Assante® WEALTH MANAGEMENT

WELL-ADVISED

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Have you reviewed your will lately? Maybe you have beneficiaries to add or your marital status changed. You may wish to change inheritance amounts or reconsider your choice of executor or guardian. Perhaps your assets changed. Or you're making a planned gift. If any of these apply, your will may need updating.

SHOULD A RETIREMENT PLAN INCLUDE YOUR HOME?

When your home represents a sizable portion of your net worth, you might wonder if downsizing would give you a more comfortable retirement. It's a decision that not only involves financial planning, but practical and psychological factors as well.

Retirement planning versus estate planning

If downsizing your home generates a large-enough net gain, you could travel more during retirement, purchase vacation property or invest the difference and boost retirement income. Downsizing as retirement arrives could prevent the need to work longer than planned.

However, there's a strong case for making the family home part of an estate plan. Under the principal residence exemption, the home becomes a large tax-free inheritance for children, and you avoid the complications of a move.

Your happiness matters

Your home may be the place you're most comfortable, a source of fond family memories, where you feel you belong. That contentment may be more important than any dollar value.

On the other hand, psychological factors could support leaving. Perhaps you chose your home because it was close to work, but now you'll have peace of mind being close to nature.

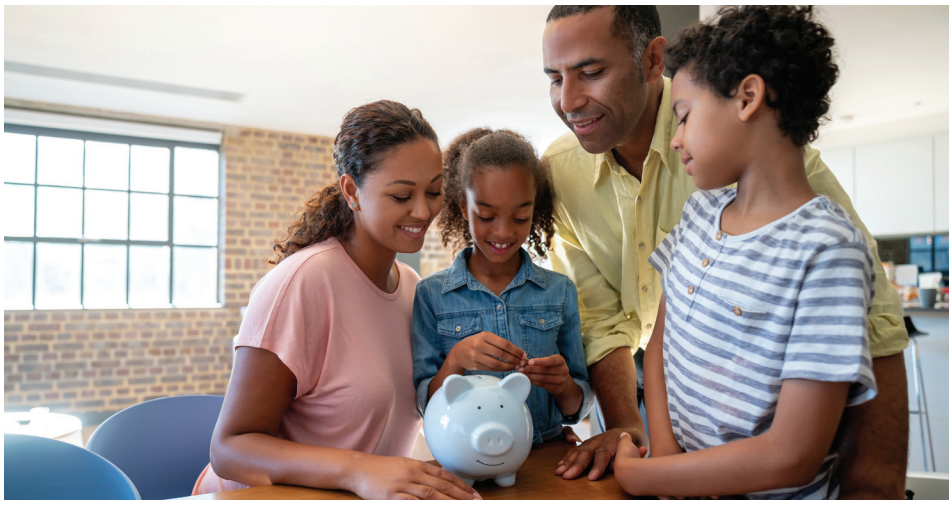
A practical choice

Downsizing means less home to maintain. For example, a move to a condo would eliminate mowing the lawn and shovelling snow. Some retirees may not even need a traditional home, such as a couple who enjoys warmer months at their vacation property and spends winters down south.

But reasons of practicality could be why you don't downsize. You may value your home as the family's gathering place for holidays, celebrations and visits. Or you might consider the possibility of a child returning temporarily.

If you ever wonder about selling the family home, feel free to contact us. While you consider the practical and psychological factors, we'll help you assess the financial side of downsizing. ■

TEACHING YOUR CHILDREN TO MANAGE MONEY



Today's youth may prefer to pick up information online, but when it comes to learning about financial life, parents still have some influence. Here are a few teaching moments.

Younger ages

One day your children believe money comes from the tooth fairy, and later discover they've got to earn it. Quite a journey, and you're the guide.

Lessons from allowance. Allowance gives you great flexibility to teach any lessons of your choice. When children are in their tweens, you could tie allowance to either doing household chores or completing special tasks, so they gain an appreciation of work. If allowance is regular spending money, children can learn to budget their dollars until next payday, or choose to save.

Communicate with your children. When you share financial information, your tweens or teens can learn a lot about the financial world. Tell them about your mortgage payments, explaining the concept of principal and interest. Teach them about the Registered Education Savings Plan (RESP) that's in their name. Show them the water bill and tell them water's not free.

Consider a debit card. During high school, a debit card can be an effective tool to teach children about money management. If the funds are the child's own earnings from a part-time or summer job, she or he may develop an appreciation for spending on needs versus wants. If you're funding the debit card, you have an opportunity to teach your child about sticking to a budget.

College and university years

These are the bridge years, when your child assumes greater financial responsibility, but remains very much in the learning stage.

Keeping a budget. Using a budgeting app could be an effective way for your child to get started on tracking expenses. All that's needed is a monthly report of where money was spent by category – including food, cell phone, transportation, education costs, entertainment, rent, and others. This report might show that financial life is on track, shed light on expenses to be cut back, or demonstrate the possible need for more funding.

Investing basics. If you have your child open a Tax-Free Savings Account (TFSA) upon reaching 18 (or 19 in British Columbia, Newfoundland, New Brunswick and Nova Scotia), you can gift funds that your child contributes. Ideally, the arrangement is that your child learns some investment basics in return for the gift, either from you, or online, or you can ask us to help out. The basics would be to acquire general knowledge of stocks and bonds, risk, diversification and time horizon.

Filing tax returns. Your child isn't obligated to file a return unless tax is payable, but filing offers several benefits even if your child has little or no income. Filing enables the student to claim the tuition tax credit to use now or carry forward. At 19, your child may qualify for the GST/HST credit, payable four times per year. Reporting income creates Registered Retirement Savings Plan (RRSP) contribution room to use later. If income tax was deducted from paycheques, your child may receive a refund.

Managing money is a learning process, so don't worry if your children make a mistake or two along the way. Praise them when they're doing well, and encourage your children on the path to becoming financially responsible. ■

CREDIT CARD DO'S AND DON'TS

College and university students may encounter credit card sales representatives on campus. Students can get their own card at age 18 in Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Prince Edward Island, and at 19 in other provinces. If your child follows these guidelines, hopefully the card won't be seen as free money.

The do's

- Aim to limit purchases to what you can pay at the end of the month, to avoid interest charges.
- If you're unable to pay the entire balance, at least make your payment on time.
- Keep track online of what you owe to avoid an unwelcome surprise at month's end.

The don'ts

- Don't continually make only the minimum monthly payment as this practice can lead to a debt you find insurmountable.
- Don't treat your credit limit as an allowable amount to owe – the goal is to spend wisely, not spend whatever you can.
- Don't use your credit card to withdraw cash because interest charges begin right away.

DECISIONS, DECISIONS, DECISIONS...

Many life decisions can be difficult, but when they involve a financial component, input from your lawyer, accountant or advisor could help in some way. Here are a few scenarios to illustrate how such input can make a difference.

Caring for a parent

Aila and Mark are a couple in their 50s, both working full-time. Aila's mother, a widow, can live at home but needs some personal care and help managing the house. Aila would like to only work part-time so she could help care for her mother in daytime hours. But the couple worries that decreased income will affect their retirement plans. They do have the option of Aila's mother receiving care from a provincial government program, with private care providing additional support.

The couple ask their advisor for assistance. The advisor provides a financial projection of their nest egg based on Aila working full-time and part-time, outlining how the difference can affect retirement plans. Now the couple can make a decision based on solid information, rather than guesswork. Alia decides to help care for her mother, comfortable with the retirement planning options her advisor explained.

Investing an inheritance

Shannon receives an inheritance from her father, which she plans to invest. She also receives conflicting suggestions about whether she should invest the lump sum at once or invest smaller amounts periodically. Shannon consults her advisor for guidance.

Shannon's advisor explains the pros and cons of each method. Generally, time in the market beats trying to time the market, pointing toward investing the entire sum now. But lump-sum investing doesn't always win out. If the markets suffer an extended down period, for example, investing periodically means you consistently buy low – coming out ahead when markets rebound.

The advisor learns that Shannon's greatest fear is investing it all at the wrong time, before a market drop. So, Shannon, with her advisor's support, determines that investing periodically is the best decision.

Making a career decision

Albert had been employed by the same engineering firm for 25 years, but recently lost his job when an international company bought the firm. He's deciding between searching for a similar position or going into business for himself as a consultant. He prefers to work as a consultant, but Albert is unsure if his severance package alone would provide enough of a financial cushion during the starting-out period.

Albert meets with his advisor to discuss the situation, and they look for ways to help Albert stay ahead financially. Their list includes Albert and his spouse living on a budget and renting out their vacation property. Albert's advisor points out that in two years the mortgage will be paid off, and those dollars can go toward living costs and retirement savings. Feeling comfortable about his financial situation, Albert begins his new venture as an engineering consultant.

Changing family plans

Until recently, Martin's retirement, business succession and estate plans all looked set. Victoria and Ellen, his two daughters, would take over the bakery and inherit the family vacation property. Martin would retain ownership of the business during retirement and withdraw dividends to help provide retirement income. But now both children have decided to pursue other careers, and only Victoria wants the vacation property as Ellen moved out of province.

Martin can't decide between selling or keeping the bakery during retirement, nor between selling or handing down the vacation property. He tells his advisor about his predicament, and together they arrive at a decision that suits all parties. Victoria will get the vacation property. Ellen will be made beneficiary of an existing permanent life insurance policy originally intended to support the business in the event of Martin's passing. Martin will sell the business to fund his retirement.

You might not experience one of these exact scenarios, but you may face a financial decision that could easily be added to this list. If you ever do, please don't hesitate to ask for our assistance. By showing how different options affect your financial plans, our input could help you make the decision that's right for you. ■

HOW TO CHOOSE A BENEFICIARY FOR YOUR RRSP OR RRIF

One factor drives many decisions behind naming a beneficiary for a Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). When an individual passes away, remaining assets in the RRSP or RRIF are taxed as income at the marginal tax rate on the final return – unless the individual has named a "qualified beneficiary." A qualified beneficiary is the spouse (or common-law partner), a financially dependent child or grandchild under age 18, or a financially dependent child or grandchild of any age with a physical or mental disability.

Naming your spouse

By naming your spouse as beneficiary of your RRSP, assets will roll over to the spouse's RRSP and continue to grow on a tax-deferred basis. Your estate doesn't face the tax bill.

Note that when you convert an RRSP to a RRIF, the beneficiary designation doesn't carry over. If you still want to designate your spouse, you can name him or her as beneficiary or successor annuitant of the RRIF. As successor annuitant, the spouse takes over the existing RRIF, with investments and payments remaining the same. It's an easy transfer.

Naming your spouse as beneficiary of your RRIF is more cumbersome. The existing RRIF collapses, investments are sold, and funds roll over tax-deferred to the spouse's RRSP or RRIF, all of which involve paperwork. Also, there's the investment risk of selling securities whose value has fallen at the time of the transfer. But the beneficiary designation provides more flexibility. For example, it may be desirable tax-wise to leave some RRIF assets in the estate, with the balance rolling into the spouse's RRIF or RRSP.

The charity advantage

Designating a charity as the beneficiary of your RRSP or RRIF assets provides a significant tax benefit. The RRSP or RRIF assets are included as taxable income on your final tax return, but the estate receives a tax credit for the entire donation. Typically, the net result is that the estate could pay no tax on the RRSP or RRIF proceeds.

Designating your estate or other beneficiaries

In estate planning, it's important to keep in mind that when you name a non-dependent child, grandchild or other person as beneficiary of your RRSP or RRIF, the beneficiary receives assets tax-free. Your estate pays the tax, so you must account for that tax liability.

In some cases, an individual will name the estate as RRSP or RRIF beneficiary. The purpose could be to fund a trust, cover such tax liabilities as capital gains tax on vacation property, or meet specific directions in the will. Note that designating the estate as beneficiary exposes RRSP or RRIF assets to the estate's probate fees – with all other designations, these assets pass outside of the estate.

Talk to us if you wish to discuss your choice of beneficiary, whether it's for your RRSP, RRIF or any financial vehicle. ■

END OF YEAR REMINDERS AND STRATEGIES

Several routine financial planning items must be completed by December 31. For example, make any charitable donations that you wish to report on this year's tax return. Contribute to a Registered Education Savings Plan (RESP) to trigger the annual Canada Education Savings Grant (CESG). If you turn 71 this year, you have until December 31 to make your final Registered Retirement Savings Plan (RRSP) contribution and terminate the plan.

Some situations, however, call for less-routine measures that must also be performed by year-end.

Making a TFSA withdrawal. If you plan on making a Tax-Free Savings Account (TFSA) withdrawal in the near future, doing so by December 31 enables you to regain the contribution room on January 1, 2020. But if you wait until the new year to make the withdrawal, you can't replenish the funds until 2021.

Triggering a capital loss. If you no longer wish to hold a non-registered investment whose value has decreased since its purchase, you could sell the investment to trigger a capital loss. The loss can offset taxable capital gains you realized in 2019, and any excess loss can be carried back three years or carried forward indefinitely.

Topping up to bracket. This strategy primarily suits retirees with funds in an RRSP or Registered Retirement Income Fund (RRIF) that would eventually be taxed at the highest marginal rate when payable by the estate. You withdraw an amount by December 31 that increases your annual income to the upper limit of your current tax bracket, resulting in reduced tax over the long term. ■