THE NEWSLETTER OF MONEY MANAGEMENT AND FINANCIAL PLANNING IDEAS

Planning Ahead

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We hope you and your family had a pleasant, relaxing holiday. The year ahead promises to be an exciting one, as Canada ushers in a new Prime Minister for the first time in nine years. What policies Justin Trudeau might introduce and their impact on the economy and investment markets remains to be seen. Whatever happens, though, you can count on us to help you make sense of it all and to recommend any adjustments to your portfolio that will help keep you on track to your long-term goals. After all, that's what we're here for.

FOCUS ON RETIREMENT

Tone up your portfolio to make it income-ready

There's an art to burnishing your investment portfolio so it's ideally structured to fund your income needs. As we prep your investments for this important, lifelong task, here are some of the elements we'll want to appraise.

Balance. The first thing to assess is the balance between your registered and non-registered assets. How we structure the withdrawals between the two can minimize taxes, enhance income, accommodate unexpected spending needs, and extend your long-term growth potential. A well-planned approach can help us achieve all of those goals.

Timing. Sometimes, particularly with large registered portfolios, it can make sense to start drawing from your registered assets (or your spouse's registered assets) even if you're not required to do so. The withdrawals will be taxed now as regular income. But by taking the income now rather than later, you may be able to preserve your eligibility for income-tested benefits (such as Old Age Security) and even lower your overall tax bill.

Perspective. On an ongoing basis, we'll assess your need for security, income, and growth. This will help us structure your portfolio to provide the income you need in the early days of retirement, growth to meet your future income needs, and security to sleep at night.

With a new year just getting under way, this is a great time for us to get together and talk income. Call us today and make an appointment. ■

Mutual funds for the brave new world

The world is in motion — physically, economically, and politically. Here at home, we've just elected a new prime minister, and the U.S. will be going through its election process come November.

As if to further affirm that change is afoot, growth in the investment markets seems to be shifting away from the developing world and back toward the more stalwart economies of Europe, North America, and Asia.

But there are many shifting factors that can affect investment markets — and investment decisions. For example, lower commodity prices, especially oil, may have an impact on the economic growth of oil-producing countries (including Canada).

So how do we navigate this brave new world? Step one is to make sure your portfolio is calibrated to capitalize on the rich tapestry of global opportunities.

Opportunities abound

In the United States, even the possibility that the Federal Reserve (the Fed) will raise interest rates in 2016 isn't dampening investor enthusiasm. Rather, it's akin to taking the training wheels off a bike: If the Fed raises rates, it believes the economy can grow with-out fueling inflation and without intervention.

For the U.K., the Organisation for Economic Co-Operation and Development (OECD) expects the positive growth established in 2014 to gain pace through to 2016. Among positive indicators are wage growth and rising consumer demand.[1]

Meanwhile, the eurozone continues to recover from the turmoil in Greece. There is even optimism that the refugee crisis could usher in a sustained period of economic growth. While there are short-term costs to providing immediate necessities, the migrants are generally young, able-bodied, and capable of filling the gaps in the current European labour force.

Even Japan is beginning to see increased traction from its ongoing fiscal stimulus measures, which include labour market reforms and higher wages. In addition, ongoing weakness in the yen is positive for exporters.

There's a fund for that

There are three ways mutual fund investors can gain crucial exposure to these potential-rich economies.

1. Broad-based global equity funds. Broadly diversified global funds give us a way to capitalize on "big picture" prospects for the overall global economy. The fund manager and research team determine the countries, companies, and currencies with best prospects and invest accordingly.

2. Region-specific funds. For investors keen on specific economies, these funds can be a gateway to opportunity. Options range from single-country funds (U.S. growth, for example) to entire regions (such as Europe).

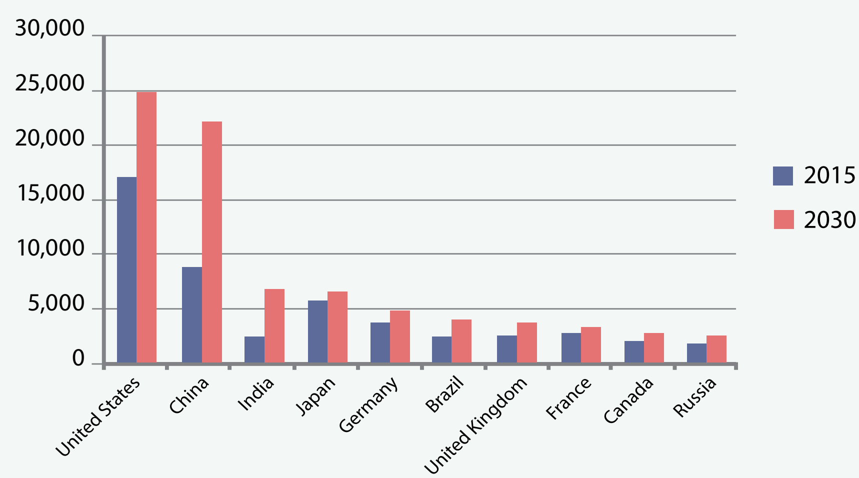
3. Sector-specific funds. Rather than focusing on geography, you might prefer a fund that focuses on a specific industry sector. Choose from funds that concentrate on infrastructure, pharmaceuticals and health care, IT, financial services, agriculture, green/environmental companies, and numerous others. All of these funds can help shield you from home-country bias and excess exposure to our own commodity-dependent economy.

As with all investments, we'll want to ensure any new additions to your portfolio dovetail with your existing holdings and are appropriate for your time frame and tolerance for risk. ■

1 OECD, Economic outlook, analysis and forecasts, November 2015

A lot can happen in 15 years

Fifteen years can pass in just about the blink of an eye; ask anyone whose child is about to graduate high school. The chart below shows projected GDP for the world's 10 largest economies in 2015 and 2030.



Real GDP in billions of 2010 U.S. dollars. Source: US Department of Agriculture.

ESTATE PLANNING

Protect your TFSA

Most of us know about the importance of designating qualified beneficiaries for our Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs). But what about your Tax-Free Savings Account (TFSA)? You can — and should — take steps to protect those assets in much the same way as your other registered plans.

The first thing to note is that the value of the TFSA at death is paid out, tax-free, no matter who receives it: your spouse, your child, a friend, your estate. But there are additional steps you can take to safeguard more of your plan's assets.

Name your spouse as successor holder. When you name your spouse as the successor holder of your TFSA, the plan assets can transfer directly — and intact — to your spouse's TFSA. The plan's securities don't need to be sold, there are no tax implications, and the contribution doesn't affect your spouse's own TFSA contribution room. As well, the capital in the TFSA will continue to accrue on a tax-free basis and there's no income tax upon its eventual withdrawal.

Designate a beneficiary. If you don't have a spouse (or don't want the assets to pass to your spouse), you can name a beneficiary, such as one of your children. That person's ability to direct the TFSA inheritance to his or own TFSA will depend on his or her contribution room.

If you don't designate a successor holder or a beneficiary, the full value of your TFSA will become part of your estate. While the value at death is tax-free, the amount may be subject to probate fees depending on your province of residence. Note also that any growth within the TFSA between the time of death and the time the TFSA is formally closed or transferred will be taxed as ordinary income unless you name your spouse as successor holder.

As with all beneficiary designations, it's a good idea to review your TFSA designation regularly. In addition, you may want to seek professional tax advice to ensure your assets pass as you expect. ■

INVESTMENT PLANNING

Investment options for kids or grandkids

You may have been shocked at just how much your kids raked in over this past holiday season. Clearly, giving cash in lieu of "stuff" is becoming more commonplace. Between those gifts and extra hours on the job in December, your young tycoons might be sitting on a sizeable sum. What can they do with that money besides fritter it away? They can invest it (or at least some of it).

Mutual funds are ideal in these situations because they offer instant diversification, you don't need any investment experience, and there's no need for ongoing management. There are many funds with brands that youth will recognize and may already support with their purchasing power.

And unlike a bank account, the balance isn't connected to their debit card. Needless to say, this reduces the likelihood that their investment will be spent at the mall or online.

If your young person is over the age of majority, he or she can hold that mutual fund in a TFSA and enjoy all the same tax-saving benefits you do.

If your youth is a minor, you'll need to open the account "in trust" for him or her. Interest and dividends earned in an in-trust account will be attributed back to you for tax purposes, but capital gains are not. If capital gains are realized down the road, they'll be taxed in your child's hands, at a rate that's probably much lower than your own.

If you're looking at a significant amount to invest for your child, you may want to consider setting up a formal trust. The benefit here is that you get to dictate the trust's parameters, such as when the beneficiary can access the funds or how they can be spent. Note, however, that there would be setup fees as well as ongoing expenses in administering the trust.

We'd be happy to explain your options and help you make the choice that's best for you and your child. ■

Early retirement: Could it be possible? Yes!

It happens. You run into an old friend, who isn't "old" at all: He's just about the same age as you. He recently retired and can't stop talking about how great it is. Pretty soon, there's a seed germinating in your head.

I wasn't planning to retire until I was closer to 65. But would it be possible for me to retire sooner?

The short answer may well be yes. Let's start down the path by looking at the steps that might be involved.

Questions to ask

The answers to the following five questions will help us nail down the specifics of your goal.

1. How soon do you want to retire? Next year? Five years? Our approach will depend on how much time we have to work with.

2. How much will you need? Many retirement calculators suggest budgeting 80% of your pre-retirement income to maintain your accustomed standard of living. But a recent survey of U.S. retirees by global investment giant T. Rowe Price found that, nearly three years into retirement, respondents were living comfortably on just 66% of their pre-retirement income.[1]

3. How much do you have now? If you're still short of what you need, you may want to explore "power saving." The idea is to save as much of your discretionary income as you can each year until your retirement — ideally, 15% to 25%. Of course, this might mean making some changes in your lifestyle today, but the results could be well worth it.

4. Do you have ongoing expenses related to your dependants? If you are providing financial support to your children or to your parents, we need to factor this ongoing cost into your plan.

5. How much debt are you carrying? Mortgage, line of credit, loan, and credit card payments all affect your cash flow. Pre-retirement, they hinder your ability to save; post-retirement, they increase your expenses.

Changes to consider

With a clear idea of the challenges that you face, the next step is to find ways to overcome them so you can reach your goal:

- **Consider downsizing your home.** If you still have a large mortgage, downsizing could reduce or even eliminate it and might even generate a significant capital gain — which is tax-free, if your home is your principal residence.
- **Adjust your portfolio.** To enhance potential returns, you may want to increase the proportion of equities within your portfolio — while staying mindful of your tolerance for volatility.
- **Transition into retirement.** Rather than fully withdrawing from the workforce, you may find that working part time or providing consulting services gives you the flexibility to pursue your retirement dreams while continuing to earn some income.

Still keen to retire early? We'd be happy to review your plan ■

1 T. Rowe Price, "First Look: Assessing the New Retiree Experience," 2014

A penchant for your pension

According to recent Statistics Canada figures, almost 38% of all Canadian employees will be in line to collect some kind of employment pension at retirement.[1] Even if you're not expecting a pension per se, you could be offered an early retirement buyout or golden handshake.

Should you find yourself in any of these situations, you'll have many decisions to make around how and when to receive pension payments. Start by considering the following questions.

What are your investment options?

Your investment options will depend on the pension (or the package), whether it's locked in or not, and how it's currently invested. You might have the choice of taking an annuity or moving the money into your own Registered Retirement Income Fund (RRIF) or Life Income Fund (LIF). You may also have the choice of starting to receive the income right away or deferring it until you actually retire.

What are your income guarantees?

Many pensions are paid out in the form of an annuity. If so, you'll have to decide if you want your income guaranteed for as long as you live, or for as long as both you and your spouse are living. If you choose an annuity with no guarantees, your payments will be larger, but they will stop with your death.

Before you sign any papers, come talk to us. We can explain your options and help you make the decisions that are right for you and your family. ■

1 Statistics Canada, *The Daily*, "Pension Plans in Canada", as of January 1, 2014.

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