Assante®
WEALTH MANAGEMENT

WELL-ADVISED

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Do you have an estate directory?

An estate directory is a record of contact people and financial information your executor needs upon your passing. Professionals include your advisor, accountant and lawyer. Information includes the location of your will and any trusts, a list of assets and insurance policies, a record of investment and bank accounts – and all other information required to administer your estate. When you think of all the names and information you're compiling, you can imagine the challenges your executor would face without this record.

Talk to us if we can assist you in preparing this document.

WHEN TO MAKE A MOVE TO SAFETY

Many long-term investors wonder if they should take action when markets suffer a downturn or become volatile. Should you sell equities and turn to the safety of cash? Should you stop making regular investments? Such thoughts are understandable, but these actions can decrease portfolio value over the long term.

Patience pays off

During a market downturn, investors who sell equities in favour of low-interest investments (or securities) can lose out in two ways – they lock in the loss when selling at lower values, and they reinvest at more expensive prices when markets rebound. Plus, putting a stop to regular contributions can result in missed opportunities. By continuing to invest regularly, you purchase equities when stock prices are lower, which can lead to solid gains once markets recover.

Safety matters as goals draw near

A time you *should* move a portion of your portfolio to lower-risk investments is when you're approaching a major investment goal. Make education savings more conservative when your child is a few years from secondary school graduation. Safeguard your retirement savings when you're about five or more years from retirement. This way, you help protect your investments against potential market declines at a crucial time.

When it takes resolve

Some people approaching a financial goal worry about missing out on profits if they reduce equity holdings during a strong market. But say these investors began safeguarding their portfolios in January of this year. What if they held off because in 2019 almost every major stock market around the world posted double-digit returns? They would've been in for a scare one month later when the coronavirus pandemic rocked the markets. Chasing gains is risky when your future is at stake.

Let us know if you have any questions or concerns about investing in volatile markets or when to safeguard your portfolio as an investment goal nears. ■

HOW TO MAKE TAX-SMART RESP WITHDRAWALS

When it's time to withdraw funds from a Registered Education Savings Plan (RESP), tax planning may be involved. It's all because an RESP is composed of two pools of money, one taxable and one non-taxable – and you choose the pool for each withdrawal.

One pool is your original contributions. Post-secondary education contribution withdrawals, as they're called, are non-taxable because you made contributions with after-tax dollars. You can take money from this pool in any amount, at any time and for any purpose.

The other pool consists of Canada Education Savings Grant (CESG) funds, any provincial grants and plan earnings. Withdrawals from this pool, Education Assistance Payments, are taxable as income to the RESP beneficiary while she or he is a student.

Post-Secondary Education Contribution Withdrawals

- Pool consists of original contributions
- Not taxable

Education Assistance Payments

- Pool consists of Canada Education Savings Grant funds, any provincial grants, plan earnings
- Taxable to the student

Withdrawal strategies

You have two goals when drawing down an RESP – minimizing or eliminating tax payable by your child or children and using up the pool of Education Assistance Payments so you take advantage of all the grant money.

When student income is lower. Many students don't have to worry about paying income tax, thanks to the basic personal amount and tuition tax credits. This means you can start by withdrawing funds exclusively as Education Assistance Payments. You empty the taxable pool without owing tax, then you take non-taxable post-secondary education contribution withdrawals.

When your child pays income tax. Your child might owe income tax in a year he or she has a well-paying spring and summer job, paid internship or co-op work term. In such a year, you could pay education costs with non-taxable post-secondary education contribution withdrawals. Use the Education Assistance Payments in years your child's income is below the taxable threshold.

When education costs turn out lower. What if you save for a four-year university education, but your child chooses a two-year college program? Or you account for residence costs, but your child chooses a local university and lives at home? You would end up with excess RESP savings. In this situation, you may wish to access Education Assistance Payments first – even if withdrawals from this pool result in your child paying tax. That's because this pool includes Canada Education Savings Grant funds, and you must refund to the government any unused grant money.

When you have a family plan

Withdrawals from a family RESP follow the same tax strategies as individual plans. Just be careful with a family plan that you monitor the Education Assistance Payments, which include Canada Education Savings Grant funds, for each child. By the time all children have finished school, you want to empty the Education Assistance Payments pool, while ensuring no beneficiary receives more than their $7,200 maximum of grant money.

Talk to us when it's time to access your RESP savings, and we'll help make sure your withdrawals are as tax-effective as possible. ■

WHEN AN RESP IS UNUSED

RESPs can fund a variety of learning options beyond traditional colleges and universities – including apprenticeships, trade schools and private academies in Canada and other countries. But if your child doesn't pursue post-secondary education, you have several options for what to do with RESP funds.

Pay for another child's education. You can use the funds for another one of your children, whether you have a family plan or individual RESPs. But you may need to return some Canada Education Savings Grant (CESG) funds to the government – each child can receive a $7,200 maximum of CESG funds for education costs.

Keep the RESP open. In case your child decides to pursue post-secondary education in the future, you can keep the RESP open for 35 years after the year it was established.

Close the RESP. When you close an RESP, you receive the amount of your original contributions without tax consequences, and you refund Canada Education Savings Grant funds to the government. The remainder is plan earnings, called the Accumulated Income Amount, which is taxable as income and subject to a 20% penalty.

There is a way to defer the tax and avoid the penalty. You can transfer up to $50,000 of the Accumulated Income Amount to your Registered Retirement Savings Plan (RRSP) or a spousal RRSP. If you don't have contribution room, you could stop making RRSP contributions until you create enough room to complete the transfer.

The Accumulated Income Amount can also be transferred, tax-deferred and without penalty, to a Registered Disability Savings Plan (RDSP) if the RRSP and RDSP have the same beneficiary. ■

WHEN TO REVIEW YOUR ESTATE PLAN

It's easy to think you can put off changes to an estate plan – the plan doesn't even take effect during your lifetime. But it's important to avoid delay because many changes call for strategies best implemented sooner rather than later. Also, you make estate planning changes now for the same reason you made a will and purchased life insurance: to benefit your loved ones if you pass away prematurely.

Life changes calling for a review

Typically, you should review an estate plan whenever a new situation arises that potentially calls for an update. But if several years have passed without looking over your plan, it's a good idea to conduct a review anyway.

Keep in mind that although a will is central to estate planning, much more is involved. Assets could be distributed outside of the will, through such means as life insurance and registered savings plans. Certain family situations may call for the establishment of a trust. Estate planning also includes powers of attorney for both financial matters and personal care. And you may require tax planning to help preserve the value of estate assets.

Here are key life changes that are reason to review your estate plan.

Change in appointed individuals. In the process of estate planning, you name individuals as beneficiaries, attorney (for power of attorney), executor and possibly trustee. If your executor, alternate executor, trustee or alternate trustee passes away, moves out of province or is no longer capable or interested, you'll need to name a replacement. You may also find that your estate has become more complex to administer, now requiring the services of a corporate executor.

If a beneficiary suffers a serious illness or disability, you may consider establishing a trust. You may also wish to add beneficiaries, such as grandchildren.

Marital or family status changes. You have quite a few changes to make in the event of separation or divorce, or a new marriage or common-law relationship. There's the larger picture of revising the financial aspect of your estate plan and the details of changing beneficiary designations – from your will to a life insurance policy. If you're newly married with a blended family, you may want to explore estate planning strategies to help provide for your new spouse and children from a previous marriage. You also need to update your will and estate plan upon the birth or adoption of a child, and may need to make changes when a child reaches the age of majority.

Developments in your financial life. There's no need to update your will and estate plan every time there's a routine change in your net worth. But you should review your plan if a major change affects distributions from your estate or calls for a new tax strategy. Such changes include receiving a significant inheritance, purchasing vacation or rental income property or any major business-related change – buying or selling a business, or deciding to hand over the business to your children.

If assets appreciate considerably, you may need to implement a tax strategy to manage capital gains tax payable by your estate. Also, consider digital assets. Assign your executor or another person the responsibility for online financial accounts and their passwords, any digital content on websites and social media, and related digital property.

If you're in retirement and plan to leave a large balance in your registered retirement savings, without a spousal rollover opportunity, you may need to plan how the estate will cover the tax liability.

Changing distribution of assets. A variety of scenarios may arise when you want to change the way you allocate estate assets among beneficiaries. For example, say that vacation property was to be handed down to both children, but now one child moved out of province. Perhaps one child will inherit the property, and the other child will be made beneficiary of a permanent life insurance policy. Another example is if you decide to make a charity one of the beneficiaries of your will.

The timing of distributions can change. Instead of giving a beneficiary one lump sum, you might now have reason to make smaller distributions over time.

Help with your review

You'll make many of these changes with us, and others with your lawyer, but please feel free to contact us to discuss any or all possible changes to your estate plan. ■

CAN YOU RETIRE EARLIER?

Today, to change a retirement plan often means postponing the date, not moving it up. After all, we're living longer, and early retirement adds even more years to fund. But there are special circumstances when retiring earlier than planned becomes an option to consider.

When earlier is viable

You don't need to win the lottery to retire earlier. Here you'll find the more common reasons why some people are able to move up their retirement date.

Benefiting from an employer's pension or incentive plan. Many people with an employer-sponsored pension in the public or private sector have the option of retiring early with a reduced pension – sometimes retiring 10 years before the plan's normal retirement age. Or an employer may offer an early retirement incentive to specific employees.

Receiving an inheritance. If you receive a significant inheritance, you may be in a position to retire earlier. But any calculation needs to account for the future income you'd be giving up and recognize you'd be increasing the number of years retirement income is required.

Having no dependants. A couple without children or other dependants has the opportunity to reach retirement sooner than a couple paying for braces, summer camp and post-secondary education. But an investment plan is still required to ensure the "extra" dollars are dedicated to retirement savings objectives.

Suffering an illness. Individuals who suffer a serious illness a few years before their planned retirement might consider not returning to work, even if they're able, especially if their condition is made worse by stress.

Capitalizing on business or investment success. An owner of a profitable business may be in a position to sell the business before he or she would have normally retired. Or earlier retirement could be made possible through investment

success, such as holding valuable investment property that can provide rental income throughout retirement years.

Making the decision

The first thing to know is whether you'll have enough income to support your desired retirement lifestyle without outliving your nest egg. That's a projection we can help you with, once we understand how you wish to spend retirement.

But other financial factors go into the decision, beyond retirement income. You'll want to account for any unexpected expenses, such as long-term care or helping a child financially. You'll need to determine what you want to set aside as an inheritance for your children or a charitable gift. Also, you should decide if you'll preserve estate assets by covering tax payable by your estate, for example, by purchasing life insurance.

If you're thinking about retiring early, ask for our assistance. Whatever you decide, you'll know it's the right decision for you financially. ■

DOES IT PAY TO RENOVATE?

One spouse wants to modernize the kitchen with a quartz-topped island, sleek push-open cabinets and built-in appliances. But the other spouse wants to make the basement into a home theatre with a state-of-the-art projection system, surround sound and reclining theatre-style seats. If this couple had to choose one renovation based on adding value to their home, the new kitchen wins. According to the Appraisal Institute of Canada, renovating the kitchen brings the highest return on investment, followed by renovating the bathroom, then repainting the home's exterior or interior.

The financial reality

No matter what renovation project you choose, there's one key factor to recognize – any boost in your home's value will likely be less than the cost of the renovation. However, the Appraisal Institute cites that kitchen and bathroom renovations can typically recover 75% to 100% of their cost. So, generally speaking, you should renovate because you want to enjoy the transformed space, not to turn a profit on the upgrade when selling your home.

Difference makers

Determining whether a renovation pays is different when you create a new living space or improve the livability of existing rooms. Making a basement into a rental unit will pay for itself and continue to produce ongoing income. A new living space could be created for an elderly parent who can't manage independently. Homeowners who develop mobility issues may renovate their homes to increase accessibility, such as adding amenities that enable them to live on one floor. In these cases, renovations are worthwhile in ways beyond adding value to a home. ■

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