Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2018 NEWSLETTER

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Carl's Comments

Retirees have multiple risks to navigate when it comes to planning for their retirement income. Today we look at one of the big ones – the risk of outliving your capital.

There's no doubt that we are all living longer. Based on the Canadian Institute of Actuaries 2014 Canadian Pensioners Mortality Report, a 65-year-old couple has a 25% chance that one spouse will live to at least the age of 97 and a 10% chance that one will live at least to the age of 101.

Increased longevity increases the pool of capital needed to fund retirement unless you enhance your rate of return. As we age however, we often look to decrease investment risks and turn to fixed income in an effort to protect our capital. Unlike the rates in the 1980's, current interest rates are hardly beating inflation. With long term Canadian government bonds yielding a mere 2.2%, less inflation of 2%, you are left with 0.2%.

Therefore, in conjunction with asset allocation decisions to manage longevity risk, one must establish a realistic retirement budget that includes reoccurring and non-reoccurring expenditures. Cash flow elements, such as pensions, gifts to children, dependent care costs, the impact of inflation and taxes, to name a few, should be planned for. Having a written plan leads to a strategy that better balances volatility risk with longevity risk both of which are important to your retirement success. We have a great retirement planning tool to help. Ask Julie about RAZOR.

Things we LOVE about Fall

It's just around the corner and we thought it might be fun to embrace some things we love about the season.

- Apples and pies and crisps. Enjoy with ice cream or maybe a slice of cheddar cheese.
- The scent of wood fired pizza and bagel ovens on a crisp day.
- Sleeping with the windows open.
- Slippers, socks, sweaters, scarves and blankets.
- Pumpkin Spice everything.
- Fireplaces.
- All the autumn colours.
- Thanksgiving, friends and family.

Whatever brings you joy this season, we wish lots of it upon you.

NEWS WORTHY

Have you moved, married or had a child?

Have you changed jobs, phone numbers or email addresses?

Has there been a change to your health?

Please call our office to let us know!

Our responsibility to you includes documenting all material changes as they can have an effect on investment recommendations among other things.

Claiming Child Care Expenses

With the summer of 2018 officially in the record books, now is a good reminder to print and keep those receipts for summer camps and related child care so you have them come tax time. To qualify for the child care expense deduction (CCED), the service must provide sufficient childcare including day and overnight camps as well as after-camp or after school care. Programs that are predominantly recreational and where childcare is secondary (swimming lessons, soccer, music lessons) are likely ineligible.

Retirement Mathematics

Rules of thumb are a great starting point when planning for retirement. After all, we need to start somewhere. However, what retirement looks like will be different for everyone and so will the math.

Here are some big differences that most certainly will change the calculations.

- $1 million in an RRSP (taxable) is very different from $1 million in non-registered investments.
- The tax levied on RRSP withdrawals depends on your own tax bracket.
- How much money you will need at 55 will be different than at 65.
- Being debt free vs. having a mortgage/other debts.
- Risk tolerance. A GIC investor will likely need more savings than someone with a healthy allocation to equities.
- Are you likely to receive an inheritance?
- Might you need to support children or parents in retirement?

Watch out for Risks

Some of the risks involved in passive index investing depend on the index in question, how each stock is weighted in the index and where we are in the market cycle. The S&P/TSX is often thought to be riskier than, for example, the S&P500. The reason being is that the former is composed primarily of three sectors and as they are all cyclical, can act similarly. The S&P/TSX is market weighted also known as a value weighted index and as such is a momentum based strategy. Stocks that do well will have a higher weight in the index which attracts more dollar inflows, pushing up the price and the weighting even more. However, the opposite is true where selling pressure on the index puts more pressure on the bigger names and their weighting.

What does this mean? All signs show that we are late in the cycle and while passive index investing can work well when all lights are green, the same cannot be said at this point in the cycle when the lights are yellow and much uncertainty lies ahead. We are strong believers in active management, active stock selection and looking different from index benchmarks to reduce portfolio risks and add downside protection.

The History of Capital Gains

The current capital gains inclusion rate is 50% but this was not always the case. Prior to January 1, 1972, capital gains were not taxable. Have things ever changed! From 1972 to 1988, the government taxed 50% of any capital gains[1]. During 1989 and 1990 the inclusion rate was changed to 66.67% and for the years 1990-1999, 75% of your capital gain was taxed. From 2000 onward, we have been at the current 50% inclusion rate (except for 8 months in 2000). As can be seen, the rate has moved around significantly and it should not come as a shock if the government again decided to increase the capital gains tax rate.

Source: http://www.thebluntbeancounter.com/ Sacred Tax Cows. Sept 17, 2018

Does CRA Disagree with your TFSA?

This quarter alone, we are aware of three instances where CRA disagrees with amounts clients contributed to their TFSA. If no action is taken, this will result in over-contribution penalties. If you received an Excess Contribution letter or Proposed TFSA return, don't despair, we know what to do!

The data electronically received by CRA may not always be complete or correct. This may result in the appearance of excess contributions being made. Contributing amounts previously withdrawn may cause the appearance of over contributions. Alternatively a transfer may shows as a withdrawal and subsequent contribution. If you receive such a letter, please contact us to review.

[1] Not including principal residence, lifetime capital gains exceptions, gains on in-kind charitable donations post 2005.

Are RRSPs becoming Obsolete?

Before the launch of TFSAs in 2009, there was little choice in terms of saving for retirement and the desire to defer tax. Now, we have a choice – TFSA or RRSP?

Is the RRSP becoming obsolete? Absolutely not. Each person's personal finance decisions are unique. TFSAs tend to be popular among lower income, younger Canadians as the RRSP deduction is less valuable in lower tax brackets. That said, taxes that are levied on RRSP withdrawals make us think twice and as such we find that many people don't access their RRSP outside of the Home Buyers Plan, the Lifelong Leaning Plan or an extreme emergency. If you lack financial discipline or have trouble saving, an RRSP still may be the better choice for you. Still not sure? Let's talk!

RESP Fast Facts

- The federal government may add up to $500 per year (one year catch up allowed), up to a lifetime maximum of $7,200. Excludes Canada Education Savings Bond (CESB).
- Total contributions over the life of the account cannot exceed $50,000, excluding government grants/bonds.
- RESPs can remain open for 35 years after the year in which the account is opened.
- RESP funds for beneficiaries while enrolled in post-secondary education can be spent on a range of items, including living expenses.
- The RESP subscriber can withdraw only $5,000 of accumulated income (grant and growth vs. capital) in the beneficiary's first 13 weeks of post-secondary enrolment – after that, there is no limit.
- Contributions into a family plan can be made until the beneficiary turns 31; contributions into individual plans can be made up to end of 31st year of the plan's existence (regardless of beneficiary age).
- If a RESP must be collapsed because the beneficiary does not attend school, and there are no other beneficiaries to transfer to, the grant money must be repaid with accumulated income taxed in the hands of the subscriber and charged an additional 20% penalty.

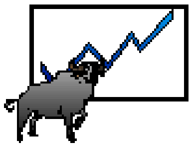
TFSAs are a Critical Tax-Shelter for Retirees

Unlike RRSPs and RRIFs, TFSAs allow you to contribute even after age 71, to the current tune of $5,500 a year, and likely more with inflation adjustments.

If a retiree has positive cash flow, there's no reason that they should not keep adding to their TFSAs. If new money is not available you can use after-tax money from either non-registered investments or from annual RRIF withdrawals.

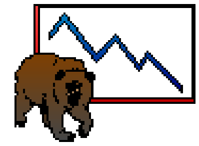
Q: How long does it take to receive grants into my RESP?

A: Canada Education Savings Grants (CESG) are processed monthly. You should receive it by the end of the month following your contribution. The Quebec grant QESI is received annually in May or June.



FFPG FUND REPORT

Compounded to September 25, 2018



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
Dynamic Equity Income Sr. A	3.12	8.04	10.26	8.84	8.41
Fidelity Canadian Large Cap Sr. B	-1.08	1.07	4.29	6.20	8.97
Fidelity Canadian Growth Sr. B	10.98	18.90	13.50	15.51	11.19
Fidelity Dividend Plus Sr. B	-0.17	2.02	3.71	5.81	7.84
IA Clarington Strategic Equity Income Sr. A	2.10	5.08	6.87	6.34	n/a
Sentry Canadian Income Sr. A	1.56	3.70	5.19	7.26	8.69
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	15.83	20.01	14.68	14.74	9.47
Trimark Global Endeavour Fund Sr. A	2.13	12.46	7.59	11.66	12.37
Sentry U.S Growth & Income Sr. A	10.44	16.67	11.42	14.49	n/a
BALANCED FUNDS					
CI Signature Canadian Balanced Cl. A	0.66	6.17	5.38	6.03	5.66
Fidelity Income Allocation Sr. B	-0.22	2.25	1.99	4.50	6.22
Fidelity Monthly Income Sr. B	-0.39	1.39	3.23	4.39	6.19
Fidelity Canadian Balanced Sr. B	2.60	6.40	4.08	6.60	6.17
Edgepoint Cdn Growth & Income Port Sr. A	-1.60	1.62	6.87	7.03	n/a
Mackenzie Canadian Growth Balanced Sr. A	5.76	10.30	8.63	11.32	6.73
GLOBAL BALANCED FUNDS					
BMO Tactical Gl Growth ETF Advisor Series	2.50	4.31	n/a	n/a	n/a
Dynamic Global Strategic Yield Sr. A	1.30	3.58	n/a	n/a	n/a
Dynamic Global Asset Allocation Sr. A	12.97	16.52	10.19	11.54	8.60
Edgepoint Gl Growth and Income Port Sr. A	6.97	11.87	10.99	12.24	n/a
Fidelity Global Balanced Sr. B*	4.17	8.95	5.92	8.15	7.00
SMALL/MID CAP FUNDS					
Dynamic Small Business Sr. A	-1.43	2.63	8.11	7.39	9.45
Fidelity Small Cap America Sr. B	11.68	18.82	7.67	14.56	15.00
IA Clarington Canadian Small Cap Sr. A	1.82	5.90	8.55	7.05	8.72
Mackenzie US Mid Cap Growth Cl. Sr. A	23.23	31.91	16.64	16.55	n/a
Sentry Small / Mid Cap Income Sr. A	3.48	5.56	9.16	9.69	13.39

All Mutual Funds Sold by Prospectus Only & Alternative Funds Sold by Offering Memorandum

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