

# Financial Focus

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Canadians' increasing longevity means needing enough savings to support a retirement lasting 20, 25, 30 years or more. But living longer can affect more than retirement income. One article examines the estate planning option of giving your children an early inheritance. Another looks at funding long-term care, which becomes more likely as our life expectancy increases.



**Mani Wong**  
CFP®, CIM, FCSI®  
Senior Wealth Advisor & Portfolio Manager  
mani.wong@nbc.ca  
416-756-3893



**Hugo Mak**  
CIM, FCSI®, PFP®  
Wealth Advisor & Portfolio Manager  
hugo.mak@nbc.ca  
416-756-3641

[nbfwm.ca/wong-mak](http://nbfwm.ca/wong-mak)

Investment

## Why RRSPs win out

Every so often, you may hear the opinion that saving in a non-registered account is a better way to fund your retirement than using a Registered Retirement Savings Plan (RRSP).

The claim focuses on the tax that's payable when you withdraw funds for retirement income. All RRSP or Registered Retirement Income Fund (RRIF) withdrawals are taxed as income at your marginal tax rate. With a non-registered account, any withdrawals that involve selling equity investments are taxed more favourably, only triggering tax on capital gains.

However, even though non-registered equity investments offer a tax advantage, you still come out ahead with an RRSP. It's all because you can make greater contributions in an RRSP with your available investment dollars than you can in a non-registered account. Here's an explanation.

### The pre-tax dollar advantage

RRSP contributions are made with pre-tax dollars. So, if someone is able to dedicate \$12,000 of their pre-tax income toward retirement savings, they can contribute the \$12,000 to their RRSP. Say another individual is also able to put \$12,000 of their pre-tax income toward their retirement, but they choose investments in a non-registered account. That \$12,000 is taxable income, so if they have a 35% marginal tax rate, they pay \$4,200 in tax and now only have \$7,800 to invest.

Thanks to larger contributions with your available investment dollars, an RRSP can grow to a greater total value than a non-registered account. You can receive more retirement income than you would from non-registered investments, even after the withdrawals are taxed.

### More RRSP benefits

Having an RRSP encourages you to save every year, as you reduce your taxable income by the amount you contribute. You'll also have the discipline not to touch your savings before retirement, since you would pay tax on withdrawals at your marginal rate. When you reach age 65, you can use income from your RRIF to benefit from pension income splitting.



## Giving while living

While many Canadians follow the traditional method of leaving an inheritance by naming beneficiaries in their will, others choose to give their children an early inheritance or an advance on their inheritance.

Say that a 70-year-old retiree has a 40-year-old daughter who lost her job and is struggling to pay the mortgage, make car payments and save for her child's education. If the retired parent gives their daughter an advance on her inheritance, she could stay on track financially. But if the parent lives a long life and only leaves the inheritance through their will, the daughter may be retired when she receives the funds.

### You and your child benefit

A key reason to give an early inheritance is to help out a child when the funds have the most impact. Each child may have their own financial need, such as purchasing their first home, returning to school to pursue a new career, getting through a rough patch or launching a business.

The financial boost can make a significant difference in the child's life. For example, helping with a down payment can mean a child buying a home several years earlier than they could have without the advance on their inheritance.

You can benefit too. You have the satisfaction of making a decision that helps your child now, and you're able to witness the difference you're making in a loved one's life.

### Important considerations

If you wish to give a child a large sum, you want to ensure the gift won't affect your own financial situation and retirement plans. We can help you determine whether you're able to give while living and the amount you can give without jeopardizing your financial future.

A parent may be financially able to give a significant early inheritance to a child in their 20s to make life

easier. But what if the gift causes the child to lose their motivation and work ethic, and the child fails to learn about budgeting, saving and financial responsibility?

A benefit of giving while living is witnessing the positive impact you make, but that benefit has a flip side. If you witness the child spending the money unwisely, you may regret your decision.

If you have two or more children, and you're helping one child meet a financial need, you'll likely want to ensure you're treating all children fairly. For example, you can give equal gifts to all children or account for one child's gift in your will.

Another concern may be entitlement. A child who receives an advance on their inheritance may later ask for more, which could strain your relationship if they expect the funds and you prefer not to grant their request.

### Making your decision

Deciding whether to give while living involves personal and financial factors. You need to consider if you're open to giving funds now or prefer to leave the full inheritance through your will. With our input, you can determine if you're financially able to give an early inheritance without putting your own financial future at risk.

## Determining the amount and timing

If you decide to give while living, you can arrive at an amount and the timing that suits your personal situation, conforms to your child's responsibility level and meets your child's financial needs.

Someone who trusts their child and wants to give an early inheritance may feel comfortable gifting a large lump sum when the funds can help the most.

A parent who is apprehensive about giving a large sum at once may wish to stagger the gift in smaller amounts over time, or only provide the funds at times the child has a specific financial need.

You may be in a position where you are unable to give a large early inheritance or don't believe it's a good idea, but you still want to help out with smaller gifts. In this case, you could provide funds that your child can contribute to their Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA).



## When should you start your OAS pension?

**You can begin receiving Old Age Security (OAS) benefits the month after you turn 65, or you can defer your payments anytime up to age 70.**

If you defer your OAS pension, the amount you would have received at 65 increases by 0.6% each month, which is a 7.2% increase after 12 months. When you defer to age 70, you benefit from a 36% increase.

Here are the most common reasons to start at age 65 or defer OAS benefits.

### Starting at age 65

**Requiring income.** An individual may choose to receive benefits right away simply because they need the money to help cover their cost of living.

**Available now.** Whether they spend or save the payments, many retirees start OAS benefits at 65 because they're

uncomfortable turning down funds that are available now.

**Preserving assets.** Some retirees start their OAS benefits at 65 so they can draw less income from their retirement savings. This leaves more savings to grow for future retirement income or ultimately to leave to their loved ones.

**Life expectancy.** If someone has a medical condition that may affect their life expectancy, they may wish to begin OAS benefits at 65, as delaying the pension to receive a greater benefit amount only pays off at older ages.

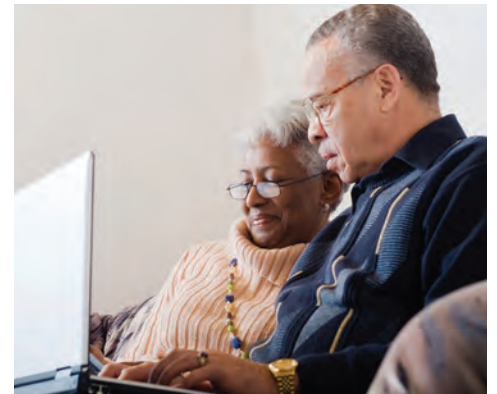
### Deferring to a later year

**Earning income.** If you're still working at 65 or earning business or rental income and don't need the OAS benefit, you might defer to a later year to receive a higher monthly amount.

**Greater benefits overall.** If you can support your retirement lifestyle during your 60s

without OAS payments, deferring your OAS pension can potentially result in more total benefit payments over time. We can help you determine your approximate age when the total benefit amounts received by deferring will exceed the total amount received when starting at 65.

**Managing the OAS clawback.** If a retiree's income at 65 would result in their OAS benefit being reduced or eliminated, they may have reason to defer their OAS benefit to a later year.



## Investments and a change in marital status

**Whether you get married or become single, any change in your marital status usually affects your financial life — even including your investments.**

Here are just a few examples of investment decisions you may face, but there are many

others. So please reach out to us if your marital status ever changes.

**Getting married.** Should you and your spouse have different investment risk tolerances, you'll want to manage the conflict when you share the same financial goal. We can help by finding a solution that suits both you and your spouse, such as enabling each of you to maintain your current risk level.

If you're in different tax brackets, the higher-income spouse may want to open a spousal Registered Retirement Savings Plan (RRSP), which can potentially help you save tax as a couple during retirement.

**Dealing with divorce.** After dividing assets or beginning to pay spousal or child support, a common situation following divorce is having a shortfall in retirement savings. One person may want to invest more conservatively to safeguard what they have, while another could be tempted

to choose higher-risk investments to get back on track. We can help you reset your retirement savings goal and invest in a way that balances capital preservation and growth potential.

**Remarrying.** New financial goals often call for changes to your investment strategy. Remarriage may involve a different projected retirement date, new retirement plans and an estate planning need to provide for your new spouse and children from your previous marriage.

**Becoming widowed.** If a spouse passes away, the widowed spouse may receive rolled-over assets from their spouse's RRSP or Registered Retirement Income Fund (RRIF) to their own. We can help out because this one transaction can lead to changes in their asset allocation, monthly income plan, tax minimization strategy and estate plan.

## The snowball versus an avalanche

Many people take on several debts, such as a car loan, credit card debts and a line of credit. Here are two methods to tackle multiple debts.

The avalanche and the snowball debt repayment methods begin the same way, determining the monthly amount to apply to your debts.

### Avalanche method

You make the minimum payment on all debts except the loan with the highest interest rate. On that debt, you pay the remainder of your monthly debt repayment amount. This approach starts at the top of the debt mountain and then wipes out the remaining debts. The avalanche method suits individuals seeking to save more money on interest by tackling the most expensive loans first.

### Snowball method

You follow the same practice of making the minimum payments, but you apply the remainder of your monthly amount toward the loan with the smallest amount owing. This solution removes a debt sooner, and the amount you apply to the next smallest debt snowballs. The snowball method suits those who want to see a result more quickly, but you pay more interest over time compared to the avalanche method.

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## Consider long-term care costs

As our life expectancy increases, so does the likelihood of requiring health care or assistance with daily living. This support can be expensive, whether you have private care at home or move to a private health-care residence.

Government assistance is limited, so you may want to consider how you would cover the costs of potentially requiring long-term care. One solution is to purchase insurance that covers care in a residence or at home. If you're interested in this option, it's worthwhile looking into insurance coverage earlier rather than later, as premiums become more expensive at older ages.

Another solution is to set aside funds over time dedicated to this potential need, perhaps using a Tax-Free Savings Account (TFSA) or a non-registered account. You could contribute a set amount each pay period, contribute your annual bonuses, or deposit available cash after your children have left home and you've paid off the mortgage. If you don't require long-term care, these dedicated savings could become estate assets for your heirs.

## When an asset cannot be divided

You may face an estate planning challenge if you have two or more beneficiaries and a significant asset that you cannot split. Fortunately, several solutions are available.

Say that a vacation property owner originally planned to leave the property to their two children. Now, however, one child wants the vacation property, and the other has moved out of province and is no longer interested in inheriting the property. Or perhaps the asset is a family business or farm. One child will eventually become the owner, while the other child chooses a different career path.

A straightforward solution is to leave the asset to one child and give the other child or children cash or other assets of equal value, but this only works if you have such assets available. Another solution is to purchase permanent life insurance on your life and name the child or children not receiving the indivisible asset as the beneficiary or beneficiaries. In some cases, the best option is to sell the asset and leave the resulting funds to your beneficiaries.

