WELLINGTON-ALTUS
PRIVATE WEALTH

- INVESTMENT -
INSIGHT

SPRING 2020

Maintaining Perspective in Uncertain Times

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Over recent months, the world has been caught off guard by the coronavirus outbreak. As we continue to grapple with the potential implications and uncertainties, this is a good reminder of the possibility of "black swan" events — unpredictable occurrences that have major consequences.

Today's situation has been heightened by the reality that we are so much more connected than in the past — this being perhaps the first major global health event of the social media age. This has likely supported certain unprecedented reactions, including the equity market volatility resulting from the most recent significant drop in oil prices.

During these challenging times, we shouldn't lose sight of the fact that the situation is expected to eventually be resolved. There will undoubtedly be shorter-term economic effects; however, global policy makers continue to take action to support economies for the near term, including emergency rate cuts and other stimulus efforts.

It may also be worthwhile to remember that surprise negative market events occur more frequently than we may recall. Award-winning finance columnist Morgan Housel shows how common these events have been over the past 30 years (below). Yet, despite their frequency, the S&P/TSX Composite Index still gained over 800 percent during this time.[1]

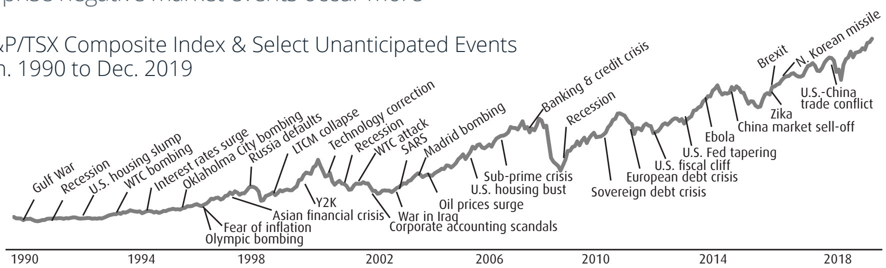
As individual investors, we have little control over how the markets react to unpredictable events. Understandably, during these times, the prevailing view may be one of worry and we may feel the urge to take action. Yet, for the longer-term investor, patience is often most rewarded.

Even in the most difficult of situations, we have persevered and progressed. In spite of these setbacks, economies have continued to advance over time. This time is likely no different. As Housel reminds us: "The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of true patience."

If friends or relatives could use reassurance during these times, we would be happy to provide our perspectives.

1.Motley Fool, 07/29/16, adapted with permission; Total Return Data.

S&P/TSX Composite Index & Select Unanticipated Events
Jan. 1990 to Dec. 2019



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THINKING AHEAD

Part of a Larger Withdrawal Strategy: Your RRIF

Many of us contribute to a Registered Retirement Savings Plan (RRSP) to achieve tax deductions and tax-deferred growth to plan for retirement. When the RRSP must be collapsed, funds are often converted to a Registered Retirement Income Fund (RRIF), which requires minimum withdrawals prescribed by the government based on age.[1] RRIF withdrawals are treated as taxable income.

If you plan on holding a RRIF, some forethought should go into your withdrawal strategy. Why? In some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. On the other hand, funds kept in the RRIF for as long as possible can benefit from tax-sheltered growth. Here are some considerations, depending on your situation:

A younger spouse's age may be used as a basis for withdrawals. If you have a younger spouse, you may use their age to determine the minimum withdrawal for your own RRIF. This may allow funds to be tax-sheltered for as long as possible or help in preserving income-tested benefits such as OAS. Keep in mind that you will need to notify us to make the change before the first RRIF withdrawal. Changes can't be made once a spouse's age has been used.

Withdrawals may be accelerated to optimize a lifetime tax bill. If your RRIF minimum withdrawal amount and other income put you in a lower tax bracket today than in the future, it may make sense to withdraw more than the minimum to minimize your overall lifetime tax bill. A withholding tax will apply to withdrawals above the minimum amount. If significant RRIF funds remain at

death, in the absence of a spouse (which permits a tax-free RRIF rollover), the estate may also be subject to a high marginal tax rate.

RRIF income can be used to split income. If you have a spouse in a lower tax bracket, RRIF income may be used for income-splitting purposes. Transferring a portion of the RRSP to a RRIF can occur as soon as the year in which you turn 65 to take advantage of pension-income splitting and the pension tax credit.

RRIF withdrawals can fund a TFSA. If RRIF withdrawals are not immediately needed, consider contributing funds to a Tax-Free Savings Account (TFSA).[2] This may be a way to continue benefitting from tax-preferred growth: future growth in a TFSA is tax free.

RRIF withdrawal considerations should be part of a larger retirement withdrawal strategy. Every situation is different, so call for assistance.

1. See the CRA website for minimum withdrawal rules; 2. Subject to available contribution room.

PERSONAL TAX SEASON IS HERE

Saving Tax Is A Year-Round Exercise

Spring is the time when taxes are top of mind as personal income tax returns are due. Did you take action to reduce your tax bill in 2019? Perhaps you can do better this year. Here are four ways to help minimize payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. If you have an employer, consider updating Form TD1, which is used to calculate how much tax to deduct from your pay cheque. If you will have significant deductions in a given year, file CRA Form T1213 to reduce the tax taken from your pay.

Maximize the RRSP & TFSA — Consider setting up a monthly RRSP contribution plan. By providing an employer with confirmation of the deductibility of contributions, it may reduce the amount of tax withheld at source. While TFSA contributions won't impact your 2020 tax bill, don't underestimate the future value of tax-free compounded growth (see pg. 3).

Split Income with Your Spouse — If your spouse (common-law partner) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RRSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with a spouse. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

Optimize Asset Location — Different types of income (i.e., interest, dividends, capital gains) may be taxed differently depending on the type of account from which income is generated. For example, dividends paid on foreign investments held in a non-registered account may receive a foreign tax credit to help reduce or eliminate foreign withholding taxes. If this same asset is held in a TFSA, no foreign tax credit is available. Having a comprehensive view of your assets may identify opportunities to optimize asset location across different accounts.

Of course, these ideas and others depend on your personal situation. Seek the advice of a tax professional and call with any questions. Now is the time to take action to maximize tax savings for 2020!

2019 Tax Filing Reminders

Sold a home? If you sold property in 2019, and in order to claim the Principal Residence Exemption, it must be reported on an income tax return. The CRA continues to crack down on tax compliance for real estate transactions.

Held foreign assets? If you held "specified foreign property" (SFP) with a total cost in excess of $100,000 (outside of a TFSA, RRSP, RRIF) at any time in 2019, you are required to file form T1135. For a full list of assets considered to be SFP, see the CRA website.

DON'T OVERLOOK THE OPPORTUNITY

TFSA: Don't Delay

Have you fully contributed to your TFSA? The latest statistics show that the average TFSA holder has a significant amount of unused contribution room — around 60 percent of available contribution room remains unused.[1] With cumulative eligible contribution room now at $69,500,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who maximized annual TFSA contributions since 2009. With no further contributions, in 30 years, the investor would have over $400,000 — at an assumed 5 percent rate of return per annum (see table). Most important: any income earned will not be subject to tax.

What Is Your TFSA Strategy?

Don't overlook the opportunity to grow investments on a tax-free basis within a TFSA. When the TFSA was first introduced, many individuals held cash or low-risk, interest-bearing investments inside the plan — possibly because it was introduced as a "savings account". However, this approach forgoes the opportunity for longer-term, compounded, tax-free growth over time, which can be significant. As such, longer-term investors may be better served by using their TFSA as part of their investment strategy.

Seize the Opportunity: TFSA Growth Potential*

	Full contribution to 2020; No further contributions	Full contribution to 2020; Continued annual contributions of $6,000
In 20 years	$253,880	$462,196
In 30 years	$413,545	$832,109
In 40 years	$673,620	$1,434,659

*At a 5% compounded annual rate of return since TFSA inception in 2009. Assumes full annual dollar amount was contributed since 2009 at start of year.

Use the TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals — no limitations on timing or amounts to be withdrawn, and the ability to recontribute withdrawn amounts[3] — can make the TFSA a savvy retirement planning tool.

Here are some of the potential opportunities:

- Preserve income-tested benefits or tax credits;
- Reduce taxable income in retirement;
- Supplement income to allow for the deferral of CPP/QPP benefits, potentially maximizing their value;
- Permit continued investment growth (beyond the age of 71, the age in which the RRSP must be collapsed) on a tax-free basis.

A Valuable Estate Planning Tool

The TFSA can be a valuable estate planning tool. Consider that the value of TFSA assets at the time of a holder's death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate will be payable in provinces where applicable. Most important, if a surviving spouse is named as "successor holder", the TFSA can continue to be operated by the spouse on a tax-free basis.[4] Please call for a review/update of TFSA beneficiary designations.

Are you making the best of your TFSA?

1. advisor.ca/tax/tax-news/average-unused-tfsa-room-rises-12-year-over-year/; 2. For those eligible since 2009; 3. Contribution room becomes available in the next calendar year; 4. Based on their own contribution room. Income earned after the holder's death will continue to be sheltered from tax. Not in Quebec, where designations are not named in the plan.

ARE FUNDS OWED TO YOU?

Over $888 Million Remains Unclaimed

In Canada, over $888 million of bank-related funds remain unclaimed — in fact, 2.1 million unclaimed balances currently exist on the Bank of Canada's books.[1] This includes Canadian-dollar deposited or negotiable instruments, such as GICs, term deposits, bank drafts or money orders where there has been no activity for 10 years and the owner cannot be contacted by the holding financial institution.

The Bank of Canada acts as a custodian on behalf of the owner of the unclaimed balance and holds the balance for 30 years after the 10-year period of inactivity. You may be eligible to claim the balance if you are: i) its rightful owner; ii) an heir to an estate with an unclaimed balance; or iii) an officer of an organization entitled to the unclaimed balance.

Consider also that, as a taxpayer, you may have funds owed to you by the Canada Revenue Agency (CRA) for cheques that have been issued but not cashed. "Uncashed cheques" can be found in your CRA account. Once you log in, a web-link is located on the bottom of the "related services" section on the right side of your account.

Such a large amount of unclaimed balances demonstrates that it may be easier than we think to lose track of funds. Financial accounts may be neglected over time, especially if a recipient moves or changes employers. This brings up the importance of keeping good records to ensure all of your assets are in check. Consolidating assets may also be beneficial, so that funds are not forgotten, and we may be able to assist with this.

To search for an unclaimed balance to which you may be entitled, please see: http://www.bankofcanada.ca/unclaimed-balances/

1. At the end of 2019.

High-Net-Worth Investors: Four Tax-Savvy Insurance Strategies

High-net-worth (HNW) investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to tax-preferred accounts like Registered Retirement Savings Plans (RRSPs) or Tax-Free Savings Accounts (TFSAs). As such, the opportunities to minimize the tax burden associated with non-registered accounts becomes important.

This is where permanent insurance can play a role. Permanent insurance offers the benefit of tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries. As well, insurance can help to minimize estate settlement costs such as probate fees (where applicable). Life insurance may also act as a suitable alternative to low-risk, fixed income investments.

Here are four tax-savvy insurance strategies used by high-net-worth investors:

Cascading Life Insurance Strategy — This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild, naming a grandchild/great-grandchild as the policy beneficiary but the parent/grandparent would remain primary owner until their passing. Upon death of primary owner, the policy's ownership would be transferred to the successor owner (child/grandchild) on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.[1]

Back-To-Back (Insured) Annuity — This strategy, perhaps best suited for those approaching or in retirement, involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over the annuitant's lifetime, part of this payment is a return of principal so only the income portion is subject to tax annually. This can potentially result in a higher after-tax cash flow relative to comparable low-risk fixed-income investments held in a non-registered account.[2]

Joint Last-To-Die Policy — This policy can help offset taxes or maximize an inheritance. A single premium insures the lives of two people and the benefit is not paid until the last insured

person's death. The proceeds can offset future tax liabilities, including those that an estate may not be able to cover. For HNW individuals who don't need RRSP/RRIF income and expect to have a higher marginal tax-rate in retirement, one strategy may be to fund the policy by gradually depleting their RRSP/RRIF.

Corporate-Funded Insurance — For business owners, the cost to fund policy premiums may be lower if paid through their corporation, assuming the corporate tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporation can allow for tax-deferred growth of the cash value of investments. This may be advantageous as earning passive income above $50,000 within a private corporation may reduce access to the lowest corporate tax rate. As well, all (or a significant portion) of the death benefit may be distributed tax free to company shareholder(s) through the capital dividend account.

With these strategies, there are potential risks. For example, with an insured annuity, the capital used to purchase the annuity will no longer be accessible. For many insurance products, the higher insurance risk you pose, the higher the premiums will be, resulting in lower after-tax cash flow. Some insurance strategies may be complex or costly to initiate, or may impact family dynamics.

Have you considered the use of insurance as part of a larger diversified plan? There are many compelling strategies available for the HNW investor. Please call for a discussion.

1. A trustee for any minors must be appointed when making ownership or beneficiary designations; 2. Where both the annuity and insurance meet conditions to qualify as exempt policies.