BMO Nesbitt Burns | Summer 2018

Investment **Insight**

Why These Are Good Times…

We are in the late innings of the business cycle, in an economic expansion that has been more prolonged than most. As such, when the market experiences periods of volatility, a new wave of pessimism emerges.

But let's keep perspective. Even today, the Canadian economy continues to perform well. Jobless claims are still at decade lows and manufacturing sales have been solid. Strong U.S. growth, combined with a lower loonie, has helped to support our exports, which hit a record high in April. Our resource-based economy is expected to benefit from rising oil prices, which have reached their highest levels since 2014.

This is not to say that there aren't challenges. While the International Monetary Fund recently upgraded the global growth picture, Canada's GDP growth has slowed this year. Our global competitiveness, an important engine for economic growth, continues to be challenged: the Trans Mountain pipeline situation is one recent example. For now, NAFTA agreement negotiations are ongoing and the U.S. continues to impose tariffs globally, adding to trade uncertainty. As interest rates continue to rise, Canada's debt load, as well as that of individuals, becomes more apparent.

But having a longer-term view should remind us that these are good times.

We are living in one of the most prosperous periods in the history of the world. Income and quality of life have improved; disease, violence and child mortality have fallen. Consider that it was just 100 years ago that the average Canadian died at age 57. Today, the average Canadian retires around age 63, and there is a good probability that you will live until 100 years old![1]

What has happened over just a few decades? Since 1988, the average Canadian family income has risen by 89.5 percent.[1] Investors have a wealth of investing products available, more than ever before, and have seen the S&P/TSX Composite Index gain over 369.1 percent! And, yet, during this period, there were four bear markets that collectively lasted 48 months; two of which saw market drops of over 40 percent.[2]

While setbacks happen too quickly to ignore, progress often happens too slowly to notice. But savvy investors should remember that shorter-term periods of market volatility are normal, and have allowed equities to be one of the greatest wealth generators of any asset class over the longer-term.

1. Statistics Canada; 2. S&P/TSX Composite Index 1/98 to 4/18.

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To Our Clients:

With the year now into its second half, this may serve as a wake-up call that time — one of our most valuable assets — continues to tick away. Have you been procrastinating on certain financial decisions that may benefit your future? An area often overlooked is estate planning. Have you updated your will? Have you structured your estate in the most tax-efficient manner? Are there ways to leave a legacy? If you require assistance, we can help.

Take time to enjoy these warm, summer months!

Victor and Michael

When Should I Start Taking CPP Benefits?

If you are approaching retirement, you may be asking: when should I start taking Canada Pension Plan (CPP) benefits? For some, the timing decision is based on a "collect now and think about it later" approach. But, if you are in good health and can afford to live without CPP in the short term, delaying payments could make a difference in the amount you receive.

CPP provides eligible individuals with a partial replacement of earnings in retirement. The standard age to start receiving CPP benefits is 65. However, you can start collecting as early as age 60 at a reduced pension amount, or as late as age 70 for an increased pension. Payments are reduced by 0.6 percent for each month that the pension is started before age 65 (reducing the pension by up to 36 percent). Payments increase by 0.7 percent for each month delayed beyond age 65 (increasing the pension by up to 42 percent).

How Investing Can Impact the Decision

Knowing when to start collecting your CPP pension would be made easier…if you knew exactly how long you were going to live. Other factors can influence the decision, including immediate/future income needs, the preservation of other income-tested benefits (e.g., Old Age Security) and current/future income tax bracket. While an analysis specific to your situation should include these factors, a simple optimization exercise can start the thinking process.

Generally, if you believe that you'll live to age 83 and don't need the funds, a rough rule of thumb says that starting CPP at age 70 may be optimal. But this analysis ignores the time value of money, the idea that a dollar today is worth more than in the future due to its potential earning capacity. By including this factor, the table below estimates the age that an individual, who turned 60 years old at the start of the year, could start collecting CPP benefits. It assumes the person receives the maximum monthly pension amount in 2018, an annual rate of inflation of 1.5 percent, and an annual discount rate of 5 percent (for the time value of money).

If you think you'll live until age...	Consider starting CPP at age...
71	60
72 to 74	61
75 to 77	62
78 to 79	63
80 to 82	64
83 to 84	66
85 to 87	67
88 or above	68

Starting to collect too soon may leave money on the table. Based on the assumptions, if you expect to live to age 88, the value in today's terms of your cumulative CPP benefits would be $154,628 if starting to collect at age 60, compared to $184,228 by waiting until age 68.

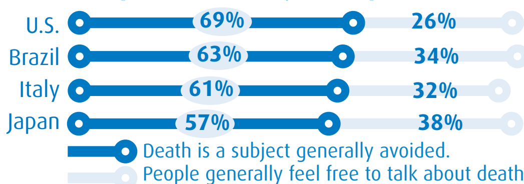
To review your situation, please get in touch or consult a tax advisor.

Estate Planning: Start a Dialogue with Aging Parents

Last year, the Economist magazine published an interesting study on end-of-life wishes, showing that what is most important to people varies based on where they live.[1] In the U.S. and Japan, the highest ranking priority was not burdening families with the costs of care. In Brazil, it was being at peace spiritually; in Italy, it was having loved ones around.

An area transcending borders was that most people have not had a serious conversation about end-of-life care with loved ones. In fact, death is a subject that people generally avoid (see chart): the taboo of talking about death is still alive and well.

In Your Country, Is Death a Subject People Feel Free to Talk About?



All too often, adult children and their parents avoid the subject of estate planning, perhaps because it is a reminder of their own mortality or it involves the private topic of finances. Yet, having a dialogue is important to ensure that aging parents will be well cared for. Experts suggest starting with casual conversations to establish whether a basic estate plan is in place or if support is needed. Here are some questions that may lead to more meaningful discussions:

Who do you wish to make decisions for you, if you are unable? This can uncover whether the necessary preparations have been made in the event of illness or incapacity (i.e., power of attorney documents, in provinces where applicable). It is important for parents to identify people that they trust to act on their behalf while they are still able, which can help to prevent elder abuse. This may also generate a discussion about how parents wish to be cared for into the future.

Have you spoken to a lawyer about an estate plan? This may help to determine whether a will exists. If not, it may be time to encourage its creation. Parents may be reminded that estate planning goes beyond a will. It can involve a plan to maintain control of assets until they are no longer able, or use strategies to maximize wealth.

How do you wish to be remembered? Many adult children have never asked their parents how they would like to be remembered. It's not just about finances. This may start a discussion about funeral arrangements or philanthropy. What is important? Are there ways to leave a lasting legacy?

These questions may help to start a dialogue and are by no means meant to be comprehensive. To be connected to an estate planning specialist for further guidance, please call.

1. https://www.economist.com/blogs/graphicdetail/2017/04/daily-chart-20

The Centenarian Club: Plan for Longevity

Centenarians — people reaching the ripe old age of 100 — are now the fastest growing age group in Canada. There are over 8,200 Canadian centenarians and this number has increased by 40 percent over the past five years.[1]

As our longevity continues to increase, consider how far we've come. In ancient Greek times, average lifespans were believed to be only 20 to 35 years. Just 100 years ago, Canadian life expectancy was about 57 years. Today, Canada ranks 12th globally for longest life expectancy: 80.2 years for males and 84.1 years for females.

Understanding our potential longevity is important in retirement planning. After all, we want to make sure we don't outlive the funds saved for these years. Many use life expectancy as a gauge for planning purposes. But using life expectancy figures may be underestimating your longevity.

"Life expectancy" is an average figure of how long an individual with certain characteristics (e.g., gender, health) is anticipated to live. Life expectancy is also a moving target. If you've reached age 65, your life expectancy has already increased. In Canada, a 65-year-old has a life expectancy of 83.5 years for a male and 86.6 years for a female.[2]

"Longevity" is a measure of the number of years you may actually live, and not on average. As such, there is a significant chance — around 50 percent — that you will live beyond your life expectancy.

The "Actuaries Longevity Illustrator" is a tool developed by the Society of Actuaries that looks at how long you can expect to live based on average health and demographic characteristics. It is meant to provide perspectives on your longevity risk. It also estimates how long a couple may live and a survivor may outlive a spouse. While the tool is based on U.S. demographics, it still provides a good starting point for individuals to address the impact of longevity in managing wealth. http://www.longevityillustrator.org/

How Do We Plan for Increased Longevity?

As we consider our own longevity, it may be useful to review the way we plan for retirement, including:

- Funds may need to extend over a longer time horizon, which may mean deciding to continue working to an older age or budgeting to spend less today.
- Future healthcare contingencies may need to be adjusted to account for longevity. Have you set aside adequate funds? Are there other tools, such as insurance, that may play a supportive role?
- It may be helpful to revisit your financial plan. There may be ways to support greater longevity, such as adjusting asset allocation, exploring financial products to help provide a steady stream of future income, or incorporating tax-efficient strategies to maximize income. We can help in this regard.

Though planning for increased longevity may be a source of stress for some, there may also be good news. Greater longevity may offer more time for investments to grow. Using the "Rule of 72", at a 6 percent rate of return, investments can potentially double every 12 years or so.[3]

How Far Can We Go?

Canadian researchers have recently shown that there is no plateau in human life and our lifespans can be expected to climb far into the foreseeable future.[4] So plan ahead for a long and happy life!

Source: 1. Canada Census 2016; 2. Statistics Canada, Life Expectancy 2009; 3. "Rule of 72" is a simplified way to determine how long an investment will take to double, given a fixed annual rate of return, by dividing 72 by the rate of return; 4. "No Limit to How Long People Can Live: Study", CBC News, June 28, 2017.

Rising Oil Prices: Paying the Price at the Pump

While the rise in oil prices may help to give Canadian equity markets a bump, it has provided many Canadians with sticker shock at the pump. Oil prices have reached four-year highs, largely due to a reduction in supply, including production outages in Venezuela, increasing tensions in the Middle East and a reluctance of many global energy companies to invest in new production. But with oil prices remaining low for years, many are asking why gas prices have risen so rapidly. In fact, the average price we pay at the pump is higher today than back in 2008 when oil was trading at $145/barrel!

Higher gas prices can be attributed to a variety of factors. First, the Canadian dollar is trading much lower than it was in 2008. Since much of our gas comes from U.S. refineries, we are paying for the lower Canadian dollar. U.S. refineries have been sending gas overseas largely due to a stronger global economy, which has increased demand and helped to push up prices. Here at home, many provinces have enacted carbon taxes which have added to higher prices. As well, in the summer, gasoline blends are more expensive as environmental regulations require mixtures that don't evaporate as quickly.

	May 2018	July 2008
Gas Price	$1.50/L	$1.39/L
Oil Price	$70/B	$145/B
CAD/USD Ex. Rate	0.7766	0.9726

Sources: WTI oil, www.eia.gov; gas prices, gasbuddy.com; exchange rates, Bank of Canada. At 5/14/18 and 7/14/08.

While this may not be good news for Canadians, consider that we pay a lot less than many of our global counterparts: a litre of gas costs around $2.73 in Iceland and $2.69 in Hong Kong![1]

Source: www.globalpetrolprices.com; 1. Based on prices at 5/14/2018.

Joint Ownership: The Good, Bad & Ugly

Owning assets jointly has grown in popularity — between spouses, and more frequently between parents and children. Often this is done to facilitate the settlement of an estate. But did you know that there may be implications?

Joint ownership occurs when an asset is owned by more than one person. There are two forms: "Joint tenancy" (with the right to survivorship) refers to an arrangement in which the asset ownership passes directly to the surviving owner(s) upon the death of one of the owners.[1] Here, the asset passes outside of the deceased owner's estate. "Tenants in common" refers to an arrangement where there are separate ownership interests in an asset, which generally can be sold, transferred, or bequeathed without the consent of other owners.

Here are potential implications to consider before entering a joint tenancy arrangement:

The Good...

Ease of asset transfer — Upon the death of one owner, the surviving owner(s) automatically becomes the asset owner, with few legal or administrative hassles.

Bypass probate — Since assets pass to joint owners outside of the will, no probate or estate administration fees are assessed, in provinces where applicable.

The Bad...

Tax implications — There may be potential tax consequences. For example, if real estate is owned jointly between a parent and a child who already owns a residence, there may be a proportionate loss of the principal residence exemption. Adding a joint owner to a property could also result in the incidence of land transfer tax. For jointly-owned investment accounts, even if tax slips are received in the names of the joint owners, the Income Tax Act could require attribution of the income earned and owned by one taxpayer to another taxpayer for tax purposes, based on who provided the capital to acquire the assets in question.

Loss of control — Joint ownership may mean that the original owner may no longer have total ownership or control over the assets. In the case of property, decisions regarding its maintenance or sale need to be made jointly. With financial accounts, a joint owner may have the ability to withdraw or use funds if they have signing authority.

The Ugly...

Estate equalization issues — If the majority of assets are held in joint ownership (therefore outside of the estate), the estate may not have sufficient assets to fund any legacies or gifts outlined in the will. Issues may arise if a parent jointly owns an asset with only one of their children. If the estate is to be divided equally but the jointly-owned asset hasn't been considered, expensive and divisive legal action could result.

Exposure to creditors or matrimonial claims — Jointly-held assets may be exposed to claims by a joint owner's personal or business creditors, or ex-spouse upon matrimonial breakdown. This could force the sale of an asset to cover payment of debts or claims of the joint owner.

Seek Assistance

These are only some things to consider prior to entering into a joint arrangement. The advice of legal and tax advisors is recommended relating to your situation.

1. Not in Quebec, where the laws differ and an automatic right of survivorship does not exist.

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