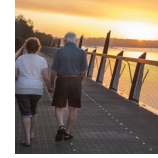




Wealth Insights

TD Wealth Private Investment Advice

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To My Clients:

A fair degree of uncertainty continues to cloud the markets. In times like these, it may be helpful to recall this advice: Don't let the merits of a good investment be overridden by the macro outlook. In some cases, the outlook may not unfold as expected: for 18 months now, many economists have been calling for an "imminent" recession. Most of us are investing for the years to come, and not for today. As your advisor, I continue to position portfolios to meet these future objectives. I hope that the summer months bring many leisurely pursuits. As always, please call if we can be of assistance.

Oberman
Wealth Management Group

Will You Live to 150?

It may seem implausible, but some researchers believe that the first person to live to 150 has already been born.¹ Our lifespan, and more crucially, our "healthspan" — the period in which we are in good physical and mental shape — continues to extend.

What if you do live until 150? Or, more likely, what is the possibility that your life might last much longer than you believe — will it change your perspectives on the present moment?

Back in the 1980s, the concept of "Freedom 55" suggested the idyllic retirement age of 55 — and, just 15 years ago, some provinces still had laws in place that supported mandatory retirement at age 65. But what if life is only half over by these ages? It's not inconceivable. As many as half of today's 5-year-olds can expect to live to the age of 100.²

Critically, this means a whole new set of issues — notably, those relating to our wealth planning to ensure a good quality of life over an extended period. This is challenged by ongoing trends of declining workplace pensions and ambiguous government support — the current debate over eliminating mandatory RRIF withdrawals due to the risk of outliving savings being one example. Younger folks face new challenges — the pandemic shaped a generational outlook of YOLO, "you only live once," that appears to have thrown savings priorities out the window, though the typical career path for younger people is now seen as spanning 60 years, unlike the traditional 40.

But there's also a rose-coloured view. We may be on the verge of a megatrend referred to as the "demographic dividend" — a growing number of older individuals in the labour force, expected to accelerate growth per capita, drive economic expansion and enhance social development. This potential "longevity economy" is expected to benefit everyone. While some will need to work longer to support the growing cost of living and increasing longevity, others are challenging the traditional notion of retirement: No longer is it a time for rest. Many will choose to reinvest themselves in new jobs to share wisdom or find income-generating "hobbies." Today, we may be seeing the beginnings of this "Great Unretirement": over two-thirds of those who retired in the pandemic said they would consider going back to work.³

Choice — The Key to Freedom

Whatever your plans for the years ahead, having the financial wherewithal offers the ability to have choices. My role as an advisor is to provide support to make this a reality. For investors, this includes having a carefully constructed wealth plan that accounts for factors like longevity. This also means giving your wealth plan the attention it deserves.

The "Extra" \$500,000 Nest Egg

I often remind new clients, especially those with the benefit of time, that even small contributions can make a meaningful difference. Consider that investing the equivalent of \$45 per week in a TFSA would amount to over \$90,000 in 20 years at a rate of return of 6 percent per year. Leaving this amount to compound for 30 more years would provide an "extra" nest egg of over \$500,000. Those fortunate to have more substantial resources can expect more, but the basic principles are likely the same: having a sound plan and the determination to follow through. While the tactics may need to change to meet the challenges of prevailing market conditions, regular investing habits can pay tremendous dividends down the road. For those who choose to participate, this should provide comfort.

It's your future. An exciting time awaits.

1. <https://news.harvard.edu/gazette/story/2023/01/has-first-person-to-live-to-be-150-been-born/>; 2. https://longevity.stanford.edu/wp-content/uploads/2021/11/NMOL_report_FINAL-5.pdf; 3. <https://weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/>

■ Summer: The Season of Home Sales

Thinking Ahead: Selling Property? Maximize Your Exemption!

As many high-net-worth investors own multiple properties, deciding how to best use the principal residence exemption (PRE) is important as it can lead to significant tax savings. During tax season, there were various questions about the PRE. As we enter the summer, often the busiest selling season, here are some answers.

As a reminder, when you sell your home* and a capital gain is realized, the resulting tax may be eliminated or reduced by claiming the PRE. If the property is designated as a “principal residence” for all the years it was owned, any tax will be eliminated. A family unit (i.e., you and a spouse/partner) can generally only designate one home as principal residence each year. As of 2016, you must report the sale of a principal residence on your income tax return and claim the PRE. Under new rules, property owned for less than 365 consecutive days is generally not eligible for the PRE.

If you own multiple residential properties, deciding how to best use the PRE is important as it can lead to tax savings. Quite often, the capital gain associated with the sale of a vacation property can be significant, especially if it was purchased many years ago at a fraction of its current value. With real estate prices skyrocketing in many cities over the past decade, this may also be true for a primary dwelling. Since only one property can be declared as a principal residence in any given year, you will need to decide which one to designate. This only needs to be done at the time you dispose of one of the properties. Generally, you should consider designating the property with the largest average capital gain per year to reduce the overall tax liability. Yet, the decision is rarely straightforward and often requires considering multiple factors, such as predictions about the future value of the remaining residence(s). Given the potential for significant tax savings, this should be done with careful consideration and the support of a professional may be beneficial.

Here are some frequently asked PRE questions:

To qualify, do I have to live in the unit most of the time? A principal residence generally refers to a housing unit that is “ordinarily inhabited” and the property is owned by you (alone or jointly). To be ordinarily inhabited, this doesn’t mean that the taxpayer needs to live there the majority of the time. The property may qualify as a principal residence if the taxpayer, their current/former spouse/common-law

partner, or children lived in it at some point during the year.

Can a cottage/cabin be designated? Yes, seasonal residences — even those located outside of Canada — may be designated. However, only one property per year, per family unit, can be designated (for years before 1982, each spouse can designate a different property).

What if I forget to report the sale on my income tax return? The Canada Revenue Agency may charge a late-filing penalty of \$100 per month, up to a maximum of \$8,000. In addition, the PRE may be denied at a further date and the owner would be taxed on the capital gain.

Here are some common issues to consider:

Rental or Business Purposes — If the property is used predominantly to produce income, it will not be eligible for the PRE. However, if part of the principal residence is used for rental/business purposes, you may be able to claim the PRE for the portion used as a residence. If you change the use of a property, if the property was a principal residence prior to the change, the PRE may be claimed for those years. *Note: a “change in use” may result in tax reporting requirements and tax implications beyond the scope of this article.*

Leaving Canada for extended periods — If you were not a resident of Canada for the entire time you owned the designated property, your period of non-residence may reduce the amount of the principal residence exemption or eliminate it.

Accounting for longevity — Keep in mind that the PRE is only available if the residence is ordinarily inhabited. Some families are caught off-guard when they cannot designate a property as a principal residence during the time the owner lived in a seniors’ or care facility or moved into an old age home. As you plan ahead to use the PRE, a potential option may be to have an adult child occupy the home during this period.

*Or a deemed sale for tax purposes: 1. www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-12700-capital-gains/principal-residence-other-real-estate/changes-use.html

Back to the Future: A Brief Look Back in Time

What if we could step back in time to alter the future? As optimism continues to waver, a look back 30 years may provide some perspective.

What was the prevailing view in 1993? This was the year of Whitney Houston’s “I Will Always Love You,” when Joe Carter’s home run would win the Blue Jays their second consecutive World Series. It was also a challenging economic period. Canada was emerging from the depths of a recession described as “the deepest since the Great Depression.” Unemployment soared to over 11 percent after interest rates were aggressively raised to fight inflation.¹ Then-Prime Minister Mulroney would end up resigning after his popularity fell from imposing a 7 percent GST two years earlier. Canada’s future economic prospects looked bleak. An editorial to start 1995 referred to “Bankrupt Canada” as “an honorary member of the Third World.”²

And, yet, the years that would follow would be in significant contrast. Canada would post budget surpluses later that decade (a concept foreign to many governments today!) and GDP growth would surge.

Indeed, economies are cyclical and the rebound of the 90s should remind us not to get too caught up in the present. This, too, is true in

investing. Consider that an investment 30 years ago in the S&P/TSX Composite Index would have grown by a compounded annual rate of return of around 6 percent.³ This, despite many events in between: recessions, the dot.com bust, the global financial crisis, a pandemic and much more.

As in the past, by recognizing the current opportunities and having the courage to commit to them, investors can share in the growth that lies ahead. Challenges will always be with us, but time can be a great equalizer. Continue looking forward!

1. https://en.wikipedia.org/wiki/1993_in_Canada; www150.statcan.gc.ca/n1/pub/71-222-x/2008001/section/a/unemployment-chomage-eng.htm; 2. www.reuters.com/article/us-crisis-timeline-idUSTRE7AK0FF20111121; 3. S&P/TSX Composite Index, 5/1/1993 to 5/1/2023.



Canada Then (1993) & Now (2023): Select Economic Indicators

	1993	2023
Inflation Rate (April) (A)	1.9%	4.3%
Overnight Interest Rate (B)	5.09%	4.75%
Price of Oil (C)	\$16.15	\$83.00
GDP Growth (D)	2.6%	3.1% (Q1 E)
Unemployment Rate (E)	10.2%	5.0% (Q1)
S&P/TSX Composite (F)	3,789.41	20,615.10

A: Bank of Canada website; B: BOC bank rate 1993; June 2023; C: Per barrel, Brent Crude USD Apr. 12; D: World Bank; TD Economics; E: Stats Canada Table 14-10-0020-01; F: At May 1, not including dividends.

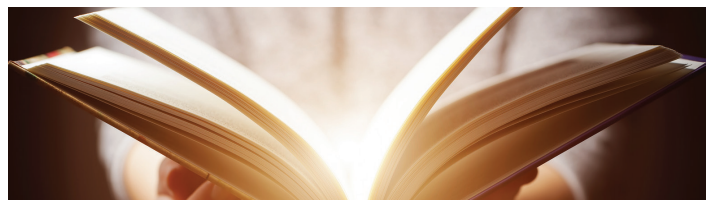
■ Portfolio Perspectives

Buffett's "Secret Sauce": Don't Overlook Dividends

In his latest shareholder letter, Warren Buffett reflects on his successes throughout his long career. What makes up his "secret sauce"? According to Buffett, one of the ingredients is dividend-paying stocks.

It's no wonder. By some accounts, Buffett's investments are expected to generate a whopping \$5.7 billion in cash this year, the majority from dividends.¹ In his letter, Buffett points to two successful dividend-paying investments and the contribution that both dividend growth and share price gains have had in growing portfolio values over time. He compares these to a "similarly-sized investment mistake" that could have been made in a high-quality bond, suggesting that this "flat-lined" investment would only retain, not grow, its value and pay an unchanged coupon rate from year to year.² It's good food for thought: dividends, alongside share price appreciation, can contribute to substantial portfolio growth over time. Consider an investment of \$100,000 in the S&P/TSX Composite Index 30 years ago. Today, it would yield \$628,273 by investing in the index alone; yet, with reinvested dividends, this value would have grown to \$1,318,766.³ Buffett also credits a handful of solid investment choices and the magic of compounding over time.

Dividends are sometimes given secondary attention during strong market times when the focus tends to be on earnings growth. During these slower economic times, and as interest rates have enticed some investors to seek the safety of low-risk, fixed-income products, the importance of dividends should not be overlooked. Consider that the S&P/TSX Composite Index has a dividend yield of around 3.12 percent,



almost double that of the S&P 500 at 1.67 percent.⁴ Many quality Canadian companies pay dividends, some with yields between 4 and 6 percent; the equivalent pre-tax interest income would be around 5.2 to 7.8 percent for an average high-net-worth taxpayer.⁵ Indeed, dividends still lead the way in tax savings over interest, with eligible dividends from Canadian corporations taxed at a rate that is lower than interest income. This is in addition to the prospect of future share price growth and increasing dividend payouts, as Buffett reminds us. Many companies that have historically paid dividends strive to continue through more challenging economic times — consider the "Dividend Aristocrats," a group of companies that have had 25 years of consecutive dividend increases in the U.S., and 5 years in Canada.

Dividends remain an excellent income source that can meaningfully contribute to portfolio growth over time. Don't overlook the fact that they continue to work hard behind the scenes within a portfolio.

1. www.wsj.com/articles/warren-buffetts-secret-sauce-involves-one-of-investings-most-basic-strategies-f96c4894; 2. www.berkshirehathaway.com/letters/2022ltr.pdf; 3. S&P/TSX Composite and Total Return Indices, 01/29/93 to 01/31/23; 4. At 04/28/23. 5. Based on average marginal tax rates for \$250,000 of ordinary income, capital gains or eligible dividends in 2023: 50.25% for ordinary income and 35.02% for eligible dividends, the averages across provinces/territories.

■ Estate Planning

Your Digital Assets May Have More Value Than You Think

Have you given thought to what happens to your non-financial digital property once you are gone?

Even if you're not the most technologically savvy, your digital footprint may be larger than you think. And, it's not just digital assets with financial value that need to be considered — certain digital assets can have sentimental value well beyond any material worth. A recent article in the popular press highlighted the sad consequences of not sorting digital matters before death.¹ One widow could not retrieve thousands of photos stored on her partner's cloud account. Another wasn't able to access her late husband's Facebook page.

Canada lacks consistent legislation giving the executor or attorney the automatic authority to deal with digital assets, with rules varying by province — if they exist at all. Saskatchewan was the first province to introduce legislation that grants executors/fiduciaries access to digital assets.² But even if laws do allow for authority, the reality is that access can be difficult if no provisions have been made by the deceased — customer support for online accounts can be limited, creating challenges and undue stress during an already emotional time.

We often carefully construct a plan for investments, real estate and other physical belongings; yet, as more of our lives operate digitally, we may not be doing a good job of planning for our digital assets. As a starting point, here are a few tips to begin the process:

Take inventory — Just as we take stock of our physical assets for estate planning, doing this for digital assets is equally important. Keep a logbook of digital assets, including usernames and passwords. This should be stored securely and updated regularly.

Practice digital housekeeping — Protect and secure your data, not just as part of an estate plan, such as regularly backing up important files, contacts, photographs and other information stored on your computer, smartphone or the cloud and encrypting sensitive data.

Consider a password manager — Often, keeping a list of accounts/passwords isn't enough, as we may forget to update it. A password manager may be helpful. These software programs maintain access information to digital accounts, including account numbers, passwords and any other important information you might need to leave behind.

Create a legacy contact or plan — Did you know you can designate a legacy contact for Apple accounts or create a legacy plan for Google accounts? Some social media accounts also offer legacy options. For an iPhone or iPad, go to "Settings" and then tap your name. Under "Password & Security" you will see the "Legacy Contact" option. The system will generate an access key for your contact, which will need to be presented alongside a death certificate to access data. For Google, go to "myaccount.google.com" and tap "Data & Privacy," then scroll down to "More Options" and look for the option "Make a plan for your digital legacy." You can decide when Google should consider your account inactive and what will be done with your data, which can be shared with someone you trust or deleted by the system.

Update your estate plan — Make sure your will and POA documents include language specific to digital assets, giving a representative authority to access, manage, dispose of and distribute them.

1. "Life After Death: Secure Your Digital Legacy Before You Die," Julie Jargon, Wall Street Journal, April 25, 2023, A1; 2. <https://dig.watch/updates/saskatchewan-ca-introduces-fiduciaries-access-digital-information-act>

■ Insurance Planning

Insurance Can Complement a Portfolio's Fixed Income Component

With rising interest rates, there has been increased attention to low-risk, fixed-income investments. Yet, there may be alternatives that can produce a more favourable financial result after factoring in the potential tax implications.

Consider the tax implications for a guaranteed investment certificate (GIC) returning four percent held in a non-registered account: after tax, this would yield two percent for an investor with a marginal tax rate of 50 percent. While this may provide comfort during volatile markets, there may be alternatives.

For high-net-worth (HNW) investors, there may be an opportunity to use permanent life insurance as part of an investment strategy. At a basic level, many permanent life insurance products have fixed premiums and a guaranteed payout at death. As such, it is possible to calculate a rate of return (IRR) on the premiums. Since proceeds upon death are paid tax free, the only variable is the age of death. Take, for example, a whole life policy for a non-smoking, healthy 50-year-old male who pays an annual premium of \$14,000 for a \$1 million policy:

Illustrative: IRR for \$1M Whole Life Policy with \$14,000 Annual Premiums

Age at Death	IRR	Equivalent Pre-Tax Fixed-Income Return*
75	7.35%	10.5%
80	5.13%	7.33%
85	3.67%	5.24%
90	2.64%	3.78%

*Based on a marginal tax rate of 30%.

Permanent life insurance may be a way to achieve fixed-income exposure. A participating whole life insurance policy (or "par policy") allows you to share in the potential surplus earnings of the insurer. Your premiums go into a broader participating account that is professionally managed by the insurance company, which is used to pay insurance claims, expenses, taxes and other costs. The majority of the assets in the participating investment account are typically longer-term debt instruments, such as public and private fixed-income investments, bonds and mortgages. The account would also generally include some real estate and equity holdings. This provides the policy owner with access to a low-cost, widely diversified portfolio that is often difficult to replicate for individual investors.

The Par Policy: Additional Benefits for HNW Investors

In addition to the traditional benefit of holding life insurance — to support loved ones in the untimely event of the death of an income

earner — there may be other benefits. The participating investment account is tax-sheltered for the policy owner, compared to a fixed-income portfolio of investments that would be taxable. Based on the account's performance, annual "policy dividends" are often issued to policyholders. These can be used to purchase additional paid-up insurance that would increase the policy's death benefit coverage, which the beneficiary will receive tax free upon the death of the insured. This provides the policy with the potential to outperform the after-tax fixed-income component of a traditional balanced portfolio.

In the event of a premature death, the par policy would have a high probability of outperforming the fixed-income component of a traditional investment portfolio (see the illustrative chart that shows an increasing IRR at a lower age for a whole life policy). The estate value may also be higher, as income, and any growth, would be earned on a tax-free basis inside the policy. Death benefits paid from the policy may not be subject to probate where the policy is owned outside of a corporation and certain specific beneficiaries have been named, such as a spouse or children (in provinces where applicable).

For business owners, there may be additional tax benefits through the use of the company's capital dividend account, further enhancing the value of the estate. Corporations with active business income may also be able to offset the tax that can result from the passive income rules.

Be aware that funds must be committed to this strategy, so sufficient assets must be available after premiums are paid to cover lifestyle and other needs annually. If premium payments stop, the policy could lapse; or, if the policy is surrendered, the policy owner would be entitled to a surrender value. However, if funds are required, the cash value may be withdrawn or borrowed against. Annual policy dividends are not guaranteed, though many of the large life insurance companies have continued to pay these on a regular basis. Policy premium rates will vary by age and health; a medical examination is often required to determine premium payments.

If you are interested in learning more, we would be happy to run an insurance "illustration" for your particular situation.

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