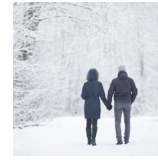
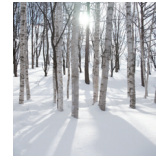




# Wealth Insights

TD Wealth Private Investment Advice

Winter 2023



## For 2023: A Dose of Optimism

As the saying goes, “the pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty.” After a difficult year in the financial markets, we may all benefit from a dose of optimism as we enter 2023.

A year ago, investors looking to the year ahead viewed the prospects as uncertain, due to persistent inflation and a “return to normal” after years of stimulus and accommodative monetary policies. As it turned out, the financial markets would be challenged by the rapid rise in interest rates from the central banks’ efforts to reel in inflation.

As we start another year, many of the same challenges persist, alongside new concerns that the central banks may tighten too much before the lagging effects of the rate hikes take place. Indeed, after a difficult year, it may be hard to put a positive spin on the near-term outlook, but taking a longer-view perspective may provide a well-needed dose of optimism.

Let’s not lose sight of how far we’ve come. It’s worth a reminder: we continue to live through one of the most prosperous periods of all time. Setbacks can happen quickly, but progress occurs over time. The world is far from perfect, but in general our quality of life has historically improved: disease, malnutrition and child mortality have fallen globally. In just 20 years, average Canadian wealth has more than tripled.<sup>1</sup> Our life expectancy in just two generations has increased by a full decade, and those who reach 100 years old are at record highs.<sup>2</sup> Despite higher inflation, the average Canadian spends less than half as much of their income on food and clothing today as they did in 1969.<sup>3</sup>

Inflation will eventually subside, though patience has been needed. Global supply chains continue to improve and technology remains a deflationary force. Rate-sensitive areas are beginning to show signs of slowing, such as the housing market; even the strong labour market may be slowing its hiring practices. While the economy needs to decelerate for inflation to moderate, we are well positioned to be resilient. Our financial systems are strong and many companies and individuals are prepared to survive a potential downturn.

Likewise, the financial markets are expected to push forward. As a testament to this progression, market strategist Ed Yardeni publishes a series of data that shows how the world has generated unimaginable wealth since the 1940s. Of particular interest is the incredible growth in corporate profits.<sup>4</sup> While there was a notable deviation that marked the financial crisis of 2008/09, it is otherwise a solid, upward trajectory over time, despite many short-term setbacks: inflation, deflation, rising rates, bear markets, war and recessions. As equity investors, we are investing in the underlying businesses that make up this tremendous progression.

### In This Issue

- Get Ahead With These Six RRSP Considerations ..... 2
- Higher Inflation: Higher Cost-of-Living Adjustments ..... 2
- Avoid These Estate Administration Errors ..... 3
- The Impact of Inflation on Timing CPP Benefits ..... 4



### Toms & Le Wealth Management Group

**Connie Saint**, Client Service Associate, **Nilufer Bansal**, Client Service Associate, **Buu Pham**, Administrative Associate, **Dao Le**, Senior Portfolio Manager, Senior Investment Advisor, **Craig Toms**, Senior Portfolio Manager, Senior Investment Advisor, **Nathaniel Friedenthal**, Associate Investment Advisor, **Cliff de Bruijn**, Associate Investment Advisor, **Maryse Lavigne**, Client Service Associate

### To Our Clients:

*The year that has passed was a reminder that building wealth doesn't always follow a steady course. Though challenges persist, we are hopeful that 2023 will prove to be a better year. Continue looking forward and don't overlook the importance of planning for the future. It's time, not timing, that produces wealth. RRSP season is around the corner and the TFSA dollar limit has increased (pg. 2).*

*With the turning of the year, we express our sincere gratitude for your trust in our services. Thank you. May the year ahead be filled with hope, health and happiness.*

As we move into 2023, we shouldn't lose sight of this trajectory. Consider, also, that the principles that have driven our collective advancement haven't changed: the human pursuit to persevere, grow and innovate. Similarly, the basic principles of investing remain timeless: Wealth comes from choices, not chances: choosing to save wisely and pay yourself first, having a plan in place that encourages value, quality and diversification and maintaining patience, knowing that your plan continues to work for you over the longer term.

1. As measured by "median wealth," Global Wealth Report 2022, Credit Suisse Research Institute; 2. <https://www.cbc.ca/news/politics/canadian-centenarians-census-2021-16436494>; 3. Statistics Canada data; 4. <https://www.yardeni.com/>

## Wealth Insights

### ■ RRSP Season

# Get Ahead With These Six RRSP Considerations

Registered Retirement Savings Plan (RRSP) season is just around the corner. Beyond the importance of contributing to the RRSP to grow funds for retirement, certain practices may help to create a bigger nest egg for the future. Here are six considerations:

**In-Kind Contributions** — Some investors may choose to move investments from non-registered accounts to fund the RRSP. If you are considering making in-kind RRSP contributions, be careful not to transfer investments that have declined in value. You will be deemed to have sold these investments at fair market value when transferring them to the RRSP, yet any capital loss will be denied. Instead, consider selling them on the open market and contributing cash to the RRSP so you can claim the loss. Be aware of the superficial loss rules if you plan on repurchasing them.

**Timing Deductions/Contributions** — With any RRSP contribution, you're entitled to a tax deduction for the amount contributed so long as it is within the contribution limit. Keep in mind that you don't have to claim the tax deduction in the year that the RRSP contribution is made. You can carry it forward if you expect income to be higher in future years such that you may be put in a higher tax bracket, potentially generating greater tax savings for a future year. By making contributions at the beginning of the tax year or throughout the year instead of waiting until March 1<sup>st</sup> for a deduction for the previous year, you may benefit from the longer time period for tax-deferred growth.

**Beneficiary Designations** — It may be beneficial to review account beneficiaries (in provinces where applicable), especially in light of major life changes. For instance, in the event of separation or divorce, be aware that named beneficiaries may not be revoked depending on provincial laws; thus, the designation of an ex-spouse may still be in effect.

**Spousal RRSP** — For couples in which one spouse will earn a high level of income in retirement, while the other will have little retirement income, a spousal RRSP may potentially be a valuable income-splitting tool. If you are working past age 71 and have a younger spouse, you can no longer hold your own RRSP after the year you turn 71 but you



can still make a contribution to a spousal RRSP as long as your spouse is age 71 or less at year end and you have RRSP contribution room. This may be a good way to get a deduction and shift income to a spouse.

**Meltdown Strategy** — There may be tax benefits achieved by gradually drawing down RRSP funds when approaching retirement, such as for individuals currently in a lower tax bracket than they expect in future years. Others may seek to limit future sources of taxable income in order to minimize the possible clawback of income-tested government programs such as Old Age Security. One strategy may be to use RRSP withdrawals to fund Tax-Free Savings Account (TFSA) contributions (subject to available room). As the TFSA grows, there may be greater flexibility to receive tax-free income that can augment or replace Registered Retirement Income Fund (RRIF) withdrawals later. At death, TFSA funds can pass tax free to heirs, unlike residual RRSP/RRIF funds that are subject to tax, potentially at high marginal tax rates.

**RRSP Withdrawals** — Consider the implications of making taxable withdrawals from the RRSP to pay down short-term debt. You may be paying more tax on the RRSP withdrawal than you'll save in interest costs. In addition, once you make a withdrawal from the RRSP, you won't be able to get back the valuable contribution room. There may be better options, such as withdrawing from a TFSA — as contribution room resets itself in the following calendar year.

Always seek assistance from tax professionals regarding your situation.

**RRSP Contribution Deadline:** March 1, 2023, for the 2022 tax year. Contributions are limited to 18 percent of the previous year's earned income, to a maximum of \$29,210 (for the 2022 tax year).

### ■ Personal Finances

## Higher Inflation Means Higher Cost-of-Living Adjustments

If there is any good news that can come with high inflation rates, it may be the resulting cost-of-living adjustment.

Each year, certain personal income tax and benefit amounts are indexed to inflation using consumer price index data. This adjustment will increase many government income tax and benefit amounts, from the basic personal amount, the federal non-refundable tax credit on an income tax return, to the annual dollar limit for the TFSA. With inflation reaching 40-year highs in recent times, the adjustment is the largest increase since the 1980s.

### Indexation Increase Per Year, 2019 to Current

2019	2020	2021	2022	2023
2.2%	1.9%	1.0%	2.4%	6.3%

Many of these adjustments will take effect on January 1. For instance, the TFSA annual dollar limit will increase from \$6,000 to \$6,500 for the 2023 year. As the chart shows, the dollar limit hasn't changed since 2019 when it increased from \$5,500 to \$6,000. Other adjustments take place

on July 1, such as income-tested benefits like the goods and services/harmonized sales tax credit and the child disability benefit, because this date coincides with the beginning of the program year for these benefits.

For more information on the indexation adjustment, as well as a list of affected personal income tax and benefit amounts, see the federal government website:

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html>

### TFSA Annual Dollar Limit & Lifetime Eligible Contribution Amount

Years	Dollar Limit	Cumulative
2009 to 2012	\$5,000	\$20,000
2013 & 2014	\$5,500	\$31,000
2015	\$10,000	\$41,000
2016 to 2018	\$5,500	\$57,500
2019 to 2022	\$6,000	\$81,500
2023	\$6,500	\$88,000

### 2023 TFSA Annual Dollar Limit: \$6,500

Are you taking full advantage of the opportunity for tax-free growth using your TFSA?

■ Estate Planning

# Avoid These Estate Administration Errors

Have you been appointed as someone’s estate “executor” or “liquidator”?\* Or, if you are planning for your own estate, will your executor avoid these errors?

Administering an estate can be a time consuming and complex task, often challenged by what may be an emotionally difficult time. All too often, executors can make mistakes which have the potential to lead to increased tax liabilities, conflict with or between beneficiaries or, worse yet, escalation to potential litigation. Equally concerning, the executor risks personal liability for these mistakes. Here are five common errors:

**Overlooking directives in the Will.** Estate lawyers say that executors can sometimes ignore parts of the Will, such as forgiving loans that were to be collected, perhaps due to lack of knowledge or because it is easy or convenient. Others may choose to distribute assets differently than directed within the Will, under the belief that they have a more ‘fair’ idea for this distribution.<sup>1</sup> However, neither situation is within an executor’s authority, exposing them to potential liability.

**Failing to communicate.** Sometimes executors become so involved in the process that they neglect to communicate. One of the executor’s duties is to respond to reasonable enquiries from beneficiaries. Silence may be misinterpreted as being secretive or suspicious, and this can often prompt estate disputes. Maintaining transparency and ongoing communication can go a long way in helping to prevent conflict.

**Making distributions too early.** If distributions are made too early, such as before taxes or other liabilities are paid, the executor may be held personally responsible. This can often happen when the executor succumbs to pressure from beneficiaries for distributions. However, any outstanding debts of the deceased must be paid before estate assets can be distributed to beneficiaries — and it is the job of the executor to identify these debts. Sometimes the executor overlooks the importance of determining whether there are unknown creditors, which often involves a time-consuming process of creating a public notice. Advertising for creditors prior to distribution can protect the executor should a creditor make a claim after the estate has been distributed.



**Trying to keep costs low.** Some executors may act too prudently to try and limit estate expenses. However, this may lead to higher eventual costs. For example, if an executor decides to do the tax returns without the help of an accountant, they may miss eligible tax credits or deductions. In the past, advertising for creditors in the newspapers of multiple cities was very costly, so some executors avoided the process, only to be caught by surprise when creditors eventually made claims.

**Treating estate funds as their own.** Given the assets often available within an estate, some executors may wrongly use estate funds for their own purposes, such as to make loans to themselves or family members. Others may make more honest mistakes, such as using funds to cover travel costs for family members to attend a funeral. If estate funds are used incorrectly, the executor may be held personally liable. As well, if the executor acts unreasonably or in their own self-interest, they may not be entitled to charge compensation from the estate.<sup>2</sup>

### Plan Ahead

If you have been appointed to administer an estate, being aware of these potential pitfalls may help as you contemplate the role. Remember also that you are able to decline the position, but doing so after accepting the role can be difficult and/or costly. As you plan for your own estate, carefully choosing your potential executor is important to prevent these and other mistakes; it may be preferable to seek a professional to act in this role. For an introduction to an estate planning specialist who can provide perspective, please call the office.

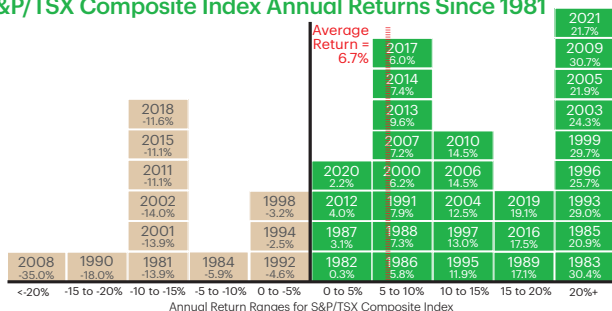
\*The names vary by province. For this article, the term “executor” is used to describe the role of the person responsible for carrying out the instructions of the Will. 1. <http://estatelawcanada.blogspot.com/2010/07/top-five-mistakes-made-by-executors.html>; 2. <https://www.canlii.org/en/on/onca/doc/2016/2016onca521/2016onca521.html>

■ Market Performance

# The Investing Cycle: Markets Will Go Down Just as They Go Up

2022 was a difficult year for investors and a reminder that the markets can go down just as they go up. While we often talk about average returns over longer time periods, it’s worth repeating that annual returns often do not fall close to this average. Consider the wide dispersion of annual returns of the S&P/TSX Composite Index since 1981 on the chart below. Annual returns were less than the long-term average return of 6.7 percent (red line) in 19 out of 41 years. And, 29 percent of the time,

**S&P/TSX Composite Index Annual Returns Since 1981**



Source: S&P/TSX Composite Index data, 1/1/81 to 12/31/21, Yahoo Finance.

annual returns were negative. Investors should expect a wide range of outcomes in shorter time periods, including negative performance. This is a normal part of the investing cycle.

The good news? After experiencing significant declines, the markets can often rebound. The second chart shows the forward returns since 1950 for the S&P 500 Index after it has fallen 25 percent from all-time highs. It’s worth pointing out that in almost every instance, future returns were positive. Patience and time can be the investor’s great allies.

**Returns After S&P 500 Is Down 25% From All-Time Highs Since 1950**

Peak	Trough	% Decline	One Year After	Three Years After	Five Years After
12/12/61	6/26/62	-28.0%	31.2%	69.2%	94.8%
11/29/68	5/26/70	-36.1%	32.2%	44.3%	27.9%
1/11/73	10/3/74	-48.2%	1.4%	23.8%	42.0%
11/28/80	8/12/82	-27.1%	43.9%	81.2%	238.6%
8/25/87	12/4/87	-33.5%	14.7%	34.1%	96.8%
3/24/00	10/9/02	-49.1%	0.2%	1.9%	21.5%
10/9/07	3/9/09	-56.8%	-6.9%	3.7%	61.2%
2/19/20	3/23/20	-33.9%	56.4%	TBD	TBD

Source: <https://fortune.com/2022/10/13/investing-stock-market-outlook-rebound/>



## ■ Retirement Planning

# The Impact of Inflation on Timing CPP Benefits

While there has been little reason to embrace the high inflation we are experiencing today, there may be a silver lining when it comes to certain government benefits. Higher inflation increases Canada Pension Plan (CPP) benefits and the outcome can be especially significant the longer you wait.

The standard age to start CPP is 65, but you are able to begin CPP benefits as early as age 60. In fact, most people start early.<sup>1</sup> However, if you have yet to apply for CPP, it may be an opportune time to revisit the timing decision.

### How Does Inflation Impact CPP Benefits?

CPP payments are impacted by inflation in two ways. First, like most government benefits, they are indexed to the consumer price index (CPI). The CPP uses the measure of CPI over the 12-month period ending October of the previous year and makes adjustments the following January 1. Second, CPP is also adjusted based on the year's maximum pensionable earnings (YMPE), an amount indexed to wage inflation. Over recent times, increases to the YMPE have been significant: 4.94 percent in 2021 and 5.36 percent in 2022. This was largely due to the pandemic when the services industry suffered and fewer people worked in lower-paying jobs, helping to push up average weekly earnings.<sup>2</sup>

### The Timing Decision to Take CPP

If you start receiving CPP benefits before age 65, payments will decrease by 0.6 percent each month to a maximum of 36 percent (if you start at age 60). If you start after 65, payments increase by 0.7 percent each month, to a maximum of 42 percent (if you start at age 70 or after). However, by waiting to take benefits, CPP amounts can grow based on wage inflation, and this is further enhanced by the increased benefit of starting later.

A recent analysis shows the potential impact.<sup>3</sup> It looks at an individual who started CPP at age 60 in January 2020, with a decreased benefit of 36 percent (0.6% X 60 months). Assuming the maximum CPP pension amount of \$1,175.83 in 2020, she received \$752.53. Had she waited a year and started at age 61, she would have received \$857.07 (a 28.8 percent decreased benefit from \$1,203.75). If she waited until age 62, she would have received \$982.81, or 30.6 percent more than if she started at age 60.

Just how significant is the difference? The table shows the potential increase over time, based on actual 2021 and 2022 figures. It assumes future CPI adjustments (after 2022) of 2 percent and maximum retirement pension increases of 3



percent based on existing actuarial assumptions. By these calculations, at age 90 an individual would have a cumulative pension that is 83 percent larger by waiting to start at age 70, compared to starting early at age 60.

Of course, many factors should be considered when

deciding when to begin CPP, including expected longevity, the impact of income-tested benefits, the need for income and more. However, the impact of inflation may be one compelling reason for individuals to consider waiting to begin CPP benefits.

1. <https://financialpost.com/personal-finance/fp-answers-when-should-i-take-cpp>; 2. <https://www.benefitscanada.com/pensions/governance-law/why-cpp-premiums-are-getting-a-bigger-bump-than-planned/>; 3. <http://www.advisor.ca/columnists/lea-koiv/consider-inflation-when-deciding-when-to-begin-cpp/>

**Table: Sample Monthly CPP Benefit for Individual with Maximum Pension Amount<sup>3</sup>**

Year	Age	Pension Amount Starting Age 60	Pension Amount Deferring	Increase Over Amount at Age 60
2020	60	\$752.53	—	—
2021	61	\$760.06	\$857.07	12.8%
2022	62	\$780.58	\$982.81	30.6%
2023*	63	\$796.19	\$1,105.26	46.9%
2024*	64	\$812.11	\$1,234.17	64.0%
2025*	65	\$828.36	\$1,369.83	82.0%
2026*	66	\$844.92	\$1,529.44	103.2%
2027*	67	\$861.82	\$1,697.40	125.6%
2028*	68	\$879.06	\$1,874.05	149.0%
2029*	69	\$869.64	\$2,059.78	173.7%
2030*	70	\$914.57	\$2,254.97	199.7%

\*estimates based on CPI of 2% and YMPE of 3%

## Toms & Le Wealth Management Group — TD Wealth Private Investment Advice

10715 170 Street N.W., 2nd Floor, Edmonton, Alberta T5P 0Y5

Team Phone: 780 448 8078 Toll Free: 1 866 508 8544 Fax: 780 448 8686

**Craig Toms**, MBA, CPA, CMA, CIM®  
Senior Portfolio Manager  
Senior Investment Advisor  
[craig.toms@td.com](mailto:craig.toms@td.com)

**Dao Le**, MBA, CFA  
Senior Portfolio Manager  
Senior Investment Advisor  
[dao.le@td.com](mailto:dao.le@td.com)

**Cliff de Bruijn**, CIM®  
Associate Investment Advisor  
[cliff.debruijn@td.com](mailto:cliff.debruijn@td.com)

**Nathaniel Friedenthal**, CIM®  
Associate Investment Advisor  
[nathaniel.friedenthal@td.com](mailto:nathaniel.friedenthal@td.com)

**Connie Saint**, CIM®  
Client Service Associate  
[connie.saint@td.com](mailto:connie.saint@td.com)

**Nilufer Bansal**, B.Comm  
Client Service Associate  
[nilufer.bansal@td.com](mailto:nilufer.bansal@td.com)

**Maryse Lavigne**, MBA  
Client Service Associate  
[maryse.lavigne@td.com](mailto:maryse.lavigne@td.com)

**Buu Pham**  
Administrative Associate  
[buu.pham@td.com](mailto:buu.pham@td.com)

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