# Investment Insights

Summer 2023

## Prepare for the Great "Unretirement"

There was a time in the not-so-distant past when "*Freedom 55*" was the slogan for an ambitious retirement goal at age 55. Yet, what if life is not even halfway over by this age?

Today, reaching the esteemed 100-year milestone is no longer a rarity. Some longevity experts have gone so far as to say that the first person to reach age 150 has already been born.[1] The good news is that we are living longer and healthier lives — and, according to one study, often a lot longer than we expect. In fact, people systematically understate their chances of living to age 75 by 10 percentage points or more.[2] The bad news is that some may realize too late that they have claimed government benefits too early, passed up the opportunity to buy insurance or annuities or have simply undersaved for these additional years.

What is the possibility that your life might last much longer than you believe — will it change your perspectives on the present moment? Of course, this means a whole new set of issues — notably, those relating to our wealth planning to ensure a good quality of life over an extended period. As advisors, we make retirement planning and beyond a key focus in the wealth planning process. Whatever your plans, you should have the necessary financial means to enable you to make choices freely. Indeed, a good future is about having the freedom to choose.

Many may not have that choice. With the increasing cost of living, coupled with greater longevity, some retirees will need to consider work in some form. A recent survey suggests that over two-thirds of those who retired during the pandemic have considered returning to work, with more than half citing financial need as their main motivation. We may be on the verge of what has been referred to as the "*Great Unretirement*."[3] Yet, there may be a silver lining. The growing population of contributing seniors may spur a demographic dividend, accelerating growth per capita, driving economic expansion and enhancing social development. This "longevity economy," in which the anticipated economic contributions from older adults will be higher, is expected to benefit everyone. And it's not just those who need to work to support themselves. Others are challenging the traditional notion of retirement: No longer is it a time for rest, and some will choose to reinvest themselves in different roles to share their wisdom or to enjoy income-generating "hobbies."

What about you? What is your vision for retirement and beyond? Regardless of your aspirations, make sure to give your wealth plan the attention it deserves today. Even small contributions can build wealth down the road. Consider that an extra $250 per month invested over 30 years at a rate of return of 6 percent would yield over $250,000 — not an insignificant amount, by any measure. By recognizing the current opportunities, even in these more challenging times, and having the courage to commit to them, investors can share in the growth that lies ahead to make that vision a reality. Continue to invest and plan for tomorrow to build your flexibility. And, above all, continue to look forward with confidence.

1. https://news.harvard.edu/gazette/story/2023/01/has-first-person-to-live-to-be-150-been-born/; 2. https://wsj.com/articles/death-finances-and-how-many-of-us-get-our-money-needs-wrong-51a660a2; 3. https://weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/

### In This Issue




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**To My Clients:**

Until recently, the aggressive rate hikes by the central banks appeared to have limited effects on the economy. Yet, in the spring we witnessed a fallout in the U.S. regional banking sector, followed by swift actions by policymakers to contain the situation. This quick resolution may serve as a reminder for investors to not get too consumed by unpredictable events — and, perhaps, even those more seemingly predictable, such as the "imminent" recession that has now been called for over 18 months. For most of us, we are investing for the years to come.

The summer is the season for well-deserved downtime, but remember that our funds need no vacation. Continue to keep your assets working hard to meet your future goals. Remember that I am here to help! I hope you'll enjoy many leisurely pursuits this summer.

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# The First Home Savings Account (FHSA): Four Key Benefits

## The FHSA offers a new alternative for parents or grandparents looking to help younger folks with the purchase of a first home.

There was once a time when a gift of $30,000 would substantially fund a home's down payment. Today, gifts of $100,000 or more are not uncommon. Some have tapped retirement savings; others use loans or lines of credit — less appealing options with the rapid rise in interest rates. The FHSA offers a means to provide gradual support and grow funds in a tax-advantaged way.

**What is the FHSA?** The FHSA is a registered account intended to be used for the purchase of a first home. Eligible Canadian residents who are first-time home buyers ages 18 and over can contribute up to $8,000 per year, to a lifetime limit of $40,000. There are significant tax benefits: contributions will be tax deductible, similar to the RRSP, and withdrawals will be tax free, similar to the TFSA, if used for the purchase of a first home. Funds can grow in the account for up to 15 years, or until the year after the first qualifying withdrawal or the holder turns 71.

If you are looking to support the next generation with a future home purchase, the FHSA may be a great vehicle. Funds could be gifted to the holder to contribute to their FHSA, noting that gifted funds will result in a loss of control. Assuming the FHSA is opened at age 18, it would need to be closed by December 31st of the year after the child turns 33, which is the average age of a typical first-time home buyer.[1]

Here are four reasons why the FHSA may be an attractive option:

**1. The opportunity for compounded growth.** There may be a significant opportunity to grow funds by investing in quality securities that provide meaningful growth and return potential. For example, an investor who maximizes contributions each year could grow the FHSA to over $75,000 in 15 years, assuming a 5 percent annual growth rate, and this doesn't include the tax benefit from the initial contributions.

**2. The basis for a substantial down payment.** A couple who are both first-time home buyers could each access the FHSA, alongside the existing Home Buyers' Plan (HBP). The HBP allows first-time buyers to withdraw up to $35,000 from their RRSP, subject to repayment in 15 years and other conditions. Together, these tools could provide a substantial down payment for a home — using the previous example, over $220,000.

**3. The benefit of carrying forward the tax deduction.** FHSA contribution amounts not claimed as a tax deduction on an income tax return can be carried forward — even after the FHSA's closure! This may provide a substantial opportunity as the tax benefit from contributions can be used in future years when the holder's marginal tax rate may be higher.

**4. Increased retirement savings, if you don't purchase a home.** At the end of 15 years, if there is no first-home purchase, the account can be transferred to the holder's RRSP/RRIF without losing existing contribution room. This may be a significant way to supplement retirement savings.

**Not Just for Younger Folks or Those Purchasing a First Home?**

If you are a high-net-worth renter (or part of a couple that hasn't owned a home over the past four years), the FHSA offers a tax-advantaged growth opportunity. It can allow for an income-tax deduction for contributions, and contributions can grow in the account on a tax-deferred basis. The FHSA can then be transferred to an RRSP/RRIF to increase retirement savings.

For more information on the benefits of the FHSA, please call the office.

# Be Aware: The CRA May Be Watching

## Tax season may be over, but the Canada Revenue Agency (CRA) may still be watching. Here are some CRA-related reminders.

The CRA's prescribed rate, which is adjusted quarterly based on prevailing interest rates, stands at 5 percent.[1] Interest charged on certain overdue remittances has risen to nine percent! This may be particularly notable for investors who make quarterly instalment payments or remit payroll taxes for a small business: ***Be on time to avoid costly penalties!***

The CRA continues its crackdown on tax mishandling. More recently, it has held back tax refunds for those who incorrectly claimed pandemic benefits, recovering $237 million.[2] The CRA continues to monitor real estate transactions to curb non-compliance relating to property sales and unreported capital gains. Over six years, it has completed 61,000 real estate audits to target tax evasion. The ***Residential Property Flipping Rule*** that began this year is intended to support the CRA in clarifying a taxpayer's obligations. This deems the profits from the sale of a flipped property (generally one held for less than 365 days) to be business income.

1. https://www.canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html; 2.https://www.cbc.ca/news/politics/cra-witholding-tax-refunds-pandemic-benefits-1.6829594

### A Reminder: Keep Your Assets Working Hard for You

**The $1 trillion carryforward:** By now, you have likely received your CRA *Notice of Assessment* for your 2022 taxes. Do you have available RRSP or TFSA contribution room? The latest statistics suggest there is over $1 trillion of unused RRSP contribution room available.[1] Similarly, most TFSA holders have not maximized their contribution room.[2]

**$2.5 billion of unclaimed assets: Do any belong to you?** We continue to be surprised at the vast amount of assets that remain unclaimed or forgotten. The latest reports suggest that $1.1 billion of unclaimed balances are held by the Bank of Canada,[3] and the CRA has 8.9 million uncashed cheques equating to over $1.4 billion.[4]

**To search for unclaimed assets, see:** www.unclaimedproperties.bankofcanada.ca/app/claim-search. To check your CRA "*My Account*" for unclaimed cheques, see: www.canada.ca/en/revenue-agency/services/uncashed-cheque.html

1. At 2016; Statistics Canada Table 111-0040 "RRSP Room"; 2. www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-celi/2019/table3-en.pdf; 3. nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada; 4. www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html

# A New Approach to Combat Fraud: Take Five, Tell Two

The fraud landscape continues to grow in sophistication, increasingly targeting victims through their personal devices and establishing long-term relationships to gain credibility.

In one financial scam, scammers befriend victims via text or social media and, over time, convince them to invest using websites that look like legitimate trading platforms. These investments appear to make gains over time and victims are then encouraged to invest more. Once they try to withdraw funds, they are charged significant fees or their transactions disappear. This scam was first associated with cryptocurrencies, but has now been linked to the gold market.

How can we protect against evolving scams? As a starting point, one expert suggests adopting the approach of: "**Take five, tell two**."[1] If you are solicited by others, "*take five minutes to think about it and then talk to two different people about it before doing anything*." This can prevent us from making rash decisions. Educating ourselves and others is also important. Here are common "red flags" that may indicate a scam:

- **It seems too good to be true.** Many financial scams promise quick gains or rewards. If it appears too good to be true, it likely is.
- **Personal/financial information is requested.** Be wary when personal information of any kind is requested or asked to be verified. Credible sources are unlikely to ask for this.
- **There's a sense of urgency.** Many scams pressure victims to act immediately, using lost opportunity or consequences to evoke action.
- **There is secrecy or you are made to feel guilty.** Scammers may try to induce feelings of guilt or shame or ask to keep matters secret.

### A Solid Defense: Doing Nothing

It goes without saying that we should all maintain a sense of vigilance when it comes to sharing personal information. Not responding can be one of the best ways to stay safe. Don't answer a call if you don't recognize the caller; often, a scammer's goal is to find out if a phone line is active. Never respond to emails, text messages or social media requests from unknown sources. If you aren't certain if a situation is credible, double check. An internet search can often determine if others have been similarly propositioned. Or, if a source claims to be a legitimate company, try calling a general number found on the internet.

There may be benefits to using various tools to add an additional layer of protection. Many mobile phone companies now offer "call control" to help screen out robo-callers or spammers. Anti-phishing software and other cyber security tools can help protect against potential attacks.

### Keep Updated and Help Those Most Vulnerable

Many online resources report the latest scams and suggest ways to protect against fraud, such as the ***Better Business Bureau***, www.bbb.org/ca/news/scams and ***Canadian Anti-Fraud Centre***, www.antifraudcentre-centreantifraude.ca. Take the time to check in with more vulnerable individuals and talk about the latest scams. Those who live alone or are more isolated tend to be prime targets for scammers.

1. www.cbc.ca/news/canada/toronto/fraud-scams-tips-avoid-ontario-1.6764432

# The Power of Dividends

What is the "secret sauce" for Warren Buffett's success? The Oracle recently attributed part of his success to the power of dividends.

When equity markets are climbing, dividends often take a back seat to capital gains in investor focus. As we continue through a period of slower economic growth, and with interest rates rising from substantial lows, don't overlook the contribution of dividends to portfolio growth over time.

A glance through the equity listings should remind us that dividend yields can be quite substantive. While the table below is not meant to contain purchase recommendations, it shows how dividend yields can compare favourably to fixed-income alternatives when accounting for taxation. And, as Warren Buffett reminds us, many underlying firms also offer the prospect of both share price and dividend growth.

**Dividend Yield* vs. Interest Equivalent**

| | Dividend Yield | Interest Equiv. |
|---|---|---|
| Enbridge | 6.68% | 8.7% |
| BCE Inc. | 6.01% | 7.9% |
| Manulife | 5.49% | 7.2% |
| Telus | 5.26% | 6.9% |
| BMO | 4.85% | 6.3% |
| Brookfield Infr. | 4.3% | 5.6% |
| Cdn. Tire | 4.06% | 5.3% |

*At May 11, 2023. **For illustrative purposes only.** Non-registered accounts. Based on tax rates of 50.25% for ordinary income and 35.02% for eligible dividends, provincial averages for income over $250,000 in 2023.

In his most recent shareholder letter, Buffett suggests that dividends are part of his "*secret sauce*."[1] He points to his investment in Coca-Cola made almost 30 years ago that has appreciated in value and continues to grow dividends each year "*just as certain as birthdays*." Buffett compares this to a "*similarly-sized investment mistake*" in a high-grade 30-year bond that would retain, not grow, its value and pay an unchanged coupon rate from year to year. It's good food for thought: Dividends, alongside share price appreciation, can contribute to meaningful growth over time. Consider that an investment of $100,000 in the S&P/TSX Composite Index 30 years ago would yield $628,273 today, but with dividends reinvested would grow to $1,318,766.[2] Buffett's lesson for investors? "*The weeds wither away in significance as the flowers bloom...And, yes, it helps to start early and live into your 90s as well*!"

1. www.berkshirehathaway.com/letters/2022ltr.pdf; 2. S&P/TSX Composite and TR Indices, 01/29/93 to 01/31/23.

## Summer Fun: More Investing Food for Thought

**Q:** Would you rather have: i) $50,000 per year for 30 years; or ii) a penny that doubles in value each year for 30 years?

**A:** With the doubling penny, you would have over $10.7 million in 30 years, compared to $1.5 million with the first option. Of course, while a compounded rate of return of 100 percent is unrealistic, the doubling penny demonstrates the profound effect of compounded growth. It is often referred to as the "*eighth wonder of the world*" because of its substantial power to grow wealth over time, like turning a penny into $10 million. In the words of renowned investor Charlie Munger, Warren Buffett's business partner, "*the first rule of compounding is to never interrupt it unnecessarily*."

*Note: If you share this example with kids, they may ask: "what is a penny?"*

# Lessons Learned From the Summer Job

If your (grand)child has a summer job, congratulations! This may be a wonderful way to begin instilling financial lessons that will support generational wealth planning.

Remember the days of old, when the summer job was a rite of passage? Those of us who preceded the digital era may connect with an article in the popular press that reminisces on this bygone era: "*newspaper delivery was the first rung on many an economic ladder. Traditional summer work taught generations of teens about life, labour and their place in the universe*."[1]

While many parents may breathe a sigh of relief that a summer job will keep kids from being glued to their screens, this is an opportune time for young folks to learn how to navigate life — being punctual, taking responsibility and working alongside others. Some of the greatest financial lessons can also come from the experience of a part-time job, and here are a handful of considerations:

**File a Tax Return** — Often, the income earned within a part-time job is less than the basic personal amount for tax purposes (the federal amount is $15,000 in 2023). As such, some may choose not to file an income tax return if there are no taxes owing. However, this results in a lost opportunity for kids to generate Registered Retirement Savings Plan (RRSP) contribution room (more below). Those ages 19 or over may be entitled to the GST/HST credit of up to $467 (2023) and a climate action incentive payment if they live in select provinces: AB, MB, ON, SK, NL, NS, PEI.[2] Consider also that supporting a (grand)child to complete the task of filing their own paper tax return can be an excellent teaching moment.

**Contribute to an RRSP** — This may be a great time to teach a child about the RRSP: the opportunity to compound savings on a tax-deferred basis and reduce a current or future personal income-tax liability through annual tax deductions. If the child doesn't contribute to the RRSP in the current year, any unused contribution room will carry forward and can offset taxes in future years. Even if they do contribute to the RRSP, they can elect to defer the RRSP deduction until a future year when they are in a higher tax bracket. Building up an RRSP may provide additional benefits as children grow older, such as accessing up to $35,000 from the RRSP under the Home Buyers' Plan to aid in the purchase of a home.

**Open a Bank Account** — If a child hasn't already opened a bank account, a summer job may be the impetus. A savings account can help kids learn how to set financial goals and work toward them by putting money aside regularly. Other concepts can be introduced, such as how to make a budget or how compound interest works — with rising rates, some savings accounts now pay small amounts of interest, or funds can be transferred into short-term GICs or to a Tax-Free Savings Account (for those ages 18 or over), all of which can demonstrate how funds can grow.

**Establish Credit** — Many banks offer student or youth credit cards (some prepaid or requiring a co-signer), which may be a way to teach the importance of building a credit history and credit score. While some parents provide kids with supplementary cards on their own accounts, this doesn't allow kids to see how debt can quickly accumulate or to learn the importance of making payments on time. If a child manages their own credit card, they will have a better idea of how purchases quickly add up, as well as how to manage payments, establish credit and build a credit history.

If your (grand)child has a summer job, congratulations! After all, "*teens with a sense of purpose do better in school and are more resilient and healthier...but, these days, they are also the minority*."[3]

1. www.wsj.com/articles/in-praise-of-the-teen-summer-job-1429890052; 2. www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4215/climate-action-incentive-payment.htm; 3. www.wsj.com/articles/why-teens-need-a-sense-of-purpose-1518264001

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