Straight Forward

Summer 2019

Parting ways: Your Wealth Plan after a marriage or common-law breakdown

Wealth Advisory Services, TD Wealth

A Wealth Plan is a living document that requires regular review and monitoring, especially as you experience different life events. Many aspects of your Wealth Plan are based on your current circumstances, goals and priorities, and a life event such as a breakdown in your marriage or common-law relationship will trigger the need for you to re-evaluate these goals and priorities to ensure you've got a plan in place that aligns with your new circumstances.

Net Worth and Cash Flow

A Net Worth statement is a snapshot of your current assets minus your liabilities. This is an important part of the wealth planning process as it can help you determine your financial security. It is common to have a negative net worth in your 20's and 30's as you begin your career and make major purchases such as your first home, but as you pay down debts and begin accumulating assets and savings, your net worth starts to grow and becomes positive. For married couples, in the case of a relationship breakdown, depending on your province of residence, there will likely be a division of property, which means that the assets and liabilities accumulated during the relationship will need to be divided. Creating a Net Worth statement will provide you with a view into where you are financially following the division.

Your Cash Flow captures all of your inflows and outflows on a monthly or annual basis. As a married or cohabitating couple, it is common that your cash flow is analyzed as a household, capturing the income of both spouses, as well as any joint and individual expenses. As you go through the process of living separate and apart, it is important to revisit your budget on an on-going basis to ensure you have adequate cash flow to cover your living expenses, taxes, and required savings.

Retirement Planning

As a married or cohabitating couple, your retirement plan likely factored both spouses, including any accumulated assets, projected savings, and government benefits. Your retirement income goal was most likely based on shared living expenses and your collective desired lifestyle. It's important to consider what your living expenses will look like as a single person and how to ensure this is adequately funded. Couples who experience a relationship breakdown closer to retirement may find themselves in a situation where they need to reassess their desired retirement age and income goal if they don't have enough of a buffer before retirement to achieve their objectives following the settlement of their financial affairs.

A Cash Flow statement captures all inflows and outflows of cash on a monthly or annual basis to help you determine your capacity to save towards your goals while continuing to meet your financial obligations. Now that your circumstances have changed, it is important to revisit your cash flow to ensure that your cash inflows are adequate for all your living expenses, taxes, and savings.

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TD Economics

Chill wind of trade policy could stifle global economic 'green shoots'

Derek Burleton, Deputy Chief Economist, TD Economics

Following a few exceptional, stimulus-boosted years of growth, global growth expectations have been on a one-way ride down over the past year. Consensus forecasts[1] for real GDP growth in 2019 have fallen from nearly 4% more than a year ago to a below-trend 3.2%. There are three main culprits for this dramatic adjustment: growing trade tensions; falling world trade volumes; and the confidence-sapping impact of elevated market volatility in late 2018.

The world economic landscape remains rife with potholes. Fortunately, forecasts of world expansion have steadied since falling to this more modest pace in the winter. The first notable step in the process towards stabilization has been the broad improvement in global financial conditions since late 2018, which was in turn supported by the pivot to patience by major central banks. Notwithstanding the wobbles of late, global equity markets have recorded gains since hitting a nadir in January, while bond yields have fallen another leg down and risk spreads have remained contained.

As financial conditions have firmed, forecasters have been actively hunting for signs of feed-through to the real economy. Here, evidence of "green shoots" has been far from widespread, but we would point to the following: (1) Consumer and business sentiment surveys have stabilized or edged higher from recent lows in most major economies; (2) Strong job gains and firming wage growth in recent months have been providing support to household spending across the G7; (3) Signs of life have been concentrated in service industries. However, global trade and industrial production have also shown some indication of firming, albeit at relatively low levels.

Among the regions, the U.S. has been a special case, as its economy in 2018 managed to buck the trend of a slowdown, aided by tax cuts and increased government spending. Consensus[1] had predicted growth to return to a more sustainable rate of 2% in 2019 as the impact of past stimulus faded. If anything, consensus estimates for 2019 have been nudged up, with the U.S. economy on track to grow around 2.5% (annualized) in the first half.

In Canada, there has been mounting evidence that economic activity is awakening from its recent hibernation. Oil industry output remains depressed, but production curtailment impacts are easing. Moreover, highly indebted households appear to be showing more confidence. After months in the doldrums, retail sales and home sales are firming heading into the summer. Looking ahead, we anticipate that a robust job market and decent wage growth will be keys to supporting a moderate rebound in economic activity beginning in the second quarter of 2019. This assumes that households remain on pace to boost spending on services and propel the economy forward, offsetting a manufacturing sector that remains stuck in neutral.

Similar themes are playing out elsewhere. European economic activity is expected to firm up after a soft end to last year as manufacturing activity continues to recover from temporary setbacks. Moreover, the low-interest-rate environment, together with decent wage growth, remains conducive to a firming in consumer spending this year. As in the case of Canada, stronger spending on services is expected to offset lower manufacturing output and weaker foreign demand.

In Asia, it's no secret that China's slowing economy has been hurt by U.S. tariffs. In response, Chinese authorities have launched programs to support employment and the manufacturing sector more broadly by encouraging household spending. That said, the escalation of tariffs to 25% on about US$200 billion of Chinese exports is likely to trigger another round of stimulus by Chinese authorities, just to ensure that growth for this year falls within the 6% to 6.5% target range.[2] All told, pieces that should allow the global economy to gain some modest traction in the second half of this year are starting to fall into place.

That said, just as some "green shoots" have started to sprout, there is the potential for a severe bout of chill winds to stifle their development. Since May, there has been a re-escalation in trade tensions between the U.S. and China, and more recently, the U.S. and Mexico. As this is being written, on June 4, the situation remains extremely fluid. Suffice to say that these tariff threats can prove quite harmful to the U.S. and global economies, with U.S. consumers expected to foot much of the bill. Moreover, the U.S. administration continues to threaten the European Union and Japan with automobile tariffs as part of its negotiating tactics as it pursues trade talks with both parties this year.

Like most economies, Canada's economy would feel collateral damage of increased global financial risk aversion and market volatility as well as the knock-on effects relating to lower export demand. The Canadian dollar, which has remained stable in recent months in the 74 to 77 U.S. cent range, would almost certainly be pressured lower if these downside risks materialize.

Largely in light of this downside risk, investors have aggressively moved to price "insurance" rate cuts by the U.S. Federal Reserve. In response, government bond yields have fallen to their lowest levels in more than a year. Rate cuts have typically coincided with recessions, but not always. We believe the market has over-priced the extent of accommodation the Fed will ultimately need or be willing to provide absent a significant deterioration in the economic data. However, the persistent elevated risk environment does open the door for the US central bank to provide modest accommodation later this year as "insurance." We have incorporated a 50-basis-point cut beginning in September.

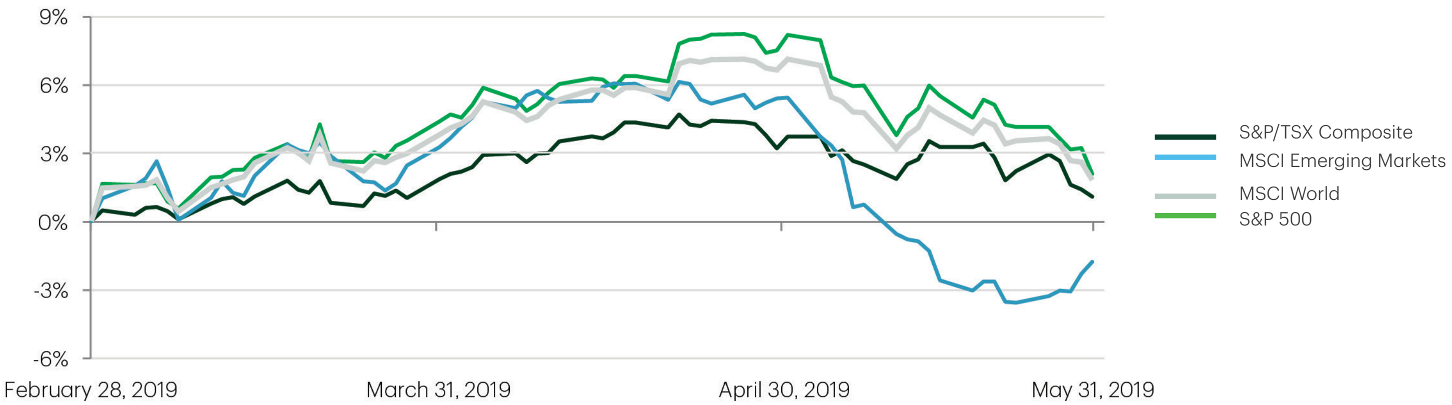
It's not certain the Bank of Canada will follow, as markets so often expect. In fact, we suspect any modest cuts by the Fed will not be matched by the BoC given signs the economy is strengthening from its early year. Further, the BoC is likely to be more cautious in cutting rates at the risk of re-fuelling leverage dynamics. □

[1]Bloomberg survey of economic forecasters; [2]China lowers 2019 GDP growth target to 6-6.5 per cent range, *South China Morning Post*

TD Wealth Asset Allocation Committee

Market Outlook: The Mid-Year Review

Bryan Lee, Vice President & Director, PIC Portfolio Strategist, TD Asset Management



Source: Bloomberg Finance L.P. as of May 31, 2019; total/gross returns in CAD.

There was no shortage of reasons not to invest during the first half of 2019. Corporate earnings growth is slowing, global economic growth is softening, and trade tensions remain high. Yet contrary to what one would expect, global stock markets continued to defy gravity. At the end of April, Canadian, U.S. and international stocks all registered double-digit year-to-date returns. Many patient investors who stayed invested through the stomach churning fourth quarter market correction of 2018 likely benefited from the best April start to the new year in over 30 years.

Screenwriter Ben Hecht once observed you could no more understand the world by reading newspapers than you could tell time by watching the second hand of your watch. Focusing on the day to day headlines or even worse, watching the daily gyrations of the stock market can lead to wrong conclusions, especially considering that stock markets on average lose more money daily than they make. Yes, you read that right. Using data from Bloomberg Finance L.P. and TD Asset Management (TDAM), the S&P/TSX Composite Index has had 9,896 trading days between January 1, 1980 and April 30, 2019. The average return of all positive days (5,331 days) was just + 0.61%. The average return on negative days (4,565) was -0.67% over the same period. While that may not seem encouraging, consider this - the S&P/TSX Composite Index on January 1, 1980 was at 1,806.08 and it closed on April 30, 2019 at 16,580.73 which represents a cumulative gain of 918%. That is the power of compounding and more importantly time.

We continue to believe that stocks will outperform bonds in 2019. More specifically, we believe U.S. stocks will outperform domestic and international stocks despite expectations that year-over-year U.S. corporate profit growth will be lower for 2019. Despite this expectation, it is important to remember that U.S. corporate earnings are still expected to be 4 percent higher than the record profit levels we saw last year. Notably, analysts had expected negative year-over-year earnings from U.S. companies in the first quarter of 2019 and at the time of this writing in May, 76% of U.S. companies have reported first quarter earnings that are better than expected1. With U.S. unemployment hovering at 50 years lows and wages rising at a manageable pace, we believe the U.S. consumer, who represents approximately 70 percent of the U.S. gross domestic product (GDP) should continue to help support economic growth in the U.S.2.

Here in Canada we expect another positive year for our stock market, but some headwinds keep our optimism tempered relative to our view for the U.S. First, the elevated household debt levels are expected to keep a lid on Canadian consumer spending, which also represents more than 60 percent of Canadian GDP. But, stable Canadian employment and a low interest rate environment should provide a foundation for continued growth as Canada recently created 106,500 new jobs, which is the highest in 43 years. The energy sector also represents a second headwind that keeps us conservative in Canada. The energy sector represents a large portion of our economy and the paralysis within the industry is expected to be a headwind for stocks in the sector.

As we look ahead to the second half of 2019, the trade friction between the U.S. and China is expected to create episodes of short term volatility. We have been expecting global growth to slow, however we still do not anticipate a recession particularly in North America. While we remain optimistic on the longer-term outlook for equities, we do believe that periods of volatility may continue as the market contends with central bank policy and growth concerns. Global leading economic indicators have moderated, leading to an increase in concerns about global growth and earnings so we maintain a preference for quality companies with strong balance sheets. □

TD Wealth

Parting ways: Your Wealth Plan after a marriage or common-law breakdown (continued from page 1)

Beneficiary Designations

Most spouses have designated each other as their beneficiaries on insurance policies, pension plans, registered plans such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs). You may want to keep your ex-spouse as beneficiary to meet an ongoing obligation for spousal and/or child support; however, upon a relationship breakdown, many may to wish to change their beneficiary designation. This can be updated by signing a new document with the appropriate carrier reflecting the change or by executing a new will that contains the new designations.

Insurance Coverage

Whenever a significant life event occurs, it is a good practice to review your insurance policies to ensure adequate coverage is available to meet your needs in your new situation. Insurance coverage can include life insurance, disability insurance, critical illness insurance, as well as any health or dental plans through your employer. Without a spouse, you will no longer be able to roll over registered plans tax-deferred at death, and will typically have no assets that have joint ownership. Therefore, upon death, all of your assets will be deemed to have been disposed of, and subject to taxation on any accrued capital gains. Any funds remaining in your RRSP or RRIF will be counted as income on your final tax return as well. This previously deferred tax liability at death may require additional life insurance coverage. If after the marriage breakdown you are a single parent, and you no longer have the income of the other spouse to potentially offset the financial impact of lost income due to a disability or critical illness, you may therefore need to reassess your coverage based on these variables. You may have been covered under your spouse's health and dental insurance. Most policies do not allow for coverage after a relationship breakdown. As a result, you may have to budget for such costs or seek your own insurance coverage.

Income Splitting

Upon relationship breakdown, income splitting strategies will no longer be available to you. In the accumulation phase, spousal RRSPs will no longer be an option, and any income splitting done through a Canadian-controlled private corporation will cease, and is subject to the Tax on Split Income (TOSI) rules. Upon retirement, you will no longer be eligible for pension income splitting, which could have reduced the overall tax liability for the household by equalizing the income to potentially place each spouse in a lower tax bracket. In your new circumstances, you may now be subject to a higher rate of taxation if additional income is now reported on your tax return, since you are no longer able to allocate any to your spouse.

Estate Planning

Revisiting your estate planning documents upon marriage breakdown is critical in order to ensure the plan is still reflective of your wishes. It is common to name your spouse as your executor in your will and your attorney under your Power of Attorney for Property or Personal Care. In most provinces, until these documents are updated, your ex-spouse will continue to be the person who will manage your estate should you pass away, as well as the decision maker when it comes to your health and financial affairs if you become incompetent. Therefore, it is recommended that you revisit your estate plan as soon as possible upon separation.

Should you have any questions or require additional information about your Wealth Plan following a marriage breakdown, please contact your TD Advisor. □

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