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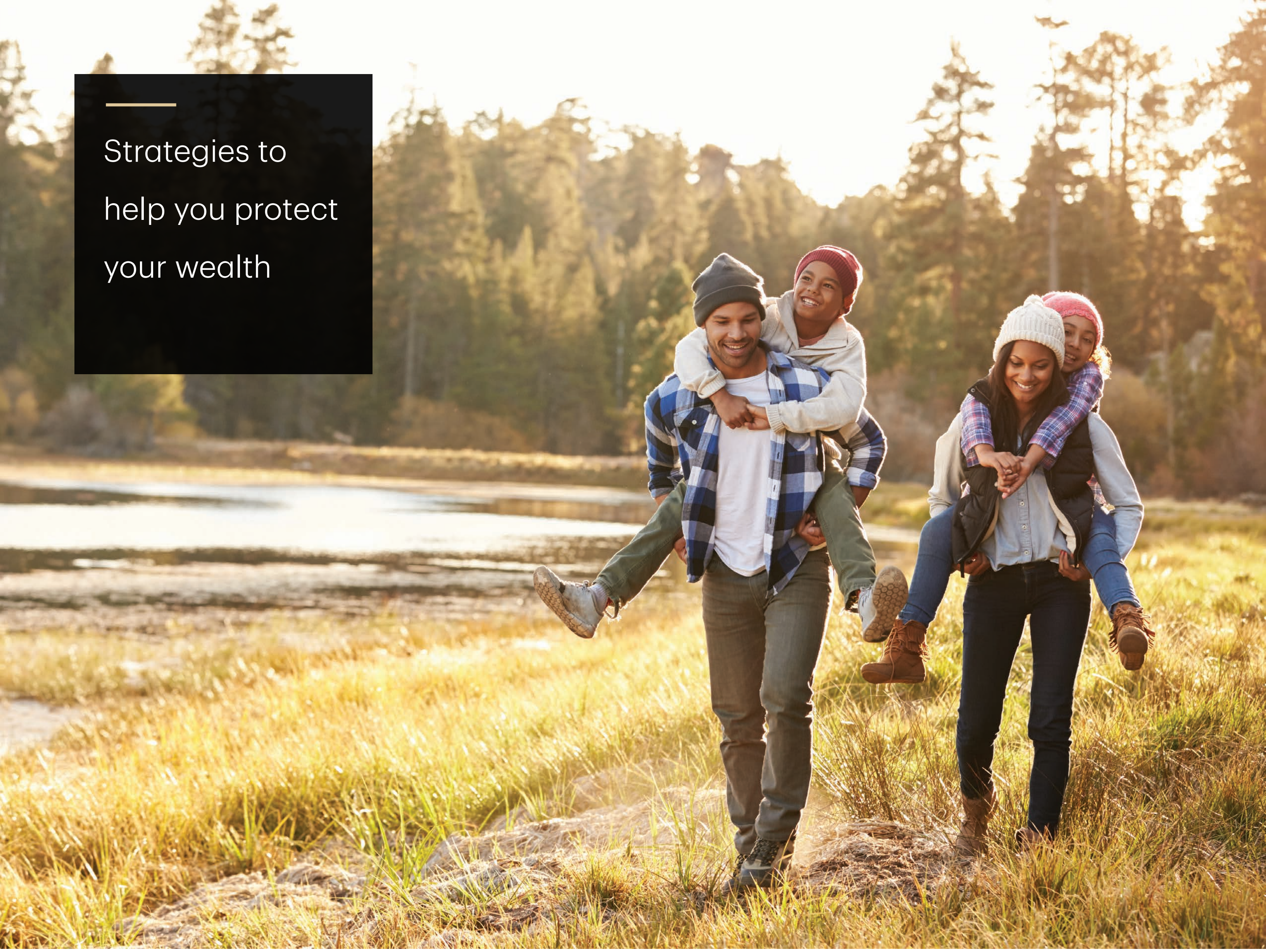
TD Wealth

Strategies to help you protect your wealth



As we transition and prepare for the colder months ahead, it's easy to get sidetracked and lose focus of our financial priorities. To set the tone, I wanted to share three articles about tax strategies, business succession, and power of attorney. These articles provide valuable insights about helping preserve and grow your wealth as it accumulates.

As your wealth grows, you may need to develop strategies to protect it. The first article explores the idea of business or wealth succession. Creating an exit strategy and estate planning helps ensure that your wealth gets passed on to its new owners and that your income is secured when you retire.

The second article talks about the six questions you should ask yourself as you plan for retirement. Taking some time to reflect on these questions is important to help paint a clear picture of what your retirement will look like.

Finally, the third article is a beginner's guide that highlights the importance of having a power of attorney, so your wealth is protected in case you cannot make decisions. It's also critical to get your power of attorney done properly.

Staying on top of your financial goals may require you to consider securing your future. But having a plan can help to ensures you are protected and prepared as your wealth accumulates. The good thing is that you have advice available when you need it.

Please get in touch with me if you have any questions about creating tax strategies, developing a plan for business succession, and understanding what a power of attorney can do to protect your wealth.

6 lessons we've learned about Business Succession

With the day-to-day hustle and bustle of running a business, many business owners have little time to think about anything other than the here and now. But having a well-planned exit strategy can help ensure your business gets passed to its new owners and provides you with the income you'll need to retire.

Here at *MoneyTalk*, we'd like to think we're pretty savvy when it comes to money. But the truth is, every once in a while we learn new things too, and come across some surprising aspects of finance.

Planning for what will happen to your business once you are no longer running it (or "business succession") is one of those areas of advanced financial planning that can be hard for many business owners to wrap their heads around. It involves estate planning, a working knowledge of capital gains and tax strategies, good communication, and some long-term thinking. But with the help of a business succession professional, you may land on the right plan for your business, and help support those who want to see it live on for years to come.

We've pulled together six of the most valuable lessons we've learned about business succession, and hope it will spur you to start making your own plans.

Lesson 1: Business owners need an exit strategy

Whether you are thinking about selling, helping the next generation take the reins, or completely unsure what you'll do, it's never too early or too late to start planning for your eventual retirement. Tom Deans is an Intergenerational Wealth Expert and Author of Every Family's Business: 12 Common Sense Questions to Protect Your Wealth, who says that business owners are retiring in record numbers without any plans in place. He says that can cost the business money, hurt the success of the business, and risk family harmony. Watch the full interview here.

Lesson 2: Business succession takes time, communication and professional help

Business succession isn't really a DIY thing, and in fact it can often take a team of professionals to help you along the way. But you can start by communicating your wishes to your family and asking them how they see the future of the business. Knowing whether they are interested in the family business and how involved they want to be may help you to make important decisions about a sale or transition. John Nicolls, a Vancouver-based Business Succession Advisor with TD Wealth, suggests reading this checklist to test your readiness for retiring from your business.

Lesson 3: In estate planning what's equal isn't necessarily what's fair

If you think you can just arrange to split your business and assets equally among your children, you may be in for a surprise. How different assets get taxed at death, and the diverse needs and wishes of your beneficiaries, can often make that hard to achieve. Instead, consider what's fair: You might want to think about which of your loved ones has been most involved in the business, and the role they wish to play down the road. For example, you may wish to transition the business to one heir and have a life insurance policy that pays out to another. In this classic MoneyTalk article, Domenic Tagliola, Tax and Estate Planner with TD Wealth, shares some ways to help inject fairness into your estate plans.

Lesson 4: Consider an estate freeze

Once retirement is on the horizon, an estate freeze can allow a business owner to gradually transfer ownership to the next generation while also dealing with tax concerns proactively. It's a tactical manoeuvre for business owners that swaps common stock for preferred shares, and issues those common shares to beneficiaries. This, in essence, can reduce the capital gains tax owing. Georgia Swan, Tax and Estate Planner at TD Wealth, discusses estate freezes and how you might execute this strategy in this MoneyTalk interview.

Lesson 5: Consider an earn-out if you are thinking of selling

An earn-out can be a valuable tool in your negotiation toolbox when you are selling your business. It's essentially a contractual provision that provides a percentage of gross earnings over a specified period of time. This could mean less money up-front from your buyer, but continued income for you down the road. Georgia Swan, Tax and Estate Planner at TD Wealth, looks at earn-outs here and explains how and when they may work for your business.

Lesson 6: Good estate planning is imperative for business owners

A simple Will and Powers of Attorney often aren't enough for business owners when it comes to passing down their assets. A lack of proper estate planning could mean thousands of dollars, sometimes more, in taxes owed upon death, and it could leave your loved ones scrambling to manage the bill. The owners of Wilson's Lifestyle Centre in Saskatoon shared their story with us about how their father's passing unintentionally opened a can of worms when it came to transitioning the family business. Tannis Dawson, High Net Worth Planner with TD Wealth, offers some helpful things business owners can consider to prevent added stress.

— Denise O'Connell, *MoneyTalk Life*

Countdown to retirement: 6 questions you can ask yourself

Only have hazy ideas about how you plan to retire? Your retirement dreams may require a little more thought. Here are some concrete ways to help paint a clear picture of your retirement, whether you are on the verge of hanging it up or still a few years away.

If Nicole Ewing, Director, Tax and Estate Planning, TD Wealth could pass only one message on to people facing retirement on the horizon, it's "be prepared, but stay flexible."

Ewing says the world continues to change rapidly and the best way to prepare for retirement is to be ready to adapt and make adjustments to your retirement plans as events unfold. Everything from interest rates to travel costs are evolving, Ewing says. If your ideas about retirement aren't in synch with today's economic conditions, your plans may have to be re-evaluated to help reach your retirement goals.

"The COVID-19 pandemic has shown us that anything can happen to disrupt our plans and finances. Everyone should heed that experience and not lock into one idea or expectation about what their retirement needs to be," she says.

People should not assume they'll have the same investment returns they've enjoyed for the past decade, for example. Or that their kids will move out of the family home when they finish school. Or that a two-bedroom condo will still have the same price tag it did from 2002.

Ewing says that some of these changes may put a dint in our golden dreams of life after work. But checking in with a financial planner or advisor can bring a sense of what can be possible under the present economic conditions as well as how your retirement lifestyle might change as circumstances develop.

Whether you are retiring next year or the milestone is still a few years away, Ewing wants everyone to ask the following questions of themselves to sharpen their focus on making smart financial decisions.

What do I want to do when I'm retired?

To help ensure you're well prepared for retirement, you should take the time to build retirement goals that are tangible and specific, says Ewing. By planning out what you want to do year by year and then working that into a larger financial plan, a clear path forward can be built. It's the difference between just thinking about your "bucket list" and actually checking items off it.

For example, Ewing says that before the pandemic, buying vacation properties in the U.S. was a popular goal for retirees. Today, staying in Canada and retaining healthcare access is a priority for some Snowbirds. With that in mind, plus the rising costs of property ownership, many people are wondering what the Snowbird life might look like in the future — perhaps renting a property for a few years vs. buying is more attractive in the current climate. However someone choses to spend retirement, Ewing says making a plan that costs out the expenses can help determine what kind of lifestyle works best.

Have I saved enough?

The realization that employment income may suddenly cease when we retire can pique anyone's interest in some basic questions: How much will retirement cost? What kind of lifestyle can I afford? Have I saved enough?

Ewing says that getting your financial house in order may help you find clear answers to those questions. For starters, that may mean paying off debts or consolidating them in a more economical manner, obtaining a line of credit (while you still have an income and can qualify) and building up an emergency fund.

Ewing says drawing up a financial plan can help reconcile your cash flow with your retirement lifestyle. That means determining what percentage of your savings you'll need to draw down for expenses annually, how much your savings will grow (or need to grow) and how other considerations like taxes, downsizing your home or plans for your estate need to be worked into your retirement plan.

Another idea Ewing likes to pass on is to put limits on when to help out others in your family. Adult children may lean on their parents in retirement — particularly if they or the grandkids need help getting into an expensive housing market. But people have to learn to say, "no," Ewing says. She adds that parents should have a firm grasp on how much they can gift or lend their kids before they actually do it. After all, retirees have to think 25 years down the road to their very senior years when funds may be needed for healthcare to make their own lives comfortable.

How healthy will I be?

Ewing says people should be proactive about their health and personal care plans and not ignore the fact that we'll all slow down and need healthcare at some point in our lives. Statistics show that we are living longer than ever and we'll generally be healthier in our senior years than previous generations.[1] But data also suggests that rates of dementia and Alzheimer's Disease are rising as life expectancy grows.[2] Preparation can mean ensuring we have proper benefits packages or other financial options that could take care of medicine, home nursing or therapies in Canada, or coverage if you plan to travel in other jurisdictions. If there are people relying on you financially, you'll also want to have additional plans in place in case you get sick.

Ewing says how healthy and active we will be in retirement will impact how much money we spend. At the beginning of retirement, you may be vigorous enough to complete lifetime goals like travel. Later you may slow down, eventually settling into a more sedentary lifestyle. In a scenario like this, your retirement spending may be front-loaded as you spend more when you are active and then gradually decrease expenditures. However, she says there's evidence that shows an outflow of funds that spikes in the last years of our lives due to healthcare costs.[3] Ewing says knowing those stats can allow us to get organized.

Where will I live?

Of all the areas where Ewing asks people to be flexible it is housing, because of the high price of real estate and the general economic uncertainty in the air. It used to be normal for retirees to give up their large family homes for smaller accommodations, perhaps in addition to a vacation property. She says many people are now pressing pause when it comes to selling or buying for a variety of reasons. For one, even small properties can be expensive and the gains made from selling a large home and buying a small one may no longer make downsizing worthwhile for some.

Moreover, Ewing says if people are seeing large annual gains in value for the property they own, they may be incentivized to hold on to the property and enjoy the increases. If the property is too large for their current needs, however, they may have to budget for maintenance expenses like gardening or snow shovelling, or even future modifications to make their home senior-friendly.

"But a big concern for those nearing retirement is caring for their aging parents — whether they are going to do it in their own home or a care facility," Ewing says. She also says that a combination of

high housing prices and longevity among seniors means new retirees may become sandwiched between helping adult children who can't afford to live on their own and caring for their own parents who need a place to live. In cases like that, not selling the family home may seem like a smart idea.

How will I manage taxes on my retirement income?

Many people are fortunate to have several sources of income in retirement and these can include retirement savings, a pension, the Canada Pension Plan (CPP) or the Quebec Pension Plan (QPP), Old Age Security (OAS), and perhaps other non-registered savings such as from an inheritance. Business owners at the end of their careers may continue to draw funds from their business or rely on savings from the sale of that business. Ewing says it may seem like an embarrassment of riches, but some thought should go into managing the withdrawals for these accounts from a tax perspective. For example, it may be more tax-efficient to withdraw from one type of account first, depending on your age and tax bracket. But she says no one strategy fits everyone and drawing down your savings first must be in synch with your larger estate plans and lifestyle choices. In other words, if you want to take a world cruise, small tax concerns may not need to stop you.

For CPP/QPP, if you don't need the funds immediately and you are healthy, Ewing recommends considering putting off the benefit until you need it. That's because, if you defer receiving the pension past age 65, the monthly income increases until you reach age 70, the age when you must begin taking your pension. (The amount of the benefit also decreases if you take it earlier than 65.) She also recommends checking what you can expect to get from CPP/QPP before you begin making plans for it. Ewing says women especially, who may have been out of the work force while raising children, may find that they may not receive the maximum amount from their plan.

Have I coordinated with my spouse or partner?

A couple may decide to retire on the same day — or they might make separate plans. A partner or spouse's financial situation could even differ — perhaps drastically — from their partner's if they have obligations to family through previous marriages. Ewing notes people can experience health changes at different times, which can be a catalyst for retirement. Whatever the case, two people may arrive at retirement with different mindsets, and they should start talking about it early.

"Partners or spouses who have their own careers may have very different ideas about when to retire and what retirement looks like — especially if there are age gaps. You might not have a shared vision of retirement, but you should have a shared understanding of what each other's vision is," says Ewing.

Coordination of retirement can mean discussing how much money will be withdrawn from whose accounts and when, and whether you will share the expenses. It also means discussing other aspects of retirement (lifestyle and plans) and ensuring each plan complements and does not interfere — with the other.

Ewing makes a point about creating a retirement plan separate from your spouse or partner's plan if the situation warrants it. She says some couples have quite independent lives from each other and that may necessitate an independent strategy. If that's the case, helping to ensure you are able to live the retirement lifestyle you want may mean putting your own financial plan in place to make it work.

Is my estate planning complete?

Ewing says having an estate plan and getting your Will, Powers of Attorney (POAs) (or mandate in Quebec) and other documents completed is paramount if you haven't already done so. Even if you have, you may wish to revaluate your documents if you have not updated them for some time. "Flexibility is the theme of the day. As we age, the likelihood of illness or incapacity rises. Therefore, our ability to change these documents diminishes," she says. Ewing notes that if people become incapacitated through dementia, they may no longer be able to change any legal documents including their Wills and POAs: That means those who are incapacitated — and their families — may be stuck with estate documents that can be decades out of date.

Updating your documents could include adding a new executor for your Will or an attorney for a POA, if your previous choices are aging out of the role. This could also be the time to include new family members in your Will or put in place additional protections for vulnerable beneficiaries.

Ewing says retirement planning is also a good time to ensure there are strategies in place that can offer protection against the financial effects of death so that heirs can benefit from the wealth transfer in a tax efficient manner.

She also reminds people to think about how a new lifestyle in retirement can call for changes in your estate plans. For instance, POAs from Canadian provinces are generally not accepted in the U.S. If you are planning on travelling for an extended period, it may be best to have a POA or the equivalent filed in that jurisdiction. The same goes for assets located in foreign jurisdictions, such as a condo in Florida: A Will dealing with the foreign assets prepared in that foreign jurisdiction may save significant costs and headaches down the road.

Ewing says everyone should build versatility throughout their retirement plan, in everything from finances to health.

"No matter what, having a flexible attitude is an important asset. Retirement is supposed to be about freedom and doing what you want to do. But how to achieve the kind of lifestyle you want in today's changing climate should be a consideration for anyone nearing retirement," says Ewing.

— Don Sutton, *MoneyTalk Life*

1 Life expectancy at various ages, by population group and sex, Statistics Canada, April 12, 2022, accessed June 10, www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1310013401

2 Dementia in Canada, including Alzheimer's disease, Statistics Canada, Sept. 21, 2017, accessed June 10, 2022, https://www.canada.ca/en/public-health/services/publications/diseases-conditions/dementia-highlights-canadian-chronic-disease-surveillance.html

3 Out-of-Pocket Spending in the Last Five Years of Life, Amy S. Kelley, Kathleen McGarry, Sean Fahle, Samuel M. Marshall, Qingling Du, Jonathan S. Skinner, J Gen Intern Med. 2013 Feb; 28(2): 304–309. Published online 2012 Sep 5, accessed June 10, www.ncbi.nlm.nih.gov/pmc/articles/PMC3614143/

Powers of Attorney: A beginner's guide

You hope you won't ever need to use one, but should the time come where you need Powers of Attorney, you may be glad to have it in hand. Here's what you need to know about POAs and how they provide support for your loved ones when they need it most.

How would you feel if you forgot your banking password? Or even how to get to your account with a computer? Unfortunately, many Canadians will suffer cognitive impairment in their senior years.[1] While forgetting someone's name may be awkward, forgetting to pay bills or take your medicine can be red flags that you may soon need someone to help monitor your affairs.

Do you have a plan for what you would do if this happens?

Powers of Attorney (POA) may be legal documents you've been putting off as low priority but Domenic Tagliola hopes you'll get yours done. Tagliola, a Tax and Estate Planner with TD Wealth, wants you to think of them as tools to help keep control of your life — to hold on to the ability to care for yourself and your family whether you're in a time of crisis or dealing with the inevitable problems of aging.

"Everyone wants to be able to make big decisions about where to live and how we spend our money as well as the mundane things, like what to eat," Tagliola says. "The tragedy is that many of us could lose control of these aspects of our lives if we are victims of cognitive impairment as we age."

Moreover, if we are the victims of an accident and are incapacitated for a short or indefinite period, our grip on life events could also be lost, he says.

A POA can go a long way to fix this, says Tagliola, because it wields support for you and your loved ones: At a time of enormous emotional strain for your family, any stress or hesitancy around making decisions has been removed from their shoulders. Your money and assets can't be touched unless it's the way you've stipulated. And no one can step up and say they know what's best for you or your family because you've already made that decision in your POA.

Tagliola says this is why the POA is essential to everyone, at any age. Here are some key points everyone should know about Powers of Attorney.

What are Powers of Attorney?

POAs are legal documents concerning your health and finances that hand over decision-making power to your appointed Attorney — a family member, friend, lawyer or institution. POAs are generally, but not exclusively, used when an individual becomes incapacitated and needs someone to mange their dealings.

While the documents should be drawn up by a lawyer, the Attorney can be a family member or group of family members, a friend or even a trust company. What's important is that an Attorney be someone you believe will act in your best interests whatever the circumstances and will be capable of managing your concerns. Within the documents, instructions on how you would like your Attorney to proceed can be specific, such as the circumstances under which they can sell your home, or left to the Attorney's discretion.

In most provinces, the POA is divided between two separate but related entities, the POA for Property and the POA for Personal Care.

What a Power of Attorney for Property means

A POA for Property deals with your money and assets and is intended to control your financial responsibilities both for your benefit and your family's if you are unable to manage them. For example, and depending on the instructions in a POA, an Attorney may have access to your accounts to pay day-to-day bills, file your taxes or may have the power to sell your investments to meet healthcare costs. It can also include care and maintenance on a range of assets, from ensuring your eavestroughs are clear to rebalancing your portfolio.

What a Power of Attorney for Personal Care means

The POA for Personal Care involves your wishes around healthcare and lifestyle in case you are unable to make those decisions. For example, you may have instructions for a specific diet or that you want to stay in your own home with nursing care as opposed to being relocated to an institution.

It can also involve your directions for end-of-life situations or organ donation. Needless-to-say, you must choose an Attorney who is able to manage dealings with family and medical staff during times of great stress.

The importance of getting your Power of Attorney right

Tagliola stresses the need to get your POAs done properly, so that the documents match your personal situation and can therefore bring the greatest benefit when you need them the most.

This can start by providing clear but not excessive instructions for what you want to happen if the unforeseen occurs. Tagliola says that an Attorney should not be burdened with overly detailed directives because it can handicap them from taking action. Your POA for Property should be updated as your wealth grows and becomes more complex, while your POA for Personal Care should address any health concerns. As well, the two types of POAs should work in concert. For instance, any healthcare wishes made in the Personal Care POA must be able to be funded through corresponding instructions in the Property POA, and Tagliola recommends both should be completed and updated at the same time.

Tagliola also stresses that people should work with a lawyer when drawing up their POAs: While POA kits are available online, he knows from experience that completing it improperly can render the document worthless.

Also important when drawing up a POA is stating when it should become active. If you are younger, you may want the POA to "go live" only when events dictate that you need help, such as when you have a sudden, debilitating accident. If you are a senior, depending on your health, you may wish to leave it to the Attorney's discretion when to activate their powers or even have the document become active immediately upon signing it. If you think there may be situations where you can handle your responsibilities but would like some monitoring, it's important to give the Attorney the leeway to oversee your affairs as needs dictate. And that is why one of the most important requirements when choosing an Attorney is selecting a person or institution that is intimately knowledgeable about your personal situation.

Choosing an Attorney: The case for a trust company

Making an effective POA may start with selecting the right Attorney or group of Attorneys. Tagliola says they should ideally live close to you so that they can manage your affairs effectively. You may also want to select someone with some financial acumen, who's reliable enough to manage your life in a time of crisis, and of an age that they are not likely to predecease you. And (this may sound obvious) you should consult with your choice to see if they actually want the responsibility.

Tagliola underlines that family dynamics may complicate matters if more than one family member is assigned as an Attorney. While most families can work effectively together, tension can appear if strong emotions and money are in play. He says it's a reality that there may be conflicts of interest at work here — an adult child managing a parent's money may also be aware they are handling the future inheritance for themselves and their siblings. Another common issue arises when an institutionalized spouse needs to sell a home or property to cover healthcare costs while their healthy partner would still need somewhere to live and savings to live comfortably.

And, while it is unfortunate, the amount of power wielded by the holder of a POA has led some to abuse that responsibility.

These conflicts may be dealt with by having a trust company step in as the Attorney or as a co-Attorney, says Tagliola. Since the trust company is only mandated to provide the best care for the individual involved, it can effectively balance financial and care concerns without getting entangled with family issues. Also, a trust company has deep expertise in these legal areas and it may be far more efficient and involve a lot less handwringing getting things done than leaning on family. For more information on how this can work, you can speak to your financial advisor.

Why you should get a Power of Attorney completed now

Tagliola understands why people put off getting their POAs in place. It costs some money and it takes time to meet with a lawyer. It means you must make some big decisions around your assets and your family. Lastly, it means turning your mind to unpalpable thoughts about our own fragility. But, he says, it's probably worse to contemplate what could happen to you and your family without a POA. He urges everyone to look into getting one written up and, if you have one, to ensure it's up to date.

"The Powers of Attorney work for you and your family when you can't. It encapsulates your wishes and intensions. If you can't be at the table directing your affairs, Powers of Attorney are the next best thing."

— Don Sutton, *MoneyTalk Life*

[1] Dementia in Canada, including Alzheimer's Disease, Statistics Canada, Sept. 21, 2017, accessed Oct. 6, 2021, canada.ca/en/public-health/services/publications/diseases-conditions/dementia-highlights-canadian-chronic-disease-surveillance.html