MacDougall Wealth Management Group

Newsletter

Spring 2019

In this edition

2018 Awards of Excellence

Wealth Management Excellence of the Year
Alberta & Okanagan

MacDougall
Wealth Management Group

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ESTATE PLANNING

Do You Need to Revisit Beneficiary Designations?

Naming a beneficiary is a big decision that may sometimes be overlooked. At some point in your life, you may buy a life insurance policy or start a new job with a retirement plan and receive a form that includes a section for the names of your beneficiaries. Many people, unprepared, leave it blank or complete the section without much thought. If years have gone by since completing account paperwork, perhaps a review is in order. Here are four questions to start the thinking process:

1. Have you named a child or dependent adult as a beneficiary? In certain provinces, if the proceeds are not directed to a trust set up for the minor, the courts may decide who will manage them. Similarly, if a trust has not been named for the benefit of a dependent adult, the court may potentially appoint someone to make decisions on their behalf. This could lead to delays or additional costs. Directly naming the beneficiary may also unintentionally disqualify them from receiving government benefits.

2. Have you coordinated designations with the rest of the estate? If you intend to equalize your estate between multiple beneficiaries, do not forget the impact of taxes. When certain assets do not pass through an estate, it may be difficult to accurately equalize amounts for different beneficiaries. For example, suppose you have two grown children as heirs and you designate child #1 as the beneficiary of your RRSP, leaving the rest of the estate to child #2. Upon death, any taxes due in respect to the RRSP would likely be payable by the estate, potentially reducing the amount intended for child #2. This may result in inequities between the division of assets.

3. Have you updated your beneficiary designations? It is possible that a named beneficiary is no longer alive, or perhaps a major life event, like divorce, has changed the status of an existing beneficiary. It isn't unheard of to have a former spouse erroneously named as a beneficiary because designations weren't revisited. If an intended beneficiary has passed away, proceeds are likely to pass through the estate. To avoid this situation, naming a contingent or secondary beneficiary may be useful.

4. Have you been specific in the way you have named your designations? If you have used non-specific designations, such as "my children", there may be uncertainty regarding intent. For example, in a blended family, the children of a new spouse may be unintentionally included. Or, if a child predeceases you, that child's share may go to your other children and not that child's family, which may not be what was intended.

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Keeping the Elderly Safe

A recent CBC news report provided a disturbing account of an elderly man who fell prey to an online dating scam. Over an eight-month period, he communicated with someone posing as his girlfriend and lost over $700,000 by wiring funds overseas.[1]

As it turns out, stories of financial abuse of the elderly aren't as uncommon as we think. It doesn't always happen from afar and can occur at home by acquaintances or friends. If you are concerned about elderly parents or relatives, here are some warning signs to look for:

- **Unusual financial activity** — Unexplained account activity, including withdrawals or credit card charges, may indicate financial abuse.
- **Missing valuables** — Lost items may indicate abuse, but this can easily be dismissed if a person suffers from cognition problems. Helping to locate missing valuables can determine if the issue is simply confusion, or if it signals a larger problem like abuse.
- **Appearance of a new friend** — A new companion may be cause for concern if warning signs are present, such as unusual financial activity or missing personal effects.
- **Changes to important legal documents** — Unexplained changes to important documents, such as a will or power of attorney documents, may indicate that an individual is being coerced.

While there are often signs, elder abuse may be hard to uncover and can continue for long periods of time. Victims may become secretive because they feel ashamed or fear retaliation. One way to help prevent abuse is to take steps in advance to protect the vulnerable:

Prevent isolation — Form a wide support network of family, friends and professional advisors to help identify problems and intervene where necessary. Widening an elderly person's network can provide support from trustworthy sources.

Check in — Call and visit as often as possible or find a trusted confidante to check in. This can identify warning signs that indicate abuse. Listen closely when the elderly person shares information. Ask questions and never dismiss potential red flags.

Offer support — Offer simple support to review finances, such as scanning of bank or credit card statements to make sure things are in order. Or, provide support for larger projects, helping to update financial documents or conduct a credit check.

Put safeguards in place — Plan ahead and grant a power of attorney to a trusted individual. Consider appointing a professional (such as a trust company) to work alongside a family member to help provide a safeguard.

1. https://www.cbc.ca/news/canada/toronto/senior-wires-life-savings-through-td-bank-in-romance-scam-1.4980649

Investing: Never a Smooth Road

Fear and Greed: the two emotions that are said to drive the equity markets. How quickly, it seems, that the sentiment can oscillate from one extreme to the other. Over recent times, Canadian and U.S. equity markets have experienced periods of remarkable advances in prices, as well as many months which seemed to forecast an Armageddon just around the corner.

It is interesting how quickly the focus of many market commentators can shift with these movements. After a volatile December for both Canadian and U.S. markets, the media was consumed with recessionary talk. Yet this was quickly muted after significant January and February gains. In the U.S., the Federal Reserve took a less aggressive stance in its monetary policy, downplaying its position on the prospect of further interest rate rises. This, combined with a solid U.S. earnings season, and delayed U.S./China trade tariff deadlines, provided much relief to investors.

Here at home, the picture is less clear. Growth has slowed and the struggle continues for certain segments of the housing market, as well as the oil and gas sector. Corporate earnings results have been mixed, but the labour market is still solid, and cash levels on many corporate balance sheets remain healthy.While certain voices of the media continue their pessimistic narrative, many investors are wondering where the markets are headed.

This is a good reminder that volatility plays a common role in the equity markets. With the ups and downs, it may be easy to fall into the trap of taking an unbalanced view – looking only to the recent past to guide investment decisions. But this is often counterproductive. When times are difficult, it constrains positive action. How many times have we heard the phrase: "it's not a good time to buy now because..."? Or, when the market progresses, there may be cause for anxiety: "how high can it go?"

We should remember that investing in the equity markets is never a smooth road.

Our challenge as investors is to ignore the noise, be it good or bad. For many of us, this involves a longer-term commitment to and confidence in the plan that has been constructed to achieve our goals.

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Investing: Never a Smooth Road (cont.)

The road ahead is a long one filled with many ups and downs. Be guided accordingly. Don't let the inevitable bumps along the way keep you from your drive to the future. Focus on your own goals, keep emotions under control, and keep your assets working hard for you.

TAX SEASON STRATEGIES

Pension Income Splitting: Can It Make a Difference?

Tax season is here! If you have eligible pension income, there may be an opportunity to split income with a spouse/common-law partner. But just how much of an impact can this make?

For tax purposes, up to 50 percent of eligible pension income can be split with a spouse. Eligible pension income is determined by the recipient's age and the nature of the income. In general, under age 65, it includes amounts received from a registered pension plan.* Over age 65, it also includes amounts received from RRIF, LRIF or other annuity payments. While the obvious benefit of pension income splitting is the tax benefit achieved by allocating income from a spouse in a high-income tax bracket to one in a lower tax bracket, there are other potential advantages:

Age Amount Tax Credit — The 2018 federal age amount is $7,333, available to those 65 years or older. It is reduced for income over $36,976 and eliminated at $85,863. A benefit may be achieved if a spouse can reduce income to access the credit.

Pension Income Amount — Allocating pension income to a spouse who wouldn't otherwise have eligible pension income could entitle the spouse to claim up to a $2,000 tax credit.

Old Age Security — Splitting eligible pension income may enhance the family unit's ability to receive OAS payments.

The chart below shows two scenarios for two spouses over age 65, where Spouse A earns $86,000 of eligible pension income and Spouse B earns none. When they income-split, they use lower tax brackets, enhance tax credits and avoid an OAS clawback for Spouse A. As always, consult with a tax advisor for your particular situation.

	No Splitting		Income Splitting	
	Spouse A	Spouse B	Spouse A	Spouse B
Eligible Pension Income	86,000		43,000	43,000
Interest Income		12,000		12,000
CPP	13,610		13,610	
OAS	7,040	7,040	7,040	7,040
Taxes Payable	-25,834	0	-11,923	-11,397
OAS Clawback	-4,611			
After Tax Income	76,205	19,040	51,727	50,643
Difference			7,125	

For illustrative purposes. Note: Chart uses estimated 2018 Federal and Ontario tax rates. Assumes maximum CPP amount & Q118 annualized OAS figures. *Not in Quebec.

Seven "Sins" of Investing

It has been documented that there are certain behaviours that can prevent investors from maximizing their investment experience. Meant as a light-hearted take on the original "seven deadly sins": pride, lust, sloth, wrath, gluttony, envy and avarice, here are some behaviours that can paralyze an investor's path to success:

1. Sloth — A lazy approach to investing, which can prevent individuals from achieving long-term gains or better after-tax returns. Examples: Keeping substantial funds unnecessarily in liquid form or not fully contributing to tax-advantaged accounts like RRSPs or TFSAs.

Perspective: Time and the profound effects of compounding can benefit those who continue to invest steadily and keep their assets working hard for them.

2. Pride — Refusing to adapt, despite markets being dynamic and ever-changing. The prospects for certain companies, industries and even asset classes can be attractive today but not tomorrow.

Perspective: There are times when portfolio adjustments can be beneficial, so it is important to not become too connected to a particular security or asset class.

3. Avarice — Speculating on the day's market darling or "hot" tip in the hope of quick profit.

Perspective: Portfolios are often created to benefit an investor's specific needs and objectives. While following the herd or speculating on short-term quick wins may look attractive, high potential returns are often associated with high risks.

4. Fear — Reacting to volatile equity markets, which can hinder sound investment decision making.

Perspective: Fluctuations are a regular occurrence in the equity markets. Drops in portfolio values can be difficult to stomach, but they are part of the process of longer-term investing. Some investors reduce the short-term pain by not regularly following portfolio values, leaving the day-to-day scrutiny to those who manage the investments. Others turn fear into an opportunity, using lower prices during a downturn to build portfolios.

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Seven “Sins” of Investing (cont.)

5. Forgetting Taxes — Neglecting the impact of taxes, which can needlessly cut down on investment returns. Don’t forget that a dollar earned in one way is not always worth the same as a dollar earned in another way — the after-tax returns on different securities or from different accounts can vary widely.

Perspective: There may be opportunities to minimize tax implications across different aspects of wealth: current income, investments, retirement and estate planning. Some examples: use tax-advantaged accounts or income-split with a spouse.

6. Indecision — Putting off an investment program until tomorrow hoping that the outlook will improve or a better opportunity will come along.

Perspective: Financial markets will always be filled with uncertainty and, in doing so, one of the greatest assets is lost: time. Using tactics such as dollar-cost averaging or systematic withdrawal programs can help to encourage regular investing.

7. Self-Loathing — “I’m never going to reach my retirement goals”, say those who are often defeated before they begin. Studies continue to show that many Canadians don’t even have a financial plan for retirement.

Perspective: Consider that those who have a plan in place have an advantage over many others. Planning, perseverance, long-term thinking and the power of compounding can work wonders!

Congratulations

Please join me in wishing Betty McLachlan a wonderful retirement starting June 1st. Betty has worked alongside myself for almost 20 years and will be missed. She is such a good person, with such a kind heart.

Thank you for so many great years together, all the best. You have earned it.

A client referral is the greatest complement our team can receive. If you are aware of a friend, family member, or business associate who could benefit from the services our team provides, please have them call or email our team directly.

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