals are added to contribution room the following calendar year. Some people use a TFSA as an emergency fund.

Once the use is determined, we'll recommend which investments suit your objective and risk tolerance.

Future steps

Your TFSA investments may change when your objective's time horizon shortens. For example, a TFSA for education savings typically becomes more conservative as secondary school graduation approaches. And your investments may change greatly when your objective changes. That TFSA for education savings? When your child graduates from university, your TFSA may become a growth-oriented account for your retirement.

Contact us if you wish to discuss how your TFSA stays aligned with your evolving investment goals. ■

RETIRING GRADUALLY

According to the 2016 census, one in five Canadians aged 65 and over were working, with 30% of this group working full time. Some continued in their regular jobs, while others became consultants, entrepreneurs and new business owners.

Although many seniors work strictly for income, others are motivated by the wish to keep physically and mentally active, enjoy social interaction or have a sense of purpose. Whatever the reason, working during the traditional retirement years always involves several components of financial planning.

Timing government benefits

By working in retirement, you may be able to delay taking Old Age Security (OAS) and Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefits until age 70 to receive your highest eligible amounts. But that's not always the favoured choice.

For example, if you work in your 60s, receive CPP/QPP benefits and make CPP/QPP contributions, you are entitled to the CPP post-retirement benefit or QPP retirement pension supplement. This benefit or supplement is added to your monthly CPP/QPP pension for life. Also, if you have part-time earnings, taking government benefits earlier to supplement your income will leave more of your retirement savings untouched.

Various financial and personal factors are involved, so it's wise to make the timing decision with the guidance of your advisor or accountant.

Minimizing OAS clawback

Some individuals working past age 65 may want to be mindful of the OAS clawback. As an illustration, retirees with OAS benefits from July 2019 to June 2020 will receive a decreased amount if their 2018 net income were to exceed $75,910. The benefit would reach zero at a net income of $123,386.

Depending on your situation, various strategies may be implemented to keep net income below the threshold and help avoid or minimize the clawback. These can include pension income splitting and drawing income from a spousal Registered Retirement Savings Plan (RRSP). Consider also making withdrawals from a Tax-Free Savings Account (TFSA) as the withdrawals do not count as taxable income.

Staying insured

Many employers offer modified life and health insurance benefits to employees who work past age 65. But if you're not staying with the same company, you'll need to purchase individual coverage for any protection you require. Say that someone retires at 62, fulfills a dream of opening a tea room and purchases critical illness insurance. If the owner suffers a critical illness, the benefit could pay for a temporary replacement.

Typically, you can purchase life insurance up to age 75, critical illness insurance up to age 65 and long-term care insurance up to age 80. Coverage for disability insurance ends at 65, but you can purchase accident coverage after 65 that protects against lost income if you're injured.

Managing investments

For some people, earning income during retirement doesn't affect how their investment portfolio is managed. However, depending on the individual's net worth and risk tolerance, investments could be less conservative than usual. The extra income, especially if it's steady, can replace some of the need for vehicles such as guaranteed investments and annuities, and reduce the need for such a large fixed-income cushion to protect against market volatility. There may be a greater focus on growth-oriented investments that will eventually help provide retirement income over the long term.

Please let us know if you're thinking of retiring gradually. We'll help ensure your financial plans and strategies make the most of your additional income. ■

WHEN YOU OWN A BUSINESS

If you're a business owner thinking of retirement, finding a successor isn't your only concern. You need to determine whether you want to remain involved with the business. For some owners, it's an easy decision – they're ready to make a clean exit.

But for others, the business remains part of their identity. They prefer maintaining ties to the business while also enjoying retirement. But you can have it both ways. You could sell the business with a provision that you hold a permanent part-time position beneficial to the new owner and meaningful to you. Or don't sell – still own the company to help support your retirement, but hire a manager to take on your duties.

Another option is to make a gradual exit. As part of the sales agreement you specify a transition period during which you remain involved, either taking on a role in business operations or acting as a consultant. ■

NEXT BEST THING TO SAVING TAX NOW

The federal government has recently taken away several tax advantages enjoyed by individual Canadians and businesses, from ending tax-free switching of corporate class funds to removing key benefits of income sprinkling. Though some immediate tax-saving methods are gone, tax-deferral methods remain – and that may be the next best thing.

Deferring tax is not just a matter of postponing the inevitable. In fact, it offers three potential benefits. First, you keep more money to support your current lifestyle. Second, when investing, deferring tax means that more of your money is working for you, to grow and compound. Third, you often gain control over when to pay the tax, which may be at a time you're in a lower tax bracket.

Tax deferral for individuals

Here are several methods of deferring tax for various components of a financial plan.

Build greater wealth. With a Registered Retirement Savings Plan (RRSP), you defer tax two ways. Deducting your contribution amount reduces the income tax you pay, and that tax is deferred. Also, all interest and growth within your plan is deferred, enhancing compound growth.

You can also defer tax in a non-registered account by holding growth stocks for longer periods. Capital gains aren't taxed until you sell the stock. Note that taxation should not be the primary consideration when making investment decisions, and deferring tax only applies to buy and hold, not active buying and selling.

Sell property with taxation deferred. When you sell capital property, such as vacation property or stocks, you may be able to claim the capital gains reserve. You and the purchaser agree to spread the transaction over a maximum of five consecutive years. The reserve refers to the amount of the purchase and resulting capital gain being deferred. This strategy provides a series of manageable tax payments and, in some cases, keeps the taxpayer in a lower tax bracket versus reporting 100% of the sale in a single year.

Increase retirement income. When selecting vehicles to help provide retirement income, you can choose funds or other investments with distributions that include return of capital. You don't pay tax on return of capital, so you keep more of the income. Also, non-taxable income can help avoid clawback of Old Age Security (OAS) benefits. This is a tax deferral – you'll eventually have taxable capital gains on regular distributions or upon selling the investment.

Preserve estate assets. Upon passing, tax on RRSP or Registered Retirement Income Fund (RRIF) assets and tax on capital gains of estate assets can be considerable. The tax is deferred when you leave the assets to your spouse, until the spouse sells the assets or passes away. The tax deferral also applies if you establish a spousal trust to provide your spouse with income during his or her lifetime.

Tax deferral for business owners

A couple changes have restricted business owners' ability to save tax on corporate investments – decreased limits on passive income and on investment amounts in universal life insurance policies. But you can still defer tax on investments using an individual pension plan (IPP) for retirement savings. Contributions are typically greater than those in an RRSP – in fact, the IPP is often called a supersized RRSP. Also, contributions are tax-deductible to your business.

Another tax deferral strategy is the estate freeze, used when you plan to transfer the business to your children. An estate freeze solves the problem of triggering a large taxable gain on the owner's business interest when the owner passes. You lock in the current business value now, and the capital gain is assessed at the time of the freeze. Tax on the capital gain is only due on your final tax return. Growth of assets after the freeze will eventually be taxable to the children.

Feel free to talk to us about any tax matter, whether it involves investments, retirement income, estate planning or business. ■

LEAVING MORE TO YOUR HEIRS

Imagine a $1 million estate including $200,000 of stocks in a non-registered account, a $300,000 Registered Retirement Income Fund (RRIF) and vacation property valued at $500,000.

But it's not $1 million to the heirs. There's a $100,000 capital gain on the stocks and a $300,000 capital gain on the vacation property. At a 50% marginal tax rate, tax payable is $25,000 on the stocks, $75,000 on the vacation property and $150,000 on the RRIF. Total tax bill: $250,000.

Now the question is how it'll be paid.

Managing the tax liability

If there's enough liquidity in the estate, then estate assets can simply cover the tax. But that's not always the case. To pay the tax bill, vacation property or another cherished asset may need to be sold. Or investment holdings must be redeemed – not ideal if markets are down when tax is due. Heirs don't wish to sell assets? They could borrow money to pay the tax, but that method can prove costly.

Another option, if you plan early, is to establish a fund designed to cover taxes payable by your estate. A Tax-Free Savings Account (TFSA) can be ideal, supplemented by non-registered investments if needed. This method of providing an estate with liquidity takes great discipline – the funds may face competing interests over the years, like buying property in Florida.

The life insurance solution

In certain situations, life insurance can be a cost-effective way to leave more of your estate value to your heirs. The strategy involves estimating the future tax payable by the estate, then purchasing a permanent life insurance policy with an insurance benefit that offsets the tax liability. So your heirs receive the full value of estate assets.

This solution offers several benefits. The cost of premiums, when this solution suits your situation, compares favourably with other funding methods involving conservative investments. The final payout amount is guaranteed, arrives when needed and is tax-free. From the day the first premium is paid, the tax liability is covered – a benefit unique to this strategy. The executor doesn't need to liquidate estate assets to pay taxes owing.

If you have a spouse, you may plan to roll over or transfer assets to him or her on a tax-deferred basis, but your spouse may eventually face a large tax liability on estate assets. A solution is to purchase one life insurance policy on both of your lives, a joint-last-to-die policy. This policy only pays the insurance benefit upon the passing of the second spouse. This way, the tax liability on estate assets is sure to be covered no matter when it becomes payable.

If you would like to investigate strategies that help manage taxation on estate assets, please give us a call. ■

WHEN DO YOU NEED A POWER OF ATTORNEY?

Hopefully, you'll never suffer an illness or disorder that seriously impairs your cognitive functioning. But if you ever suffer such a condition, you may lose the ability to manage your finances – from paying bills to making investment and income decisions. And you could be vulnerable to financial fraud. This is when you want a power of attorney, or mandate in Quebec. Power of attorney is a legal document, and "attorney" is the person you appoint to conduct your financial affairs, which can be your spouse, a family member, friend, professional or trust company.

In the document, you can stipulate how it's determined that your representative acts on your behalf. For example, you could require that your doctor assesses your mental capacity or leave the decision to your representative.

Without this document, you place your family in a troublesome situation if you become incapacitated. Family members may be in conflict, trying to determine who should manage your finances. And the person who assumes the role must apply to provincial court to become guardian of your property.

Note that the power of attorney for property deals with investments, bank accounts, real estate and other assets and liabilities. You also require a document for your personal care (document varies by province), naming the person responsible for making health and medical decisions on your behalf.

Getting these documents is straightforward, yet it's sometimes put off. Perhaps that's because dementia mainly occurs at older ages, but cognitive impairment can also result from an accident causing brain injury, a stroke or another incapacitating illness. It is wise to set up your documents for property and personal care long before they may be needed. ■