

Money Ideas

Winter 2023



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► MUTUAL FUND INVESTING

A key to achieving a financial goal

It's human nature to generalize our goals. "I've got to start exercising" is a common one. But a key to achieving a goal is to first identify one specific step. For example, starting to exercise becomes taking a brisk walk every day.

The same idea applies to financial goals. Say a parent's general goal is to get on top of their Registered Education Savings Plan (RESP) contributions. They've always made contributions just before December 31 to trigger the Canada Education Savings Grant (CESG). Now the parent identifies a specific step to break the last-minute habit. They will contact their financial institution to set up automatic monthly contributions to mutual funds in their RESP.

Make a resolution

If you have a financial goal you want to work toward, think of an attainable first step to take. You may even want to make your step a financial New Year's resolution – the good kind, one you will keep.

Let's say a couple's overall goal is to start that emergency fund they've always been thinking about. Their specific step could be for each spouse to invest a manageable amount from each paycheck in a money market mutual fund in their Tax-Free Savings Account (TFSA).

Or say that someone wants to catch up on their Registered Retirement Savings Plan (RRSP) contribution room. A first step could be to contribute their annual bonus to mutual funds in their RRSP. They could do the same when their RRSP refund arrives.

Involve us

Please feel free to talk to us about the goal you wish to accomplish. First of all, telling someone about a step you want to take can motivate you to commit to the task. Also, we can offer advice and guidance to help you along the way. ◀

When should you retire?

Online retirement calculators take your input and typically indicate if you're on track to retire at an age you specify. Many base retirement income needs on a percentage of pre-retirement income. But these results may not give you a true picture at all.

It takes a process involving several factors to determine how much you need to retire and when you can retire.

Envision your retirement

Most people probably dream of what they might do in their retirement years. In fact, imagining how you could enjoy retirement is a helpful wealth planning exercise. What's especially helpful is when you turn those dreams into an actual plan. Once you have a plan you can share with us, we can help you establish financial objectives.

Do you want to travel the world? Stay close to your grandchildren? Do you want to purchase a vacation property? Spend winters down south? You may want to keep an ongoing record of your retirement plans.

Projecting your retirement date

Once you envision your retirement lifestyle, we can put dollar-value estimates to your plans. But there's still a lot more that goes into our calculations. You may plan to leave a sizeable inheritance to your loved ones. You might want to leave funds to a charity. Some individuals, during retirement, will

help support a child or grandchild who requires financial assistance. We make sure that all costs beyond lifestyle expenses are accounted for, everything from insurance premiums to a retirement emergency fund.

Then we assess these financial needs and all income sources to project a retirement date or multiple retirement date scenarios. We can estimate the earliest age you can retire with enough income to support your desired retirement lifestyle and the confidence your savings will last your lifetime. Or, to establish a financial goal, you may want to know how much you need to retire at 65, or any other age. To help choose a retirement date, you may want an estimate of your annual retirement income if you retire at different specific ages.

You might retire earlier or later

Some people's retirement date might be etched in stone, but for many it's fluid. A variety of situations may lead someone to retire earlier than planned. An employee could be offered an early-retirement package that's too good to resist. A sizeable inheritance could move retirement forward. Other reasons include receiving financial assets upon a spouse's passing, suffering an illness or protecting one's mental health. Or someone just feels ready to trade work for the retirement lifestyle and asks their advisor if it's financially feasible.

Deciding to retire later than planned can be for strictly financial reasons. A couple might



change their retirement plans to include purchasing a vacation property and decide to work longer. Or perhaps they want the added financial security to cope with any unforeseen situations. Others may choose to retire later for non-financial reasons – simply because their work is a source of satisfaction.

We're always here to discuss and assess the personal and financial factors affecting your retirement date so that when you retire, you can feel secure about your decision. ◀



Mutual fund investing when retirement nears

Investors typically want their mutual fund portfolio to have a higher degree of safety in the years closer to retirement, so that a market correction wouldn't derail their retirement plans. At one time, pre-retirees could follow a simple formula to establish their portfolio's asset allocation. Subtract your age from 100 and that's your percentage of equities. So, at age 60, an investor would hold 40% in equities and 60% in fixed-income investments.

But with today's modest yields on fixed-income assets and increasing longevity, that formula is no longer valid for many investors. The portfolio may not have enough growth potential to support a retirement lasting 20 years, 25 years or longer.

Now, we take a customized approach to establish an asset mix of mutual funds that balances each investor's need for near-term safety with the potential for long-term investment growth. It's an approach that involves a variety of personal factors, including net worth, desired retirement lifestyle, projected retirement income, risk tolerance and your spouse's financial status.

In some cases, investment plans when retirement nears also factor in one of several retirement income strategies. For example, a reserve of low-risk mutual funds may be created before retirement to help provide the initial years of retirement income – a reserve that's less prone to any market volatility. ◀

Are your and your spouse's investment personalities a match?

You would think it's always ideal for both spouses to have the same investment personality – and often it is. But sometimes similar approaches may spell trouble, and opposite investment personalities can be beneficial.

When investment personalities conflict

Say that a couple is investing in mutual funds with the goal to fund their retirement. One spouse prefers to invest conservatively and not have to worry about the markets, accepting the need to save and invest more. The other spouse is comfortable with investing aggressively, feeling confident that a portfolio heavily favouring equities will provide higher returns over time.

There are two different ways their conflicting approaches can actually benefit each spouse. The first is by finding a compromise, which would be to develop a relatively balanced mutual fund portfolio. This way, the conservatively minded spouse benefits from greater exposure to market

opportunities, and the aggressively minded spouse won't put hard-earned savings at unnecessary risk.

Another route is simply for each spouse to invest independently according to their own risk tolerance. This way each has the satisfaction of staying true to their own investment personality. As a couple, their portfolios in combination achieve a healthy balance between capital preservation and long-term growth potential.

When investment approaches are alike

Usually, a couple may consider themselves fortunate when they have the same investment personality. But sometimes the similarity calls for caution.

Say that both spouses are ultra-conservative investors. Since their investments earn relatively moderate returns, they're saving and investing more to meet long-term objectives. This couple may need to watch that their budgeting doesn't come at the expense of enjoying life now.



A couple in which both spouses are aggressive investors needs to make sure they don't go too far. A mutual fund portfolio that's too high risk could jeopardize their retirement plan or other financial goals.

In all cases, by working with your advisor, you can have an investment program designed to meet your financial objectives and life goals, respecting each spouse's investment personality. ◀

The truths and myths about RRSP season

It's been said that Canada has five seasons – spring, summer, fall, winter and “RRSP season.” That's how common it is for Canadians to make large contributions to mutual funds in their Registered Retirement Savings Plans (RRSPs) during the two months before the deadline.

Canadian income earners have 60 days into the new year to make RRSP contributions that reduce taxable income for the previous year. The deadline is March 1, 2023, to contribute to an RRSP for the 2022 tax year.

But calling these two months RRSP season is somewhat of a myth because the real RRSP season should be all year round. Ideally, this two-month period is a chance to top up your RRSP if needed, not a time to make a large lump-sum contribution.

Benefits of year-round mutual fund investing

When you invest in your RRSP monthly or every payday, you make manageable mutual fund contributions that won't disturb your budget. Paying yourself first is easy.

Contributing on a regular basis is also a smart way to invest. You're sure to be investing when markets are down and fund unit prices are lower, so you can profit when markets rebound. You'll also be certain to participate in rising markets, without over-investing when unit prices are higher.

Drawbacks of a deadline contribution

Waiting until the deadline to make your RRSP contribution means coming up with thousands of dollars at once – not always an easy task. You also give your mutual fund investment less time



to grow and compound. In addition, you may be hesitant about contributing a large lump sum if it's a time the markets make you feel uncomfortable about investing.

Already contributing regularly?

If you currently make RRSP contributions all year round, you can take the benefits outlined above as confirmation you're contributing wisely. You can ignore all of the RRSP season messages in the media, unless your RRSP can use a top-up. ◀

The tax tale of mutual fund distributions

Throughout the course of a year, certain transactions and investments within a mutual fund may generate or earn taxable income. Investors receive these dividends, interest or capital gains in the form of distributions.

The taxation of a fund's distributions varies from non-registered to registered accounts, but in all cases there's a silver lining.



Non-registered investments: When you see distribution amounts on your annual T3 or Relevé 16 tax slip, it's actually beneficial. If the mutual fund retained those earnings, it would pay tax at the highest marginal rate. But investors are taxed more efficiently at their own marginal rates. This way, the fund has greater potential to enhance its return for investors.

Note that distributions are taxable whether they're received in cash or reinvested in the fund.

Registered investments: Mutual fund distributions in registered plans, such as a Registered Retirement Savings Plan (RRSP), are not taxable in the year of distribution. The distributions are typically reinvested in the fund where they can grow and compound – to be taxed only when withdrawn.

Tax-Free Savings Accounts (TFSAs) are the exception, as distributions are not taxable within the account or upon withdrawal. ◀

Make the most of charitable donations

It's an easy habit to slip into. When filing your tax return, report just your own charitable donations made only during the tax year. You receive a federal charitable donation tax credit of 15% on the first \$200 of donations and 29% on donations over \$200.

But you have choices in how you report your donations. You can combine your tax receipts with your spouse's receipts or carry donations forward to any of the next five years – or do both. Pooling your donations gives you a larger sum that exceeds the \$200 threshold, which receives a tax credit at the 29% level.



This strategy is even more effective when you factor in the provincial donation tax credit. Either spouse can claim the credit, but typically more tax is saved when the higher-income spouse makes the claim. ◀

Did you or your spouse stay home to raise your child?

If you or your spouse stayed home to raise a young child, the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) can take that time into account when determining your pension benefits.

The CPP has a "child-rearing provision" to benefit parents who left their job or worked fewer hours to raise a child, covering the years from birth to age 7. Normally, periods of low income result in a lower pension amount. But this provision excludes the months you had lower or no income as a stay-at-home parent – resulting in a higher CPP benefit.

You can apply for the child-rearing provision when you apply for CPP benefits. If you're already receiving CPP payments, you can still request the provision.

Note to Quebec residents: The QPP offers a similar provision. The period that the QPP pension amount is based



on can exclude the months when your child was under age 7 and your employment income didn't exceed the basic exemption. ◀

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