

Wealth Insights

TD Wealth Private Investment Advice

Spring 2018



Rene Kormos
B.Comm, CIM®, FCSI®
Investment Advisor
(604) 482 8466
rene.kormos@td.com
www.renekormos.com

Volatility Returns...

After a steady climb by equity markets throughout 2017, the start of 2018 has proven to be somewhat of a stark contrast. Volatility has once again returned.

The relative lack of market volatility during 2017 was an anomaly. Typically, market volatility is driven by political or socio-economic instability. But last year, the threat of nuclear war, the after-effects of various hurricanes and wildfires and even the “#MeToo” social movement that rattled powerful men left the markets strangely calm. In fact, the VIX — the Chicago Board Options Exchange Volatility Index — known as the stock market’s collective “fear gauge”, remained muted for most of the year and fell to an all-time low in November 2017.

As such, investors may have forgotten that volatility is a common part of the equity markets. Take, for example, the S&P/TSX Composite Index: when comparing monthly returns over time, over the past 20 years, the index actually fell in almost 40 percent of the time, month over month. This demonstrates just how common downward market movements are. Compare this to 2016 and 2017, when the index fell in only 20 percent of time, month over month. In other words, the markets have been strangely placid over recent years.¹

After almost nine years of a bull market, sometimes a pullback is necessary. Often equity prices may have overshot their underlying fair values during the bullish times. Regardless, these fluctuations can still be a source of discomfort. As investors, what can we do to cope with periods of volatility?

Look for opportunity. Downward movements should be welcomed by those looking to their build investment positions. Periods of decline are not the time to run and hide. Seasoned investors look for ways to turn lower prices to their advantage and build their portfolios, when others may be fearful to act.

Focus on the positives. Our economy continues to grow, along with all of the major economies globally. It is at its strongest in many years, with unemployment still at low levels, continuing positive earnings reports and solid consumer spending. South of the border, tax reform measures in the U.S. are expected to continue to fuel growth.

Pay attention to your personal objectives. Focus on how your investments fit into your longer-term plan. Remember that your assets are working hard to support you in achieving your goals, which may help to put any day-to-day price fluctuations in proper perspective.

Patience can be one of our greatest allies to see us through periods of volatility: longer-term investors can take comfort in knowing that short-term fluctuations tend to smooth out over time. Try and leave the worry over short-term developments in the markets to the professionals who oversee your investments. Remember that we are here to provide counsel and perspective.

1. Based on S&P/TSX Composite Index monthly return closing figures, 31/12/97 to 29/12/17.

In This Issue

Are You Paying Too Much Tax?	2
CPP: What’s Your Magic Number	3
Rising Rates: Here for Now?	3
The Role of the Executor	4



Avoid Penalties

Time to Review Your TFSA

Do you hold multiple Tax-Free Savings Accounts (TFSAs)? Have you transferred funds between accounts or withdrawn funds and re-contributed them within a calendar year? If so, you may have inadvertently over-contributed to your TFSA. Here are two areas where mistakes are commonly made:

TFSA funds are withdrawn and re-contributed within the same year. TFSA withdrawals do not create contribution room until the *following* calendar year. Any re-contributed funds would be considered an over-contribution if no contribution room is available in the year of re-contribution.

Funds are withdrawn from one TFSA and transferred to another TFSA at a different financial institution. This can be done without penalty through a “direct transfer” completed by the financial institution. If funds were withdrawn from one TFSA and moved to another TFSA without a direct transfer, this would be considered to be a withdrawal followed by a contribution. Contribution room for the withdrawal would not be created until the next calendar year. If no contribution room was available, it would be considered an over-contribution.

Recently, the Canada Revenue Agency (CRA) has increased its TFSA reviews to determine if holders have over-contributed. If an individual has exceeded their contribution limit for the first time, they are sent a warning letter and/or Form RC243-P, *Proposed Tax-Free Savings Account Return*. This form shows the amount of penalty tax due according to CRA records. If the excess amount



has been removed prior to receiving the letter, no further action is required. As such, it may be worthwhile to review your TFSA now to make any necessary corrections before a CRA review.

A TFSA penalty is assessed at one percent of the highest excess TFSA amount in the month, for each month until the excess amount has been removed or contribution room becomes available. So, for an indirect transfer of \$5,000 that is considered to be an over-contribution, a penalty of \$50 per month would be assessed, or \$600 over an entire year. Over time, the penalties can quickly add up.

TFSA contribution room information is available on your CRA online account: “My Account”. You can also contact the CRA to request a *TFSA Room Statement* or *TFSA Transaction Summary* showing your contribution and withdrawal information.

If you have multiple TFSA accounts at different financial institutions, consider consolidating them to simplify their management and avoid this mistake. This may also improve your overall asset allocation and facilitate the settlement of an estate.

Tax Season Once Again

Are You Paying Too Much Tax?

It is tax season once again. A look back in time shows just how much Canadian personal income tax rates have risen over the past decade.

Based on recent reports, the top 10 percent of income earners in Canada paid over 54 percent of total federal income taxes collected. This figure has grown over the years due to increases in income tax rates for top earners. Today, the Canadian government relies more on income tax revenue than most developed nations. Income tax comprises around 36 percent of Canadian government revenue, versus a global average of 24 percent.¹

Are you exploring potential strategies to minimize your annual taxes? The difference in top marginal tax rates that apply to various types of income highlight the importance of structuring your investments to take advantage of lower rates. Beyond that, consider maximizing your tax-advantaged accounts, such as TFSAs and registered Retirement Savings Plans (RSPs), and taking advantage of income-splitting opportunities with family members. Also, check all the deductions and credits available to you when you file your income tax return. Please call for support.

Combined Federal & Provincial Top Marginal Tax Rates (%)

Province	2008	2018 Combined Top Marginal Tax Rate*			
	Interest & Regular Income	Interest & Regular Income	10-Year Change	Capital Gains	Eligible Dividends
BC	43.70	49.80	+14.0%	24.90	34.20
AB	39.00	48.00	+23.1%	24.00	31.71
SK	44.00	47.50	+8.0%	23.75	29.64
MB	46.40	50.40	+8.6%	25.20	37.79
ON	46.41	53.53	+15.3%	26.76	39.34
QC	48.22	53.31	+10.6%	26.65	39.83
NB	46.95	53.30	+13.5%	26.65	33.51
NS	48.25	54.00	+11.9%	27.00	41.58
PEI	47.37	51.37	+8.4%	25.69	34.23
NL/LB	45.00	51.30	+14.0%	25.65	42.62

Notes: *As of Jan. 1, 2018. Source: 2018 KPMG Personal Tax Rates. 2008 TaxTips.ca.

1. Source: “Income Tax at 100: Milestone or Tombstone”, Financial Post, 04/05/17. Global average as noted by the Organization for Economic Cooperation and Development (OECD).

Planning for Retirement

CPP: What's Your Magic Number?

The Canada Pension Plan (CPP) provides eligible individuals who have worked in Canada and made CPP contributions with a partial replacement of earnings in retirement. A key question for those who are approaching retirement is: When should I start taking CPP benefits? For many, the timing decision is based on a "collect now and think about it later" approach. But, if you are in good health and can afford to live without CPP in the short term, did you know that delaying payments could be lucrative?

The Decision

The standard age for applying to receive the CPP pension is age 65 but you can start as early as age 60 at a reduced pension amount, or as late as age 70 for an increased pension.

If you start early, payments are reduced by 0.6 percent for each month that the pension is received before the age of 65 (e.g., starting at age 60 will reduce the pension by up to 36 percent). If you wait, payments increase by 0.7 percent for each month that the pension is delayed beyond the age of 65 (e.g., starting at age 70 will increase the pension by up to 42 percent).

Mathematical Models for Your Crystal Ball

Knowing when to start collecting your CPP pension would be made easier...if you knew exactly how long you were going to live. Of course, we know that this is not possible.

There are other factors that can influence the decision, including your immediate/future income needs, the preservation of other income-tested benefits (e.g., Old Age Security) and your current/

future income tax bracket. While a detailed analysis specific to your particular situation should include these elements, a simple optimization analysis can help start the thinking process.

The table below estimates the different ages an individual who turns 60 years old on January 1, 2018 could start collecting CPP benefits. It assumes (s)he is entitled to receive the maximum monthly pension amount in 2018, a 1.5 percent rate of annual inflation and a 5 percent discount rate to account for the "time value of money", assuming funds could yield this return over time.

Starting to collect too soon may be costly. For example, based on the assumptions above, if you expect to live until age 88, the value in today's terms of your cumulative CPP benefits would be \$154,628 if you started collecting at age 60, versus \$184,228 if you waited until age 68, resulting in a lower overall benefit of \$29,600.

For a review of your particular situation or more information on CPP benefits, please get in touch or consult a tax advisor.

Estimate Age to Start CPP for a 60-Year Old in 2018

If you think you'll live to age...	Start collecting at age...
71	60
72 to 74	61
75 to 77	62
78 to 79	63
80 to 82	64
83 to 84	66
85 to 87	67
88 to 89	68

The above figures are based on an illustrative model that uses the maximum pension amount as of Jan. 2018, 1.5% inflation, 5% discount rate.

Rising Interest Rates: Here for Now?

Interest rates have remained at historically low levels for many years, helping to support economic growth and significantly propping up the housing market, much to the chagrin of retirees who would like to rely on interest income to support their expenses. But what is in store as rates begin to climb?

Many investors understand the inverse relationship between interest rates and bond values. As interest rates rise, the capital value of existing bonds goes down. Here's why: Consider an investment of \$100 in a 10-year bond that pays a 2 percent coupon. If interest rates rise to 3 percent, you wouldn't be able to sell the same bond at its \$100 face value because you could buy a new bond for \$100 with a higher coupon rate. As such, the earlier issued bond's market value will decrease to offset its lower interest rate.

This change can be managed in different ways. In a rising interest rate environment, it can be helpful to keep maturities of bonds relatively short to protect capital. As bonds mature, the principal can be reinvested in new bonds that provide higher interest rates. A laddering approach, which spaces maturities over time, may also help to manage interest rate changes and offer predictability in generating future income streams. Various types of bonds



(government, investment-grade, high-yield, etc.) can perform differently when interest rates are rising or falling so, depending on an investor's particular situation, diversifying across fixed income assets may help to provide asset protection.

A rising interest rate environment can also affect equity markets. A popular belief is that rising rates put downward pressure on stocks. But this may not be cause for alarm. Interest rates typically rise during a strengthening economy, which can help offset this effect over the longer term.

Remember that fixed income can play an important role in your investment portfolio, helping to preserve capital and create diversification. Please call if you would like to discuss.

The Role of the Executor: A Large One

Have you been named as an executor (also called the estate representative, liquidator or estate trustee) of someone's estate? If so, you have been entrusted with a very important role. Being an executor can be a very large responsibility, so here are a few things to keep in mind:

It is time consuming. Settling an estate generally takes about 18 months on average, but this may extend to several years depending on its complexity. Duties of an executor can include arranging the funeral, finding, itemizing and managing the estate's assets, applying for probate (in provinces where applicable), notifying financial institutions of the individual's death, filing income tax returns, liquidating or distributing assets as directed by the will...and more. The role may also involve visits to various financial institutions, as well as meetings with accountants, lawyers and perhaps even creditors and beneficiaries.

It often involves exercising business judgement and knowledge. The executor is often called upon to make decisions on behalf of the estate, such as those related to the realization of estate assets or preparing estate tax returns. In many cases, the assistance of various professionals (such as lawyers or accountants) will be required; however, the executor has the ultimate responsibility of monitoring and approving their actions.

There are legal implications. As an executor, you may be held personally liable for any losses that are caused as you settle the estate. As an example, if the estate's assets were distributed prior to getting confirmation from the Canada Revenue Agency (CRA) that the estate's taxes had been fully paid,¹ the executor could be held personally liable for the balance of taxes due.

You may be required to manage conflict. Even within the most harmonious of families, conflicts can emerge as an estate is settled. Emotions will often run high. The executor



will need to make fair decisions and, in some instances, the parties may not agree with the outcome, even if the executor acts without bias.

Your place of residence may have adverse consequences. There may be complications to the estate if you, as the executor, and the estate are in different jurisdictions. For example, if you were appointed as the executor for the estate of a Canadian resident, but you became a non-resident of Canada, the estate may also become a non-resident of Canada. This could potentially result in negative tax consequences. Executors residing in a different province than the location of the estate may have additional probate requirements, such as being required to post an estate administration bond. Finally, the role of the executor may be made more challenging if you are not living close by as it may prove difficult to arrange for in-person meetings with accountants, lawyers or beneficiaries.

Seek Advice

Consider that not everyone may be well-suited to be an executor. Having a full understanding of what the role entails can be helpful if you are deciding whether to act in this role. If you have been appointed as an executor and would like to learn more, or if you would like an introduction to an estate planning specialist to discuss your situation, please call.

1. CRA confirmation through a notice of assessment or clearance certificate.

Rene Kormos, B.Comm, CIM®, FCSI®
Investment Advisor
(604) 482 8466
rene.kormos@td.com

Megan Boyer
Assistant Investment Advisor
(604) 482 2533
megan.boyer@td.com

TD Wealth Private Investment Advice
A Division of TD Waterhouse Canada Inc.
700 West Georgia Street, 10th Floor
Vancouver, BC V7Y 1A2
Toll Free: 1 (888) 668 9966
Fax: (604) 482 8427
www.renekormos.com

