

Investment Insights

Prepare for the Great “Unretirement”

Summer 2023

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/>

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To My Clients:

Welcome to my quarterly newsletter. This is part of my ongoing effort to stay connected with you. While this does not replace our regular communications, my goal is to provide you with additional strategies, tactics and other ideas to help enhance your wealth management. I hope that you’ll find something of interest each quarter! Please let me know if you have ideas for topics you wish to discuss. If you enjoy the content in the quarterly newsletter, you can also check out my website for more content at www.charlenemorris.ca.

I’m excited to connect with you in new ways moving forward. As always, please call if I can be of any assistance with any investing matters. Thank you for your continued business.

Charlene

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-withholding-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-agency-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.

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 Inf.	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

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

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?”

Insurance & Women: The Gender Gap

According to recent statistics, there continues to be a gender gap when it comes to life insurance: men are better protected than women.

In the U.S., 58 percent of men have coverage, whereas only 47 percent of women do, and that gap further increases for minorities and younger women. Over the past five years, the life insurance rate for women has dropped by 10 percentage points.¹ Insurers in Canada suggest that this gap exists here at home.²

At the same time, the number of women who are household breadwinners continues to grow, with some statistics suggesting that half of dual-income households have women who earn the same or more than their spouses.³ Back in 1976, it was suggested that women were the breadwinners in only around 17 percent of households.⁴

The Need for Life Insurance: Important for Women

With the rise in women as breadwinners, life insurance considerations should be even more important to provide financial security to loved ones in the event that something were to happen. For single parents or those women who are the sole earner in the household, life insurance is equally important. Even if you have insurance at your workplace, perhaps the coverage may not be enough to provide a secure financial future for your dependents.

For women who don't bring home a paycheque, life insurance may also be important. Many women are caregivers to children or aging parents, more so than men. The latest reports suggest that women accounted for 54 percent of caregivers, with almost two-thirds of caregivers providing more than 20 hours of care per week — and often unpaid.⁵ In the absence of this substantial support, life insurance can help to pay for childcare, nursing care or home support, which would be needed if the caregiver is no longer able.

Life Insurance: Less Costly for Women

An interesting observation is that, on average, women pay less than men for life insurance, based on similar age and health profiles. Since the price of life insurance is based on actuarial data, the statistics are in a woman's favour. Women tend to live longer than men and are more likely to live past a term length.⁶ Since life insurance companies are more likely to have to pay out claims to men sooner, they are likely to have higher premiums to account for the higher risk.

Are there Gender Differences in Financial Priorities?

According to recent studies, there are two main reasons why women don't pursue life insurance coverage: lack of knowledge and concerns over being taken advantage of when purchasing insurance. Many also believe that it is too expensive — yet, 8 in 10 women overestimate its cost.¹

Understanding these obstacles, and given my background in working with individuals and their financial positions, if you are in need of insurance or know those seeking support, please don't hesitate to reach out. An important focus should be on ensuring that individuals, regardless of gender, are protected with a financial safety net for their loved ones if something were to happen.

1. www.limra.com/en/newsroom/industry-trends/2022/lack-of-knowledge-and-confidence-deter-women-from-purchasing-life-insurance/; 2. www.cpp.ca/blog/life-insurance-for-women/; 3. ca.finance.yahoo.com/news/more-women-household-breadwinners-changing-130000206.html; 4. www.sunlife.ca/en/tools-and-resources/money-and-finances/understanding-life-insurance/why-is-life-insurance-so-important-for-women/; 5. www150.statcan.gc.ca/n1/daily-quotidien/220114/dq220114c-eng.htm; 6. www.forbes.com/advisor/life-insurance/what-women-should-know/

With the compliments of...



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