Volume 1, Issue 2

NetWorth

The Health and Wealth Connection

Your health and wealth are strongly correlated. With good health you may work longer, travel more, engage in activities that improve your quality of life and drive your earning power.

Still, unexpected life-altering events can derail financial plans. Let's explore how health decisions and advanced planning can protect your wealth.

Aim for a healthy lifestyle

Wealth improves health and vice versa:

- **Lowering financial stress** reduces the risk of a heart attack.[1]
- **Lowering debt** can avoid depression and anxiety.[2]
- **Getting adequate sleep** can lead to stronger decision making, memory and reaction time.[3]
- **Exercising regularly** improves cognitive function and drive.[4]

Good health can improve work performance, leading to higher earnings. One study showed regular exercisers can earn $25,000 more annually than non-exercisers.[5] Another concluded that a higher body mass index led to lower pay.[6] The cost of poor health can increase over a lifetime and erode wealth. A study revealed that among 65-year-old males with a high school diploma, the healthy had almost twice the wealth of the unhealthy.[6]

Poor health was also linked to $200,000 less household net worth over a 16-year period.[7] Declining health can also lead to more frequent doctor visits, reduced productivity, lower earnings and higher debt.

Be prepared – plan ahead

1. Assign Powers of Attorney

Decide who you trust to manage your finances if you become incapacitated. A Power of Attorney (POA) is a document through which you, "the donor," appoint someone, "the attorney," to make decisions for you if you cannot. (In Quebec, a Power of Attorney is a Mandate, a donor is a Mandator,

Let's connect

David Kozier, CIM, FCSI
Portfolio Manager, Wealth Advisor
Tel.: 604 443 1558
dave.kozier@nbpcd.com

Jordan Lee
Investment Associate
Tel: 604 443 1570
jordan1.Lee@nbpcd.com

Michelle Hou
Senior Associate
Tel.: 604 443 1589
michelle.hou@nbpcd.com

BMO Nesbitt Burns
885 West Georgia Street
18th Floor
Vancouver, BC V6C 3E8

and an attorney is a Mandatory.) You need a POA for property (known in some provinces as a Continuing/Enduring POA), who makes financial decisions, manages your investment and bank accounts, files tax returns and manages your real estate, and a POA for personal care (the Living Will), who makes healthcare decisions and helps in emergencies.

Choose a POA for personal care who lives close by. Attorneys for property must be financially responsible and willing to execute your wishes. Work with your attorneys to create documents that meet your needs and your province's legislation.

2. Protect your business

Name someone to keep your business running if you have a serious health event. Often, life and disability insurance can fund buy/sell agreements and key person coverage. They transfer power on agreed terms to ensure your business continues to operate without disruption if you cannot lead.

Buy/sell agreements define the terms of business ownership transfer upon triggering events (death, disability, or incapacity). If you cannot make financial decisions, the buy/sell terms trigger and other owners or key employees can purchase your interest (a cross purchase) or the company can (an entity purchase), honouring the agreed price and terms, so operations continue. Define the length and type of incapacity that would trigger the buy/sell agreement and review these conditions with your legal advisor(s) and business partner(s).

Also, review Shareholders' Agreements (which govern business operations and may include buy/sell agreement terms), Trust documents, and POAs with your legal advisor(s). Named attorneys and trustees are best able to assume your duties.

3. Understand the impact of income changes

First, calculate the cost of your lifestyle today and identify all income sources (wages, investment earnings, business income, employer pensions, and government benefits). Work with a financial professional to determine long-term costs and income; adjust for inflation, anticipated savings and investment asset growth.

Next, earmark which assets will support your needs and how you will draw upon them tax-efficiently:

- Access provincial health plans first, then supplemental or employer healthcare policies.
- Work with your accountant to manage tax deductions and time expenses. To maximize the tax credit for qualifying medical expenses, pay them all in one year instead of over multiple years.
- Save prudently using non-registered and registered accounts, such as your RRSP or RRIF and TFSA.

4. Consider critical illness insurance

Today, with medical advances and healthier lifestyles, we are surviving illnesses previously considered life-threatening. However, illness can cost if you miss work and medical bills aren't covered by insurance.

Critical illness insurance pays a tax-free lump sum equal to the insurance purchased if you're diagnosed with an illness covered by the policy, and then if you survive for a qualified period (30 to 90 days).

This tax-free benefit doesn't affect the disability insurance benefits you may also receive. Once the claim is approved, the benefit can pay off your mortgage, supplement your care provider's income, cover medical treatments, or sustain your business while you recover.

[1] Stress links poverty to inflammation and heart disease: https://www.nih.gov/news-events/nih-research-matters/stress-links-poverty-inflammation-heart-disease

[2] Reducing debt improves psychological functioning and changes decision-making in the poor: https://www.pnas.org/doi/10.1073/pnas.1810901116

[3] Memory, Thinking and Sleep: https://www.sleephealthfoundation.org.au/memory-thinking-and-sleep.html

[4] Effects of Physical Exercise on Cognitive Functioning and Wellbeing: Biological and Psychological Benefits: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5934999/

[5] New Study Reveals Strong Connection Between Regular Exercise and Happiness, Financial Wellness, and Sociability: https://www.prnewswire.com/news-releases/new-study-reveals-strongconnection-between-regular-exercise-and-happiness-financial-wellness-and-sociability-300663984.html

[6] The lifetime costs of bad health: http://users.nber.org/~denardim/research/NBERwp23963.pdf

[7] The asset cost of poor health: https://www.sciencedirect.com/science/article/pii/S2212828X16300020

Keep Your Personal and Account Information Safe

At BMO, we take your security seriously. We are committed to respecting and protecting the privacy and confidentiality of the personal information you entrust to us. It is also important to know how to keep your information secure. This article provides a few simple ways you can protect yourself online, as well as some key reminders for detecting fraud. Please be reminded that these are suggestions and we recommend that you speak to a technology professional about your digital security.

Use discretion with public Wi-Fi

Public Wi-Fi hotspots offer minimal security and may leave you vulnerable to cyber threats because you can't control what security measures are being taken. As such, accessing your financial accounts while connected to public Wi-Fi is not recommended.

Passwords – strengthen, change, and don't reuse

To make sure that your passwords remain secure, it's good to get into the habit of changing them regularly – for your computer, Wi-Fi, and all online accounts and websites.

Consider the following tips when creating or updating your passwords:

- While most sites detail their password requirements, strong passwords should include a combination of letters, numbers and special characters, if permitted;
- Creating a passphrase may be easier to remember and more difficult for someone else to crack. Example: "I love to downhill ski" could become 1l0v3t0d@wnhillsk1;
- Don't repeat passwords across multiple platforms in case one of your accounts is compromised; and
- Change your passwords frequently to minimize the chance it gets captured by an outsider.

Securing your computer

To help protect your account information, make sure that your computer is free of viruses and malware, and that your network connection is secure. It is recommended that you have antivirus software installed on your computer as it can help avoid becoming infected from viruses and malware.

Securing your network and browser

Network security
When you secure your network, you decrease the chance of hackers gaining access to your network and, consequently, your personal information. To help protect the integrity of your network you can use a software or hardware-based firewall.

Browser security
With fraudulent websites becoming harder to spot, it's important to be able to verify the web pages you're visiting, especially for online banking or when viewing your investment accounts online. To start, we recommend downloading Trusteer Rapport® software. It's free to download on your desktop, easy to set up, and it will ensure that you're accessing bmo.com, for instance, and not an imposter site.

Philanthropy and Tax-Advantageous Giving

Although charitable donations are not made solely for the tax benefits, the Federal and provincial governments provide favourable tax incentives that encourage Canadians to be generous with their charitable giving strategies.

While there are rules governing gifts other than cash, you can contribute almost any property of value, such as securities, RRSPs, RRIFs, life insurance benefits and real estate to a registered charity. In particular, special tax incentives are provided to donations of appreciated publicly-traded securities.

When an **individual** makes a charitable donation to a qualifying charity that is registered with the Canada Revenue Agency, they are entitled to a credit against their tax otherwise payable. For Federal tax purposes, where the gift is under $200 the credit is calculated at the lowest Federal personal tax rate on the amount of the gift. For donations made after 2015 that exceed $200, the Federal tax credit is calculated at the top 33% marginal rate (which applies on taxable income > $235,675 in 2023) but only on the portion of donations made from income that is subject to this top marginal tax rate.

For any donations made in excess of $200, where the individual's taxable income is less than $235,675 (in 2023), a 29% Federal tax credit will apply, which was the previous top Federal marginal tax rate. Additional credits are also available for provincial tax purposes, with special rules applying in various provinces.

When a donation is made by a **corporation,** the corporation receives a deduction, as opposed to a tax credit, when computing its taxable income. For Federal tax purposes, corporations are also subject to the 75% net income limit that applies to individuals.

Before deciding on what type of asset to donate to your favorite charity, it is important to consult with your BMO financial professional, who can connect you with a BMO philanthropic advisor to ensure that your gift is not only tax advantageous, but will also have the biggest impact on your charity.

The Great Wealth Transfer is Coming – Here's How to Pass Down Your Estate

Over the next two decades, US$84 trillion globally will pass from the silent generation to boomers and then to millennials.[1] Transfer your assets the right way – don't let your family squabble over your legacy or squander your estate like an episode of Succession. Some estimate that 70% of wealthy families see their wealth fizzle once control passes to the second generation.[2]

To ensure your wealth is protected, properly divided and transferred:

Share your information

Many people don't share all their relevant wealth information with their advisors. "The more information we get from clients, the more we can plan what they need to do with their finances," says **Cesare Salerno, VP and Regional Director of High-Net-Worth Wealth Planning at BMO Private Wealth**. This includes information from accountants, lawyers, insurance advisors, investment professionals and wealth advisors.

"We respect their privacy," says Salerno, "but families should trust their advisor as their partner. A comprehensive wealth plan optimizes outcomes and decreases the chance that wealth details could go public in legal proceedings. We advise on estate planning document preparation, Shareholders' Agreements, and previous tax returns."

Bring your family into the conversation

Involve your children early by hosting family and advisor meetings. "We have experts who can help manage conversations with unique family dynamics," says Salerno. "That's where we add tremendous value."

Many parents like to gift their children money while they are still alive to watch them enjoy and learn to manage it. "Gifting too much can demotivate some children," says **Lydia Potocnik, Head, Estate Planning and Philanthropic Advisory Services at BMO Private Wealth**. "Ensure they are taken care of, but also make their own way in life."

Carefully consider your executor

To smoothly transition wealth, name an experienced executor as your advocate. Many people choose a family member or friend, but "being an executor can be very onerous, time-consuming and stressful if you're dealing with multiple beneficiaries and complex estate assets," says Potocnik.

Find an executor who can be fair and neutral and has financial and legal acumen. Large estates with complex assets are challenging – many take more than a year to administer. Increasingly, affluent families ask their financial institution to be their executor, called a corporate executor, or name a professional trust company as co-executor with a loved one. If assets cross provincial or state boundaries, corporate executors can resolve complex tax matters or other issues that would confuse a first-time executor. "Many people choose to avoid burdening their kids," says Potocnik.

Maintain your assets

Given market volatility, families often use an estate freeze to minimize capital gains taxes on future portfolio growth. You "freeze" the value of your appreciating assets (held inside a corporation or trust) at current market rates and pay those taxes when you pass away – knowing what you'll owe you can plan to pay it. Any value increase is taxed in your children's hands when they sell the securities.

If you're transferring a business to children who want to take over the company, make sure they can cover taxes triggered by transferring shares. If your estate cannot cover that bill, purchase life insurance to "make sure that liability is paid for, and the family members can continue operating," says Salerno.

Insurance can also equalize estate distribution. "If a family owns a farm, says Salerno, "and only one child wants to run it, that child receives the farm while the others receive the value of the farm via cash from the insurance policy."

[1]Cerulli Associates. "Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2045." https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045

[2]Kleinhandler, David. "Generational Wealth: Why do 70% of families lose their wealth in the 2nd generation," Nasdaq. https://www.nasdaq.com/articles/generational-wealth%3A-why-do-70-of-families-lose-their-wealth-in-the-2nd-generation-2018-10

BMO Private Wealth

BMO Private Wealth provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Estate, trust, and custodial services are offered through BMO Trust Company. BMO Private Wealth legal entities do not offer tax advice. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. ® Registered trademark of Bank of Montreal, used under license.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth.