For Compliance Approval Purposes

INVESTMENT FOCUS

Mackie Research Capital Corporation

Personal Newsletter from Janice Honeyman

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# Expect the Unexpected

Over recent months, the world has been caught off guard by the spread of the coronavirus. As we continue to grapple with the potential implications and uncertainties, this is a good reminder of the possibility of "black swan" events — unpredictable occurrences that have major consequences.

We can't always predict how the markets will respond to surprise events; some cause major effects, while others do not. It is worthwhile to remember that, in the past, reactions to global health pandemics have often been temporary in nature. During the Ebola outbreak in 2014 and SARS epidemic of 2003, the S&P 500 declined by double digit percentages over their course. However, in the 12 months following both events, markets regained these losses and posted additional gains.[1]

Surprise events may also occur more frequently than we realize. Award-winning finance columnist Morgan Housel shows just how common negative market events have been over the past 30 years (chart below). Yet, despite their frequency and potential for short-term volatility, the S&P/TSX Composite Index still gained over 800 percent during this time.[2]

As individual investors, we have little control over the markets' reaction to unpredictable events. What we do control, however, are the decisions we make about our own portfolios. During these times, the prevailing view can be one of worry and we may feel the urge to take action. Yet, for the longer-term investor, patience is often most rewarded.

This serves as a good reminder not to get too consumed by the news of the present and continue looking forward to what lies ahead. Even in the most difficult of times, we have persevered and progressed. As Housel reminds us: "The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of true patience."

Janice

1. marketwatch.com/story/heres-how-the-stock-market-has-performed-during-past-viral-outbreaks-as-chinas-coronavirus-spreads-2020-01-22/; 2. Motley Fool, 07/29/16, adapted with permission; Total Return Data; 3. The Black Swan, N. Taleb. Random House, 04/07, p. 11.

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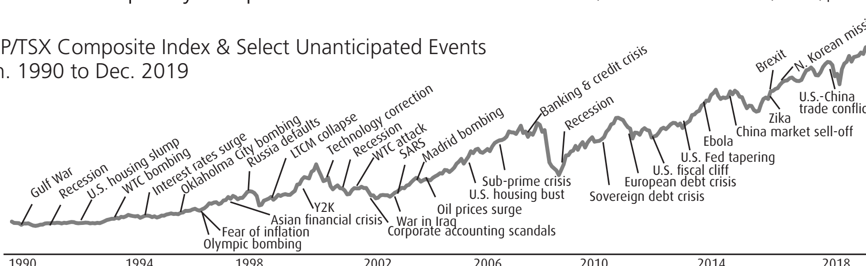


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## Planning for Retirement

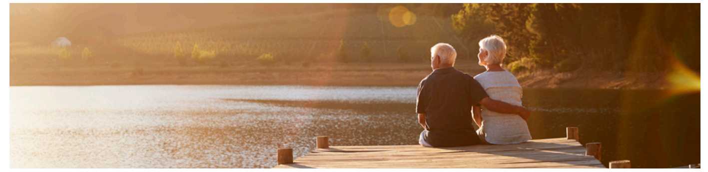
# RRIF & Your Retirement Withdrawal Strategy

Many of us contribute to a Registered Retirement Savings Plan (RRSP) to achieve tax deductions and tax-deferred growth to plan for retirement. When the RRSP must be collapsed, funds are often converted to a Registered Retirement Income Fund (RRIF), which requires minimum withdrawals prescribed by the government based on age.[1] RRIF withdrawals are treated as taxable income.

If you plan on holding a RRIF, some forethought should go into your withdrawal strategy. Why? In some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. On the other hand, funds kept in the RRIF for as long as possible can benefit from tax-sheltered growth. Here are some considerations, depending on your situation:

**1. Use a younger spouse's age as a basis for withdrawals.** If you have a younger spouse, you may use their age to determine the minimum withdrawal for your own RRIF. This may allow funds to be tax-sheltered for as long as possible or may help in preserving income-tested benefits such as OAS. Keep in mind that you will need to notify us to make the change before the first RRIF withdrawal and changes can't be made once a spouse's age has been used.

**2. Accelerate withdrawals to optimize a lifetime tax bill.** If your RRIF minimum withdrawal amount and other income put you in a lower tax-bracket today than in the future, it may make



sense to withdraw more than the minimum to minimize your overall lifetime tax bill. A withholding tax will apply to withdrawals above the minimum amount. If significant RRIF funds remain at death, in the absence of a spouse (which permits a tax-free RRIF rollover), the estate may also be subject to a high marginal tax rate.

**3. Use RRIF income to split income or save tax.** If you have a spouse in a lower tax bracket, RRIF income may be used for income-splitting purposes. Transferring a portion of the RRSP to a RRIF can occur as soon as the year in which you turn 65 to take advantage of pension-income splitting and the pension tax credit.

**4. Use withdrawals to fund a TFSA.** If RRIF withdrawals are not immediately needed, consider contributing funds to a Tax-Free Savings Account (TFSA).[2] This may be a way to continue benefitting from tax-preferred growth: future growth in a TFSA is tax free.

RRIF withdrawal considerations should be part of a larger retirement withdrawal strategy. Every situation is different, so call for assistance.

1. See the CRA website for minimum withdrawal rules; 2. Subject to available contribution room.

# Saving Tax Is a Year-Round Exercise

Spring is the time when taxes are top of mind as personal income tax returns are due. Did you take action to reduce your tax bill in 2019? Perhaps you can do better this year. Here are four ways to help minimize payables to the Canada Revenue Agency (CRA).

**"Reduce" Your Refund** — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. If you have an employer, consider updating Form TD1, which is used to calculate how much tax to deduct from your pay cheque. If you will have significant deductions in a given year, file CRA Form T1213 to reduce the tax taken from your pay.

**Maximize the RRSP & TFSA** — Consider setting up a monthly RRSP contribution plan. By providing an employer with confirmation of the deductibility of contributions, it may reduce the amount of tax withheld at source. While TFSA contributions won't impact your 2020 tax bill, don't underestimate the future value of tax-free compounded growth (see pg. 3).

**Split Income with Your Spouse** — If your spouse (common-law partner) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RRSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with a spouse. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

### 2019 Tax Filing Reminders

**Sell a home?** If you sold property in 2019, and in order to claim the Principal Residence Exemption, it must be reported on an income tax return. The CRA continues to crack down on tax compliance for real estate transactions.

**Held foreign assets?** If you held "specified foreign property" (SFP) with a total cost in excess of $100,000 (outside of a TFSA, RRSP, RRIF) at any time in 2019, you are required to file form T1135. For a full list of assets considered to be SFP, see the CRA website.

**Optimize Asset Location** — Different types of income (i.e., interest, dividends, capital gains) may be taxed differently depending on the type of account income from which is generated. For example, dividends paid on foreign investments held in a non-registered account may receive a foreign tax credit to help reduce or eliminate foreign withholding taxes. If this same asset is held in a TFSA, no foreign tax credit is available. Having a comprehensive view of your assets may identify opportunities to optimize asset location across different accounts.

Of course, these ideas and others depend on your personal situation. Seek the advice of a tax professional and call with any questions. Now is the time to take action to maximize tax savings for 2020!

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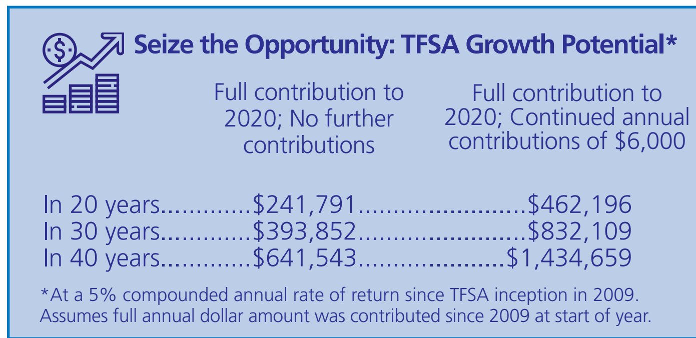
## Don’t Overlook Significant Opportunity

# The TFSA: Don’t Delay!

Have you fully contributed to your TFSA? The latest statistics show that the average TFSA holder has a significant amount of unused contribution room — around 60 percent of available contribution room remains unused.[1] With cumulative eligible contribution room now at $69,500,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who maximized annual TFSA contributions since 2009. With no further contributions, in 30 years, the investor would have almost $400,000 — at an assumed 5 percent rate of return per annum (see table). Most important: any income earned will not be subject to tax.



**Seize the Opportunity: TFSA Growth Potential***

| | Full contribution to 2020; No further contributions | Full contribution to 2020; Continued annual contributions of $6,000 |
|---|---|---|
| In 20 years | $241,791 | $462,196 |
| In 30 years | $393,852 | $832,109 |
| In 40 years | $641,543 | $1,434,659 |

*At a 5% compounded annual rate of return since TFSA inception in 2009. Assumes full annual dollar amount was contributed since 2009 at start of year.

### What Is Your TFSA Strategy?

Don’t overlook the opportunity to grow investments on a tax-free basis within a TFSA. When the TFSA was first introduced, many individuals held cash or low-risk, interest-bearing investments inside the plan possibly because it was introduced as a “savings account”. However, this approach foregos the opportunity for longer-term, compounded, tax-free growth over time, which can be significant. As such, longer-term investors may be better served by using their TFSA as part of their investment strategy.

### Use the TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals — no limitations on timing or amounts to be withdrawn, and the ability to recontribute withdrawn amounts[3] — can make the TFSA a savvy retirement planning tool.

Here are some of the potential opportunities:

- Preserve income-tested benefits or tax credits;
- Reduce taxable income in retirement;
- Supplement income to allow for the deferral of CPP/QPP benefits, potentially maximizing their value;
- Permit continued investment growth (beyond the age of 71, the age in which the RRSP must be collapsed) on a tax-free basis.

### A Valuable Estate Planning Tool

The TFSA can be a valuable estate planning tool. Consider that the value of TFSA assets at the time of a holder’s death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate will be payable in provinces where applicable. Most important, if a surviving spouse is named as “successor holder”, the TFSA can continue to be operated by the spouse on a tax-free basis.[4] Please call for a review/update of TFSA beneficiary designations.

Are you making the best of your TFSA?

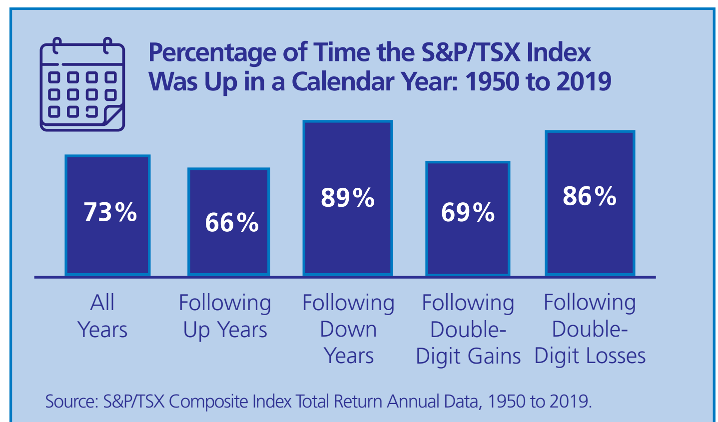
1. advisor.ca/tax/tax-news/average-unused-tfsa-room-rises-12-year-over-year/; 2. For those eligible since 2009; 3. Contribution room will be available starting in the next calendar year; 4. Based on their own contribution room. Any income earned after the holder’s death will continue to be sheltered from tax. Not in Quebec, where designations are not named in the plan.

# Looking Forward, Looking Back: Keeping Perspective

Last year was a great year for the major equity markets across the globe. After a year of significant gains, some investors have been asking if the markets can continue their performance.

From year to year, stock market returns can vary widely. Volatility will always play a common role in the markets. Yet, while nobody knows how the equity markets will perform in the short term, history has shown that it is reasonable to expect markets to continue their upward climb over the longer term.

A look at the S&P/TSX Composite Index over the past 70 years provides good perspective for maintaining an optimistic outlook. On average, annual returns have been positive most of the time and regardless of the previous year’s performance.



# Insurance Strategies for HNW Individuals

High-net-worth (HNW) investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to tax-preferred accounts like Registered Retirement Savings Plans (RRSPs) or Tax-Free Savings Accounts (TFSAs). As such, the opportunities to minimize the tax burden associated with non-registered accounts becomes important. This is where permanent insurance can play a role.

Permanent insurance offers the benefit of tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries which can help minimize estate settlement costs such as probate fees (where applicable). It may also be a suitable alternative to low-risk, fixed income investments. With participating whole insurance, the majority of assets held in a separate participating investment account (managed by the insurance company) are longer-term debt instruments.

Here are four tax-savvy insurance strategies used by high-net-worth investors:

**Cascading Life Insurance Strategy** — This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild and naming a grandchild/great-grandchild as the policy beneficiary. Upon your death, the policy's ownership would be transferred to the child/grandchild on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.

**Back-To-Back (Insured) Annuity** — This involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over your lifetime, part

of this payment is a return of principal so only the income portion is subject to tax annually. This can result in a higher after-tax cash flow relative to comparable low-risk fixed-income investments held in a non-registered account.

**Joint Last-To-Die Policy** — This policy can help control taxes or maximize an inheritance. A single premium insures the lives of two people and the benefit is not paid until the last insured person's death. The proceeds can offset future tax liabilities, including those that beneficiaries may not be able to cover or capital gains from business investments. For HNW individuals who don't need RSP/RIF income and expect to have a high marginal tax-rate in retirement, one strategy may be to fund the policy by gradually bleeding out money from an RRSP/RRIF.

**Corporate-Funded Insurance** — For business owners, the cost to fund policy premiums can be lower if paid by the corporation if the business' tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporation can allow for tax-deferred growth of the cash value of investments. This may be advantageous in light of the small business passive income rules. As well, all (or a significant portion) of the death benefit can be distributed tax free to company shareholder(s) through the capital dividend account.

**We Can Help**

Have you considered the use of insurance as part of a larger diversified plan? There are many compelling strategies available for the HNW investor. Please call for a discussion.

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