TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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In This Issue

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To Our Clients:

Despite equity market advances in the first half of the year, opinions on the near-term outlook remain varied. Economically, we find ourselves in a 'liminal moment' — a transition period where the economy is neither great nor terrible. It's no surprise that financial narratives seem to be constantly shifting. However, summer offers an opportunity to take a break from the headlines. We are here to tend to your wealth management, so you can focus on other important aspects of your life. We hope your summer is filled with plenty of downtime.

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 important to be *"useful 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, 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 late 2000, 50 percent (1/2) of realized capital gains have been subject to tax. As of June 25, 2024, the inclusion rate increases to 66.67 percent (2/3) for realized gains in the year that exceed $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 reset the cost basis 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.

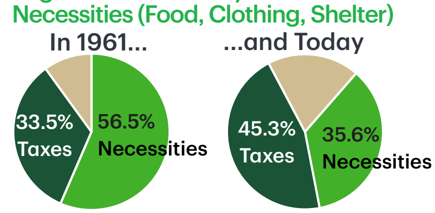
In Brief: Feeling as Though You Are Paying More Tax?

According to the *Canadian Consumer Tax Index*, 45.3 percent of 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 taxes despite representing only 45.7 percent of total income share.[1]

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

Avg. Canadian Family's Tax Burden vs. Necessities (Food, Clothing, Shelter)



Spring Recap from Doug & Kiel

Doug's Notes: Summer is here! ...longer days, hay fever, and less rush hour traffic. Despite a busy June, I managed to find time to spend a few days seeing clients in the Nanaimo area followed by a few summer days relaxing on Gabriola Island.

Wedding events have started with family and friends in preparation for Emily and Omid's ceremony in mid-July. Weddings are such a unique opportunity for people from different parts of our lives to come together for one happy reason, I am looking forward to it. I hope you all have a wonderful summer season.

Kiel's Notes: Our family spent a wonderful couple of weeks in Italy with stops in Tuscany, Cinque Terre and Lake Como. Cali reminded us multiple times that it's called "gelato, not ice cream Daddy." She truly leaned into her 25 percent Italian heritage. Meanwhile, Crew did not meet a bowl of *cacio e pepe* that he did not fall in love with. We were going to look at some properties for sale in Lake Como. But apparently, we were not qualified for a showing at George Clooney's villa.

■ 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 the deceased's safety deposit box, a financial institution may require a grant of probate confirming the executor's authority, creating a "catch-22" situation 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 or related 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 had waited after realizing how much more he could leave for beneficiaries. A study by FP Canada (2020) suggests taking CPP at age 60 instead of 70 may forgo $100,000 in 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-reseach-paper.pdf, December 2020.

■ **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÷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.

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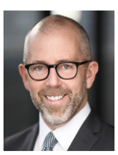

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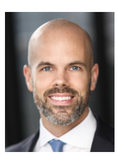

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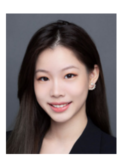

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