



Wealth Insights

TD Wealth Private Investment Advice
Summer 2024



Trading the Fountain of Youth

With our increasing longevity, we seem to be trading our focus on the “fountain of youth” for the “fountain of usefulness,” where having purpose outweighs a desire for youthfulness. In a recent survey, 83 percent of those ages 65 and older say it’s “more vital to feel valuable than youthful in their retirement years.”¹

This shift in perspective might explain why overall life satisfaction tends to peak for those ages 65 to 74, surpassing that of individuals ages 60 to 64,² and why adults ages 65+ report the highest levels of happiness of all age demographics.¹ Having a strong sense of purpose has been shown to enhance health and well-being, and may even promote longevity.

Researchers who study longevity often point to the Japanese notion of “ikigai,” which roughly translates to a reason for being. Studies in Japan suggest that ikigai positively impacts health, happiness and productivity. Individuals who perceive themselves as having this sense of purpose tend to manage stress more effectively and enjoy longer lives.³ When investigating the “Blue Zones” — regions in the world where people live some of the longest lives — a common theme emerges: a shared sense of collective purpose among residents.⁴ Supporting this, a Canadian study in 2009 found that having a sense of purpose was linked to healthy aging and a reduced risk of mortality. The study, spanning 14 years and involving 6,000 participants, concluded that longevity benefits were not tied to age. In other words, having purpose appears to buffer against mortality risk across the entire age spectrum of the adult years.⁵ Recent research echoes these findings: leading a purpose-driven life correlates with positive health outcomes and lower mortality rates.⁶

As you contemplate life beyond retirement, have you given thought to what you will do? This may end up being a lengthy portion of life — with our increasing longevity, one that could last decades. Many retirees struggle with the transition, often underestimating the extent to which their careers provided a sense of identity and purpose. Upon retirement, the oft-overlooked benefits of the workplace may disappear: daily routine, work interactions, social events, leadership status or a professional identity built up over time. Others find it difficult to adapt to new circumstances, such as changes in relationships with spouses or family. Spending more time at home in a non-work capacity can reshape the dynamics.

For many, retirement presents an opportunity for discovery and fulfillment, thanks to a greater abundance of time. While the concept of finding purpose varies from person to person, it may involve exploring new interests, furthering education, continuing work in a different capacity, volunteering for a worthy cause,

In This Issue

Plan Ahead: The Increasing Capital Gains Inclusion Rate ...	2
Where Is Your Original Will Stored?	3
Regrets? We’ve Had a Few: The Timing of CPP Benefits	3
Alternative Page 4 Story	4

To Our Clients:

Despite a positive start to the year for equity markets, sentiment remains tepid. Economically, we find ourselves in a type of liminal moment — a transition period where the economy is neither great nor terrible. It’s no surprise that the financial narratives appear to be constantly shifting. However, summer offers an opportunity to take a vacation from the headlines. As always, we are here to take care of your wealth management — monitoring investments, managing risk and here to provide objective advice — so that you can focus on other important aspects of your life. We hope the summer will be filled with plenty of downtime. Please call if we can be of assistance.

mentoring others, nurturing new connections or embracing altruism in various forms.

We often place a significant focus on planning for our future by working hard, saving consistently and investing. **As advisors, we are** committed to supporting you to plan a financial future that allows you to pursue whatever you choose. However, it’s important to also give forethought to how you will spend this time. After all, while you can retire from your career, it’s much more difficult to retire from life.

1. https://agewave.com/wp-content/uploads/2023/08/08-07-23-Age-Wave-The-New-Age-of-Aging-Report_FINAL.pdf; 2. <https://www.prb.org/resources/happily-ever-after-research-offers-clues-on-what-shapes-happiness-and-life-satisfaction-after-age-65/>; 3. <https://pubmed.ncbi.nlm.nih.gov/19539820/>; 4. <https://www.ncbi.nlm.nih.gov/books/NBK298903/>; 5. <https://journals.sagepub.com/doi/abs/10.1177/0956797614531799>; 6. <https://journals.sagepub.com/doi/abs/10.1177/07334648211027691>

■ Changes to Tax Law

Plan Ahead: The Increasing Capital Gains Inclusion Rate

There haven't been changes to the capital gains tax since the inclusion rate was last changed in 2000 — until now.

As a result of the 2024 federal budget, the capital gains inclusion rate was raised to “improve tax fairness.” Since 2001, 50 percent (1/2) of realized capital gains have been subject to tax. As of June 25, 2024, the inclusion rate increased to 66.67 percent (2/3) for realized gains over \$250,000 for an individual.* For corporations and trusts, there is no threshold: the inclusion rate will now be two-thirds.

While the government targeted the change to impact the most wealthy, middle-class Canadians may not be immune. This may affect small business owners holding investments in their corporations and individuals who experience a one-time financial event, such as the sale of an investment property, family cottage/cabin or small business where an exemption is not available. At the time of writing (legislation is still pending), it's unclear whether the deemed disposition of capital assets at death will be subject to a higher inclusion rate (updates will be provided in a future newsletter).

The chart shows the impact on a capital gain of \$500,000. Are there ways to help with the potential tax bite? Here are a handful of ideas:

Spread gains over multiple years — Plan ahead to time the sale of larger capital gains where possible to remain under the threshold (i.e., realizing \$250,000 in gains over two years vs. \$500,000 in one).

Crystallize gains — Individuals should evaluate the possibility of deferred taxation at higher rates against accelerated taxation at a lower rate. Deliberately selling and rebuying stocks to trigger a capital gain (“crystallizing”) can decrease book value over time. This strategy, often used in years when an investor is in a lower tax bracket, may capitalize on the lower inclusion rate each year. The decision may depend on a variety of factors such as time horizon, current/future tax rate and potential growth rate.

Plan to cover increased tax liabilities — If you plan on passing down a family property, the use of insurance or other planning techniques may be considered to cover the higher tax liability on accrued gains.

Business owners — Asset location: Evaluate whether certain assets should be held in the corporation or owned personally, as

a higher inclusion rate applies to all gains of the corporation.

The use of corporate-owned insurance or an individual pension plan may be considerations for a corporation's tax strategy. **Plan ahead to use tax deductions:** Certain tax deductions require planning, such as the lifetime capital gains exemption, proposed to increase to \$1.25 million. A new Canadian Entrepreneurs' Incentive proposes to reduce the capital gains inclusion rate by 50 percent on up to \$2 million of capital gains (phased in) by 2034.

As tax planning remains an integral part of wealth planning, seek advice regarding your situation. *At the time of writing, legislation is pending.

How Much More Tax for a \$500,000 Gain?

Province	Tax Rate on Capital Gain*		Additional Tax
	1/2 Inclusion	2/3 Inclusion	
BC	26.75%	35.67%	\$22,292
AB	24.00%	32.00%	\$20,000
SK	23.75%	31.67%	\$19,792
MB	25.20%	33.60%	\$21,000
ON	26.76%	35.69%	\$22,304
QC	26.66%	35.54%	\$22,213
NB	26.25%	35.00%	\$21,875
NS	27.00%	36.00%	\$22,500
PEI	25.88%	34.50%	\$21,563
NL/LB	27.40%	36.53%	\$22,833

*For individuals, based on top marginal tax rates at 01/01/24. Assuming no other realized capital gains.

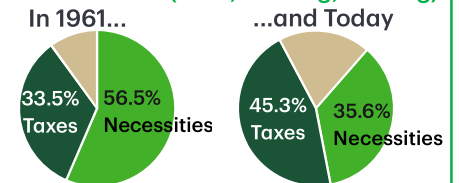
In Brief: Feeling As Though You Are Paying More Tax?

According to the *Canadian Consumer Tax Index*, 45.3 percent of our family income goes to pay taxes. Since 1961, this has increased by 2,778 percent. Despite current inflationary pressures, consider that this outpaces the 863 percent rise in the Consumer Price Index.

Who bears the highest burden? Today, the top 20 percent of income-earners (family income over \$243,000) paid 61.9 percent of personal income tax, despite representing only 45.7 percent of total income share.¹

1. <https://www.fraserinstitute.org/studies/measuring-progressivity-in-canadas-tax-system-2023>

Average Canadian Family's Tax Burden vs. Necessities (Food, Clothing, Housing)



Summer Job? Give (Grand)Kids a Head Start by Filing a Tax Return!

Do you have a teen in the family — a (grand)child, niece or nephew — who is working part-time after school or in the summer? There may be an opportunity to help them build wealth for the future and save tax, too. All it involves is the time taken to file a tax return each year.

Generally, when taxable income is less than the basic personal amount (BPA), there may not be a requirement to file a return if no taxes are due. For 2024, the BPA is \$15,705 for net income of \$173,205 or less. However, filing a return may be worthwhile. Why? Even small amounts of earned income can help accumulate valuable RRSP contribution room over time.

Consider the example of Josh, age 14, who earns \$5,000 each summer as a lifeguard. His aunt helps him to file a tax return. In doing so, he accumulates RRSP contribution room at a rate of 18 percent of earned income, or \$5,000 X 18% = \$900 per year. The tax rules allow for the indefinite carry forward of unused RRSP contribution room, so he carries this amount forward. By age 22, Josh graduates from post-secondary school and has generated \$8,100 of unused room.

He gets a full-time job with income subject to a marginal tax rate of 30 percent.* By contributing \$8,100 to his RRSP and claiming the corresponding deduction, he saves \$2,430 in tax (\$8,100 X 30%). The RRSP contribution can grow to nearly \$75,000 by age 60 at an annual return of 6 percent. Not a bad head start! In addition, there may be other benefits:



Education — Involving kids in preparing tax returns can help to instill good financial habits from a young age.

Income-splitting — If you own a business, paying younger family members for reasonable services rendered can transfer funds into the hands of those in lower tax brackets.

Home-buyer's plan — Up to \$60,000 of RRSP funds may potentially be accessed as an interest-free loan for the purchase of a first home.

*Illustrative. Tax rates are based on income and province of residence.

■ Estate Planning Perspectives

Where Is Your Original Will Stored?

Where you hold your estate planning documents is important. Here are some considerations.

There may often be a long period of time between creating a will and when it ultimately needs to be retrieved. As the years pass, an individual may change homes, leave a province or even retire to a different country. Lawyers who provided support may change practices or retire. It therefore isn't unheard of for estate planning documentation to be lost, thrown away or destroyed.

This points to the importance of safely storing documentation over time to ensure it can eventually be accessed. A will that outlines wishes and intentions is of little use if it cannot be located after death. In most provinces, the original will must be filed with the courts for an estate to be administered — a copy, even if notarized, cannot be used in its place. Aside from the additional cost, effort or delays in searching for documentation, worse still are the consequences of needing court intervention if the document cannot be found, known as dying "intestate," with estate assets distributed by intestacy rules and not necessarily as intended.

Here are common places where estate planning documentation is held, each with its own considerations:

Lawyer's office — Improves the chance of safekeeping given professional obligations for file retention/safeguarding, yet there's the potential to lose track of files if lawyers change firms, move or retire.

Safety deposit box — Provides a safe place with little chance of loss or damage; however, for an executor to access a safety deposit box upon death, a financial institution may require a grant of probate confirming the executor's authority, creating a

"catch-22" as this often cannot be obtained without the original will.

Home's personal safe — This may provide easy access for an executor, yet may not be damage-proof (fire or flood), theft-proof or loss-proof (when considering multiple residence moves).



Additional Considerations: The Power of Attorney (POA)

When storing POA documents (mandate, personal directive, living will; the names vary by province/territory), there may be additional considerations. Unlike a will, these documents come into effect during your lifetime and possibly in the event of an emergency. As such, they may need to be accessed quickly or urgently.

As you think about your situation, here are four questions to ask:

- Do you and your executors know the exact location of your original estate planning documents?
- If stored with a legal professional, are you aware of their current status? If not stored with a legal professional, is your executor able to access the original document?
- Are POA-related documents (or notarized copies, if required*) quickly accessible in the case of an emergency?
- Do estate planning documents remain appropriate for your current circumstances? As always, a regular review may be helpful.

*Depending on the province of residence.

Regrets? We've Had a Few — The Timing of CPP Benefits

Since most Canadians opt for early benefits, there has been increased media coverage discussing reasons to delay.

As a reminder, starting Canada Pension Plan (CPP) benefits before age 65 (as early as 60) decreases payments by 0.6 percent per month, whereas delaying beyond 65 increases payments by 0.7 percent per month, up to 42 percent for CPP (age 70). Actuarial studies continue to show that many are better off delaying since the break-even age* falls below the average life expectancy. Living beyond the break-even age means that delaying benefits yields a larger total benefit.

Yet, the decision is often impacted by factors other than longevity, such as the need for income. As more Canadians work past age 65, the impact of retiring early, or late, should also be a consideration. Working past age 65 and delaying benefits can lead to a potentially greater benefit. This is because CPP benefits are generally calculated using the best 40 years of income, usually between ages 18 and 65. Since lower-earning years tend to be at younger ages when first starting a career, extending the working years past age 65 may add higher-earning years to the calculation and increase the benefit.

The good news is that it doesn't work the other way: Any low-earnings years past the age of 65 have no effect on the CPP benefit calculation. Yet, if you retire before 65 but wait to take benefits, the zero-earnings years have the potential to negatively affect your

benefit. For example, retiring at age 60 and waiting to collect CPP at age 65 could add five zero-earning years to the calculation.

Indeed, the words of Frank Sinatra may be a reminder to carefully consider the decision. Here are some perspectives from Canadians who had "regrets" after starting benefits early:¹

A reduction in survivor benefits — A widow receiving survivor benefits from a deceased spouse was unaware that starting her own CPP would change her maximum entitlement. She didn't know that survivor benefits would change at age 65 and hadn't considered the impact of deferring her own benefits until after 65.

Leaving more for beneficiaries — Since he didn't need funds, one man wished he waited after realizing how much more he could have over a lifetime. A study by FP Canada (2020) suggests taking CPP at age 60 instead of 70 may forgo \$100,000 of lifetime benefits.²

Inflation indexing — One retiree recognizes that had he waited, the multiplier for starting later would have further enhanced the amount indexed for inflation, leading to even greater benefits.

Returning to work — One man began CPP at age 60 and retired at age 63, but then decided to go back to work. He regrets starting early due to the taxes paid on the CPP after returning to work.

*The age at which total benefits received by delaying CPP payments exceed total benefits received by starting CPP payments earlier. 1. <https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-these-canadians-wish-they-had-waited-to-take-their-cpp-benefits-heres/>; 2. https://www.fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-research-paper.pdf, December 2020.

Increasing Capital Gains Inclusion Rate: Two Ways Insurance Can Help

Insurance continues to be a compelling tool for tax and estate planning. While the recent increase in the capital gains inclusion rate* was intended to target the wealthiest Canadians, here are two situations that may impact you — and how insurance can provide support.

While the recent increase to the capital gains inclusion rate* (see page 2) was alleged to impact only the wealthiest Canadians, a greater number of individuals may be impacted. Here are two common situations in which many Canadians may find themselves with higher tax obligations — and how insurance can help:

The Transfer of a Family Vacation Property

One of the most common issues in keeping a vacation property in the family relates to covering a potentially large capital gains tax liability triggered upon its transfer, if it isn't considered a principal residence. With real estate prices soaring, a cottage or cabin with a \$500,000 cost base can now easily be valued at \$2 million or more in many markets. Before the recent tax changes, only one-half of the \$1,500,000 capital gain was subject to taxes. Now, for gains in a year that are over \$250,000, two-thirds will be taxable. At a top marginal tax rate of 53.5 percent (using BC as an example), this change could result in an additional \$110,000 to \$130,000 tax liability, with a total tax bill of over \$510,000.** This is certainly not insignificant by any means.

Insurance has traditionally served as a solution to cover such tax liabilities at death and should continue to be a consideration. This involves purchasing a policy with the death benefit equal to the expected tax bill. The proceeds will typically be paid tax free and may avoid probate fees (in provinces where applicable), allowing beneficiaries to cover the tax liability and keep the property in the family. You might even arrange it so that the annual premium cost is paid by the eventual beneficiaries.

Small Business Owners: Investing Inside the Corporation

Many professionals, such as doctors, dentists and accountants, have incorporated their practices and may be evaluating whether holding capital assets within the corporation for the long term remains the best tax strategy. Under the new rules, corporations do not receive

the same tax break as individuals on the first \$250,000 of annual realized capital gains. As such, every dollar of capital gain will be subject to the two-thirds inclusion rate. This means that the effective federal tax rate on capital gains will increase from 19.33 percent (38.67% X 50% inclusion) to 25.78 percent (38.67% X 66.67% inclusion) before factoring in provincial tax.

Corporate-owned life insurance may present a tax-efficient alternative to investing surplus cash, especially when considering future distributions for estate planning. The cost to fund policy premiums will be lower if paid by the corporation rather than personally (assuming the corporation's tax rate is lower than the personal tax rate). Holding an exempt permanent life insurance policy until disposition within a corporate structure allows for tax-deferred growth of the cash value of investments. Proceeds over the policy's cost base can be credited to the capital dividend account and may be distributed as a tax-free dividend to shareholders. Most notably, the investment rate of return, especially after factoring in tax savings, commonly exceeds a comparable fixed-income portfolio — this can be estimated through an insurance illustration based on premium costs and expected age at death.

Plan Ahead

The rising capital gains inclusion rate is likely to affect more Canadians than anticipated — a reminder of the importance of tax and estate planning. If you are interested in learning more on how insurance may provide support, please contact the office.

*At the time of writing, legislation is pending. **Under the old rules, taxes due would be \$401,250 or \$1,500,000 X 1/2 X 53.5%. If the taxpayer does not have other taxable gains, the taxes due would be \$512,708 or (\$250,000 X 1/2 + \$1,250,000 X 2/3) X 53.5%. If the taxpayer has other taxable gains in the year over the \$250,000 threshold, the taxes due would be \$535,000 or (\$1,500,000 X 2/3) X 53.5%.



■ Changes to the Capital Gains Inclusion Rate...and More

Spring Recap: Budget 2024 – Five Things Investors Should Know

While there were no changes to the personal tax brackets or corporate income tax rates, some notable changes may impact tax and wealth planning for which investors should be aware.

On April 16, 2024, the federal government released its budget, with a focus on home affordability and reducing the cost of living to “strengthen the middle class.”

From a housing perspective, the government has suggested its intention to convert public lands into housing, form a new housing infrastructure fund and increase the mortgage amortization for first-time homebuyers for new builds to 30 years (as of August 1, 2024). The budget also proposes increasing the Home Buyers’ Plan (HBP) withdrawal amount from \$35,000 to \$60,000 after April 16, 2024. The HBP allows first-time home buyers a tax-free withdrawal from their Registered Retirement Savings Plan (RRSP), subject to repayment and other conditions. The budget proposes to temporarily defer the start of the 15-year HBP repayment period by an additional three years for those making a first withdrawal between January 1, 2022, and December 31, 2025.

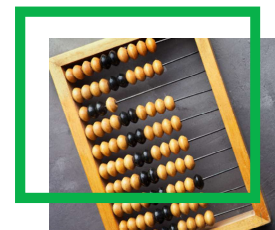
There were no changes to the personal tax rates or the corporate income tax rates. However, some notable changes may impact tax and wealth planning for which investors should be aware, including:

1. Capital gains inclusion rate — The budget proposes to increase the capital gains inclusion rate from 50 percent to 66.67 percent for capital gains realized on or after June 25, 2024 for corporations and trusts. For individuals, the increased inclusion rate will be applied to the portion of capital gains realized that exceeds a threshold of \$250,000 per year.

2. Lifetime capital gains exemption (LCGE) — The budget proposes to increase the LCGE from the current amount of \$1,016,836 to \$1,250,000 to apply to dispositions that occur on or after June 25, 2024, and this will be indexed to inflation beginning in 2026.

3. Canadian entrepreneur’s incentive — This new incentive proposes to reduce the tax rate on capital gains on the disposition of qualifying shares by an eligible individual by reducing the capital gains inclusion rate to one-half of the prevailing rate on up to \$2

million of capital gains per individual over their lifetime, subject to various conditions. The limit will be phased in by increments of \$200,000 per year, beginning January 1, 2025, to reach the \$2 million value by the year 2034. Once fully phased in, at proposed inclusion rates, this would generally allow two-thirds of \$2M in capital gains to be sheltered by this tax incentive (as only one-half of the proposed 66.67 percent would be subject to tax).



4. Alternative minimum tax (AMT) — The budget further amends the AMT rules. The AMT is a “parallel tax” calculation that prevents high-income earners and some trusts from paying little or no tax as a result of certain tax deductions and credits. Notably, the rules surrounding donations have been amended to now allow individuals to claim 80 percent of the charitable donation tax credit when calculating the AMT, instead of the previously proposed 50 percent. Employee ownership trusts would be fully exempt from the AMT.

5. Employee ownership trusts (EOT) — An EOT is a trust that holds shares of qualifying businesses for the benefit of employees to support succession planning and promote employee ownership of small businesses. The budget further clarified the conditions required to meet the \$10 million capital gains exemption on the sale of shares to an EOT, as proposed in the 2023 Fall Economic Statement. Most notably, the exemption can be shared among multiple individuals and the exemption applies to qualifying dispositions of shares that occur between January 1, 2024, and December 31, 2026.

Note: At the time of writing, these budget proposals have not been enacted into law. However, it is expected that these changes will achieve the support of the NDP and pass as intended.



■ Seeking Financial Motivation?

Summer Financial Checkup: Simple Rules of Thumb in Wealth Planning

Consider sharing these simple “rules of thumb” with those who are just starting their wealth-planning journey.

Here are five wealth planning questions that may be answered by simple “rules of thumb.” These may spark meaningful discussions about wealth management, budgeting or family and estate planning, or perhaps help to motivate better financial decisions.

1. How long will it take for my investments to grow?

The Rule of 72: In the investing world, we use this rule of thumb as a simple way of estimating the time it takes to double an investment based on a constant annual rate of return. Dividing the number 72 by the rate of return determines the approximate number of years it would take to double. For example, with a 6 percent rate of return, it would take approximately $72 \div 6$, or 12 years. The *Rule of 72* is a reminder of the power of compounding and that the opportunity to build significant wealth is within reach for both young and old investors alike. Consider that at a rate of return of 6 percent, even if you’ve reached the respected age of 70, based on an average life expectancy you’re likely to see your funds double — and twice still if you become a centenarian!

2. Am I on track with my wealth accumulation?

The Net-Worth Indicator: This rule of thumb can be used to gauge your current wealth accumulation progress based on your household income, as developed by the authors of the book “The Millionaire Next Door.” Multiply your age by your realized pre-tax annual household income from all sources except inheritances. Divide by ten. The answer is your expected net worth. If your actual net worth is more than twice this figure, you are considered a “prodigious accumulator” of wealth. If it is below this figure, you are considered an “under-accumulator” of wealth.

3. What portion of my budget should go toward saving?

The 50-30-20 Budgeting Rule: If you are an under-accumulator of wealth (above), perhaps there may be merits to engaging in budgeting. This simple budgeting rule suggests dividing after-tax income into three buckets: 50 percent to “needs,” 30 percent to “wants” and 20 percent to “savings.” Needs include housing, utilities, food, transportation, healthcare and childcare. Wants are

non-essentials, such as memberships, entertainment and fashion. Savings include investment and debt repayment. If you hold debt, it may be prudent to consider allocating a greater portion to paying it down, given the rising cost of holding debt.

4. How much of my income should be put toward a house?

The Rule of 30 for Home Purchases: A rule of thumb used in the past suggested the price of your home should be no more than three times your annual gross income. However, with elevated housing prices over recent decades, this rule is largely outdated. The *Rule of 30* may be more practical, suggesting we should limit total annual housing costs (i.e., mortgage payments, insurance, property taxes, maintenance) to 30 percent of gross income. This rule may help younger folks frame a purchase decision, as overspending can leave individuals financially vulnerable, especially in the event of unforeseen circumstances such as job loss or economic downturns.

5. When should I be having discussions with elderly parents?

The 40/70 Rule for Aging: This simple rule of thumb encourages discussions about aging-related matters, suggesting that these conversations should happen between adult children and their aging parents once the child reaches the age of 40 or the parents turn 70. The rule is based on the premise that it is best to start these discussions when parents are still healthy and capable — well before any potential crisis forces decisions to be made. These discussions may include difficult topics such as future care, living arrangements, decision-making support, finances and end-of-life decisions.

The Bottom Line

Of course, these rules of thumb are meant to be informal guidelines. They are oversimplified, do not consider individual circumstances and may not apply to everyone’s particular situation. However, they may provide high-level guidance and motivation or inspire new thinking when managing wealth. If any of these rules of thumb prompt further questions or the need for wealth management or estate planning support, please call the office.



■ Planning Ahead for a Generational Wealth Transfer

Lessons in Financial Management: It's Time to Bring Kids to the Table

Here are some ways **I/we can** help to support and preserve wealth for an eventual generational wealth transfer.

Many of us spend our lifetimes working hard to build wealth, but how do we preserve this wealth if we wish to create a legacy? You've likely heard of the "shirtsleeves to shirtsleeves in three generations curse," which suggests that 70 percent of affluent families lose their wealth by the third generation.¹ This serves as a reminder that even if we do a good job managing our own wealth, it may amount to little if we neglect to prepare the next generation for success.

The basic lessons haven't changed: Imparting good saving and prudent spending behaviours, helping children to set and achieve goals and teaching the virtues of investing and growing wealth. In this modern era of connectivity, young people face new challenges: the escalating catering to instant gratification, "fear of missing out" (FOMO), social media pressures of keeping up with the Joneses and financial misinformation spread by "influencers," to name a handful.

The good news is that Canadians appear to be engaging in financial discussions with kids at earlier ages.² Indeed, the resources available through the education system still lack consistency, so having conversations at home can help kids get a head start.

Starting early can yield significant outcomes down the road. Learning the basics of saving and spending can help to prevent bad credit habits later — it isn't unheard of to see young people undergo credit counselling due to credit card delinquencies. Recognizing how saving and investing can grow funds over time may be eye-opening. **I/We** often remind young people of the benefits of starting early: investing \$265 per month at age 25 would yield over \$1 million by age 75 at a rate of return of 6 percent, but starting later at age 45 would require almost \$1,000 per month. Even small lessons in financial literacy can help in setting longer-term goals.

The ultimate goal, of course, is to ensure kids achieve financial independence as adults. Instilling good financial skills at a young age can also help to preserve wealth upon a generational transfer.

If you don't know where to start, the table provides ideas for each stage of life. **I am/We are** also here to act as a resource. In brief, here are some ways **I/we** have helped families with financial education:

- **Helping set up an in-trust account or small investment account.**

This may include purchasing a GIC to learn about interest income or exploring mutual funds/ETFs or shares that are relatable (Apple, Disney, etc.) to learn how the stock market works.

- **Supporting family meetings** to help younger folks understand **my/our** role and the services **I/we** provide: expertise, objectivity, planning and simplifying lives.
- **Helping young adults open and manage a TFSA or RRSP**, supporting them to identify goals and treating them as individual clients to foster independence.

If you are looking for support as you plan ahead to achieve a successful generational wealth transfer, please get in touch.

1. <https://www.nasdaq.com/articles/generational-wealth%3A-why-do-70-of-families-lose-their-wealth-in-the-2nd-generation-2018-10>; 2. <https://www.newswire.ca/news-releases/having-the-talk-with-your-kids-ahead-of-back-to-school-season-pc-financial-r-survey-finds-canadians-are-starting-to-talk-about-finances-earlier-811316772.html>

Financial Lessons for Each Stage of Life

Under Age 10

- Introduce an allowance when work is done
- Teach savings through the use of a piggy bank
- Teach about basic costs through trips to the grocery store

Age 10 to 18

- Set up a bank account
- Teach high-level cash flow management: spend using cash and high-level budgeting
- Use debit cards to teach about reducing balances
- Encourage a part-time job to learn to earn money and pay taxes; help kids file tax returns; teach about contributing to the RRSP
- Teach about the RESP in preparation for post-secondary school

Age 18 to 24

- Introduce credit cards and debt; teach the value of a credit score
- Set financial goals for education
- Teach investing; Open TFSAs and other investing accounts

Age 25+

- Support discussions on career, home purchase, marriage/families
- Provide counsel on setting short, medium and longer-term goals
- Have family discussions about shared values, succession planning



■ Macroeconomic Perspectives

Why Have Central Banks Been Slow to Cut Rates?

As history can often rhyme, the central banks have been cautious to avoid a repeat of the 1970s.

With expectations for multiple interest rate cuts to start the year, why have the central banks been slow to move?

In the U.S., inflation has been more persistent than anticipated, while the economy has remained comparatively strong. This contrasts with Canada, where economic activity has been lacklustre and there are greater indications that inflation has been cooling.¹ However, both central banks continue to be cautious about moving too quickly to lower interest rates.

Recall the considerable criticism central banks received for their delayed response to contain rising inflation, which they dismissed as “transitory” in 2021. After aggressively raising interest rates in 2022, they have since been careful in shifting their monetary policy direction. One of the main reasons behind this caution is the lessons learned from the 1970s.

First: A Brief History

Just how bad was inflation in the 70s? It was a decade plagued by persistently high inflation and high unemployment, or stagflation. In Canada, we grappled with an average inflation rate of around 8 percent, with inflation hitting two separate peaks: 11 percent in 1974 and almost 13 percent in 1981. In the U.S., inflation hit 14 percent by 1980. It was only when then-Fed Chair Paul Volcker aggressively raised the fed-funds rate to 20 percent by 1981 that inflation would be contained, but this pushed the U.S. into severe recession. Canada would follow suit by hiking rates to a whopping 21 percent. At that time, five-year fixed mortgage rates reached a high of 21.5 percent; a stark contrast to today's rates that hover around 6 percent.²

Does today's inflation resemble that of the 1970s? Some argue that the underlying drivers of inflation share similarities. Back then, oil price shocks and energy supply shortages played a major role, compounded by expansive fiscal and monetary policies of the 1960s and early 70s aimed at boosting employment. When inflation peaked in 2022, many attributed it to pandemic-induced supply chain disruptions, along with overly expansionary fiscal and monetary policies in response to the pandemic. While opinions may differ on the specific drivers, it's widely acknowledged that

the slow response to curb inflation in the 1970s led to even higher interest rates and a more severe economic downturn.

The Psychology of Inflation and Unemployment

Today, the good news is that labour markets have shown relative resilience amid moderating inflation. Traditionally, inflation and unemployment share an inverse relationship, a concept observed in financial circles by the “Phillips curve.” Periods of significant central bank-induced disinflation have often been accompanied by a recession and higher unemployment.³ While the psychological impact of inflation is undeniable — most of us have felt the pain in rising costs of essentials like groceries — consider that the impact of increased unemployment may be far more profound. Various studies suggest that higher unemployment depresses our well-being more than inflation; almost twice as much in one study and up to five times in another.⁴ Therefore, achieving a “soft landing” that maintains both labour and price stability is enviable — and still appears attainable.

The Bottom Line: Patience Has Been Needed

Nevertheless, the central banks remain cautious, mindful of the past. In navigating the ongoing battle against inflation, patience has been needed — akin to many aspects of investing. Interest rates, inflation and other factors will ebb and flow over time. Nobody can accurately predict their direction; there are many variables at play. As investors, we can assess the current and anticipated levels of risk and reward based on these changing macroeconomic conditions, and make adjustments where necessary. However, the fundamental principles of investing still ring true: Challenging economic periods highlight the importance of prudent investment selection, maintaining a diversified portfolio with an emphasis on quality, staying disciplined and continuing to focus on the longer term.

1. <https://www.cbc.ca/news/politics/bank-of-canada-macklem-closer-cutting-interest-rates-1.7191597>; 2. <https://www.bankofcanada.ca/wp-content/uploads/2023/11/remarks-2023-11-22.pdf#chart6>; 3. <https://www.reuters.com/business/retail-consumer/fed-needs-recession-win-inflation-fight-study-shows-2023-02-24/>; 4. <https://www.wsj.com/articles/inflation-and-unemployment-both-make-you-miserable-but-maybe-not-equally-41668744274>

