

# Wealth Insights

TD Wealth Private Investment Advice

Spring 2017



## Michael Peters

B.Comm., CIM, FCSI, CSWP

Vice-President

Investment Advisor

Branch Manager

Certified Retirement Specialist

1 (877) 717-6465

(250) 717-8135

michael.peters@td.com

*Spring is the season of change! The name of this newsletter has been updated to better reflect its goal: to provide you with useful and timely insights on the many aspects that affect wealth management.*

*Ideas or suggestions for future inclusions are always welcome.*

## Focus on What You Can Control

Adding to the many challenges facing investors over recent years, we are now confronted by political changes in the world's biggest economy. The increasingly protectionist stance held by the U.S. has been top of mind for many investors since Trump took office on January 20<sup>th</sup>. While Trump's administration has indicated that Canada is not likely to be significantly affected by trade agreement changes, the path forward will, no doubt, have an impact on the Canadian economy and the global financial markets.

Political change south of the border may also bring opportunity. The revival of the Keystone XL pipeline project has brought optimism to the struggling resources sector. Expected U.S. deregulation and tax reform have been a source of investor confidence, with North American equity markets hitting record highs in the first quarter.

As investors watch anxiously to understand the effects of new U.S. policies, we should remember that political decisions cannot be controlled. Equally important, financial markets have faced similar challenges over time, yet have remained relatively resilient and adapted accordingly. Instead, consideration should be given to the things that can be controlled. Here are some thoughts:

**Participate.** One of the greatest risks in investing is not participating. Recall the start of 2016, which began with a dramatic drop in the markets. Pessimists, not unreasonably, predicted a market meltdown. But since that time (and to the time of writing), the markets have performed well, even after the surprise outcomes of the Brexit and U.S. election votes. Investors who avoided the markets would have missed out on these gains. Focusing on the short term is often counterproductive. Instead, participate with a longer-term view in mind.

**Put trust in your plan.** Market volatility is likely to be a common occurrence as Trump's sometimes controversial policies continue to be introduced. Don't listen to the noise. Your portfolio has been built keeping the elements of diversification and asset allocation in mind. These elements have been put in place to help weather short-term periods of volatility. At the same time, remember that volatility often brings opportunity.

**Save more.** While we will never be able to control the direction of the markets, we can control certain aspects of our finances to make an impact. Saving continues to be a cornerstone in generating future wealth. We can also take action to minimize the amount that is sent into government hands. It is tax season and an article on page 3 explores some potential ways to minimize taxes.

**Stay the course.** Uncertainties will always be a part of the financial markets. Focus on your longer-term objectives and keep building your investment portfolio with them in mind.

As always, I am here to help. Please call if you have any questions.

## Take Advantage of Tax-Free Growth

# TFSA: Don't Delay!

Are you one of the many Canadians who still has unused Tax-Free Savings Account (TFSA) contribution room? Latest statistics show that only around one in five TFSA holders has fully contributed to a TFSA.<sup>1</sup> With cumulative contribution room for eligible Canadians now at \$52,000,<sup>2</sup> the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who has maximized annual TFSA contribution room since inception. With no further contributions, in 30 years, the investor would have over \$270,000 — at an assumed 5 percent rate of return per annum (see table). Most importantly, income earned will generally not be subject to tax.

### What Is Your TFSA Strategy?

Don't overlook the opportunity to grow assets on a tax-free basis in the TFSA. Some investors have chosen to hold interest-bearing investments inside the plan, possibly due to the fact that the TFSA was introduced as a "savings account" back in 2009. However, TFSAs need not to be limited to savings accounts.

Longer-term investors should focus on the return potential of the TFSA based on personal risk tolerance levels. The opportunity to achieve longer-term, compounded growth and maximize funds that will not be subject to tax is significant.

### Investment Location Can Make a Difference

Remember that different types of investment accounts

### Use Your TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals (no limitations on timing or amounts to be withdrawn) can make the TFSA a significant retirement planning tool with potential opportunities to:

- Preserve income-tested benefits or tax credits
- Reduce taxable income in retirement
- Minimize tax by withdrawing RIF funds in excess of the required minimums in years where your marginal tax rate is low related to expected future rates
- Supplement income to allow for the deferral of CPP/QPP benefits, thereby maximizing their value

### TFSA Contribution Room Limits

Year	TFSA Annual Limit	Cumulative Total
2009 to 2012	\$5,000	\$20,000
2013 & 2014	\$5,500	\$31,000
2015	\$10,000	\$41,000
2016 & 2017	\$5,500	\$52,000
<i>In 20 years.....</i>		<i>\$166,778*</i>
<i>In 30 years.....</i>		<i>\$271,665*</i>
<i>In 40 years.....</i>		<i>\$442,512*</i>
<i>*At 5% compounded annual rate of return since TFSA inception in 2009</i>		

are subject to tax in different ways. A TFSA may not be an ideal place to hold non-Canadian investments because many countries impose a withholding tax on income paid to foreign investors. Under the TFSA, tax credits are not available to Canadian investors in respect of foreign taxes withheld, whereas such credits should be available on foreign taxes paid in non-registered accounts. For U.S. stocks, under the Canada/U.S. tax treaty, there is an exemption from withholding taxes on U.S.

dividends paid to a registered Retirement Savings Plan (RSP) or registered Retirement Income Fund (RIF), but this exemption does not apply to the TFSA. As such, foreign investments may be better held in non-TFSA accounts.

Why not make the best of your TFSA? Please call to discuss.

Notes: 1. Canada Revenue Agency, 2016 TFSA Statistics (for 2014 year); 2. Assuming a TFSA has not been contributed to.

## In Short: Estate Planning & Joint Ownership Pitfalls

It is common for spouses to jointly own assets, but, more frequently, parents and adult children are holding assets in joint ownership, such as investment accounts or properties.<sup>1</sup> This may help with the management of assets as parents age, allow for ease of transfer of assets after the death of the parent and minimize estate administration tax (where applicable). However, holding assets in joint ownership with children may have some unintended consequences. Here are just a few:

**The estate may not be equalized.** Jointly-owned property will not form part of the estate. If the intent is to equalize an estate for multiple beneficiaries, there is no guarantee that a child will share the asset held in joint ownership after the death of the parent, which has sometimes led to court disputes. Income and estate administration taxes may also unevenly impact the value of an estate which includes jointly-owned property. In these situations, experts suggest documenting your intentions.

**There may be tax implications.** For example, transferring property to joint ownership may, depending on the form of joint ownership chosen, trigger a deemed capital gain with tax payable in the year of transfer. As well, where the property transferred is a residence, the transfer may lead to sub-optimal use of the principal residence exemption. For certain assets, other planning tools (such as using a trust) may have better tax outcomes.

**Assets could be exposed to creditors or a former spouse of a joint owner.** This may occur in the event of financial difficulties or a marriage breakdown.

These are only some of the potential complications of holding assets in joint ownership with children. Consult with legal and estate planning experts for advice on your particular situation.

Note: 1. "Joint ownership" refers to a situation in which an asset is owned by more than one person with rights of survivorship and is separate from the legal concept of tenants in common. Not applicable in the province of Quebec.

## Personal Income Tax Season is Here

# Saving Tax is an All-Year Job

For most individuals, April 30<sup>th</sup> is the tax-filing deadline for the previous year. It's a time when taxes are top of mind as we deal with receipts and returns. Did you take action last year to reduce your tax bill for 2016? If the answer is no, perhaps you can do better this year. Here are five ways to help minimize your payables to the Canada Revenue Agency (CRA).

**“Reduce” Your Refund** — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. Instead, consider completing a new TD1 form with your employer, which is used to calculate how much tax to deduct from your pay cheque. You may also file CRA Form T1213 if you know you'll have significant deductions in a given year to reduce the tax taken from your pay.

**Maximize Your RSP & TFSA** — For registered Retirement Savings Plans (RSPs), consider setting up a monthly contribution plan: if you provide your employer with confirmation of the deductibility of these contributions, the employer may reduce the amount of tax withheld at source. Don't underestimate the value of tax-free compounded growth through a Tax-Free Savings Account (TFSA) — ensure you have maximized your contribution.

**Income-Split with Your Spouse** — If your spouse/common-law partner (CLP) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with your spouse/CLP. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.



**Income-Split with Children** — You may be able to create in-trust accounts for minor children that invest in assets to generate capital gains. The attribution rules<sup>1</sup> will not apply to capital gains income earned by minor children but will need to be included in the child's tax return. As well, consider a prescribed rate loan to a family trust.

**If Over 64, Start a RIF** — The pension income tax credit kicks in at age 65, allowing for a tax credit on up to \$2,000 of eligible pension income. If you don't have a company pension, consider setting up a small RIF for the year you turn 65 (or sooner if you are widowed) in order to create eligible pension income. Remember that you don't have to convert your RSP into an RIF until the year that you turn age 71, so this may be a great way to take advantage of the pension tax credit.

Of course, these ideas and others depend on your own personal circumstances. Please seek the advice of a professional tax accountant, or call if you have questions. Now is the time to take action to maximize your tax savings for 2017!

Notes: 1. Income is normally attributed back to the person giving the gift or loan.

## The Gamma Factor and the Value of Advice

How can having longstanding advice translate into value?

The “gamma factor” — the discipline associated with longstanding financial advice — may make a significant difference in wealth building. According to a recent study, the gamma factor may help to explain the additional assets of Canadians who use the advice of an advisor. Canadian households with a financial advisor for 15 years or more accumulated 290 percent more assets than households who did not use the services of an advisor.

The success of the gamma factor is largely attributed to two factors. First, investors who work with an advisor have increased savings rates. As advisors, we help to encourage good saving habits, which can lead to greater wealth accumulation over the long run. The second factor is the ability to stay disciplined through both positive and negative market cycles. Staying invested can play an important role in generating wealth over time.

Have confidence that your wealth and investment plan is working to help you achieve your future goals — the gamma factor is on your side.

### Helps Build Wealth

Households with an advisor for 15+ years accumulated 290% more assets.

Accumulated Assets

**+290%**

### Promotes Saving Habits

Canadians with an advisor had a greater annual rate of saving.

Annual Rate of Saving

6.7% 10.8%

Non-Advised Advised

### May Help to Drive Results

Those who maintained the services of an advisor continued to build assets.

Assets Built or Lost

Maintained Relationship +26%

Ended Relationship -34%

Based on period between 2010 to 2014.

Source: “The Gamma Factor and the Value of Financial Advice”, Centre for Interuniversity Research and Analysis of Organizations, 2016.

# RSP Exit Strategy: Joint Last-to-Die Insurance

Many of us spend years contributing to our registered Retirement Savings Plan (RSP) in order to take advantage of the tax-deferred growth opportunity. But we may forget to plan our exit strategy: how and when that money will be withdrawn in the future.

The issue? Every dollar withdrawn from a RSP is subject to tax as regular income. While postponing withdrawals until retirement is often beneficial, because in many cases the individual will be in a lower marginal tax bracket, waiting too long can create other problems. By age 71, the RSP would likely be converted to a registered Retirement Income Fund (RIF) forcing the plan holder to withdraw specified percentages of the RIF, whether funds are needed or not. In addition, leaving significant RSP/RIF funds to beneficiaries at death can leave them with a substantial tax liability: inherited funds could be taxed at the highest marginal rate.

## **Couples: Joint Last-to-Die Insurance as a Solution**

If RSP/RIF funds aren't needed as income in retirement, using joint last-to-die insurance may be a solution. This strategy can help to control taxes, by withdrawing funds from a RSP/RIF over time, rather than all at once; gradual annual withdrawals may be subject to relatively lower marginal tax rates. At the same time, the insurance proceeds can help to maximize the value of the inheritance to children. A couple can designate each other as the beneficiary of their RSPs and purchase joint last-to-die life insurance with the children as beneficiaries of the insurance policy.

At retirement, withdrawals from the RSP can pay for the insurance premiums due on the policy. Once the RSP is converted to a RIF, the minimum required withdrawals can continue to fund the policy. By making use of the spousal rollover provision available under the Income Tax Act (Canada), there will generally be no RSP/RIF-related taxes due on the death of the first spouse as the RSP/RIF will transfer to the other spouse without tax implications. Upon the death of the surviving spouse, insurance proceeds will be paid out entirely tax-free to the beneficiary(ies).



Not only can this strategy help to minimize the amount of taxes paid on RSP/RIF funds over a lifetime, in many cases joint last-to-die life insurance can also help to maximize the size of an estate. In provinces where estate administration tax (or probate) is assessed, there may be additional savings as life insurance proceeds bypass the estate.

The proceeds paid out from the joint last-to-die life insurance policy can be designated to offset future tax liabilities. For example, the insurance policy proceeds can cover taxes arising from the deemed disposition of capital assets, without necessitating liquidation of the estate assets to provide cash flow needed to fund the tax liability. Alternatively, proceeds can be used to create a legacy by naming a charity as the designated beneficiary.

A joint last-to-die policy may also be more cost-effective than the purchase of two individual single life policies because the insurance company does not plan to pay out the proceeds until further into the future and it will only need to pay this out on one policy rather than two.

Determining if life insurance can play a role in your estate plan will depend on your circumstances and your future goals. We can provide perspectives on this, or other insurance-related matters.

---

With the Compliments of:

## **Michael Peters**

B.Comm., CIM, FCSI, CSWP  
Vice-President, Investment Advisor  
Branch Manager, Certified Retirement Specialist  
(250) 717-8135  
michael.peters@td.com

TD Wealth Private Investment Advice  
A Division of TD Waterhouse Canada Inc.  
1633 Ellis Street, Suite 410  
Kelowna, BC V1Y 2A8  
Toll Free: 1 (877) 717-6465  
Fax: (250) 470-3048

