iA Private Wealth™

WealthBUILDER

Spring 2023

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Quiet the noise

If you want a forecast of our economy, you don't need to search a financial newspaper for an expert's opinion. Forecasts come at us anytime, anywhere – online, through social media, on TV and radio, and in the press.

The trouble is that media outlets are vying for our attention, and we can get inundated with predictions about a prolonged bear market, ongoing inflation or a long recession. What may be a normal and expected phase of the market cycle becomes warnings of doom and gloom.

Reasons to tune out the media

Alarming media reports can make you worry about your financial future and feel distressed. It's important to consider that media outlets may be magnifying the situation to gain a captive audience. For your own peace of mind, you have reason not to let the noise get to you.

Another concern is when the messages of impending doom cause some investors to question their investments – and worse, to change their strategy. For example, an individual saving for retirement in a down market could be tempted to stop investing in equities until they regain confidence in the market. But they would buy back in when prices are higher and end up holding fewer shares or fund units.

Focus on sound principles

Your investment program is based on contributing regularly to a well-diversified portfolio that's designed for your personal risk tolerance, time horizon and investment objective. Staying true to your program is the best way to weather a down market or capitalize on a bull market.

Also, recognize that turbulence is temporary, and time is on your side. Market downturns are historically followed by recoveries.

Keeping these principles in mind can help tune out the media noise. But if media reports ever cause you distress or make you wonder whether you should change the way you invest, please talk to us. ◄

Will you need an emergency fund in retirement?

Canadians can expect retirement to last 20, 25 or 30 years, or even more, thanks to our increasing longevity. From a financial perspective, the first thing many people think about when it comes to living longer is making sure they don't outlive their savings.

But there's another matter to consider. Over a period of two or three decades, many unexpected situations can arise – and these can have financial consequences.

You could cover unexpected costs from the same sources that provide your retirement income. But there's a problem with relying on that method. If you need the money during a period when markets are down, you could be withdrawing funds at a loss.

Also, there's the peace-of-mind factor. If you have savings designated for retirement income and a separate pool for emergencies, you'll sleep better at night. You'll know that if the unexpected happens, you can access funds easily without putting your retirement income at risk.

Here are some of the more common and costly situations that could occur during retirement.

Health care expenses

During your working years, you may have been protected by health benefits through your employer's group plan. Now you're responsible for dental, vision and any other health-related expenses not covered by the government. You could have surgery and want to hire a private nurse to care for you at home while you recover. You might need expensive dental work. Perhaps you develop issues with your mobility and require bathroom modifications and other accessibility renovations to your home.

The greatest potential expense is long-term care or assistance with daily living, provided at either your home, a long-term care facility or an assisted-living residence. With our increasing longevity, there's a greater probability that you or your spouse will need such care. Almost 30% of Canadians aged 85 and older live in a special-care residence.[1]

Helping a family member

Over the two or three decades of retirement, situations may develop involving one or more family members. Funds set aside for the unexpected give you the ability to help out when you wish, especially knowing the funds are separate from your retirement income needs. Each family is unique, and any situation from a vast number of possibilities may arise, but here are just a few examples. A child's business endures a difficult year and the child needs assistance to support their family. A sibling is involved in a court case and asks for financial help to pay legal bills. A grandchild has special needs and you want to contribute to a Registered Disability Savings Plan (RDSP).

Expect the unexpected

Beyond health-related and family situations, anything can happen. A retired couple's child and spouse move to Australia, have a child, and the retirees want to travel to Australia once or twice a year. A retiree had counted on income from a part-time job, but the job didn't last long. Over the retirement years, a couple's aging home needs new appliances, a new furnace, its roof replaced and a leaking basement sealed.

You never know what may arise, but when the unexpected strikes, an emergency fund can see you through. ◀

[1] Statistics Canada. *A portrait of Canada's growing population aged 85 and older from the 2021 Census.* April 27, 2022

Building your retirement emergency fund

You might start saving for an emergency fund five to 10 years before retirement, or even sooner – the earlier you begin, the easier it will be.

Compared to a regular emergency fund, the retirement emergency fund you're building might include investments with more earning potential, such as short-term bonds – depending on your time horizon and risk tolerance. But when retirement arrives, you'd typically focus on safe, liquid investments, such as high-interest savings.

You can finance your retirement emergency fund by contributing a portion of each paycheque or by depositing all or part of your annual bonuses or tax refunds. After your children are on their own or your mortgage is paid off, you could contribute some of the freed-up cash. When retirement arrives, you could transfer the unused sum from your regular emergency fund.

During retirement, you could add to the emergency fund if you have a source of earned income, such as business or rental income. You could also contribute any money from your mandatory Registered Retirement Income Fund (RRIF) withdrawals not needed as retirement income. ◀

Inflation and your investments

Two years ago, in April of 2021, inflation began its current rise. Everyone is well aware of how higher inflation is impacting our cost of living, but how does it affect our investments?

Investment approaches

Higher inflation affects fixed-income investments more than it does equities. Many companies can protect their profit margin by passing on rising costs to customers. But bond investments are negatively impacted. Inflation triggers interest rate increases, which reduces bond values – especially for longer-term bonds. Fixed-income managers may shift toward shorter-term bonds to help manage the risk. Some conservative investors who rely heavily on bonds might adjust their investment strategy or save more, depending on their financial objective and how long higher inflation lasts.

In equity investing, there are generally two different approaches to deal with higher inflation. The active approach is to increase investments in sectors that historically perform better than others during rising inflation, including financial services, energy, commodities, consumer staples, utilities and real estate. The passive approach is to maintain a well-diversified portfolio. This avoids any risks involved in timing market conditions, while still gaining exposure to sectors that perform well when inflation is higher.

Meeting your retirement savings goal

In projecting how much you need to retire, we account for the effect of inflation. Until the recent spike, such projections commonly used an inflation rate of approximately 2%. Whether a higher rate should be used depends on how long today's increased rates last. The Bank of Canada is optimistic, forecasting a decline in the inflation rate to 3% by year-end and a return to its 2% target by the end of 2024.[1] In a year or two, we should have a clearer picture of how inflation could impact retirement savings and whether a larger inflation cushion may be needed.

Please contact us if you want to discuss how your investment portfolio and wealth plan account for inflation and remain positioned to meet your long-term financial goals. ◀

[1] Bank of Canada, *Monetary Policy Report*, October 2022.

If you're asked to be an executor

The term may differ by province – executor, estate representative, liquidator, estate trustee, personal representative or administrator. But the duties are essentially the same, and they might be considerable.

A relative, friend or business associate asks you if you'll be the executor of their estate. This is an honour. It means they trust you, and they're confident in your ability to carry out the required duties.

Understand what's involved

It's important to know what's involved before you decide to accept or decline the role. The executor works with a lawyer to obtain probate of the will; identifies all assets, determines their value, and may liquidate some assets; notifies creditors and pays any debts; manages any life insurance claims; files a final income tax return and annual returns for the estate; and distributes assets to the beneficiaries. But those are only some of the key tasks, so it's best to look into the complete duties of an executor.

Also consider the estate's complexity. If you're primarily dealing with a principal residence and retirement savings, your work may be straightforward. But it could be another story if the estate also involves a stateside vacation home, a spousal trust and a rental income property.

In addition, be aware of the time involved. Some estates can be settled in less than 12 months, but one to two years is common, and complex estates can take even longer.

Making your decision

If you're up to the task, serving as an executor can be a satisfying experience. Your acceptance of the role is a show of

friendship or love in helping your friend or family member. Ultimately, you'll feel gratified to have fulfilled the individual's wishes for their beneficiaries.

If you decide to decline, you may want to explain to your friend or relative why you're not accepting the role. This way, they'll understand it's not personal, and your reasons might help them choose another executor. ◀

When should you get a power of attorney?

A power of attorney for property, or mandate in Quebec, is a legal document in which you appoint an individual to manage your financial affairs if you lose the ability to do so. It's easy to put off. After all, dementia typically occurs later in life. When you're of a healthy mind, what's the rush?

If you don't already have a power of attorney, here are three reasons why getting one sooner is better than later.

First, being of a healthy mind is *when* you want to act. You're not legally able to sign the document if you have a cognitive impairment, which is a risk you take by continually delaying the task.

Second, sooner is better than later because you can suffer a cognitive decline at any age from an illness, stroke or injury.

Third, some people don't get a power of attorney because they believe their spouse could simply take over their financial matters. But that's not true. Without a power of attorney, your spouse would need to apply to the courts to be approved as your representative. ◄

The smooth move of the in-kind transfer

There's a wide variety of ways to make an in-kind transfer, moving an investment from one account to another without selling it. Here are several methods that offer unique benefits.

Donating to a charity. If you donate appreciated stocks or mutual funds to a charity as an in-kind transfer, the charity receives the full value of the investment, and you receive a donation tax receipt for the full value – no tax is payable on the capital gain.

Converting an RRSP to a RRIF. You can roll over Registered Retirement Savings Plan (RRSP) assets to a Registered Retirement Income Fund (RRIF) on an in-kind basis for a smooth transfer.

Making a RRIF withdrawal. What if the markets are down and you're forced to make your minimum required RRIF withdrawal at a loss? You can make the withdrawal as an in-kind transfer to a non-registered account and give your investments the potential to recover. ◄

What if you have funds remaining in your RESP?

University and college graduations are just around the corner. If funds remain in your Registered Education Savings Plan (RESP) after your child graduates, you have a couple of options available to you.

If you have another child, you can use the remaining RESP funds to pay for their education – even without a family plan. Also, you can keep the RESP open for 35 years after it was established, in case a child returns to school.

If you close the RESP, you get back your original contributions tax-free and return any grant money to the government. You receive the plan's earnings as an Accumulated Income Payment (AIP), and it's heavily taxed – first as regular income and second as a penalty of 20% (12% for Quebec residents).

However, you can transfer up to $50,000 of the AIP to your or your spouse's Registered Retirement Savings Plan (RRSP), which defers the tax as regular income and avoids the penalty tax. If you don't have contribution room, you could stop making RRSP contributions until you create enough room for the transfer. ◄

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