Assante®
WEALTH MANAGEMENT

WELL-ADVISED

SUMMER 2019

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Life events often affect financial plans. Winterized your vacation property? Keep expense records to reduce capital gains tax when the property changes hands. Just made the final mortgage payment? Let us know when things change, we'll be glad to hear from you.

DOES YOUR SPOUSE HAVE A DIFFERENT INVESTMENT PERSONALITY?

Imagine a couple who have opposite approaches on how to build a nest egg. One spouse believes in investing conservatively so the couple can live their lives without worrying about the markets, even though it means saving more each year to invest. The other spouse believes in investing aggressively, trusting that a portfolio heavily weighted in stocks will deliver higher returns over time – and will allow for more discretionary income to enjoy life now. Though these opposing views might sound like trouble, they may hardly present a problem, and can even work to each spouse's advantage.

The compromise solution

The couple is putting together a non-registered portfolio designed to eventually support their retirement. They agree to deal with their differing views through compromise. With their advisor, the couple develops a portfolio that balances fixed income and equity investments so that each spouse compromises equally on risk level. They also allocate only minimal amounts to the most highly aggressive and most conservative investments.

This arrangement is mutually beneficial, as the conservative-minded spouse gains more exposure to market opportunities, and the aggressive investor is kept from placing retirement savings at potential risk.

The net effect approach

Not everyone is comfortable with a compromise solution, and that's fine. Say a couple with opposite investment philosophies designates their Tax-Free Savings Accounts (TFSAs) to fund retirement. Both spouses can remain true to their individual investment personality, resulting in a conservative TFSA and an equity-oriented TFSA. The net effect as a couple is a favourable combination of capital preservation and growth potential – easily accomplished, without conflict. The same strategy can apply to Registered Retirement Savings Plans (RRSPs) and separate non-registered accounts.

If you and your spouse ever feel at odds over conflicting investment ideas, talk to us. We'll help you develop investment solutions that ultimately benefit you both. ■

WHEN EDUCATION SAVINGS MAY NEED A BOOST

If a parent bases post-secondary education savings on average costs, the amount needed for tuition would be $6,838 for each academic year, based on the 2018/2019 average for Canadian universities.[1] But what if the child decides to pursue dentistry? The average annual tuition for dentistry programs in Canada is $23,474.[1]

Or perhaps a parent isn't up to date on campus costs these days. Most universities charge between $10,000 and $15,000 for a double room with a full meal plan.

Maybe your child will continue with grad school. Add more expenses for residence or apartment and tuition. If your child pursues a Master of Business Administration (MBA), the average annual tuition for a regular MBA in Canada is $30,570.[2]

It's important to make sure you're contributing enough to your Registered Education Savings Plan (RESP) and any other investment vehicles you may be using. Otherwise, extra funds to cover higher-than-expected costs might end up coming from your retirement savings.

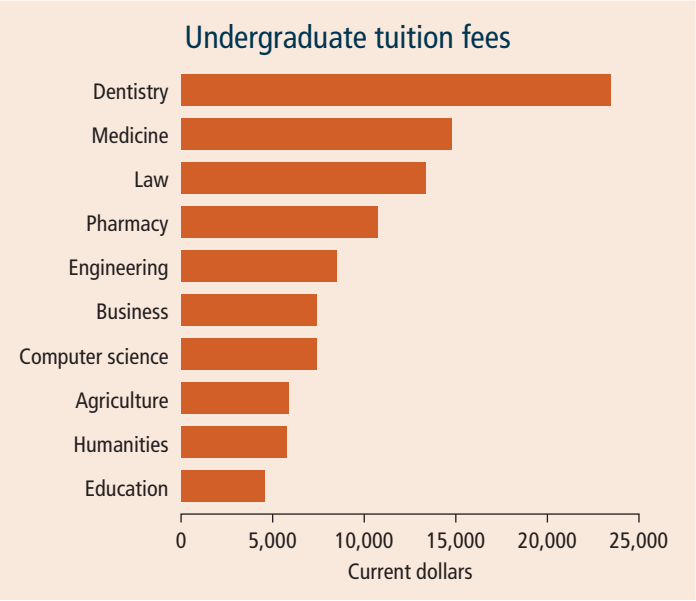
Your RESP – a solid foundation

RESPs remain the foundation of education funding. Your contributions grow tax-deferred and you can contribute up to $50,000 for each child. You also receive the Canada Education Savings Grant (CESG), paid directly into the RESP. The government matches each contribution by 20%, up to $500 annually, to a maximum total of $7,200 for each child.

If you start contributing early and take full advantage of the annual grant, your RESP alone may meet your education savings goal. Some parents may choose to supplement an RESP with other investment vehicles to accumulate more education savings, or because they want a source of savings that can easily be used to meet other financial goals if not required to fund education.

Investing with an in-trust account

An in-trust account, sometimes called an informal trust, is a non-registered investment account you establish for one minor child. If you want to save for two children, you'll need two such accounts. They're easy to set up and can provide tax advantages. When you use an in-trust account for equity investing, capital gains are taxable to your child, which typically means paying little or no tax when withdrawals are made during university years. Interest and dividend income earned on original capital are taxable to you, but income earned on income is taxable to your child. You can invest as much as you wish annually and in total. These accounts have flexibility, as the funds don't need to be used for education costs. Upon reaching the age of majority, the child may request the assets in the account or may choose to leave some or all of the assets in trust until a later date.



Canadian university averages, 2018/2019

Using Tax-Free Savings Accounts (TFSAs)

Tax-free growth and tax-free withdrawals make a TFSA an ideal vehicle for education savings, and contributions can be considerable if you use both your and your spouse's TFSAs. If you wish, once your child turns 18, you could give money to your child to contribute to her or his own TFSA. And as you withdraw funds for education costs from your own TFSA, you can re-contribute withdrawn amounts the following calendar year.

Many decisions are involved

Whether to supplement an RESP with other investments is only one of several decisions to make. If you have more than one child, you might also want to know if individual RESPs or a family plan suits you best. As teen years approach, you may wonder when you should make RESP investments more conservative. When it's time to withdraw RESP funds for university costs, you'll want to know about the strategies involved in accessing taxable funds versus non-taxable funds.

Please contact us to discuss any of the decisions that arise as you take care of the financial side of your children's education. ■

Sources:
1. Statistics Canada, Table 37-10-0003-01, Canadian undergraduate tuition fees by field of study
2. Statistics Canada, Table 37-10-0004-01, Canadian graduate tuition fees by field of study

HOW TO SAVE TAX AS A COUPLE

You can't escape paying tax on income, but you may be able to split some of your income with your spouse. And if your spouse is in a lower tax bracket, you'll pay less tax as a couple. Here are three scenarios that illustrate some of the tax-saving strategies available through income splitting.

Kim and Henry

Kim, an executive at a health care firm, is the couple's primary income earner, and Henry is a self-employed photographer. The couple saves tax in several ways, all involving investments.

If Kim simply gave money to Henry to invest, as a way to pay less tax on income and returns, attribution rules would pass the tax bill back to Kim. But she uses a prescribed rate loan. Kim loans $100,000 to Henry that she received as an inheritance. She charges Henry interest at the government's prescribed rate, currently 2%, and investment income is taxable to Henry at his lower rate. It takes a large loan like this and a significant difference in marginal tax rates for the strategy to be worthwhile.

In addition, the couple uses an easy and effective investment technique. Kim covers household bills and expenses so Henry can use his earnings to invest in a non-registered account – again, benefiting from his lower tax rate.

Kim also gives money to Henry that he contributes to his Tax-Free Savings Account (TFSA), which attribution rules allow.

Mark and Laura

Mark owns an event planning business. His wife, Laura, has been working part-time to bring in new business, largely through social media. She is paid by the company with dividends taxed at her personal rate. But when the new Tax on Split Income (TOSI) rules took effect on January 1, 2018, their previously acceptable income-splitting arrangement was in jeopardy. Laura worked fewer than 20 hours per week, which subjects her dividends to tax at the highest marginal rate.

The couple had a decision to make – switch payment to salary, which is not subject to the TOSI rules, or meet the new requirements. They prefer the relative simplicity of dividends over the paperwork that salary involves. So Laura now works a minimum of 20 hours per week and continues to receive tax-friendly dividends. The couple still benefits from income splitting and Laura keeps time records to demonstrate they are onside of TOSI rules.

Amelia and Hasan

A retired couple, Amelia and Hasan are making the most of their retirement income by paying less tax where possible. Hasan had been the higher-income earner and he established a Spousal Registered Retirement Savings Plan (RRSP), now a Spousal Registered Retirement Income Fund (RRIF). Amelia withdraws funds from the Spousal RRIF to help support the couple's lifestyle, which is taxable at her lower rate.

Hasan takes the minimum required withdrawals from his RRIF and splits half of his RRIF income with Amelia. This strategy saves tax and helps Hasan prevent Old Age Security (OAS) clawback by lowering his net income.

The couple also shares their Canada Pension Plan (CPP) benefits. The government uses a formula to determine the exact split, based on giving Amelia and Hasan an equal share of the combined pension they earned while living together. ■

EARLY SPOUSAL RRSP WITHDRAWALS

Here's a strategy especially effective during a period when one spouse has little or no earned income. For several years, the spouse earning the higher income contributes the maximum allowable amount to the spousal RRSP. Then the higher-income spouse stops these contributions and begins contributing to his or her own RRSP for two calendar years after the year of the last spousal RRSP contribution.

Now the lower-income spouse withdraws funds from the spousal RRSP. If withdrawals had been made earlier, during the two- to three-year waiting period, they would be taxable to the higher-income earner. But these withdrawals are taxable at the lower-income spouse's favourable rate. The withdrawn funds can be used as contributions to the higher-income earner's RRSP or to the couple's TFSAs.

This strategy can be used once or repeatedly – and should only be carried out with guidance from your advisor. It offers the tax advantage of the higher-income spouse receiving an RRSP tax deduction at a higher rate, while funds are withdrawn from the spousal RRSP at a lower tax rate. And the withdrawals can be invested to gain further tax benefits. ■

ARE YOU ENTERING THE RETIREMENT RISK ZONE?

For several decades as an investor, there was always a silver lining to a market downturn. That's when investment managers purchased stocks at value prices so you could enjoy higher returns when the market rebounded. But that all changes when you're close to retirement and once you're retired.

Just before retirement, a plummeting market can severely reduce a nest egg's value. There may not be time for markets to fully recover and retirement may need to be postponed. A market downturn just after you retire creates a different crisis. You are no longer investing money to benefit from a rebound. Your nest egg loses value at the same time you're withdrawing retirement income, compounding the financial consequences. You may need to modify your retirement lifestyle to ensure you don't outlive your savings.

These potential dangers are why this period has been called the retirement risk zone, which begins about five years or longer before retirement and lasts about five years or longer after the retirement date.

Managing the risk

Not terribly long ago, safeguarding your portfolio before and after retirement could be quite straightforward. Simply decrease your equity allocation as retirement approaches, increase fixed income, and maintain the conservative mix throughout retirement. But in most cases this strategy alone is no longer enough. Today's low interest rates don't allow for enough income, and increasing longevity requires more growth to fund a longer retirement.

Fortunately, there are several financial strategies to protect against the risk of a market downturn during these critical years. One solution involves creating a pool of low-risk fixed-income investments designed to provide several years of retirement income. A separate portfolio of higher-yield fixed income and equities provides longer-term income and growth – and is used to replenish the retirement income pool. This solution is built to withstand market dips, always securing annual income while funding a long retirement.

Other solutions begin upon retirement, such as basing annual retirement income on a fixed percentage of portfolio assets, which takes less of your capital when markets are down.

Determining your solution

These solutions and others are all available to you, and often the answer is to use two or more solutions in combination. Arriving at the best method or methods is based on numerous factors, including your retirement income sources, whether you're supporting a spouse, the size of liquid assets, your risk tolerance and estate plans.

If you're approaching the retirement risk zone, get in touch with us to explore the solutions that will suit your situation. ■

HOW OFTEN SHOULD YOU CHECK YOUR PORTFOLIO?

Your portfolio represents your future, so it's only natural to want to monitor how your investments are doing. How often you need to check largely depends on the type of investor you are. Active investors who constantly buy and sell individual stocks will monitor performance frequently, perhaps daily. But individuals with well-diversified managed portfolios investing for the long term have less need to check their portfolios on a constant basis.

For many long-term investors, checking every three months is fine. Others may prefer checking at least once a month. It's very much an individual decision. Younger investors saving for retirement might only check every six months or less often.

End unnecessary worry

There's one type of investor who needs to be careful – the long-term investor who checks performance weekly or several times a week and is prone to worry. When you constantly monitor your portfolio, you'll often witness fluctuations in value from one day to the next. That's the nature of the markets. Over the long term, an investment may trend upwards, but in the short term its path may be marked by a series of ups and downs. The more frequently you check your portfolio, the more likely you are to see these swings in value – and the dips can cause anxiety.

In this case, it's best to exercise self-discipline and stick to a monthly or quarterly schedule. You'll lose the stress over short-term noise, and you can focus on reaching long-term objectives. ■