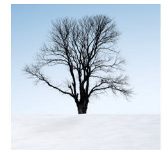
TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Winter 2022



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In This Issue

To My Clients:

May the turning of the calendar bring bright days ahead. As I remind readers on page 2, "greatness is not in where we stand, but in what direction we are moving." Continue to look forward and keep building your wealth for tomorrow. Despite the near-term uncertainties, I remain optimistic for the future and for longer-term growth prospects.

For 2022, let's expect the best, knowing that we have a plan in place to guide us. Here's to much health, hope and prosperity for the year ahead.

Lessons in Endurance

Adversity can make us stronger. Last spring, during the depths of the pandemic, the *Wall Street Journal* published an article that suggested that when humans prevail through extreme emotional and physical challenges, they often emerge stronger, in what psychologists have termed "post-traumatic growth."[1]

The article sought advice from endurance athletes who overcame the extreme challenges of their sport: a distance-swimmer who regularly trains in 10 degrees Celsius water and a sailor who has competed in ocean swells for 16 hours straight. Through their adversity, they have learned how to maintain confidence, persevere and be resilient.

As we look forward to the year ahead, there may be renewed hope that the worst of the pandemic is behind us. Over the past 20 months, we've each had to endure adversity in our own ways; the pandemic forced many of us to confront uncomfortable and tragic situations. However, the hope is that we will be able to move forward, perhaps a bit more resilient than before.

These lessons in endurance may be particularly helpful in guiding us as investors as we look to the investing journey ahead. Some market observers have pointed to the current outlook for the financial markets as being uncertain. High levels of government debt, ongoing supply chain issues, the likelihood of rate increases by central banks and persistent inflation continue to dominate the headlines.

When new challenges emerge, they can often drive short-term market behaviour. Yet, sometimes overlooked is our ability to adapt and progress. The capacity of many companies to continue to post strong earnings throughout these unprecedented times, some at record levels, is one such reminder. Humans have always been conditioned to overcome new challenges and advance. We may also be wise to remember that predictions, which tend to regularly occur this time of year, can often be wrong. Do you remember last year's outlook? Take the price of oil as one example. A year ago, few would suggest that oil prices would appreciate by over 60 percent within the year.[2]

Uncertainties will always be present in some form or another. However, portfolios built on a solid foundation, using securities selected with quality, diversification, strategic asset allocation and individual needs in mind, can often prove to be enduring within the ever-changing investing landscape.

At the same time, equity market performance in 2021 should remind us that sitting on the sidelines is not a prescription for growth. For many investors, the road ahead may be a long one and these lessons in endurance may be helpful as we look to withstand the passage of time. The advice of one endurance athlete saliently reminds us of how gratifying arriving at the destination can be: "*eventually you look back and think: 'Wow, look how far I've gone.*'"[1]

1. "Hard Earned Lessons in Endurance," Bonds Bernstein, Wall Street Journal, May 5, 2021; 2. Based on the price of West Texas Intermediate (WTI) oil. At time of writing, WTI crude oil spot price 11/25/21 = $78.31; 1/4/21 = $48.52. At its high, 10/26/21 = $84.65.

RRSP Season: Here Again

RRSP Check Up: Are You Using Your RRSP to Its Full Potential?

Registered Retirement Savings Plan (RRSP) season is here once again. Are you using the opportunities presented by the RRSP to their best benefit?

Beyond fully contributing to the RRSP to maximize the tax-savings opportunity today and the potential for tax-deferred growth in the future, here are three other considerations:

Contribute to a Spousal RRSP — If you have a spouse (or common-law partner) in a lower-tax bracket, contributing to a spousal RRSP can help build your spouse's retirement nest egg and lower the amount of tax you pay collectively. When you contribute on behalf of your spouse, you will receive the tax deduction. If you are in a higher tax bracket, the tax benefit will be greater than if your spouse contributed to his/her own RRSP. There may also be a tax break, down the road, when your spouse withdraws funds and you remain in a higher tax bracket than your spouse. While there may be noteworthy income-splitting benefits to a spousal RRSP, keep in mind that the RRSP is intended to be a long-term retirement savings vehicle. As such, a withdrawal within three years of a contribution to a spousal RRSP may be included in your taxable income rather than your spouse's.

Draw Down an RRSP...and Consider Funding a TFSA — If you are approaching retirement, there may be benefit in gradually drawing down RRSP funds. This may be useful if an individual is currently in a lower tax bracket than they expect to be in future years. Other individuals 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 these RRSP withdrawals to fund Tax-Free Savings Account (TFSA) contributions, assuming available contribution room. With the growth of investments in the TFSA, there may be greater flexibility in the future to receive TFSA withdrawals tax free as needed; by contrast, the RRSP would generally be converted to a Registered Retirement Income Fund (RRIF), which requires minimum annual amounts to be withdrawn and included in taxable income. At death, funds remaining in a TFSA can pass tax free to heirs, as opposed to residual RRSP or RRIF funds that are subject to tax, potentially at high marginal tax rates.

Consolidate Multiple RRSP Accounts — For many individuals, having multiple RRSP accounts isn't uncommon. Scattered accounts can accumulate over time: you may have had an employer-sponsored account or opened a self-directed RRSP during different points of your life. However, there may be benefit in consolidation. One reason is to avoid having orphan accounts, such as a lost employer-sponsored account that is forgotten after a move of residence. Multiple accounts can also result in unnecessary complications such as failing to maintain a productive asset mix. Consolidation has the potential to improve performance, simplify administration and potentially reduce fees.

RRSP Season Reminders

Contribution Deadline: The RRSP contribution deadline for the 2021 tax year is March 1, 2022.

Contribution Limit: 18 percent of the previous year's earned income, to a maximum of $27,830* for the 2021 tax year.

Update Beneficiaries: Consider reviewing RRSP beneficiaries to avoid any potential issues when settling your estate.

Turning 71 this year? Your RRSP will mature and proceeds must be included in income unless converted or transferred to an annuity or RRIF by December 31, 2022.

*Subject to any applicable pension adjustments.

Reminders to Begin Another Year

Keep Your Funds Working Hard for You

"Greatness is not in where we stand, but in what direction we are moving. We must sail sometimes with the wind, and sometimes against it — but sail we must, and not drift, nor lie at anchor."

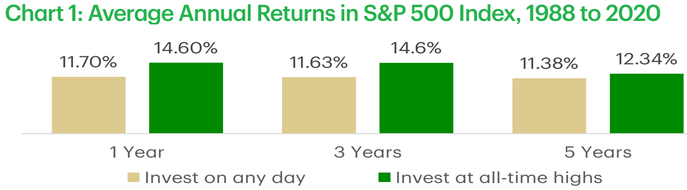
— Oliver Wendell Holmes

Being invested can be one of the best ways to grow wealth over the longer term. Yet, after an extended period of gains, some investors may feel hesitant to put money to work in equity markets. A recent *Forbes* article suggests that historical data does not support the idea that investing at market highs is likely to provide lower future returns (chart 1).

Also worth repeating: While equity market volatility was muted for most of 2021, this is the price paid for the upside potential. Consider that $100,000 invested in equities 10 years ago may have been worth over $177,000; a bond portfolio may have yielded around $147,000 (chart 2), and bond income would be taxed at a higher rate than dividends and capital gains. If you kept funds in cash, at a 2 percent inflation rate your purchasing power would have eroded by 18 percent!

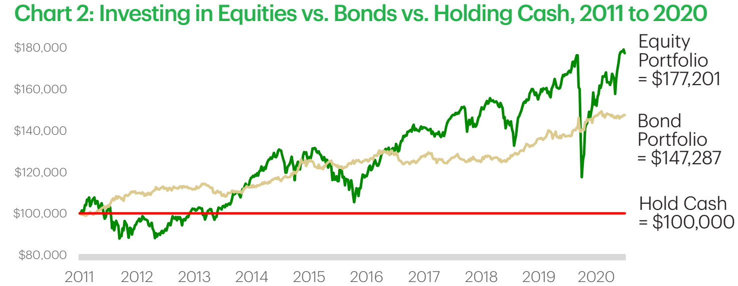
The best investment opportunity is valueless unless we actually make use of it. Put time on your side and keep your money working for you.

Chart 1: Average Annual Returns in S&P 500 Index, 1988 to 2020



Sources: S&P 500 TR Index, based on www.forbes.com/sites/kristinmckenna/2021/03/05/should-i-invest-when-the-market-is-high-dispelling-the-buy-low-sell-high-myth/

Chart 2: Investing in Equities vs. Bonds vs. Holding Cash, 2011 to 2020



Sources: Equities: S&P/TSX Composite TR Index, Bond Portfolio: Core Canadian Government Bond Index ETF, 1/1/11 to 12/31/20.

Happy New Year!

Investing Resolutions for the Start of a New Year

As we look to the year ahead, this is the traditional time for making resolutions. Often, these relate to getting into physical shape after a holiday season of indulgence. However, consider that certain practices may also help to better shape your investing ways. Here are some ideas:

- **Recognize that time can be one of your greatest assets.** The odds of investing success may fall in your favour when you combine a long time horizon with the power of compounding investments. Even average returns, compounded over a long time period, may lead to superior overall results. Consider that a one-time, lump-sum investment of $55,000 could yield around $209,000 in 25 years at a compounded annual rate of return of 5.5 percent. However, in 55 years, it could yield over $1 million.

- **Accept that markets are inherently volatile.** Volatility is what allows equities to be one of the greatest generators of returns of any asset class over the longer term.[1] While volatility was muted for much of 2021, recognize that it is a permanent fixture in equity markets. Over time, equity markets will have up years, such as the one recently experienced, but also difficult down years.

- **Maintain patience, through good times and bad.** Participation, by having the patience to see through the inevitable ups and downs, can make a significant difference in investing. Successful investing often involves overcoming many short-term setbacks to enjoy longer-term compounding and progress.

- **Don't abandon risk controls.** When equity markets are rising, it may be easy to get caught up in the excitement and forget that various guidelines have been established to control risk within a portfolio — for example, strategic diversification, rebalancing to a certain asset mix, limiting the size of any holding and maintaining quality criteria for holdings. These help to guard against being caught in the prevailing momentum by identifying potential risks that may not be overly apparent.

- **Stop listening to the noise.** Everyone has an opinion on investing and the markets. In good times, everyone can sound like an expert and we may fear missing out. In difficult times, media headlines can magnify economic misery and instill fear. At the end of the day, thoughtful analysis should drive decision-making — not any peripheral noise.

- **Save more.** Saving is one of the cornerstones of building wealth. You can build wealth without a high income, but you have no chance without a high savings rate. Saving is one aspect that an investor can control — unlike many others, such as stock market performance, interest rates or the timing of recessions.

- **Don't underestimate the value of support.** We are here to provide support at every stage of the investment journey to help you achieve your goals, and this can extend beyond investment advice. This may include helping to maintain discipline, through saving or investing, or to enhance total wealth management, through retirement-planning, tax-planning or estate-planning support. Studies continue to show that advised clients have greater assets — more than 3.9 times the assets than non-advised investors after 15 years — and greater discipline through volatile times.[2]

1. www.visualcapitalist.com/historical-returns-by-asset-class/; 2. IFIC, https://www.ific.ca/en/articles/canadian-investors-value-advice/

You Asked: Your Questions Answered

Estate Planning: Can I Sell the Cottage for $1 to My Kids? *And More...*

Part of wealth planning is helping to ensure our hard-earned assets are passed along as intended in the future. In our work with clients, we are often asked questions in this area. Here are two:

Q: Can I sell the cottage to my kids for $1?

A: Often, children do not have the funds required to buy a family cottage or cabin. As such, some parents ask if they should sell the cottage for a value substantially lower than the fair market value (FMV). However, there are likely to be tax consequences. If a cottage is not considered the principal residence, there will be tax on the capital gain: the difference between the adjusted cost base (ACB) and FMV. The child's ACB will be determined by the actual price paid, which may lead to the child paying tax on a gain already realized by the parent, when the child eventually sells the property.

Let's take the example of a cottage that is sold for $1 to a child. If the FMV is $1 million and the ACB to the parent was $400,000, the taxable capital gain to the parent would be 50 percent of $600,000 (or $300,000). For the child, a purchase at $1 results in the child's ACB being $1, rather than the property's FMV. So, if the property was sold in the future for $2 million, the capital gain would be the full $2 million less $1. This results in double taxation as it includes the parents' earlier capital gain as well as the original amount paid for the property. Instead, there may be better options, such as gifting the cottage. Although there will still be a substantial tax liability to the parent at the time of making the gift, the child's ACB will be equal to the FMV at the time and double taxation will be avoided.

Q: My granddaughter just turned age 19. Should she have a will?

A: Many estate planning professionals suggest that you are never too young to have a will. Although young adults may not possess significant assets, a simple will can make key appointments, such as who will be the executor, or perhaps direct instructions about the care of pets. Those lacking substantial assets may consider the use of a will kit or online site to do this in a cost-effective way. Still, others may have accumulated significant assets, such as intellectual property, digital assets or even digital currencies. A will can also help to avoid any administrative burden. Without a will, you are considered to have died "intestate," meaning that assets will be divided according to provincial laws. There are likely to be costs to the estate and potential delays in settling the estate. In the least, sitting down with young adults to discuss the importance of a will can help to instill good estate planning habits from a young age. Let's not forget that around half of adults don't have a valid will and it isn't uncommon to procrastinate, even to an old age, in setting up proper estate planning documentation.

For more details, seek the advice of estate planning professionals relating to your situation.

Creating a Plan for Long-Term Care

Have you given serious thought to your plan for a time when you may need long-term care (LTC)?

When we create financial plans for our clients, one important component is factoring in the potential costs of future care. It is common for clients to revisit their overall financial plan and considerations as time goes on. The Covid-19 pandemic may be one reminder of why this is important — it has caused some to re-evaluate their vision for care. The associated costs may also need to be adjusted. With an estimated tripling of Canadians over the age of 85 by 2050,[1] it is expected that LTC services will continue to rise in cost.

Family has been the predominant means of care for older Canadians — an estimated 75 percent of eldercare is provided at home, largely by unpaid caregivers.[1] As family structures have changed, this has been a significant source of strain: one in three unpaid caregivers now report that they are distressed.[2]

With many Canadians now living longer, planning for LTC has never been more important. If you don't have a plan in place, here are some things to consider:

Determine the type of care you may need or want. Care means different things to different people. Preferences for quality of life are very personal, as are the types of custodial support one may feel comfortable with. Some may wish to remain in their own setting for as long as possible. Others may seek a community setting for companionship. However, regardless of the setting, we should plan for a time when we may not be able to care for ourselves.

Consider the logistics of that care. Most in-home LTC is done by unpaid family caregivers. If you have children, are they going to participate in your care? Is this logistically possible? Have you asked them for their perspectives? Providing care can have significant mental, financial and physical impacts on family members. If you decide to seek care outside of your home, consider that this may not always be immediately available. Prior to the pandemic, wait lists for various publicly-funded LTC facilities, and some private facilities, were months or years long.

How will you pay for it? Once you determine your preferences, you will need to plan for the potential costs. LTC costs are not insignificant by any means and may be surprising to many. The accompanying chart shows the average rental cost (not including care), which can be in upwards of $47,000 per year depending on province. In-home care can be even more costly, with specialized care running around $40 to $90 per hour,[3] or $110,000 to $260,000 per year.[4]

Average Rents for Standard Senior Spaces by Province, 2021

Province	Monthly	Annually
BC	$3,541	$42,492
AB	$3,404	$40,848
SK	$3,116	$37,392
MB	$2,844	$34,128
ON	$3,999	$47,988
QC	$1,922	$23,064
NB	$2,621	$31,452
NS	$3,366	$40,392
PEI	$3,237	$38,844
NFLD & LB	$2,701	$32,412
Average	**$3,075**	**$36,901**

Source: CMHC, 2021.

One question we often hear: Will the government help? Government support is often limited to low-income individuals. Yet, even if accommodation is subsidized, keep in mind that in this situation you may not have much choice on the type of care received.

Oftentimes, reviewing a financial plan reveals that many investors have enough assets to cover a period in which LTC may be needed. Beyond self-funding, there may also be planning tools to support the cost. Insurance may be one solution. The number of pure long-term care insurance policies has declined over recent years, partly due to high claims rates. This has also led to increasing premiums. However, hybrid products, typically a life insurance policy with a long-term care insurance rider bolted on, or an annuity with a long-term care product, may be cost-effective alternatives to pure long-term care policies.

Write it Down

Like a financial plan, committing your objectives to paper is a worthwhile exercise. You can discuss your plan with those you are close to, making sure it is practical in the context of resources, abilities and responsibilities to others. The end goal should be to establish a road map to guide your thinking and ensure your wishes for future care are known. As your advisor, I am here to work with you to help ensure your broader wealth plan considers your vision for your future care.

1. The Future Co$t of Long-Term Care in Canada, National Institute on Ageing, Oct. 2019; 2. https://www.cihi.ca/en/1-in-3-unpaid-caregivers-in-canada-are-distressed; 3. https://www.sunlife.ca/en/tools-and-resources/money-and-finances/understanding-health-insurance/five-things-to-know-about-long-term-care-insurance/; 4. Based on 8 hours per day, 7 days per week for 52 weeks.

With the Compliments of:

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