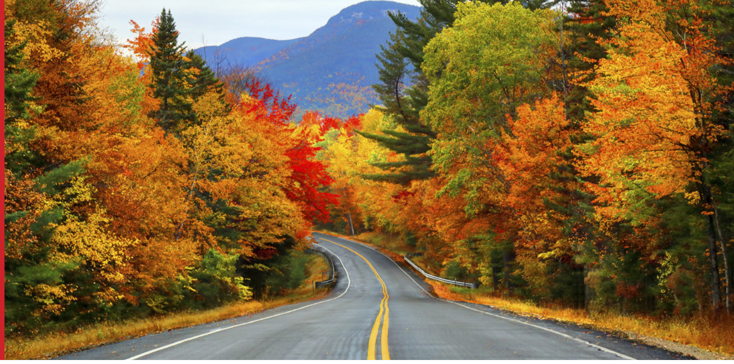
Holbrook Wealth Management Group Newsletter



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In this edition

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Lessons From Generational Resilience

One of our modern-day challenges is that technology has ushered in an era of instant communication and connectivity that seems to amplify awareness and sensitivity. There is never a shortage of negative news and today is no exception. Despite economic resilience and growth that has exceeded expectations, we may be distracted by new uncertainties: deleverage, slower growth (ironically the goal of the central banks by raising rates!) and higher rates, to name a few.

Yet, we should be reminded that time changes all things. Consider the Millennials (born 1980 to 1994): For many years, they were said to be the first generation worse off financially than those before. As they have started to turn 43, purportedly the age when we 'stop feeling young,' they have outpaced previous generations. Millennial household income has surpassed that of prior generations at the same age: $9,000 more than the median GenX (1965 to 1979) household income and $10,000 more than the Boomers (1946 to 1964). Despite soaring real estate prices, Millennials are only slightly behind: 48 percent owned a home as 25-to-39-year-olds, compared with 50 percent of Boomers.[1] As they enter their peak earning years, the future looks bright.

The narrative wasn't much different for the generations prior. Just 30 years ago, there were "dire predictions" about the economic prospects of GenX. They entered the workforce into an economy recovering from a recession described as "the deepest since the Great Depression." Unemployment soared to 11 percent in the early 1990s after interest rates were aggressively raised to fight inflation. Canada's future economic prospects looked bleak. An editorial in 1995 referred to "Bankrupt Canada" as "an honourary member of the Third World."[2] And yet, to end the 1990s, Canada would end up taming its budget crisis to post strong GDP growth.

Likewise, many Boomers came into the job market in the 1970s, a period plagued by significant inflation, increasing unemployment (hence, stagflation) and low economic growth, as well as a stagnating stock market. Let's not forget that in 1979, the front page of *BusinessWeek* magazine declared the "Death of Equities."[3] However, the Boomers have lived through one of the most fortuitous periods in investing history. If you were to have invested in the stock market in this seemingly bleak period, the total return today would be over 4,100 percent![4]

Indeed, economic cycles come full circle and the rebound of the Millennials, and the generations before, serves as a reminder that time changes most things. We have no control over the stock market, the economy and other macroeconomic events; to a certain extent, many prove to be cyclical. Much of long-term investing success relies on the ability to accept this inevitable cyclicality by making the appropriate adjustments along the way, rather than attempting to evade it.

As one market strategist reminds us: "*A good bet in economics: the past wasn't as good as you remember, the present isn't as bad as you think, and the future will be better than you anticipate.*"[5]

1. www.theatlantic.com/magazine/archive/2023/05/millennial-generation-financial-issues-income-homeowners/673485/
2. www.reuters.com/article/us-crisis-timeline-idUSTRE7AK0FF20111121
3. https://www.bloomberg.com/news/articles/2019-08-13/it-s-been-40-years-since-our-cover-story-declared-the-death-of-equities
4. S&P/TSX Composite Index Total Returns, 8/31/1979 - 1,911.69; 7/31/2023 - 81,536.38
5. https://collabfund.com/blog/everything-is-cyclical/

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Do You Have Power of Attorney Documents in Place?

According to a recent survey, only 35 percent of Canadians have appointed a power of attorney (POA).[1] How about you? Do you have power of attorney documents in place? While the names/obligations vary by province, generally there are two types of POA intended to protect an individual should they become incapacitated: i) POA for property, which includes managing finances and other assets on behalf of the incapacitated; and ii) POA for personal care, which includes making healthcare decisions.

Here are some reasons why the POA should be a consideration:

- On average, we will live with good cognitive health to around age 77.[2] However, our average life expectancy is well beyond this age.
- Those over age 85 have a 1-in-4 likelihood of suffering from some form of dementia.[3]
- Regardless of age, life is unpredictable: accidents or unexpected health issues can occur at any time.

Even if a POA exists, consider reviewing your documents from time to time as circumstances can change. There may also be situations which may warrant revisiting your POA, including:

Personal wishes or specific instructions have not been discussed. Engaging in conversations with family members and your "attorney" (the person(s) designated to make decisions under the POA) while you are "capable" can go a long way in maintaining familial harmony and ensuring your wishes are carried out. Recent surveys suggest the vast majority aren't having these critical discussions. In one unfortunate case that led to litigation, two brothers couldn't agree on the type of care for their mother — one wanted life-prolonging care while the other wanted hospitalization only for comfort.[4]

Multiple attorneys have been appointed. Many parents feel the need to treat children fairly by jointly naming them as attorneys; however, consider that in some situations the greater the number of attorneys appointed, the greater the opportunity for conflict.

How Well Are We Planning for Our Incapacity?

Here are a few surprising outcomes from recent surveys:

24% **Have a plan for financial expenses in the event of dementia.**[1]

25% **Believe there are no consequences to not having a POA.**[2]

34% **Have a plan for assets if unable to make financial decisions.**[1]

1. www.bloomberg.com/press-releases/2023-05-15/ig-wealth-management-estate-planning-study-despite-aging-population-most-canadians-lack-estate-plan
2. www.rbcwealthmanagement.com/en-ca/insights/estate-planning-report-reveals-many-canadians-are-not-prepared

Attorneys have not been updated. Have your designated attorney's circumstances changed? Updates may be needed to address the incapacity or death of a named attorney. Or, there may be complications if an appointed attorney moves outside the country, i.e., a non-resident attorney for property may be subject to rules that prohibit a financial advisor from receiving instructions. Often, there is value in naming a contingent attorney who can step in.

Underestimating the cost of care. While the appointed attorney for personal care is not personally responsible for funding the financial obligations of your desired care, if the associated costs are not properly planned for, this can unfairly complicate the attorney's role. Alternate care may need to be considered, possibly against your wishes. Consider that the cost of care associated with incapacity, such as long-term care (LTC), can be extensive; on average around $36,000 per year for a private room at a care facility, or in excess of $130,000 at home.[5] Planning ahead can help protect family members from an unexpected financial burden. Often when children are appointed as POA attorneys, they feel pressure to contribute.

If you have yet to give your POA the thought it deserves, why not make this a priority? Please consult an estate planning professional.

1. www.niageing.ca/canadian-perspectives-on-estate-planning
2. www.washingtonpost.com/national/health-science/research-shows-that-the-prevalence-of-dementia-has-fallen-in-the-united-states/2018/06/15/636d61ac-6fd1-11e8-bf86-a2351b5ece99_story.html
3. www.cihi.ca/en/dementia-in-canada/dementia-in-canada-summary
4. White v White, 2017 ONSC 4550
5. Based on $33,349/yr. (2021), grossed up by 4% per year. www.advisor.ca/news/industry-news/most-canadians-arent-planning-for-long-term-care-costs-survey/. At home, based on avg. cost of care of $30/hr., 12 hrs./day, 365 days/yr.

Billions Remain Unclaimed: Keep Your Assets Working Hard for You

For those of us who manage wealth on a regular basis, it continues to be surprising to see the growing number of assets that are forgotten or just not optimally put to work. Here are two actions we can all consider to ensure our assets keep working hard for the future:

1. **Consolidate financial accounts.** The latest data suggests at least $2.5 billion of funds remain unclaimed: the Bank of Canada holds $1.1 billion of unclaimed balances[1] and the Canada Revenue Agency (CRA) has 8.9 million uncashed cheques, with a value totalling $1.4 billion.[2] This sheer magnitude of funds should remind us of the benefits of consolidating financial accounts to ensure assets do not become orphaned over time. Consolidation can also provide other benefits, including better visibility to optimize asset allocation and tax efficiency, greater simplicity and improved legacy planning, among others.

Do any unclaimed funds belong to you or your loved ones? To search for unclaimed assets, see: www.unclaimedproperties.bankofcanada.ca/app/claim-search. Check your CRA "My Account" for unclaimed cheques at: **www.canada.ca/en/revenue-agency/services/uncashed-cheque.html**.

2. **Fully maximize tax-advantaged accounts.** Investing in tax-advantaged accounts can make a significant difference down the road. Consider an investor who invests $50,000 today at an annual rate of return of 6 percent. In 25 years, this investor would have almost $215,000 if invested in a TFSA. Investing the same amount in interest-bearing investments in a non-registered account would yield only $104,000 after taxes.[3]

Do you have available RRSP or TFSA contribution room? The latest statistics suggest that there is over $1 trillion of unused RRSP contribution room available.[4] Equally surprising, the vast majority of TFSA holders, at all wealth levels (even high-net-worth taxpayers!) have not maximized their contribution room.[5]

1. nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada
2. www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html
3. Assuming a marginal tax rate of 50.25% on interest income
4. At 2016; Stat Canada T: 111-0040 "RRSP Room"
5. www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-celi/2020/table1c-en.pdf

Is It Time to Revisit the Annuity Option?

With interest rates rising substantially from their lows, at least for now it appears that higher interest rates are here to stay. With the rapid rise in rates, annuity rates have also reached levels not seen in well over a decade. For instance, as of August 30, 2023, the monthly payout for a 65-year-old male increased by almost 25 percent to $592.18, from where it stood at around $475 in January 2022.[1]

In this current climate of declining defined benefit pensions, volatile financial markets and increasing longevity, the potential for stable income for life using an annuity may be an attractive option for more risk-averse investors.

What is a Life Annuity?

An annuity is a form of insurance that provides a stream of payments to an individual for life in exchange for a lump sum premium. For individuals who want a reliable flow of income or worry about outliving their assets, it provides the benefit of a stable income stream that is guaranteed until death.

In general, the best time to purchase an annuity is when interest rates are high and prospective inflation is low. This is because the amount of income paid to the holder is generally set at the time of purchase and based on prevailing interest rates. If an annuity is purchased in a period of lower interest rates, the payments will be less than if purchased when rates are higher. Since the annuity provides fixed payments, inflation will erode the purchasing power of future annuity payments.

While the fixed payments are guaranteed as long as the annuitant(s) is alive, the corresponding drawback is that the initial capital put into the annuity cannot be reclaimed as it has been exchanged for the ongoing stream of income. As such, the idea of locking up a substantial amount of retirement funds in an annuity may not be preferable for some due to the lack of liquidity. As well, annuities generally do not provide funds to be left within an estate after death, although an insured annuity strategy could be implemented if capital preservation is important.

An Annuity as Part of a Balanced Portfolio

Generally, a life annuity acts like an illiquid, permanent type of fixed-income instrument. It is considered "permanent" because, unlike traditional bonds, which fall in price when interest rates rise, the income generated by an annuity remains unaffected by changing rates. Many investors hold fixed-income investments to provide income and stability against stock market declines and an annuity can play a similar complementary role within a portfolio. Some investors choose to put a smaller proportion of savings into an annuity and increase the amount over time as a way of mitigating potential future rate increases.

Estate Planning with an Insured Annuity

An insured annuity provides the guaranteed stream of income of an annuity while maintaining capital available for transfer to the next generation. It consists of the purchase of a permanent life insurance policy and a life annuity, with the insurance policy death benefit equal to the amount of the annuity investment. This replaces the capital used to purchase the annuity in the estate for the benefit of heirs. The premiums for the life insurance policy can be funded by a portion of the annuity payments received, and insurance proceeds are paid to named beneficiaries. Since a portion of the payment is considered to be a return of principal, only the interest-income portion of the payment is subject to tax annually. When non-registered funds are used, the preferential tax treatment can be significant.

1. The figures are for a non-registered single life annuity with a premium of $100,000 and a 10-year guarantee, with payouts commencing one month after purchase. The figures are based on an average of the top three providers on August 30, 2023. https://www.investmentexecutive.com/newspaper_/insurance-guide/interest-rate-hikes-boost-annuities-sales-payouts/; https://www.cannex.com/public/antc03e.html

Looking Forward: Growth Will Continue

As the economy begins to show signs of slowing, we may need a reminder to focus on the positives. Interest rates are steadying, and inflation is being kept under the watchful eyes of the central banks. It's also worth mentioning that many underlying factors continue to support future growth. Here are three anticipated drivers:

Technology — By one account, due to technological innovation, we can expect to experience more progress in the next decade than in the past 100 years combined. Technology is set to reshape a wide range of industries. One driver will be generative artificial intelligence (AI), which has dominated the headlines with the unveiling of ChatGPT. While the era of generative AI is still in its early days, as the technology becomes more sophisticated and is more widely adopted, it is expected to contribute as much as $4.4 trillion annually in economic value to the economy. Global consulting firm McKinsey believes the largest gains will be in retail and consumer-packaged goods, banking, pharmaceuticals and medical products, with significant changes in sales and marketing, customer operations, software engineering and research & development.[1]

Another area in which AI has been making significant strides is biological science. Technology has been accelerating the next wave of genomics — as the cost of genome sequencing continues to decrease, sequencing data has exponentially increased. Last year, it was reported that AI had uncovered the structure of nearly every protein known to science: 220 million proteins. Before this time, only 17 percent of human proteins had known structures.[2] Scientists are now using AI to sift through genetic "haystacks" to find disease-causing variants, and it is expected that AI tools will help pharmaceutical companies develop new drugs to treat and cure disease.[3]

A Greener Economy — A greater focus towards creating a more sustainable world is expected to present significant opportunities for investment and create many new jobs — by some accounts, around 100 million jobs by 2030.[4] While recent attention has focused on the "electrification" of vehicles, advances in renewable energy and the development of new and sustainable technologies are likely to be drivers of future growth. Stimulus incentives in Europe and North America, such as the "U.S. Inflation Reduction Act of 2022," have earmarked at least $1 trillion for green economy industries, which are expected to support innovation. Clean energy, storage, transportation and building have "strong economic tailwinds" set to take advantage of the accelerating transition.[5]

Demographic Changes — A key driver of economic growth is increasing labour inputs, such as workers or hours worked. This year, we've seen how immigration has supported Canadian GDP to largely avert a recession, with our population growing by over a million people, to surpass 40 million, almost all due to immigration.[6] In advanced economies, labour participation rates for those ages 55 to 64 have generally trended upward since the start of the millennium. In what has been termed the "Great Unretirement," the OECD estimates that increasing labour participation due to greater longevity will support growth — potentially raising GDP per capita by 19 percent over the next three decades.[7]

Yet, it's not just immigration and a multi-generational workforce that will contribute. Today, we are seeing a more highly-educated younger population, with record numbers of women participating in the labour force.[8] And, the millennials, second only to the baby boomers in terms of population, are now entering their peak earning years and expected to have greater earning power than generations before.

Growth Will Continue

With advances in technology, a move towards a more sustainable world and changes in demographics, one thing is certain: change is inevitable. These are just three trends that are expected to drive growth for the years ahead — and beyond — and investors can share meaningfully in the change yet to come. Continue looking forward.

1. www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-at-the-edge-trends-reshaping-the-future-of-it-and-business
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3. www.washingtonpost.com/science/2023/06/01/primate-ai-genome-variants/
4. www.forbes.com/sites/quora/2023/06/26/why-the-green-economy-is-booming-and-how-you-can-jump-on-board/
5. www.forbes.com/sites/forbesfinancecouncil/2023/08/04/four-drivers-of-growth-in-the-green-economy/
6. www.bbc.com/news/world-us-canada-65047436
7. www.weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/
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