

WEALTH WISE



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It's the start of a new year, and we all know what that means. No, we're not talking about making (or breaking) your New Year's resolutions, but rather gathering the resources you need to get your Registered Retirement Savings Plan (RRSP) contribution in before the deadline so you can deduct it from your income for the previous year.

The last day to contribute for 2017 is March 1, 2018. If you're planning to top up your RRSP, be sure to come and see us soon. While we're at it, we can set up regular contributions so you can get your money working for you sooner and avoid the scramble next year.



FOCUS ON RETIREMENT

5 reasons to love your TFSA

Canadians love Tax-Free Savings Accounts (TFSAs). And no wonder — with tax-free earnings and tax-free withdrawals, what's not to like? But retirees have even more reasons to appreciate these flexible investment accounts. Here's why.

1. No upper age limit for contributions.

Unlike a Registered Retirement Savings Plan (RRSP), where you can't contribute after the end of the year you turn 71, you can contribute to your TFSA for as long as you like.

2. No mandatory withdrawals.

With a Registered Retirement Income Fund (RRIF), you have to take out a certain percentage of your money every year. Not so with a TFSA. Your account can grow intact until you decide to make a withdrawal.

3. No taxes. Not only are the earnings within your TFSA tax-free, so are withdrawals. So

when you take money out, there's no penalty, no withholding tax, and no nasty surprises when filing your tax return.

4. No impact on government benefits.

Withdrawals from your TFSA won't affect your eligibility for income-tested benefits (such as Old Age Security and the GST Tax Credit).

5. A great place to deposit RRIF/annuity income.

If the income from your annuities or RRIF is more than you need to live on, you can contribute the excess (up to your limit for the year) in your TFSA, where it can grow tax-free.

Whether you're a few years away from retirement or already retired, we can help you make the most of your TFSA. ■

How rising interest rates affect your investments



After keeping rates at historic lows for the past decade, the Bank of Canada raised interest rates in 2017 and hinted that, with the economy close to full capacity, more rate increases may be in the cards.¹ Rising rates are most obviously felt in higher mortgage rates and borrowing costs, but they can also affect an investment portfolio. Here's what you need to know.

Winners and losers in the rate game

With Canadian economic growth picking up, the consensus is that the Bank of Canada will continue to raise interest rates. Indeed, the Bank suggested that the economy could be running at full capacity by the end of 2017, making the case for additional rate increases in 2018.

There are winners and losers in a rising interest-rate environment. The financials sector may see an uptick because rising rates often point to strength in the economy, and a stronger economy may result in fewer loan defaults, along with higher spreads on what financial companies pay out on savings accounts and what they earn on their government and corporate bonds.

In addition to the financial sector, the industrial, consumer discretionary, and technology sectors of the market typically benefit from rising rates.

Areas of the market that are more

sensitive to higher rates — such as telecommunications, utilities, real estate investment trusts, and fixed income — may experience higher volatility.

How mutual funds are affected

How your fund holdings are affected by rising rates depends on a number of additional variables. Here's a rundown, by fund category.



Money market funds. Funds that hold highly secure interest-earning securities are clear winners in a rising-rate environment. If you're

parking cash in a money market fund, you'll enjoy higher rates on your savings.



Bond funds. When interest rates rise, the price of previously issued bonds falls. The longer the term of the bond, the more marked

the price decline. At the same time, however, newly issued bonds offer higher yields.

The effect on bond funds, however, is more complex, and will vary depending on the types of bonds held and the fund manager's ability to adjust the fund's holdings. Moving to shorter maturities, for example, can help mitigate the effect of rising rates.

Regardless of the effect on the fund's unit price, it's important to remember why you have bond funds in the first place — to provide stability and generate regular income.



Dividend funds. Dividend funds that focus on utility, pipeline, and telecommunications

companies may experience greater volatility as those companies will see increases in their borrowing and financing costs in a rising-rate environment. Funds with a significant weighting to financial services companies, on the other hand, may experience less volatility and could even benefit.



Growth funds. The Bank of Canada is raising rates against a backdrop of stronger economic growth, and an improving economy

can boost corporate profits — which is one of the biggest factors supporting equity markets. Growth-oriented mutual funds with a higher weighting in industrials, financials, and technology companies usually stand to benefit the most.

Maintain your focus

After such a long stretch of stable or declining rates, it's common for investors to become apprehensive at the first hint of increases. Remember, however, that we chose the funds for your portfolio based on their combined ability to help you reach your long-term goals regardless of interest rate or market ups and downs.

That's why it's important to maintain your current investing regimen. If you invest automatically, for example, continue to do so. If you're concerned that rising rates may affect your personal borrowing cost, talk to us. Effective debt management is an important part of your investment plan and just one of the many components of our service to you. ■

¹ Bank of Canada Monetary Policy Report, July 2017.

Canadians have more than \$1 trillion in unused RRSP contribution room

The numbers are staggering. More than 24 million Canadians have unused Registered Retirement Savings Plan (RRSP) contribution room.¹ That works out to more than \$40,000 for each tax filer. With a median annual RRSP contribution of just \$3,000, it would seem Canadians are missing out on enormous tax-saving opportunities.

It's difficult to understand why. RRSPs provide a number of benefits, including tax-deductible contributions, long-term tax-deferred growth, and diversification opportunities. And unused contribution room represents the potential loss of many years of tax-free compound growth. Adding just \$2,000 to your RRSP in January 2018, for example, earning 8% annually, would bump up your savings by almost \$11,000 by 2040.

One of the easiest and most convenient ways to ensure you are always taking full advantage of your RRSP is to start — or increase — regular investment contributions. Once formed, these good habits are hard to break. With regular contributions, you're more likely to get closer to your maximum allowed contribution, and your money will begin to grow tax-deferred as soon as it's in your plan.

Automatic plans are easy to set up, and you can choose a withdrawal date and frequency (weekly, bi-weekly, monthly, etc.) that dovetails with your cash flow. If you're not already taking advantage of preauthorized contributions, we can help you get started. ■



¹ Statistics Canada, CANSIM Table 111-0040, Registered Retirement Savings Plan (RRSP) room; accessed September 2017.



EYEOPENER

We're not as financially literate as we think we are

A recent survey² found that more than three quarters of Canadians (78%) believe they are financially literate: 64% rate their knowledge as "good," while 14% rate it as "excellent." However, tests results conducted as part of the survey tell a different story — six in 10 failed a test measuring basic financial literacy. In terms of demographic groups, 52% of Boomers passed, while only 45% of Gen Xers and 31% of Millennials got a passing grade.

How would you fare?

Test your own financial knowledge with these five questions from the test. Answers are below.

TRUE OR FALSE?	HOW RESPONDENTS FARED
1. A mortgage term refers to the length of time you need to pay off your mortgage.	51% answered incorrectly.
2. You can have multiple TFSA accounts with different banks at the same time.	20% got it wrong; 40% didn't know.
3. Applying for a credit card can negatively affect your credit score.	36% got it wrong; 17% didn't know.
4. A car that is more expensive always costs more to insure than a cheaper car.	50% got it wrong.
5. All banks charge you money to have a chequing account.	50% answered incorrectly or didn't know.

Answers: 1: False. 2: True. 3: True. 4: False. 5: False.

² May 2017 survey conducted by Ipsos on behalf of LowestRates.ca.

Rx for estate headaches

You've spent a lifetime building up your wealth, and when you no longer need it, you'd like it to benefit your loved ones. But it's easier said than done. To help ensure your wishes are known and respected, strategic planning can make all the difference. Here are five things you can do to give you peace of mind today and help ensure a smooth distribution of your assets at death.

1. Assess your debts

Make a tally of your mortgage, lines of credit, investment, car, consumer loans, credit cards, and the like. Money you owe does not disappear at death, so we'll want to make sure there are provisions in place to settle these debts. This could include life insurance or another source of cash earmarked for this purpose so that your estate assets won't have to be sold to cover the tax liability.

2. Keep probate fees in perspective

Selling assets, giving them away, or moving them into joint ownership are some tactics commonly used to reduce probate fees. However, these strategies can have unexpected — and often unpleasant — income tax, creditor, and estate planning implications. In addition, depending on the value of your estate and the province you live in, probate may be only a minor nuisance or not apply at all.

The bottom line is that while fees and expenses certainly need to be taken into consideration as part of your overall estate plan, avoiding probate should not be your overarching goal.

3. Choose your executor with care

Many people choose a family member to act as executor for their estate, but is this really the right person for what can best be described as a taxing, time-consuming grind? Whether you have a loved one or a professional take on this task, the executor is entitled to fair compensation, so it's not even a money saver to keep the job in-house.

4. Choose a trustworthy power of attorney

Your power of attorney has the authority to make decisions on your behalf regarding your property and finances. There have been instances in which persons holding powers of attorney have made decisions that are clearly in their own best interests.

This doesn't mean you should be suspicious of your power of attorney. But it does suggest that a frank and ongoing dialogue with your family and trusted advisors is in order.

5. Review beneficiary designations

Make a point of reviewing the beneficiary designations in your will, insurance policies, legal documents, and other contracts. Families and finances are dynamic and things change over time.

These decisions are complex and can have long-term implications. For additional peace of mind and to ensure all of these pieces fit together as intended, we can bring your tax and legal advisory team into the process. ■

Bite-sized retirement planning

Life doesn't always turn out as expected. For example, when you were 25, did you see yourself being where you are today? Chances are, no.

To help you reach your long-term goals, you may find it helpful to "think ahead" in five-year increments based on the following themes.

Housing. Are you planning to stay in your current home? Keeping up a large family home can become difficult as you grow older. And if you plan to spend much of the year away from home, you might prefer the lower maintenance of a condo.

Work. With Canadians living longer, more active lives, many people are choosing to continue working past the traditional retirement age of 65. If that applies to you, when do you and your spouse plan to exit the workforce?

Activities. If you're not working, how will you fill your day? Are you a stay-at-home type or are you looking forward to golfing, day trips, or world travel? The answer will have a big impact on how much income you need.

Health. Where your health is concerned, it's a good idea to "hope for the best but plan for the worst." Your investment plan needs to be flexible enough to ensure that you and your spouse can live comfortably, even in the face of health challenges.

The big advantage of the five-year approach is flexibility. As your situation changes, we can adjust your investment plan so that it continues to meet your needs. ■

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