

Financial Focus

RRSP contributions should reinforce – not rearrange – your portfolio strategy

Are you looking to make a lump-sum contribution to your Registered Retirement Savings Plan (RRSP) this year? Maybe a top-up to increase a potential tax refund? What about a loan to catch up on a backlog of unused contribution room? Any one-off decision like this can encourage investors to go off track when it comes to their portfolio strategy. You might consider this an ideal time to try something new or follow a trend you have noticed in the media. By doing so you could be getting in the way of your own success. Here's why.



Remember that the strategy of your RRSP is designed to get you the returns you need to generate the income you desire in retirement. Your portfolio's investment mix takes your individual tolerance for risk into account, and is diversified to maximize return potential while minimizing the risk of any single investment or investment type. An ill-conceived investment can upset that well-considered balance. If you're tempted to stray from this optimized approach, consider one of these two alternatives:

Apply new money to your current mix for now. This is the status quo option. Simply apply this year's contributions to the current set-up, maintaining the existing proportions for now. At your next portfolio review, consider any new

investment ideas in the context of your goals and risk profile, and then rebalance accordingly.

Park your money. If the above option doesn't appeal to you this year, you can simply "park" your money by putting it into very safe or ultra-conservative investments for now. When you are ready for a portfolio review, consider new ideas and investments with your goals in mind, and make any investment decisions prudently, not in haste.

Next Steps: Your RRSP is one of the most powerful tools available to reach your retirement goals. It's always worth taking the time to review your contribution plans as well as your investing strategy. We are here to help with either, or both, when you're ready.



Pierre Cantin, B. Comm.
Wealth Advisor
Telephone: 514-428-4318
pierre.cantin@nbc.ca



Émilie Le Meur
Associate
Telephone: 514-428-4315
emilie.lemeur@nbc.ca

**National Bank Financial
Wealth Management**
9001, boul. de l'Acadie
Suite 802
Montréal, QC H4N 3H5
Toll-Free: 1-866-626-0636
Fax: 514-389-9820
www.pierrecantin.ca

With 2022 upon us, we relish the hope and optimism each new year offers. If you're planning a life change or financial change, we can help. Let's review your goals and get you on track to meeting them. We appreciate your continued confidence, and it's our privilege to work with you.

Happy New Year!

Eight questions to re-evaluate what retirement means now

Over the last year, chances are you have found yourself discussing how the pandemic has led you (or your friends and family) to re-evaluate “what really matters in life.” If you are quickly approaching retirement, these are not just philosophical questions, but ones of real practical and financial importance. In fact, they may be underpinning the financial assumptions in your savings and investment plans. With this in mind, and given your current state of thinking, consider these eight key questions about retirement, and their suggested financial considerations:

1. When will it happen? This is the one that the pandemic may have challenged the most. For instance, do you now have a desire to stop work earlier? **Something to ponder:** Don't rely on your emotions or assumptions. Running through financial scenarios, including income planning after retirement, can give you some “real world” options to consider.

2. Will you work? In normal times, it can be hard to imagine retiring completely, and many Canadians express a desire to continue working in some capacity during retirement. After lockdowns, you may now have a better idea about how you will respond to a lot of time spent at home.

Something to ponder: Reconsider and realistically evaluate what you might do for work post-retirement, and make sure any new ideas are reflected in your financial plans.

3. Will you move? Travellers and snowbirds had their seasonal patterns severely disrupted over the last two years. All of us had to deal with much more time spent at home, for better or worse. If downsizing was a part of your retirement thinking, how do you feel now? **Something to ponder:** Revisit your assumptions about housing, including factoring in the latest real estate values of both your current home and where you might move to.

4. What is your passion? Many retirement experts have long argued that having a sense of purpose – community, faith, work, family – is key to your well-being in retirement. If you have never considered this, now is the time. If you have, did your priorities and passions shift recently? **Something to ponder:** Every purpose or activity has financial implications, so think about what you need to support these in your income plans.

5. Who do you want around you? Missing loved ones has been a constant refrain throughout pandemic restrictions. Do you have a new emphasis on being nearer to those you care about? **Something to ponder:** What financial resources are needed to ensure you are literally where you want to be in retirement?



6. Where will you go? Many retirement plans involve visiting or even moving to locations outside of Canada, including places with low costs and high adventure. Now, however, COVID-19 restrictions, health-care facilities, and travel/medical insurance issues may have all contributed to a different view of where you want to go. **Something to ponder:** Check out the latest health and insurance information on destinations that are in your plans.

7. Why does it matter to you? Sometimes the elements of our retirement vision are just a continuation of what's already in our lives, or involve things that you believe you are expected to want in retirement. The past year may have led to a much deeper reimagining of the meaning of, and what's of value in, your life. **Something to ponder:** Don't be afraid to challenge all the assumptions in your plans to create a retirement plan that matches your true desires.

8. How will you make it happen? "A failure to plan is planning to fail." So goes the old cliché. **Something to ponder:** Bring your current thinking and goals to your financial and legal advisors. They have the skills and tools to put practical and financial strategies to work to help make your life goals a reality.

Next Steps: Your life plans underpin all the work we do with your investments. If your goals have changed, it's time for an investment review.

Factor enhanced pensions into your latest plans

Your plans to finance your retirement goals involve integrating and co-ordinating all sources of potential income, including not only funds from your investments but also money from any work activities and resources from both private and public pensions.

Recent enhancements to the Canada Pension Plan and Quebec Pension Plan (CPP and QPP, respectively) are designed to provide more income in retirement, although you'll pay more in contributions during your working years. Until 2019, these plans were designed to replace 25% of a person's earnings, up to the limit known as the Yearly Maximum Pensionable Earnings (YMPE). Under

the new plan, CPP and QPP pensions will gradually be increased to replace a maximum of 33% of your average work earnings, up to the YMPE.

Because Government pensions are tied to the amounts you paid in during the years you work, these enhancements will have a greater impact on those further from retirement. However, even those still paying into these plans over the next several years will see some benefit.

Next Steps: Professional advice is the best way to ensure that your income plans are up to date with the latest information on all your retirement income sources.

As the world responds to climate change, investors' thinking needs to evolve, too

We are all becoming aware of the big changes that are necessary as we face the challenges of a warming planet. While much of the information in the media has focussed on our roles as consumers, commuters, and voters, what about in our investing lives? For a long time, this role has been limited to what's available for those wanting to invest in "green" opportunities. But what's becoming clear is that climate change will lead to wholesale changes in many sectors, economies, and geopolitical calculations to which all investors will need to pay attention.

Big tasks

Perhaps the biggest change in perspective that should be of concern to investors is the scope of the task and the time frame in which change must happen. Just a few years ago, experts who talked about catastrophic climate events likely by the end of the century are presently saying those changes have arrived, making significant action necessary now. The International Energy Agency (IEA) has estimated that to meet the goal of a net zero-carbon world by 2050, the share of fossil fuels in the global energy supply would have to fall from its current 80% to 20% in just 28 years from now. The Agency has estimated that reaching the goal of net zero-carbon on a global scale would cost \$115 trillion.¹

Dynamics of transitions

Changes at the economic and societal levels to support these climate goals are complex and involve a staggering number of stakeholders and variables. Some of these are detailed by Angelo Katsoras of our Economics and Strategy unit in his Geopolitical Briefing, *The monumental challenge of trying to hit climate targets*.²

The most well known of these is the tension between the developed and the developing economies regarding who should be making the biggest changes and who should finance the necessary action. While countries like China (the world's largest producer of greenhouse gases³) and India are big emitters, the lifestyles of Western citizens mean we remain among the largest per capita offenders (see table). Developing countries argue they have the right to continue to develop and to have emerging middle classes demanding access to the same quality of life as those in Western economies, making reaching global goals on emissions even more difficult.

Troubled sectors

An obvious question for investors will concern the fate of companies in fossil fuel industries in the short and long term. As Katsoras details in his report, evidence of change in the global oil

industry is evident already. "As recently as 2014, oil investments by the world's energy companies totalled about \$807 billion. Consulting firm Wood Mackenzie has projected it will only be \$348 billion in 2021 (see graph).

"Oil companies in the West have been facing growing pressure from environmentalists, investors, and politicians regarding climate change. Recent events that have garnered significant media attention include ExxonMobil, Chevron, and Royal Dutch Shell all losing legal cases or shareholder votes forcing them to take a more aggressive approach to cutting emissions. These companies are unlikely to be able to achieve this goal without cutting production."⁴

Rising industries

There will be new and rising industries in a de-carbonizing economy, too. Obvious ones to consumers include wind turbine and solar panel production as well as electric car manufacturing. But, as Katsoras points out, it is the input into these end-products that will define the dynamics of burgeoning green industries.

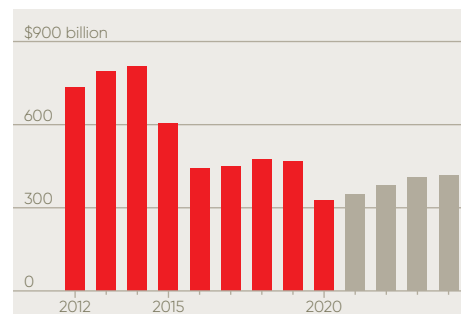
A massive amount of minerals, such as lithium, copper, and cobalt, will be needed in the transition to green

Top Ten Per Capita CO₂ EMISSIONS (2018)

Rank	Country	CO ₂ Emissions (Total)
1	Saudi Arabia	18.48T
2	Kazakhstan	17.60T
3	Australia	16.92T
4	United States	16.56T
5	Canada	15.32T
6	South Korea	12.89T
7	Russian Federation	11.74T
8	Japan	9.13T
9	Germany	9.12T
10	Poland	9.08T

Source: Union of Concerned Scientists, 2020 quoted in Angelo Katsoras. Geopolitical Briefing: The monumental challenge of trying to hit climate targets. June 21, 2021. nbc.ca.

Annual Global Spending on Oil Extraction (2012-2024 est.)



Note: Post 2020 figures are estimates.

Source: Wood Mackenzie, quoted in Angelo Katsoras. Geopolitical Briefing: The monumental challenge of trying to hit climate targets. June 21, 2021. nbc.ca.

energy. "The typical electric car requires six times as many minerals to build as does a combustion-engine car, and an on-shore wind plant requires nine times as many resources to build as a gas-fired plant."⁵

Understanding the dynamics of these industries, however, is not simple. For instance, while Chile is the largest extractor of copper, Indonesia the largest extractor of nickel, and Australia the largest extractor of lithium, China is the biggest processor of all three, necessitating complex supply chains and geopolitical concerns. While the United States has significant deposits of lithium, challenges posed by environmentalists and Indigenous communities make mine approval slow and difficult. Deep industry and economic knowledge will be required to assess the investment opportunities in these industries of the green economy.

Next Steps: The effects of climate change on how and where we invest are quickly becoming part of the analysis we do when managing your investments. If you'd like to know more, we'd be happy to provide the Briefing mentioned above or to discuss these issues at your next portfolio review.

- 1 The International Energy Agency. *Net Zero by 2050*. May 2021. Quoted in Angelo Katsoras. Geopolitical Briefing: The monumental challenge of trying to hit climate targets. June 21, 2021. nbc.ca.
- 2 Angelo Katsoras. Geopolitical Briefing: The monumental challenge of trying to hit climate targets June 21, 2021. nbc.ca.
- 3 Government of Canada. *Global Greenhouse Gas Emissions*. Global greenhouse gas emissions April 2021. Canada.ca
- 4,5 Angelo Katsoras. Geopolitical Briefing: The monumental challenge of trying to hit climate targets. June 21, 2021. nbc.ca.

Tax time: What you need, and what about those pandemic programs?

With the tax filing deadline approaching, it is the perfect time to review your affairs to make sure your 2021 return is on time, accurate, and as advantageous for your situation as possible. Here's a primer:

Deadlines back to normal

The tax filing and payment dates shifted during the pandemic, so be reminded that (at time of writing) we are back to the usual deadlines. This means the Personal Income Tax filing deadline is April 30, 2022. Failure to file on time can result in both fines plus interest on any payments due. So, file on time even if you're not ready to pay in order to avoid unnecessary fines. If you are missing some information, still file on time, as you can amend a return you have filed previously.

If you are self-employed, your deadline to file is June 15, 2022. But remember, any tax due must have been paid by April 30. If you are a self-employed individual who collects and remits GST/HST, don't forget about filing on time here as well. If you file annually, the deadlines are the same as cited above: June 15, 2022 for filing returns, but April 30 for any remittances due.

Tax slips needed

Receiving all your slips for the various kinds of income you receive is key to filing accurately.

T4/RL-1 slips – The most common slip that reports your income is the *T4 – Statement of Remuneration Paid*, where your salary or wages are documented. For Quebec taxpayers, your main income slip is your Relevé 1 or RL-1. If you received Pension or Annuity, OAS, or CPP benefits, these will be reported on a T4A, T4A(OAS) and T4A(P) respectively. If you had income from your Registered Retirement Savings Plan (RRSP) or your Registered Retirement Income Fund (RRIF), expect a T4RSP or T4RIF. In Quebec, the equivalent for most of these slips is the RL-2, which includes your QPP income. Note that if you receive an RL-2, you will receive a federal T4A(P) as well.



T5/RL-3 slip – The T5 Statements of Investment Income come from the financial institutions with whom you have investments. They report your investment income, including the type of income – such as interest or dividend income, which are treated differently when taxed. In Quebec, look for an RL-3.

T5508/RL-18 Statement of Securities Transactions slip – If you disposed of or redeemed securities last year, the relevant information is reported here.

T3/RL-16 Statement of Trust Income Allocations and Designations slip – This is the slip that details how much income you received from investing in mutual funds in non-registered accounts, from business income trusts or income from an estate for a given tax year.

RRSP Contribution Receipts – When you contribute to your RRSP, the financial institution will issue this slip. Note that depending on when and how often you made contributions, you may have received this slip earlier in the year.

Reporting pandemic support income

The most important thing to know is that income from all Government of Canada pandemic support programs

for individuals is taxable. This includes the original Canada Emergency Response Benefit (CERB) as well as its replacements: the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB), and the Canada Recovery Caregiving Benefit (CRCB). If applicable, you should receive a T4A from the Federal Government detailing the income you received from any and all of these programs. Note that no funds were withheld for taxes in these programs. The amount of tax you ultimately pay on them will be determined by your overall marginal tax rate when you calculate and file your 2021 tax return.

The Federal Government also introduced a number of programs to support Canadian businesses during the COVID-19 pandemic. Generally speaking, the payments from these programs, such as the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Rent Subsidy (CERS), are taxable income. If you are a business owner of any kind, be sure to seek professional tax advice to manage these tax issues.

Next Steps: Focus on filing accurately and successfully. Then consider what year-round tax planning you need to do. If you want to talk about tax-efficient investing, we are here to help.