Volume 6, Issue 1

GENERATIONS TAKING CARE OF GENERATIONS

PERSPECTIVES

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Inside this edition

RBC Wealth Management

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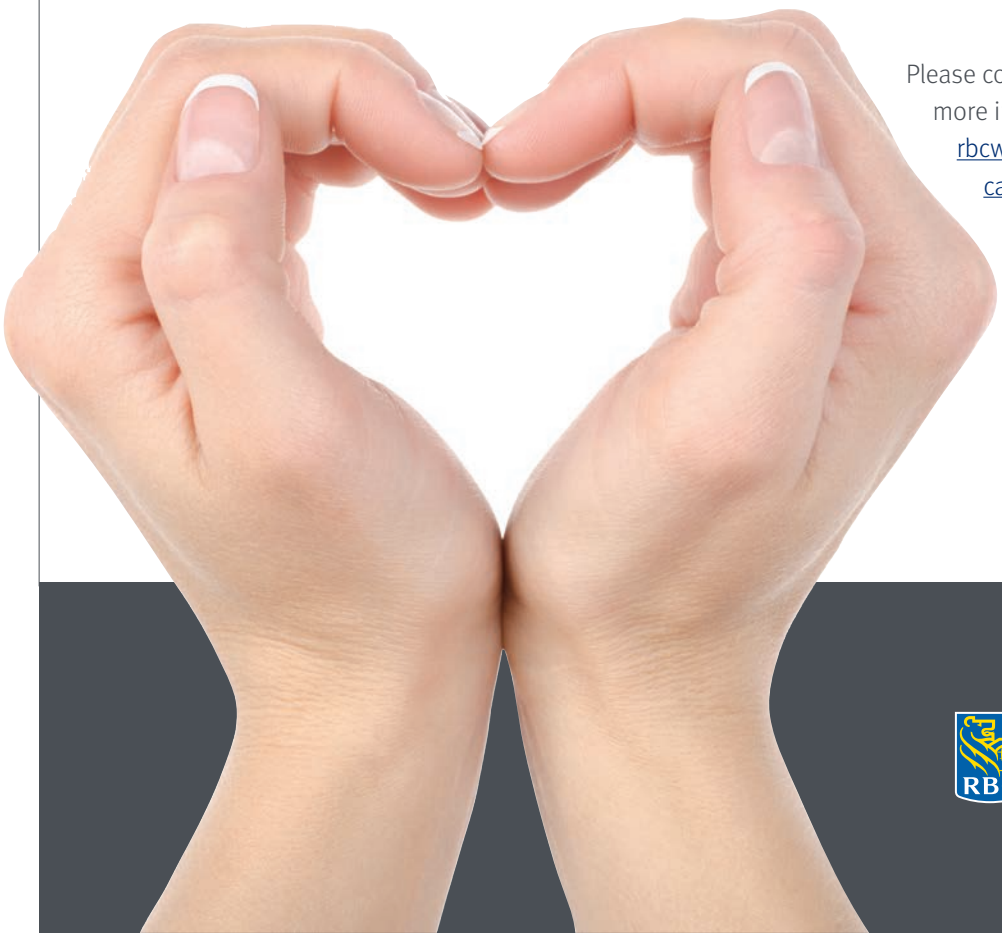

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RBC | Wealth Management

From the desk of David Agnew

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In today's fast-paced, ever-changing world, staying up to date with new information and shifting trends can often be a difficult task. In all aspects of life, from the economy and financial education, to technology and the labour market, to health and well-being, there are countless considerations to factor into your wealth planning and overall visions for the future.

In this issue of *Perspectives*, we focus on the importance of education to help you and your family be confident and proactive with your financial decision-making. Recognizing the historic population shift currently taking place in Canada, this issue features an article on senior health and healthcare that focuses in on the realities many Baby Boomers may face and the importance of protecting yourself with careful planning. In "The power of choice," we also discuss the importance of having a valid Power of Attorney and considerations for choosing the right individual to act on one's behalf.

This issue also highlights our recently launched RBC Wealth Management Financial Literacy program. This program has been designed to address the gap that currently exists for when and how younger generations are exposed to financial learning, also recognizing that it's never too early — or too late — to build sound financial management skills. Tying into the RBC Wealth Management Financial Literacy program, this issue also includes an engaging piece for teens and Millennials that explores six financial literacy principles: Budgeting, Taxation, Borrowing, Financial Planning, Investing and Estate Planning.

With the proposed tax changes for private corporations in Canada, we also provide a basic guide that outlines those changes and what impacts they may have for many business owners. In addition, we discuss timing considerations for wealth transfer, as well as incorporating charitable and philanthropic giving into your wealth transfer plans.

Finally, in "Boosting safety in an online-driven world," we focus on the growth of the digital world and the importance for individuals of every age group to be aware of the associated risks.

As always, I encourage you to speak with your RBC Wealth Management advisor about any of the articles and topics covered in this edition and to learn more about RBC's wealth management strategies and how they can benefit you and your family, now and into the future.

David Agnew, CEO,
RBC Wealth Management Canada

The evolution of responsible ownership

At RBC Global Asset Management, we believe that being an active, engaged and responsible owner empowers us to enhance the long-term, sustainable performance of our portfolios.

Incorporating environmental, social and governance (ESG) factors into the investment-decision process enhances our analysis of companies, beyond traditional financial metrics, in order to better understand their ESG-related risks and opportunities.

WHAT ARE ESG FACTORS?

How does a company...

ENVIRONMENTAL (E)

act in an environmentally responsible way?

SOCIAL (S)

treat employees, customers & communities?

GOVERNANCE (G)

govern itself?

OUR APPROACH:

Our commitment to integrate ESG factors into our investment process is firm-wide. Our dedicated Corporate Governance and Responsible Investment (CGRI) team works to advance ESG integration by managing and coordinating ESG research, engaging with our investee companies on ESG–related issues, overseeing all of our proxy voting, collaborating with like-minded investors and engaging with lawmakers and regulators.

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https://www.rbcwealthmanagement.com/ca/en/perspectives

Is age but a number?

Examining age-related health realities and the potential impacts of a failure to plan financially.

TRUTH OR FICTION?

Of all age groups, the fastest-growing demographic in Canada is those age 100 or over.[1] **TRUTH**

By 2038, it's expected 1.1 million Canadians will be living with dementia.[2] **TRUTH**

In Ontario, for example, waitlists for certain care facilities are expected to double in the next six years.[3] As a result, more will be forced to absorb the costs of private home care, a burden (emotional and financial) that often falls to the children of the aging individual. **TRUTH**

While challenging to accurately estimate due to under-reporting and a general lack of awareness, data indicates that upwards of 10 percent of seniors have experienced some form of elder abuse.[4] **TRUTH**

The monthly costs of assisted living facilities in Canada range from $1,500 to $5,000 a month. If an individual has dementia or Alzheimer's that cost jumps to $3,000 to $7,000 per month.[5] **TRUTH**

Most Canadians have the appropriate plans in place to protect themselves and their finances in later life, and have accounted for age-related factors in their retirement and estate planning. **FICTION**

The golden years. Freedom 65. The joys of retirement.

These widely used and familiar statements paint a relatively positive picture of the retirement stage in general. They also represent a natural tendency among many of us in what we hope for and envision when thinking ahead to senior life, whether that includes more time to travel, spending quality time with family or enjoying new hobbies. And while looking forward to and identifying your goals for this life stage is very important, it also needs to be appropriately balanced with planning for the "what-ifs," especially given the senior health and healthcare realities that are coming to the forefront across Canada. As the senior demographic continues to grow, with Statistics Canada indicating that seniors (those age 65 and over) will account for 20 percent of the population by 2024, and approximately one-quarter by 2036,[6] so too will age-related health and senior care challenges, with significant impacts at both societal and individual levels.

Yet despite the fact that more health data on aging is continually emerging and realities about the growing costs of healthcare and senior care are becoming more evident, individual planning in this regard still seems to be lagging, suggesting many just aren't making that critical connection. For some, considering the "what-ifs" of aging can generate a real sense of discomfort (and understandably so), and this lack of comfort unfortunately often then becomes a serious roadblock to planning. But while it may seem easier to avoid difficult topics, overlooking future potential health concerns as part of your planning only increases your personal, financial and family risks in the long run.

Understanding senior health realities

In discussions about senior health, one of the first statistics often focused on is the trend of longer life expectancies among Canadians (currently age 79 for males and age 83 for females, with the national average sitting at approximately 82 — which is up from age 77 in 2002, for example).[7] And while the likelihood of greater longevity itself is very relevant, it's also important for individuals to dissect what that may mean when applied to their personal situation and the impact it may have on their plans and goals. In other words, beyond planning overall for a longer lifespan, what challenges or changes might take place during those years that need to be accounted for in planning? "One of the first things individuals need to consider is not just the fact that they may live longer, but that they may not live a healthy life for longer," notes Leanne Kaufman, Head of RBC Estate & Trust Services. "When it comes to those later years, there seems to be a substantial gap between living and living healthy, and the costs associated with that. So beyond age from a numbers standpoint, it becomes about building a better awareness as to what those years may entail from a health perspective," Kaufman explains.

In looking at cognitive health realities, for example, dementia is currently the most significant cause of disability among Canadians older than 65—affecting 20 percent of adults by age 80 and more than 40 percent by age 90.[8] When it comes to physical health, research shows some 88 percent of older adults aren't active enough, and four out of five adults over 65 have at least one chronic condition.[9] Now, while statistics such as these may seem discouraging, the important thing to remember is that many risk factors of age-related health issues are modifiable and there are steps you can take to combat many health conditions. With this in mind, many individuals — of all ages — stand to benefit from first thinking about aging more holistically and then adopting a twofold approach to longevity: doing everything possible to make health and wellness a priority in life, and at the same time pairing that with appropriate plans as a means to account for any potential health eventualities.

Making choices and tackling difficult topics

When it comes to care, a good starting point is developing a thorough understanding of what options are out there — from retirement communities to assisted living or home care to long-term care — what the associated costs are, and exactly what type of care and lifestyle you get within each of those options. As Kaufman notes, "A lot of individuals lack a true understanding of what those costs are, especially if they haven't been through it with an older relative or loved one." What's crucial to recognize, however, is that there are key benefits in taking proactive steps to determine what you want as it relates to care and what the costs may be. Doing so will help define what amounts you may need in retirement and later life, which thus may impact the decisions you're making in the shorter term with regards to transferring your wealth, by way of gifts or through inheritance, for example.

For more information about cognitive and physical well-being and how to maintain a healthy lifestyle regardless of age, please view the Spring 2017 *Perspectives* article, "Promoting brain health at every age," at https://www.rbcwealthmanagement.com/ca/en/research-insights/promoting-brain-health-at-every-age/detail/ and the Fall 2016 *Perspectives* article, "The choice to be active and stay healthy," at https://www.rbcwealthmanagement.com/ca/en/research-insights/the-choice-to-be-active-and-stay-healthy/detail/.

For every individual, there will undoubtedly be a different comfort level with discussions around wishes and intentions as they relate to aging or a situation of incapacity, but Kaufman offers a consistent message in this regard: "The awareness piece is so critical. When a family member or close friend is thrust into a decision without knowing what that person wanted, it can bring tremendous pressure and unease for that decision maker, especially if it's a care decision." Tabling those discussions early on offers significant benefits, both from an emotional and a practical standpoint, and can then bring greater peace of mind as you put more formal plans into place.

One of the best methods individuals can use to protect their well-being and their finances is a Power of Attorney (known as a Mandate in Quebec), both for property and for personal care. Yet despite the striking statistics on both cognitive and physical decline that often occurs with aging, most Canadians do not have a valid Power of Attorney in place, with one report noting over 70 percent of Canadians do not.[10] As Kaufman explains, this may largely be due to the fact that individuals simply don't understand the risks in the event they become incapacitated. "Without a valid Power of Attorney, you have no control over who acts for you and what they do. Without this document, the reality is that, unless they go to court, no one has the legal authority to access or deal with your financial affairs," she explains.

"From a practical perspective, it's also very important to ensure the individual you ask to act on your behalf in a Power of Attorney knows exactly what that role entails and is willing to do it," explains Kaufman. "They need to be educated on what's involved, so they won't feel obligated or refuse to act if and when the time comes, which could present challenges and potential conflict if you haven't named an alternate."

From there, it becomes crucial to communicate these decisions to family members and other involved individuals, so your wishes and intentions are clear. "And at the end of the day," Kaufman reminds, "it's not a 'one and done' conversation, as needs and perspectives may change over time. So even once you've made these decisions, it's important to keep the dialogue going."

This issue of *Perspectives* includes an accompanying article, "The power of choice," that provides a detailed discussion of Power of Attorney and information regarding choosing and acting as an attorney on page 51.

Impacts on the Sandwich Generation

When it comes to age-related health challenges, while the focus often remains on older adults themselves, there's another key demographic where the impacts are strongly felt, and that's the Sandwich Generation (those caring for an aging parent or elder while at the same time providing care for children still living in the home). Currently in Canada, it's estimated that approximately 5.4 million provide care to a senior family member or friend, with 60 percent of those individuals juggling paid work and caregiving, and 25 percent spending over $2,000 annually in out-of-pocket expenses for the care recipient.[11] The pressures and burdens, both emotional and financial, on this generation are significant, and serve to highlight the range of negative impacts that can occur when appropriate plans or care decisions haven't been made or communicated in advance, or funds haven't been allocated for potential care costs in later life.

For many in this generation who are bearing the load of acting as attorney for their aging parent or who are providing care of some description, the entire situation can seem overwhelming and incredibly time-consuming. At the same time, however, as Kaufman notes, "This is when it can also become a real awareness for people. When it comes to life experiences, you simply don't know what you don't know, so for individuals going through this process with their parents or elderly loved ones, it can also generate a much better understanding of care options, challenges in the care system, the costs, and the direct outcomes if those decisions and care fall to family members."

In a roundabout way, then, while tremendously difficult to experience with a loved one, these situations open the window into what this stage of life can bring, providing the opportunity for other individuals within the family to reflect and then apply that knowledge and awareness in their own planning. In shifting the perspective in this regard, and choosing to be proactive in preparing, individuals can gain the benefits of assuring their financial and personal well-being will be better protected and that their wishes and intentions will be upheld, no matter what later life eventually brings.

What is elder abuse?

According to the World Health Organization (WHO), elder abuse is defined as a single or repeated act, or lack of appropriate action, occurring in any relationship where there is an expectation of trust that causes harm or distress to an older person. This can include psychological, physical, financial, sexual or systemic abuse, as well as violation of rights and freedoms and neglect. Some of the factors that contribute to older adults being more vulnerable to the various forms of abuse include cognitive impairment, physical conditions and dependency on others for care, inability to express wishes, lack of choice, isolation and economic vulnerability.

Growing trends of elder abuse

Elder abuse in all of its forms is largely still a topic that many misunderstand or lack a thorough awareness of, but the reality is that reported instances of elder abuse are on the rise, globally and nationally. Specifically in Canada, rates unfortunately seem to be increasing as the senior demographic expands (reported cases have almost doubled in the past 10 years), but it's also estimated that only one in five cases are actually reported, so the issue is likely much broader — and silent — than most realize.[12]

It was 2002 when the WHO first noted there was accumulating evidence to indicate that elder abuse was a significant public health and societal problem but that it continued to be mostly ignored and underestimated across the world.[13] Since that time, there has been a gradual emergence of initiatives and organizations that focus on the prevention of elder abuse and on building awareness, a central one of which is the International Network for the Prevention of Elder Abuse. It was this network, in conjunction with the WHO, that launched the World Elder Abuse Awareness Day (WEAAD) on June 15, 2006, as part of the United Nations International Plan of Action to acknowledge the significance of elder abuse.

Since the inception of WEAAD, countries and communities globally have helped to elevate this issue by sharing information and promoting resources and services that boost the safety and well-being of seniors. Recognized on June 15 each year, there are a range of activities, workshops and events that take place as part of WEAAD that aim to mobilize communities and raise awareness, and in Canada, these are planned through a variety of provincial and territorial organizations such as Elder Abuse Ontario and the BC Association of Community Response Networks. And on the national level, the Canadian Network for the Prevention of Elder Abuse (CNPEA) functions as a knowledge-sharing hub to connect people and organizations, increase awareness and foster the exchange of reliable information to help prevent the abuse of older adults.

Please visit https://cnpea.ca/en/ to access resources, tools and additional information related to elder abuse.

Financial abuse among seniors

According to Health Canada, of all forms of elder abuse, financial abuse tends to be the most prevalent form, with over 60 percent of reported cases being financial in nature.[14] And while many feel that this form of abuse could never happen to them, or the source would be from someone they don't know — via a phone scam or internet victimization, for example — the unfortunate reality is that many cases are actually family members, caregivers or friends taking advantage of a senior's finances. "It's part of human nature to entrust those closest to us and assume they will always keep our best interests in mind," notes Kaufman, "but any number of factors can impact an individual's judgment in making decisions, including caregiver stress, family conflict or complex family dynamics, financial pressures related to care or caregiving or lack of financial skills, not to mention the emotional turmoil that age-related health conditions or situations of incapacity can often bring within a family."

As Kaufman stresses, "It can be difficult to challenge that natural framework of thinking, and that's why it's so important to really understand how crucial it is to put plans in place as early as possible and to give very careful thought as to who you want to act on your behalf, if you become unable to make those decisions on your own."

For more insights on financial elder abuse, please view the RBC Wealth Management article, "How to recognize —and prevent—financial elder abuse," at https://www.rbcwealthmanagement.com/ca/en/research-insights/how-to-recognize-and-prevent-financial-elder-abuse/detail/.

For more information on World Elder Abuse Awareness Day, please visit https://cnpea.ca/en/what-is-elder-abuse/world-elder-abuse-awareness-day.

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13. http://www.who.int/ageing/publications/ELDER_DocAugusto8.pdf
14. http://nationalseniorsstrategy.ca/the-four-pillars/pillar-1/addressing-ageism-elder-abuse-and-social-isolation/

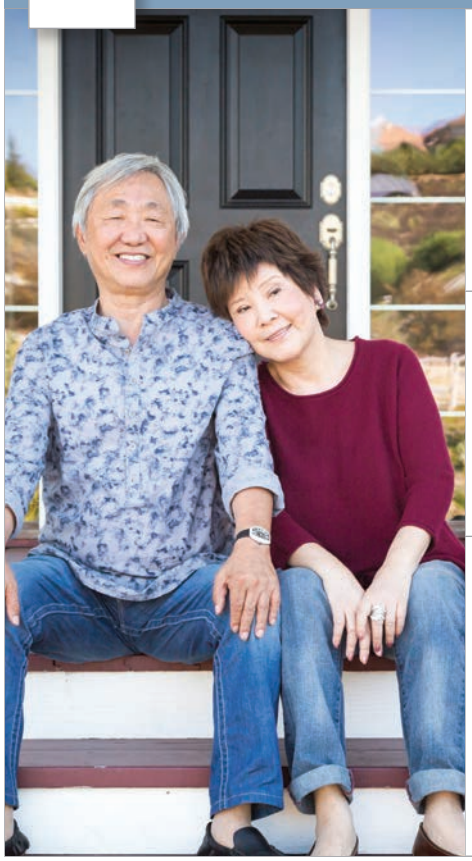
For a complete list of provincial and territorial elder abuse networks and to find information for how to get involved in your community, please visit https://cnpea.ca/en/knowledge-exchange/networks/150-provincial-and-territorial.

FINANCIAL PLANNING **CHECKLIST** FOR SENIORS

There are many tax, investment and estate planning strategies available throughout an individual's lifetime, but there are also some that are more relevant for seniors or that apply specifically to those age 65 or over. The following is a chart of commonly used strategies:

(Note: Any reference to "spouse" also includes a common-law partner.)

1 INCOME SPLITTING



Pension income splitting	If your spouse's marginal tax rate is lower than yours, it may be possible to split up to 50 percent of your eligible pension income with your spouse. Eligible pension income includes life annuity payments from a registered pension plan* and, once 65 or older, withdrawals from Registered Retirement Income Fund (RRIF) and Life Income Fund (LIF) accounts.
Spousal Registered Retirement Savings Plan (RRSP) contribution	You may want to make contributions to a spousal RRSP if your anticipated retirement income is higher than that of your spouse. In so doing, you will effectively be splitting income with your spouse in retirement, while you still realize an RRSP deduction in your current year's tax return.
Pension sharing	If you and your spouse are age 60 or over and are receiving or eligible to receive Canada Pension Plan or Quebec Pension Plan benefits, and you will have higher income in retirement, consider sharing these pension benefits with your spouse and make an application to Service Canada/Retraite Quebec. They will determine the portion that may be allocated to the lower-income spouse and taxed in their hands.

** If you are a resident of Quebec, you will only be able to split life annuity payments from a registered pension plan for provincial tax purposes if you are 65 years of age or older.*

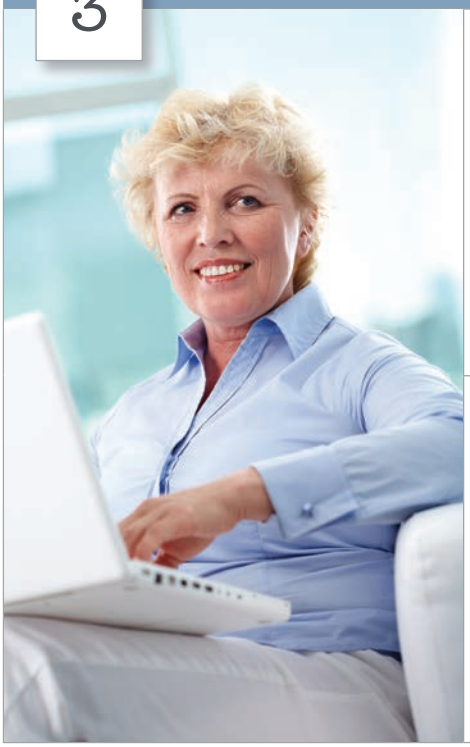
TAX MINIMIZATION

2

RRSP contribution	If you're turning 71 this year and are either still generating RRSP contribution room or have unused RRSP contribution room, consider making a final RRSP contribution, before converting your RRSP to a RRIF.
Tax-Free Savings Account (TFSA)	By contributing to your TFSA, any income earned (including capital gains) within it and any withdrawals made are generally tax-free, so they don't impact federal government income tested benefits (e.g. Old Age Security, Guaranteed Income Supplement), nor do they affect your entitlement to federal tax credits.
Use spouse's age for RRIF minimum payments	If you don't need the mandatory annual minimum RRIF payments and your spouse is younger than you, your spouse's age can be used to determine your annual minimum taxable RRIF withdrawals.

GOVERNMENT BENEFITS

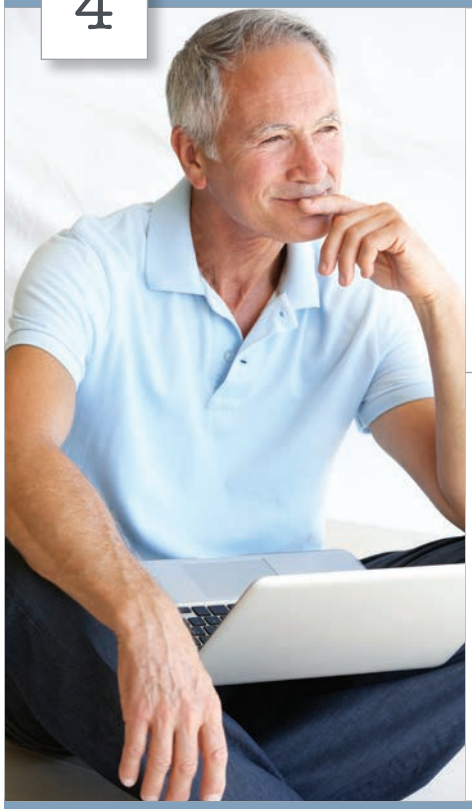
3



Old Age Security (OAS)	OAS payments are income tested and subject to clawback. If you anticipate that you will be subject to clawback at age 65 (when you would otherwise first be entitled to receive these payments), you can postpone receiving your OAS payments for up to five years, and, in turn, receive higher OAS monthly payments when your income may potentially be lower.
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)	The amount of CPP or QPP payments you will receive is based on past contributions to these programs and your age. Payments can be received as early as age 60, subject to a reduction. You can also delay receipt of payments up to age 70 and receive an increased monthly amount (which is increased by a certain percentage for each month you delay, after age 65 up to age 70).

TAX CREDITS

4



Age amount	The age amount is a federal non-refundable tax credit of $1,100 (15 percent of $7,333 for 2018). If you are age 65 and over, you may be able to claim the age amount on your tax return. If you do not need to claim all of the credit to reduce your federal taxes to zero, any unused amount can be transferred to your spouse in the current taxation year. It cannot be carried forward or back to other tax years.
Pension income tax credit	You may be entitled to receive a federal non-refundable pension income tax credit on the first $2,000 of eligible pension income you receive, which includes life annuity payments from a registered pension plan. When 65 or over, it also includes withdrawals from RRIF and LIF accounts. If you don't need to claim the entire credit to reduce your federal taxes to zero, unused amounts can be transferred to your spouse in the current taxation year. It cannot be carried forward or back to other tax years.

TRUSTS

5

Inter-vivos trusts	An inter-vivos trust, such as a family trust created during your lifetime, can be used to income split with children or grandchildren, so as to provide ongoing financial support for family members. It also offers a means to transfer assets outside of your estate. If you are 65 and over, an alter ego trust or a joint partner trust (for spouses) may offer additional tax and estate planning opportunities for you and/or you and your spouse.
Testamentary trusts	A testamentary trust is established through your Will and is an alternative to an outright distribution of estate assets which can allow you to control the timing and distribution of assets. While the tax benefits are limited over the long term, with some exceptions, such a structure may still be worthy of consideration for your family.

GIFTS

6

Gift assets	If you have determined that you do not require an asset or the income from that asset during your lifetime and it would otherwise be your intention to give it to your children or grandchildren, an outright gift during your lifetime may benefit you and your family. It is important, however, to recognize that, for tax purposes, you are deemed to have disposed of the assets at fair market value at the time of the gift. As well, if the gift recipient is a minor, there are attribution rules that may eliminate the tax benefits associated with making the gift.
In-kind donation of publicly listed securities	If philanthropy is a priority, you may want to consider gifting publicly listed securities, because any accrued capital gains should be tax-exempt and you will also receive a donation tax credit. Before pursuing this approach, discuss such plans with the intended charity to ensure that they can and will accept this form of gift.
Charitable remainder trust	In certain circumstances, a charitable remainder trust may be beneficial, partly because it provides you with immediate tax relief, instead of your future estate. A charitable remainder trust is established by contributing cash or other property to the trust and naming a charity as beneficiary. Throughout your lifetime, you will receive income from the trust, and upon your death, the remainder will pass directly to the charity you named. It is important to determine, in advance, whether the charity you intend to benefit can and will accept this form of gift.

Connect with a skilled advisor

Don't have an RBC advisor and wish to find one? Please visit https://www.rbcwealthmanagement.com/ca/en/find-a-wealth-advisor/advisorsbranches-directory/.

The information provided is an overview of certain strategies and considerations, and may not necessarily apply to your individual situation or needs. To further discuss the details and to determine whether any of these, or other, strategies are suitable, it's crucial to consult with your qualified tax and legal advisors to ensure your personal circumstances and goals are properly accounted for.

Smoked salmon pasta primavera

Prep time: 20 minutes
Cook time: 15 minutes
Serves: 4

Ingredients

12 oz	linguine
½ lb	asparagus, trimmed and cut into 2-inch pieces
¼ lb	halved green beans (about 1 large handful)
1 cup	sugar snap peas, trimmed
½ cup	frozen edamame or peas
1 tbsp	butter
1	small onion, minced
2	garlic cloves, minced
3 tbsp	all-purpose flour
2½ cups	milk
½ tsp	salt
Freshly ground pepper	
1 pkg	smoked salmon (140 to 200 g), cut into wide strips
½ cup	coarsely chopped fresh mint
½	lemon

Tips

- Try a milder white fish or cooked chicken strips for a delicious kid-friendly twist.
- If the asparagus or beans are very thin, add them during the last 2 minutes of cooking the pasta, to prevent over-cooking.

Directions

1. In a large pot of boiling salted water, cook linguine for 10 minutes, or until al dente, adding asparagus, beans and sugar snap peas during the last 3 minutes of cooking, and then edamame during the last minute. Drain very well.

2. Meanwhile, in a large saucepan, melt butter over medium heat. Add onion and garlic; stir and cook for 3 minutes. Stir in flour. Very gradually whisk in milk until smooth; cook, stirring often, for about 5 minutes until mixture boils and has thickened. Add salt and pepper.

3. Add pasta mixture, stirring until hot. Stir in salmon and mint, just until mixed. Squeeze juice from lemon overtop of the pasta and stir. Serve immediately.

Nutritional breakdown

(per serving)

Calories: 576
Protein: 29 g
Carbohydrates: 93 g
Fats: 10 g
Fibre: 7.9 g

DAIRY FARMERS OF CANADA QUALITY MILK ™

Recipe and image reprinted with permission from Dairy Farmers of Canada — www.dairyfarmers.ca.

Additional recipes can be found at www.dairygoodness.ca.

THE RBC WEALTH MANAGEMENT

Making
financial education
a priority
for younger
individuals and
multi-generational
families.

FINANCIAL LITERACY PROGRAM

Financial decisions touch so many aspects of life. Some decisions are simpler, ranging from day-to-day purchases and choosing products and services for you and your family, while others are more complex, such as saving for your children's education, caring for an aging parent, or planning for long-term life and retirement goals. And while the bulk of those decisions often take place throughout the various stages of adulthood, that doesn't mean individuals should wait until those decisions are on the horizon to learn about and understand the related financial concepts and planning approaches. When it comes to financial literacy, a mindset of "it's never too early to start" is a central one to adopt, as building sound financial management skills early on enables individuals to be confident, informed and capable decision-makers throughout life.

Unfortunately, however, the reality is still that many individuals, and specifically younger Canadians, are not adequately equipped with financial knowledge and skills. In fact, according to a recent report from The Organisation for Economic Co-Operation and Development (OECD) based on the Programme for International Student Assessment (PISA) on financial literacy, 30 percent of teens (the assessment sample was 15-year-olds) still score at or below the minimum threshold of financial knowledge. This means, at best, being able to identify common financial terms, make simple decisions on everyday spending, and recognize the difference between needs and wants. What's more, less than one-quarter scored at the highest level, which is defined as being able to analyze complex financial products, solve non-routine financial problems and show an understanding of the wider financial landscape.[1] And while these particular statistics are limited to teens, broader research and studies also indicate that a lack of financial literacy is not unique to younger individuals in Canada.

THE RBC WEALTH MANAGEMENT

Did you know?

According to the most recent Canadian Financial Capability Survey, only "7.1 percent of Canadian adults considered themselves 'very knowledgeable' financially."[2]

To address the findings relative to younger generations and also with a focus on making financial education a priority for everyone, regardless of age or life stage, RBC Wealth Management (RBC WM) has developed a new learning platform to help individuals build sound financial management skills — the RBC WM Financial Literacy program.

What is the RBC WM Financial Literacy program?

Launched in January of this year, the RBC WM Financial Literacy (FL) program has been created for individuals who are 16 years of age or older, and it features four main education focus areas — Earnings & Savings, Wealth Planning Basics, Investing and Advanced Planning — and a total of 20 learning modules.

In designing this program, RBC WM has combined three key principles that are proven to be effective when it comes to financial education: formal, comprehensive and structured learning opportunities. This holistic learning model has been created based on industry research surrounding methods of financial education. For example, the RBC WM 2017 Wealth Transfer Report found that while informal learning via family is the most common method of financial education, the most effective way to build financial literacy is actually through formal, structured learning.

For a complete list of modules and additional details, please view the program overview on page 22.

The specific approach of the program extends beyond basic informational and instructive learning, using a wide variety of case studies and practical exercises to help individuals apply and embed the lessons and learnings with their day-to-day financial decisions. Through this format and by providing hands-on opportunities to practise the knowledge, this program takes learning further and shows individuals how to use their knowledge in various real-life scenarios.

Currently, the RBC WM FL program is advisor-led, so individuals participating in the program gain the added benefits of being taught by a qualified financial professional who acts as their main resource during the learning sessions.

FINANCIAL LITERACY PROGRAM

Building financial literacy at every life stage

RBC WM recognizes there are a number of realities many families are facing that drive home the increased significance of building sound financial management skills and has designed the RBC WM FL program to help support multi-generational families.

For younger individuals, research indicates that there is a strong relationship between early learning and confidence level when it comes to financial decision-making, but unfortunately, learning is typically taking place much later than it should (average age is 26, based on findings from the RBC WM 2017 Wealth Transfer Report), leaving many heading into early adulthood with little foundational knowledge, experience or understanding of financial or wealth planning topics. Additionally, when transitioning to greater financial independence, the pressures of both short- and long-term financial decisions are often felt hardest among younger individuals, and these pressures seem to be growing amidst substantial shifts in the job market, economy and technology, and with the impending largest wealth transfer in history underway in Canada. As such, the importance of sound financial management skills is quickly rising to the forefront, and formal education in this regard can be an invaluable tool in helping younger individuals ease the stress around managing finances and in setting financial goals for their futures.

For adults, life events at any stage can often bring to light the importance of having strong foundational knowledge and awareness about a full range of wealth planning topics. For example, according to the 2016 Census, there's been a 20 percent increase in the number of seniors since 2011 and also during that time a 41 percent increase in those age 100 or over.[3] With this significant shift in population demographics, as well as longer life expectancies in Canada, many adults will need to plan for a potentially longer retirement, the potential for health issues or caring for an elder parent/grandparent, but may not have much knowledge or experience in how best to plan financially for these scenarios or what aspects of planning are crucial for this stage of life. As well, some families may be in a position where one partner has traditionally handled all of the finances, and while that may have been the easiest approach, it's important to remember that unexpected events or life changes could create significant challenges if both partners aren't educated and comfortable as the family's financial decision-maker.

Generally speaking, the overall goal of the RBC WM FL program is to make structured, comprehensive financial education accessible and available for all individuals who think they could benefit from improved financial knowledge. While there is a heightened focus on younger generations and the importance of equipping them with sound financial management skills early on, this program is equally relevant and valuable for individuals of all ages and life stages, recognizing that financial literacy is something that's important for everyone within the family.

The bigger picture – helping to prepare younger Canadians

RBC Future Launch is RBC's largest-ever commitment to Canada's future, helping young Canadians prepare for success and access meaningful employment by addressing three critical gaps: experience, skills and networking. One of the main focus areas within RBC Future Launch is helping ensure youth are future ready by providing equitable access to 21st-century skills, part of which includes making education a top priority when it comes to financial literacy, critical thinking and problem solving. This aspect is at the core of the RBC WM FL program, the program itself serving as a key tool to help achieve and support the overall youth strategy, while at the same time assisting younger individuals with handling the realities of today and in preparing for the potential challenges and changes of tomorrow. For more information on RBC Future Launch, please visit https://www.rbc.com/dms/enterprise/futurelaunch/index.html.

References:

1. http://www.oecd.org/pisa/PISA-2105-Financial-Literacy-Canada.pdf
2. http://www.statcan.gc.ca/daily-quotidien/141106/dq141106b-eng.htm
3. http://www.statcan.gc.ca/daily-quotidien/170503/dq170503a-eng.htm

Connect with a skilled advisor

Don't have an RBC advisor and wish to find one? Please visit https://www.rbcwealthmanagement.com/ca/en/find-a-wealth-advisor/get-matched-with-an-advisor.

THE RBC WEALTH MANAGEMENT

EARNINGS & SAVINGS

Budgeting money
Expenses and how to budget effectively

Income and taxation
Sources of income and tax rules

Banking services
Bank accounts and digital services

Interest
How interest works for the borrower and the lender

Credit
Credit scores, borrowing options, mortgages, staying financially fit

Account types
Investment accounts available to Canadians

WEALTH PLANNING BASICS

Planning benefits
Planning process approaches, components, benefits and steps

Wealth stage plans
Examining the goals of an early saver, a mid-life accumulator, a preserver/spender

Financial documentation
Common documents in investing, banking and planning

FINANCIAL LITERACY PROGRAM

INVESTING

Asset classes
Understanding cash, bonds and stocks

Markets & investment vehicles
Examining capital, secondary and stock markets; mutual funds, ETFs, etc.

Risk & diversification
Importance of diversification and “risk and return” relationship

Risk tolerance profile
Determining investment profile and comfort level with risk

Building a portfolio
Building a portfolio for an early saver, a mid-life accumulator, a preserver/spender

Understanding fees
What fees are and why they exist

ADVANCED PLANNING

Wills & estates
Components, importance of planning, documentation

Insurance
How and where insurance fits into wealth planning

Charitable giving
Categories of giving and types of donations

Trusts
Trust types, purposes and benefits

Wealth transfer
Planning for passing wealth to the next generation

6 financial literacy principles

Core concepts to help build sound financial management skills in youth.

Did you know?

According to the RBC Wealth Management 2017 Wealth Transfer Report, many individuals are getting a late start when it comes to financial literacy — the average age when individuals begin learning about financial and wealth topics is 26. Starting earlier may offer a number of benefits and greatly contributes to increased confidence when it comes to financial decision-making.

BUDGET YOUR MONEY

"Pay yourself first"

TAXATION – IT'S NOT ALL YOURS

"Understand your true earnings and how they are taxed"

BORROWING

"Not all money is created equal"

PLAN BEFORE INVESTING

"Think about and map your goals"

INVEST TO ACHIEVE YOUR GOALS

"Match your financial vision with the right investments"

PREPARING YOUR ESTATE

"Protect yourself, your family and all of your assets"

1 BUDGET YOUR MONEY

"Pay yourself first"

In general, there are four main uses for money: **Spending, Investing, Saving, Giving Away**. Finding the right balance among these four categories is essential, and a budget can be a very useful tool to help you accomplish this.

5 key benefits of a detailed budget

1. Tracks cash in vs. cash out
2. Determines savings needed for short- and long-term goals
3. Helps you manage monthly bills and expenses
4. Prepares for unexpected expenses
5. Decreases likelihood of overspending or unnecessary spending

Get going

An important starting point in creating a budget is thinking about and recording your short- and long-term financial goals (e.g. a new electronic device, vacation, vehicle, house, further education). Doing so will help generate a baseline for mapping out and putting concrete plans in place.

Structure your savings

To help prioritize savings in your budget, consider setting aside a specific amount on a regular basis, such as through a pre-authorized contribution plan where funds are taken from a paycheque and deposited in an investment vehicle or savings plan.

Many use this formula in their budgeting: Income – Expenses = Savings ...

But, this is the formula to help you achieve money success: **Income – Savings = Expenses**. In other words, savings should be prioritized and built into your budget plan, and expenses should be planned and paid from the remaining money after savings have been factored in.

For a budget to be most effective, it's important to factor in all lifestyle expenses and other financial components, and ensure they're logged appropriately. To help you in creating a budget, try the RBC Wealth Management Budget Calculator at www.rbcwealthmanagement.com/_ca/static/documents/budget-calculator.pdf.

In creating a budget, it's important to include and track:

Income, savings goals, fixed expenses and flexible expenses (needed and wanted).

2 TAXATION – IT'S NOT ALL YOURS

"Understand your true earnings and how they are taxed"

4 main sources of income: **Employment, Investments, Inheritance and Unexpected** (such as a lottery win). Each of these sources may be taxed in different ways and at different levels.

Canada's federal tax rates are based on income level:

Income level	Tax rate
‹ $11,635	0%
$11,635 – $45,916	15%
$45,916 – $91,831	20.5%
$91,831 – $142,353	26%
$142,353 – $202,800	29%
› $202,800	33%

... BUT, it's important to distinguish between **marginal tax rates** and **average tax rates**. Your marginal tax rate is the rate of income tax that you will pay on your next dollar of income earned. Your average tax rate is calculated considering your total income tax payable as compared with your total income. Further to federal tax rates, there are also varying provincial and territorial tax rates.

Tax by income type

Employment – Taxed at your marginal tax rate

Inheritance – Receiving an inheritance is usually tax-free

Unexpected Income – Lottery winnings and gifts are not taxed when received

Investment – Taxes vary depending on investment/investment income type:

- **Interest** – Taxed at your marginal tax rate
- **Dividends** – Taxed at lower rates than any other investment type
- **Capital gains** – 50% of your capital gain is taxed at your marginal tax rate
- **Rental income** – Taxed at your marginal tax rate

Remember...

Tax considerations exist in various areas of wealth planning. There may be opportunities to incorporate potential tax benefits into your plans and there may also be negative tax consequences associated with certain decisions. Additionally, when choosing the best investments for your circumstances, taxes should not be the only consideration, and it's important to factor in the after-tax rate of return in determining tax-efficient investments. For these reasons, it's crucial to consult with a qualified tax advisor to ensure your circumstances and needs are appropriately accounted for.

For more information on the RBC WM Financial Literacy program, please contact your RBC advisor or refer to the previous article in this issue of *Perspectives*.

3 BORROWING

"Not all money is created equal"

What is credit? A form of borrowing that gives a customer the ability to obtain something on a promise to repay in the future.

Credit and credit scores

When you borrow, certain information is shared with a credit bureau. Over time, additional information, such as whether you've paid your bills on time, whether you've missed payments and how much debt is outstanding, will get shared with the credit bureau. These factors go into calculating your credit score — a number assigned that indicates to lenders your capacity to repay a loan — as reported on your credit rating report.

Credit score range: 300 (just getting started) to **900** (the best score you can achieve)

The "magic middle number" is 650. A score above will likely qualify you for a standard loan; a score below would likely create difficulty in getting new credit.

Why do we borrow?

- To help build credit history for future needs (such as a mortgage)
- To satisfy short-term purchasing needs or online payments (vacations, gifts, personal and household items)
- To facilitate longer-term goals (purchasing a car or house or paying for education)

Other options for borrowing

- Lease/finance (a car, for example)
- Mortgage loans (to finance the purchase of a property)

#1 tip for maintaining credit score...

Pay all bills on time, even if it's just the minimum payment. Missing even one payment can negatively impact your credit score.

3 main types of credit: Credit cards, personal/term loans, line of credit

Regardless of type, remember that all forms of credit come with a cost — i.e. interest, usually monthly, and fees (the amounts lenders charge for use of their money).

Fast facts

Credit card — Great way of establishing credit and credit score at an early age; typically charge higher interest rates, so should be paid off monthly when possible.

Personal/term loan — Suitable when there's a need to borrow money for a specific purpose and the repayment term is longer than a year; interest rates are more moderate.

Line of credit — Most flexible way of borrowing money, whereby a certain amount of money is requested but doesn't need to be used all at once; can usually repay the loan and re-borrow; tends to carry the lowest interest rate.

Tips to manage debt

To avoid over-indebtedness, it's crucial to ensure funds are available to pay your bills. Planning goes a long way to help stay on top of debt. Try creating a list of all your outstanding credit and write down when payments are due and what the interest rate is for each. A good general rule is to repay the debt with the highest interest rate first, and always try to determine where you can make more than the minimum monthly payment.

4 PLAN BEFORE INVESTING

"Think about and map your goals"

Identifying your short- and long-term financial goals will help determine which types of investments and planning approaches may be most suitable and effective to help you save for your needs. In doing so, it's crucial to first distinguish between what you actually need versus what is a "nice-to-have." Going through this process allows you to set realistic goals that you can confidently work towards achieving.

Two approaches to planning finances

Simple projection — A simple cash-flow analysis that looks at short- and long-term goals

Detailed plan — A comprehensive wealth plan, also referred to as a financial plan, which helps guide individuals towards achieving more complex financial goals throughout their lifetimes and beyond

6 benefits of wealth planning

- Peace of mind
- Increased control over the unexpected
- More money in your pocket
- Minimized financial risk
- Sustainability
- Easy to update

Wealth stage matters

Your stage of life will greatly impact your financial picture now and in the future, and the financial and investment decisions you make. In general, there are three main wealth stages that individuals move through and between over the course of life.

Early Savers — Establishing career, perhaps buying a home, getting married or starting a family

Main objectives: Earning, saving and growing assets

Mid-Life Accumulators — Stable career, homeowner, starting to think about retirement and estate planning and transferring wealth to children

Main objectives: Creating a balanced portfolio of preservation and growth

Preservers/Spenders — Retired or working less, using accumulated wealth to generate income as a salary replacement, keen on protecting assets, estate and wealth transfer planning is a priority

Main objectives: Minimizing risk, generating income to replace salary and managing wealth wisely in regards to income tax

Whether you develop a simple wealth projection or a more detailed wealth plan, the process involves analyzing and interpreting all of your financial information. From there, results are generated, and those results are modified and tweaked until desired goals become feasible. Your current stage in life may impact what type of recommendations are made, as well as how you implement the recommendations to pursue your financial goals, and will differ by individual (e.g. increase savings towards your retirement goal by opening a Tax-Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP)).

Don't forget to monitor!

Wealth plans and projections should be treated as living, breathing documents. To make sure they continue to work for your personal situation, they need to be reviewed on a regular basis. A good rule of thumb is to revisit it annually — unless you experience an unexpected life event, your goals change or there's a material change in your financial picture. One of the best ways to ensure you revisit it regularly is to simply schedule the time in advance on your calendar.

5 INVEST TO ACHIEVE YOUR GOALS

"Match your financial vision with the right investments"

While there is a wide variety of investment options available, the two primary types of accounts in which they are held — **Registered and Non-Registered** — can have implications for investors.

Registered: Accounts and plans that are registered with the government for income tax purposes and that provide tax-deferral opportunities (e.g. RRSP, Registered Retirement Income Fund (RRIF), Registered Education Savings Plan (RESP), Registered Disability Savings Plan (RDSP), other pension plans) or are non-taxable (TFSA)

Non-registered: Accounts that are not registered with the federal government, do not have limits and earn income that must be included as taxable income each year (e.g. investment accounts with corporate stocks, bonds, mutual funds, exchange traded funds (ETFs) or guaranteed income certificates, to name a few)

What's the difference between an asset class and an investment vehicle?

An asset class is a broad category of investments (e.g. cash, bonds or stocks) that have a distinct risk/return relationship. An investment vehicle is the financial product that enables investors to buy and sell the underlying asset class (e.g. a mutual fund or an ETF).

What type of investor are you?

When building your investment portfolio, it's important to first gauge your risk tolerance, which is the amount of market volatility, specifically the ups and downs, that are reasonable to expect during your time horizon. Defining your risk tolerance will help you determine the type of portfolio that best suits your needs and also help you manage expectations during down markets. Once you have a sense of where you are on the risk tolerance spectrum (risk-averse versus risk-tolerant, or somewhere between), you are in a better position to invest in a portfolio that aligns with your overall goals and objectives as an investor.

Understanding the risk/return relationship

In the investing world, there is a strong relationship (correlation) between risk and return. Generally speaking, the higher the potential return, the more risk an investor should be willing to accept. Keep in mind, for most types of investments, returns are not guaranteed.

Main components in determining risk tolerance and investor risk profile

- Your investment time horizon
- Level of comfort with fluctuating markets
- Your other sources of income/overall financial situation
- Your liquidity or cash flow needs

"Don't put all your eggs in one basket"

With investing, it's important to diversify, which means finding the right balance of investments and creating a portfolio that includes different types of investments to reduce overall risk and volatility.

Connect with a skilled advisor

Don't have an RBC advisor and wish to find one? Please visit https://www.rbcwealthmanagement.com/ca/en/find-a-wealth-advisor/advisorsbranches-directory/.

6 PREPARING YOUR ESTATE

"Protect yourself, your family and all of your assets"

Your "estate" is **all of the property that you own** — from your car, home or other real estate to bank and investment accounts and personal possessions.

What is estate planning?

While creating a Will is an important step in the estate planning process, estate planning is the broader process of creating a detailed plan, in advance, that includes tasks and decisions for the management and disposal/transfer of a person's assets during their lifetime and after death. It can, together with your Will, serve to help assure that your wishes and intentions are carried out and that your assets can be passed down to your heirs in the most tax-efficient ways.

Key documents in estate planning

Will – This is a guiding legal document in the administration of an estate where you outline your decisions for how property and possessions are to be distributed at death. If an individual passes away without a valid Will, they are said to have died "intestate" and, simply put, this means the provincial laws determine how the estate will be administered and divided. In other words, individuals lose all choice as to who receives what, and it may also create extra fees, taxes and delays in administering the estate.

Power of Attorney (POA)* – This is a written document that legally authorizes another party to act on an individual's behalf during their lifetime. It may help to provide personal and financial comfort should you become incapable of making these decisions (due to an accident, significant illness, cognitive condition, etc.).

** In Quebec, this is called a Mandate.*

Main wealth transfer options

- Through your Will
- Registered accounts with named beneficiaries or joint ownership accounts
- Gifting assets before death
- Through inter-vivos (living) trusts

Creating an inventory

A beneficial first step in estate planning is building an inventory of what you own and what you owe, as well as other important financial information (location of your Will, POA/Mandate, insurance policies, digital passwords, etc.). Check out RBC Wealth Management's The Family Inventory at www.rbcwealthmanagement.com/_ca/static/documents/the-family-inventory.pdf.

Key questions in estate planning

1. Who will act as executor and administer my estate after my death?
2. Who are my beneficiaries?
3. How do I want to support them?
4. What charities do I want to support?
5. Am I transferring assets in a tax-efficient way?
6. Which assets will make up my estate?
7. Who will act as my power of attorney for property or personal care should I become incapable?

Death and taxes

In Canada, there is no true estate tax, BUT there are three potential taxes that may apply at death:

- **Income tax** — Because individuals are deemed to have disposed of all of their assets at death, meaning capital gains are automatically triggered and registered accounts are generally collapsed
- **Provincial/territorial probate fees** — Applicable fees associated with probating a Will, which vary greatly by province/territory
- **U.S. estate tax** — For U.S. sourced assets, such as U.S. corporate stocks and U.S. real estate

Did you know?

Insurance may be an estate planning option to consider. Why?

- It can provide a tax-free lump-sum death benefit.
- It can provide liquidity in an estate to pay taxes and debt.
- It can provide funds when they are needed the most.

85% of all jobs are filled via networking.

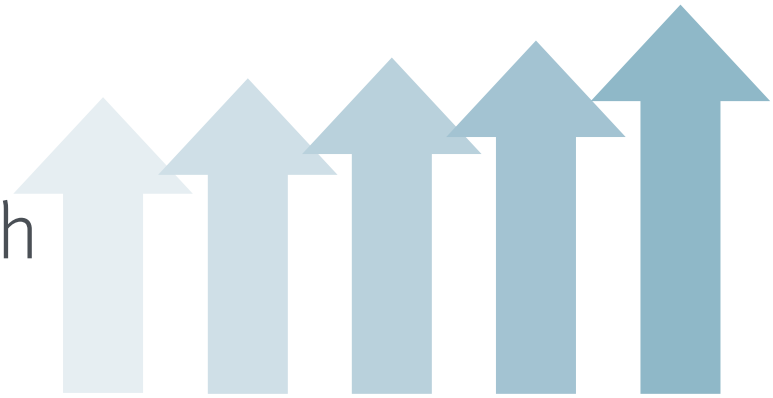
Four million Canadian youth entering the workforce over the next decade are going to need a foundation of skills that sets them up for many different jobs and roles rather than a single career path.

In the coming decade, 50 percent of jobs will either change dramatically or undergo a skills overhaul.

Only 34% of employers believe youth are prepared for the workforce.

The Canadian economy will create 2.4 million new jobs between now and 2021 — but almost all of them will require a different approach.

RBC Future Launch



An unprecedented commitment to helping Canadian youth prepare for the future of work.

Helping the youth of today put their best foot forward as they step into the workplace of the future — that's the ultimate goal of RBC Future Launch. A 10-year, $500 million commitment to help empower Canadian youth for the jobs of tomorrow, RBC Future Launch marks the largest commitment to a social issue in RBC history, and for good reason. Our economy and job market are being transformed more rapidly than ever before as a result of technology, innovation and automation, and the tremendous pressures of these changes are taking a toll on young Canadians. Despite many young people spending more time and money on education and generally having more credentials than past generations, today's youth are facing increased barriers and challenges when it comes to securing meaningful employment.

Addressing the "quiet crisis"

According to Statistics Canada, while the youth unemployment rate is comparable to that of the mid-1970s, there are significantly fewer young Canadians who hold full-time or permanent jobs, and overall job quality in many cases has deteriorated. In recognizing the responsibility to help better prepare young individuals for the changing workforce and for the future of work, RBC Future Launch aims to address three critical barriers young Canadians currently face: a lack of experience, a lack of relevant skills and a lack of professional networks.

To help overcome and dismantle these barriers, RBC Future Launch seeks partnerships with companies and organizations in both the public and private sectors, and collaborates with government and educational institutions, to co-create long-term solutions and support. Through these partnerships and efforts, the program focuses on increasing access to work-integrated learning experiences; developing current, competitive and lifelong skills and skill sets; and helping youth grow their networks by providing access to valuable networking opportunities. And further to the financial investment, RBC Future Launch is committed to raising awareness through research, speaking and convening in meaningful ways, as well as bringing people together to further understand the issue in order to find the best methods and paths towards making a significant positive impact on the lives of young Canadians.

Providing support and fostering change

At the very core of what RBC strives for as an organization is helping clients thrive and communities prosper. RBC Future Launch represents an important avenue through which to achieve and deepen this core purpose, providing a strong catalyst for positive change by working alongside young people and youth-focused partners.

Faced with this fast-shifting world of work, it's important for everyone to recognize that prosperity for all Canadians over the long term — and remaining competitive in the global economy — is directly linked to our ability to get some big things right and to help prepare young people to succeed. And during this time of change, Canada's greatest strength will be its youth, so the time is now to invest in the generation that will shape Canada's future.

For more information, please visit rbc.com/futurelaunch.

Note: Statistics courtesy of the RBC "Humans Wanted" report, 2018; McKinsey, April 2015; The Adler Group, February 2016.

TIMING IS EVERYTHING

Considerations for transferring wealth while living or through a Will.

It's a statistic that some have likely read or heard before, but it's one that's certainly worth repeating:

Over the coming years and decades, it's estimated that approximately $400 billion in wealth will be passed down from one generation to the next across Canada.[1]

With such a significant amount of money changing hands, a common "grand scale" question that's being asked is: Are people prepared? Generally speaking, the answer is no. While many have likely given some thought to wealth transfer or know what their intentions and personal preferences are, the reality is that the majority of Canadians have done very little — or, in some cases, nothing — to formally prepare and plan. In fact, according to the RBC WM 2017 Wealth Transfer Report, more than one-third have no wealth transfer plans in place at all. If you combine these findings with the fact that the Canadian population continues to be more strongly represented by seniors, this unfortunately suggests that without greater attention towards individual planning, there may be widespread impacts on a significant number of multi-generational families in the not-so-distant future.

Trends in timing for giving

Generally speaking, the majority of individuals gravitate towards transferring their wealth after death, and the reasons for doing so vary, whether it's wanting to ensure a certain lifestyle can be maintained, feeling there's not enough to give away gradually, or even a lack of comfort making wishes known to heirs. Findings in the RBC WM 2017 Wealth Transfer Report confirm this tendency, with 57 percent intending to pass down the entirety of their wealth to the next generation upon death, and only 29 percent intending to gift it gradually during their lifetimes. The remaining 14 percent were either unclear on their plans or intended to pass all of their wealth down only if they became ill.

But even when individuals do feel certain about the approach they're most comfortable with, it's important to ensure that decisions are arrived at for the right reasons. Personal preferences may, of course, be part of the equation, but there is a range of factors, as well as potential advantages and drawbacks, that need to be considered and prioritized with each approach. *Note: Given that each individual's circumstances and goals are different, it is crucial to consult with qualified advisors and estate planning professionals to ensure your situation is properly addressed and planning is carried out to best suit your specific needs and goals.*

Prioritizing your own financial well-being

When considering when and how you may want to pass down your wealth, your current and future needs should always remain the top priority. This is where it becomes important to take the time to assess your present financial situation and really give thought to your long-

term financial objectives, the type of lifestyle you want to maintain into and throughout retirement, and any potential events or changes to your circumstances that may add to your financial needs down the road. Some important questions to ask and to examine include:

- When do I want to retire?
- How and where do I want to spend my retirement?
- What type of lifestyle do I want to maintain?
- What health and healthcare considerations do I need to potentially account for?
- What family dynamics or circumstances may impact my plans?

After answering these questions, the next step is determining what the associated costs may be. Given the multitude of considerations, many of which may be complex, shifting or overlapping, a useful option for some may be comprehensive wealth planning (for example, financial and estate planning), as it provides the opportunity to take stock of all of your income, expenses and assets, and then align them with your financial objectives and needs throughout the course of life.

Giving of wealth – the impact of emotions

Whether you're keen to pass on wealth during your lifetime or prefer to do so via your Will, or a mixture of both, feelings can often quickly take the driver's seat in the decision-making process, and in some cases it can interfere with your original intentions. For many, a common time when emotions come into play is when new milestones among family members occur. For example, maybe your grandchild is pursuing further education or is purchasing their first home. Or perhaps your child is getting married or is expecting a baby. While emotions can be a very strong motivator, it's important to still remain mindful of the fact that while you may have the excess funds in the here and now to give, making a significant gift now may not fit with your overall wealth plan and may impact your own personal needs over the short or long term.

Potential benefits of giving during one's lifetime

For those who do determine, through detailed and comprehensive wealth planning, that they have assets beyond their required and potential needs during their lifetime, there may be some benefits to passing down wealth while living. This can provide an opportunity to see the benefits of that gift during your lifetime and help a family member or loved one when they need it, which can be very rewarding and satisfying. Together with this, there may also be some distinct tax and estate advantages that giving while living may offer.

Tax considerations

Some individuals may be in a situation where their assets generate more income than what they require to support their lifestyle. If this is the case, there may be an opportunity to gift assets during one's lifetime. From a tax perspective, this approach may help reduce future income taxes for the giftor, because they will have less income-producing assets in their name. It may also shift potential future appreciation of these assets, and the associated taxes, to beneficiaries. In addition, if the beneficiary is in a lower tax bracket than the giftor, this strategy may prove beneficial from an overall tax standpoint.

When you gift income-producing assets such as stocks or bonds, you may create an unexpected tax liability. Generally, gifting an asset to an individual (other than a spouse) is treated as a sale at fair market value, triggering any unrecognized capital gain on the asset. Also, the income attribution rules will be applied if the gift is to your spouse or a minor child. Under these rules, the income earned on gifts to either of these persons will still be taxable in your hands (except for capital gains received by a minor child).

You should also be wary of transferring an asset for nominal value (e.g. $1) or some other amount less than fair market value. In some cases, you may be taxed on the full capital gain associated with the asset, and the person receiving the asset will, for tax purposes, have received it at the price they paid you for it, resulting in double taxation.

For more information on senior health and the rising costs of healthcare, please view the accompanying article in this issue of *Perspectives*, "Is age but a number?" on page 6 and the RBC WM *Perspectives* Fall 2016 article, "The changing landscape of healthcare in Canada," at https://www.rbcwealthmanagement.com/ca/en/research-insights/the-changing-landscape-of-healthcare-in-canada/detail/.

Reducing the size of your estate

Whenever an individual passes away, their executor (called an estate trustee in Ontario and a liquidator in Quebec) may be required to obtain a grant of probate in order to be able to fully administer the estate. Probate is an administrative procedure to validate the Will and confirm the authority of the executor/liquidator to act on behalf of the estate. Probate is often required by a financial institution to release a deceased's assets to the named executor of the estate. Most provinces and territories charge a tax when your Will is probated, and within each province and territory, there are varying probate fee rates, which are generally based on the value of the assets passing through your estate. Depending on the province or territory where you live, taking steps to reduce the size of your estate during your lifetime may prove beneficial in helping to ultimately reduce probate fees upon your death. For example, if you're a resident of Ontario where probate fees are high, as high as 1.5 percent depending on estate size, giving away assets during your lifetime may effectively decrease the value of the overall estate and thus reduce the amount of probate fees that would be due upon death. On the other hand, if you're a resident of Alberta or Quebec, for example, this approach may not be a strong one to consider, as probate fees are nominal.

Protecting privacy

For many, the information and decisions contained within their Will are very personal in nature. What some may not be aware of is the fact that when an individual passes away, if their Will needs to be probated, it becomes a public document and may become available for public access.

Every individual may have a different comfort level with their estate details becoming public, and some may not want others to know what their estate comprises, how much is being passed to family members or others, and the specific breakdown of what is being directed to whom, for example. Depending on your personal circumstances, and the value or level of importance you place on keeping this type of information private, giving while living may be an effective strategy to consider, as it gives you privacy over the wealth transfer decisions that you make.

Giving through a Will

Though the majority of Canadians do intend to pass down their wealth upon their passing, according to the RBC WM 2017 Wealth Transfer Report, only just over half have a valid Will in place to accomplish this. This seems to indicate there may be a lack of understanding among many about the negative outcome and challenges that can occur if you pass away without a valid Will, and how it can completely derail your wealth transfer intentions. When someone dies without a valid Will in place, they are said to have died "intestate," which generally means that provincial or territorial laws will determine how the estate will be settled, and you lose the choice of who your beneficiaries will be and who will administer the estate. What's more, you may lose the benefits that come with advanced estate planning, such as minimizing income taxes payable on death.

For those who are drafting their Wills or who do already have a signed Will in place, the following are some steps to take to ensure the validity of the Will and that it's properly maintained over time:

1

Keeping your Will updated.

When change takes place in your life, such as the birth of a child or grandchild, a change in marital status or the death of a family member, for example, you may wish to review your Will and make any changes if necessary. Specifically, when it comes to changes in your marital status, it's also crucial to understand the impact this may have on the validity of your Will or any gifts or appointments made under your Will.

2

Regularly reviewing your Will.

Beyond significant life changes, a good rule of thumb is to review your Will every three to five years, to ensure it continues to meet your wishes and intentions.

3

Keeping your executor updated.

Because of the key role your executor plays in the administration of your estate, it is recommended to make sure they are aware of their appointment, as well as changes to your Will or if you have created a new one. The executor should also be informed of the location of your Will.

4

Making sure your wishes are properly documented.

Wording within Wills needs to be very specific and accurate. To ensure your wishes and intentions are correctly worded and documented in your Will, it's imperative to consult with a qualified legal professional.

Building sound financial management skills

Beyond informal financial learning opportunities, such as those provided by family members, for example, there are distinct benefits of formal financial education. Estate and wealth transfer planning are key principles of financial literacy, and areas that individuals of all ages should have a firm grasp of. To help younger individuals, as well as those at every life stage, RBC WM has developed the RBC WM Financial Literacy program for those who are 16 years of age or older. Within the program, there is a learning module that specifically covers Wills and estates, providing useful and practical information to help educate individuals about this area of planning. For more details, please view the accompanying article in this issue of *Perspectives*, "The RBC WM Financial Literacy program" on page 18.

Passing down knowledge

Regardless of the method or timing chosen, wealth transfer is a topic that's largely under-discussed in most families. But when it comes to helping to ensure a smooth transition of your wealth to the next generation, communication is a critical tool. It provides you the opportunity to outline your intentions (for example, wealth preservation for future generations) and share the reasoning behind your decisions. Additionally, it can help future inheritors understand the process for receiving their inheritance and creates broader opportunities for financial learnings in younger generations.

For those who may be hesitant about having these conversations, it's important to recognize that the benefits of opening up dialogue far outweigh the risks of avoiding the topic. When intentions are clearly communicated and understood, wealth transfer is much more likely to be successful and it helps to ensure future inheritors won't be left in the dark or with unanswered questions. From a family standpoint, it also helps to better ensure your values and your legacy will be preserved in the way you intended and that family relationships and harmony will be upheld.

For more information on incorporating charitable and philanthropic giving into your wealth transfer plans, please view the following article in this issue of *Perspectives*, "Creating a lasting impact."

Reference:

1. https://www.rbcwealthmanagement.com/ca/en/wealth-transfer

Creating a lasting impact

Incorporating charitable and philanthropic giving into wealth transfer planning.

Supporting a cause that's important to you.

Doing a good deed to pay it forward.

Helping those in need after a life-changing disaster or event.

Giving back by volunteering your time.

Making a difference by donating to a charity you are inspired by.

These are just some of the ways many of us give — to our communities, to charitable organizations, to causes that are near and dear to our hearts. Yet while the majority of Canadians — over three-quarters of those age 15 and over — do make some form of charitable donation over the course of the year,[1] giving typically tends to be more reactional and sporadic in nature, and most individuals generally don't incorporate giving into their overall wealth or estate planning.

But if you take a step back and consider why you choose to give and what drives your charitable endeavours, the answer may likely be that it provides an opportunity to support areas and causes you believe in and to express your values in an impactful way. And for those who want to strengthen and preserve those values and beliefs over the course of their lifetime, and potentially also after their eventual passing, this is where it becomes important to consider the benefits that advance and structured planning around charitable giving can offer. While the tendency is often to think of wealth transfer primarily in the sense of passing down wealth to the next generation of family and loved ones (regardless of whether your intentions are to do so during your lifetime, through your Will, or a mixture of both), building giving into your wealth transfer plans creates the ability to streamline your giving in a way that meets individual and family intentions, offers potential tax benefits and may greatly contribute to creating an enduring legacy.

A giving nation

On a global scale, Canada's charitable and non-profit sector is the second-largest in the world.[2]

Finding the right balance in giving

Giving can take on many forms, but it generally exists within two main categories. On one end of the spectrum is on-demand charitable giving, which may be charitable donations that are completely spontaneous or in response to an immediate need, opportunity or request. This may also include regular donations made monthly or annually, or perhaps at a specific time of year, such as the holidays.

On the other end of the spectrum is strategic philanthropy, which is a more structured and targeted approach to giving. Instead of being more responsive and unplanned, like charitable giving often is, philanthropy is proactive and involves establishing a long-term plan for giving in a way that defines and works towards individual or family goals. This form of giving provides the ability for individuals to map out their giving in a way that may better reflect their beliefs and values, and it also allows individuals to organize how and when they give — and through what means — creating the ability to generate a lasting impact both during one's lifetime and after.

Regardless of what your personal beliefs are and the level of emphasis you place on giving in your life, there are a number of ways to incorporate philanthropic giving into your wealth transfer plans. And further to the tax advantages it may offer, a more strategic approach can also result in more meaningful giving for the donor and create a greater impact on society over the long term.

Giving by the calendar

According to the Canada Helps 2017 Giving Report, of all donations that are made over the course of the year, 35 percent happen in December, with 10 percent on the last three days of December alone.[3]

Reflecting on your personal beliefs and values

When considering any form of wealth transfer, whether it's passing wealth to heirs or incorporating charitable or philanthropic giving into your plans, it's crucial to thoroughly assess and prioritize your own potential and certain financial needs before making any planning decisions. After carrying out detailed wealth planning, if you determine that this form of giving is something you can afford and want to pursue in a more strategic way, there is a range of options available.

An important starting point for all individuals is to reflect on their current giving approach, their core beliefs and values, and what causes or organizations are important to them. For example, you or a loved one may have a personal history with a specific charitable organization, or you may have a strong commitment to a certain cause, such as preserving the environment or promoting the arts.

Thinking about these aspects will help to form the basis of your planning and will provide clearer direction for structuring the most ideal timing and approach to achieve your objectives and express values in a way that balances personal, family and tax considerations.

Note: To ensure your specific needs and goals are properly accounted for, it's crucial to consult with qualified tax and estate planning advisors, as they can provide planning guidance around how charitable giving could fit into your overall financial and wealth transfer picture, as well as the potential amounts, timing and type of your gift.

Did you know?

Among Canadians, 49 percent of donors give to charities in the social services category and 36 percent give to those in the health category.[4]

Whatever the drivers behind your giving are, some important personal and strategic questions to examine include:

- How much time and/or financial support are you comfortable to commit to a charitable endeavour or giving now and over the long term?
- Do you feel strongly about continuing to support a cause or an organization not only during your lifetime, but after as well?
- What are the potential income tax considerations associated with giving during your lifetime versus through your Will?

Tax considerations

As a means to encourage Canadians to give charitably, there are some government income tax incentives available. Generally speaking, when a charitable gift is made to a registered charity, a donation receipt is issued for the fair market value of the donation, net of any benefit received (for example, the cost of the meal at a charity dinner). You may then be able to claim a donation tax credit, in the year of the gift.

The amount of the donation tax credit that can be claimed is dependent upon the value of the donation, because it cannot exceed 75 percent of your net income for tax purposes; in Quebec, the limit is 100 percent of net taxable income. Donations can be carried forward for up to five years, so even if the full donation cannot be used in one tax year, the excess amount may still be claimed in a future tax year. For donations that take place in the year of death and the year immediately preceding death, the limit is 100 percent of net income for income tax purposes. And, when a donation is made to a registered charity under your Will, your executor may have some added flexibility in their use of the donation tax credit.

Options and timing for giving

Depending on your circumstances and goals, certain approaches may offer immediate or long-term tax benefits, and at the same time, may provide structured options that help to fulfill your charitable intentions whether you choose to give now, later or ongoing through your lifetime and beyond.

For example, while donating cash is the most widespread and straightforward form of charitable giving, it's also possible to donate non-cash gifts, including capital property, art and other collectibles, eco-gifts, private company shares or even life insurance policies. In particular, donating publicly listed securities may present a tax-efficient opportunity for some, as donors may benefit from the elimination of tax on any accrued capital gains, as well as the donation tax credit.

In many cases, these donations can take place during your lifetime, but there are also options for making specific charitable bequests in your Will, whether it's a residual gift (a percentage of what is left of your estate after other gifts and debts have been paid), a specific gift (a fixed sum of funds), or a specific item of value (such as art, antiques or jewelry). It's also possible to make a gift on your death by naming a registered charity as the beneficiary of certain plans and policies, including your Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Tax-Free Savings Account (TFSA) or your life insurance policy.

Those who may be interested in creating a more ongoing pattern of giving or who wish to build a more personalized approach may want to consider either a private charitable foundation or a charitable gift/donor-advised fund. Generally speaking, private charitable foundations may be suitable if you are willing to make a greater time commitment and devote additional resources to charitable activities, whereas donor-advised funds provide an appealing alternative for some, as they enable donors to create an enduring charitable legacy with lesser demand on time and lower cost than a private foundation.

Given the wide range of options, as well as the specific considerations for each, this is where your qualified tax advisor can be an invaluable resource to help navigate through the restrictions, taxes or potential advantages or drawbacks of both the type and timing of gift you want to pursue.

For additional details on the various options and types of giving, please view the RBC WM Charitable Giving guide at https://ca.rbcwealthmanagement.com/documents/10180/0/Charitable-giving-english.pdf.

Planning for your legacy intentions

For those who've established a charitable gift fund with a public foundation, one of the potential advisory rights could be the ability to recommend grants from the assets available for grant making to qualified organizations. With this in mind, it's important to give thought in advance as to how you would want grants to be distributed if you were to become incapacitated or upon your passing, and this can be accomplished through completing a "Legacy Intention Form" or by writing a letter of intentions. This information can provide insight into your charitable objectives, including identifying specific grant recipients, preferences for programs or purposes, how amounts should be divided among recipients and the value of your grants. In general, it provides an opportunity to clearly state your overall charitable priorities and interests, and any other information that you would like considered in future granting decisions for your fund.

Preserving charitable values

While basic definitions of a "legacy" often focus on the passing of money and property to the next generation, for many individuals, building a lasting legacy goes well beyond these aspects. Many view a legacy as being much more holistic, and it often includes everything from beliefs and values to intentions and wishes to traditions and reputation. In this regard, further to passing down wealth to heirs and expressing your intentions that way, structured giving may present another ideal option to help solidify your legacy in the overall sense. Whether you have a strong commitment to philanthropy or you lean more towards a simpler legacy gift, planning your charitable and philanthropic giving in advance will help to assure that the areas you feel strongly about during your lifetime continue to receive support and that your commitment to certain causes can live on in the years to come.

And in much the same way as transferring wealth to heirs, it's beneficial to make your charitable intentions known among family members and heirs and to discuss your individual and family values. Doing so will help to provide clarity around the wealth transfer decisions you're making, and may also present an opportunity to develop a shared sense of motivation and purpose in giving back within your family. This in itself can be a very powerful catalyst for embedding those values through multiple generations and thus further strengthening a legacy that endures.

Did you know?

While recent statistics are limited, data suggests that only approximately 4 to 7 percent of Canadians include a charitable gift in their Will.[5]

The **RBC Charitable Gift Program** enables individuals and families to make meaningful and ongoing contributions to a charitable gift fund managed by Gift Funds Canada. From a legacy standpoint, it provides the opportunity to express and strengthen charitable values during one's lifetime and then preserve them for generations to come. Multiple generations can get involved in the process and collectively discuss how to direct the contributions each year, and unlike a one-time, major gift to a charity, this type of charitable giving can live on for years and potentially indefinitely through a lasting gift. Furthermore, through this program, you can provide annual giving to one charity you support or spread out grants to many charities over time. For more information about the RBC Charitable Gift Program, please speak with your RBC advisor, and visit http://www.rbcds.com/charitable-gift-program.html.

Fostering charitable values among younger generations

Values and beliefs — in all aspects of life, charitable or otherwise — are something that many hope and strive to pass down to future generations of loved ones. For those with a charitable mindset or who want to build or deepen philanthropy within their family, being proactive with education can go a long way in helping to embed and preserve those types of values for generations to come.

There are so many methods, levels and avenues through which charitable and philanthropic giving takes place, so a key message to focus on with children and youth is that there are vast opportunities to make a difference, whether it's within their school or community, or more broadly through national or global causes and organizations. Depending on age, it may be worthwhile to start with a discussion about what charitable values are important to you and how you give, and then ask what causes they may be passionate about. From there, an option would be to help them research and find a project or initiative they would be interested in supporting or getting involved with. To read more on philanthropy and future generations, please view the Fall 2016 *Perspectives* article, "A Canadian outlook – Sustaining a culture of philanthropy," at https://www.rbcwealthmanagement.com/ca/en/research-insights/a-canadian-outlook-sustaining-a-culture-of-philanthropy/detail/.

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Spicy spring pizza

Prep time: 15 minutes
Cook time: 10 minutes
Serves: 4

Ingredients

4	individual-sized thin pizza crusts or naan breads
2	plum tomatoes, sliced
2	green onions, cut into 1-inch pieces
5 oz	fresh or frozen Northern shrimp (also known as Matane shrimp), chopped
2	garlic cloves, chopped
1 tsp	hot pepper flakes
4 tsp	olive oil, divided
2 cups	Canadian mozzarella, grated
1½ cups	baby spinach, finely chopped
1 cup	watercress
2	endives, thinly sliced
2 tsp	lemon juice

Freshly ground pepper

Tip

For a different flavour, try substituting the mozzarella cheese with a mild cheddar, Monterey Jack or gouda.

Directions

1. Preheat oven to 450°F (230°C).
2. Place pizza crusts on a parchment-lined baking sheet. Top with tomato slices, green onions and shrimp.
3. In a small bowl, mix garlic, hot pepper flakes and 3 tsp (1 tbsp) of oil. Drizzle mixture over pizzas. Sprinkle cheese overtop and cook in the oven for 7 to 10 minutes.
4. Meanwhile, mix spinach, watercress, endives, lemon juice and remaining 1 tsp of oil in a bowl. Season with pepper.
5. Top pizzas with salad mixture and serve immediately.

Nutritional breakdown

(per serving)

Calories: 412
Protein: 23 g
Carbohydrates: 35 g
Fats: 20 g
Fibre: 2.5 g

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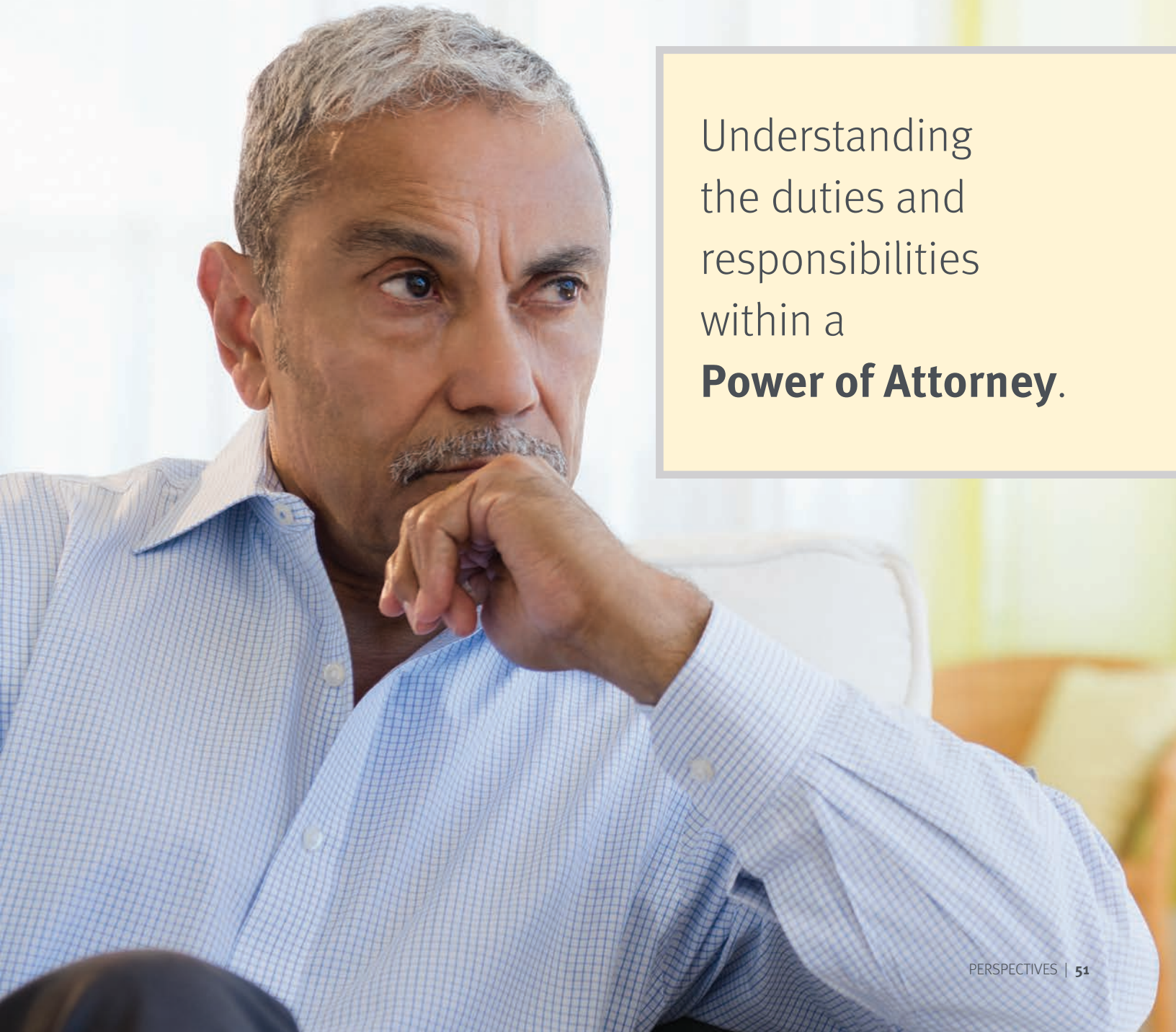
THE POWER OF CHOICE

Understanding the duties and responsibilities within a **Power of Attorney**.



Throughout the course of life, every one of us goes through a number of stages, opening and closing many different chapters along the way. Collectively as a nation, Canada itself has recently entered one of these significant new chapters, specifically in relation to population demographics. For the first time in Canadian history, there are now more individuals over age 65 than there are youth under age 14, according to data from the 2016 Census.[1] And while this shift has just started, this trend is expected to grow substantially in the coming years, as more Baby Boomers become seniors, life expectancies remain longer and fertility rates among Canadians generally continue to be low.

Further to the population aspect, however, there's a deeper cause for attention, and that's the health issues that will go hand-in-hand with this population shift. In "The State of Seniors Health Care in Canada," the Canadian Medical Association noted that over the next 15 years (based on 2016 statistics), there is expected to be a 66 percent increase in the number of Canadians living with dementia and that after age 65, the risk of dementia doubles every five years. Additionally, from a physical health standpoint, there's an expected 40 percent increase in cancer cases by 2030.[2]

On a broad scale, these realities and projections will certainly have a wide range of impacts on Canadian society as a whole. But narrowing back to the individual level, these statistics should also serve as a strong message to all individuals that there are crucial aspects to plan for when it comes to your personal, family and financial future, and one of the best methods of protection in this regard is a Power of Attorney.

Power of Attorney explained

A Power of Attorney is a written document that legally authorizes another party to act on an individual's behalf. There are two basic types: a Power of Attorney for Property and a Power of Attorney for Personal Care. A standard Power of Attorney for Property empowers another party to legally make decisions about an individual's finances and property (which may include tasks such as handling banking matters, paying bills, managing investments, or buying or selling real estate on your behalf), and this authority survives in the event that the individual becomes incapable of making these decisions (generally known as a Continuing or Enduring Power of Attorney for Property in most provinces in Canada). A Power of Attorney for Personal Care authorizes a party to make decisions about an individual's personal care (which may include your healthcare, medical treatment, housing, hygiene or safety preferences and wishes).

Depending on the province or territory where you live, there may be one document that outlines your authority for an individual (generally referred to as "attorney") to make both personal care decisions as well as financial and property decisions. There are also provincial and territorial differences for how the document is created and signed, therefore making it crucial to have a qualified legal advisor create the document for you to ensure the wording and signing are properly carried out.

In Quebec, for example, the process for naming a Power of Attorney (known as a Mandatary) differs somewhat from other provinces. Two separate Power of Attorney documents may be required — one which is effective while the donor of the Power of Attorney is capable (known as a Mandate) and one which only comes into effect on the donor's incapacity (known as a Protection Mandate). A Protection Mandate must be verified through a court process called "homologation."

Note: For the purpose of this article, the main discussion will be on Power of Attorney for Property, which survives incapacity, known as a Continuing or Enduring Power of Attorney, but it is likewise important to give the same amount of consideration to Power of Attorney for Personal Care, and to consult with a qualified legal advisor to ensure your wishes and intentions are accurately documented. Also, although the method of implementing a Power of Attorney and the terms used may be different in Quebec, the principles discussed throughout this article are relevant to Quebec residents.

Making the right choice

Much like choosing an executor for a Will, appointing a suitable attorney for a Power of Attorney is something many individuals overlook the critical importance of. First and foremost, the choice should be someone you thoroughly trust and who knows you very well, which is why many individuals opt for a family member or close friend. Given the many demands of acting as attorney, however, it's likewise important to understand the responsibilities they assume — as well as the risk to your finances and care if you choose someone who can't properly fulfill those duties.

Further to trust and familiarity, other factors to consider include their financial skills, ability to handle family conflict, where they live and their own personal or family demands, and their willingness to act, for example. With these aspects in mind, choosing an attorney therefore should be given the same level of thought and careful selection as you would any other professional you engage such as your lawyer or accountant.

For more information on choosing an executor, please view "A matter of informed choice," featured in *Perspectives*, Fall 2017, at https://www.rbcwealthmanagement.com/ca/en/research-insights/a-matter-of-informed-choice/detail/.

Making the right choice

The following chart provides a description of four key decision points to assess:

Financial acumen and organizational skills

- As the fiduciary, the attorney has legal and ethical responsibility to look after your best interests and wishes.
- Tasks may be extensive, and depending on the province or territory of residence, may include handling expenditures for your support and care (as well as for any of your dependants), consulting with family and friends, managing your assets, ensuring tax returns are filed and keeping detailed records of transactions.
- The types, timeliness and volume of tasks require strong prioritizing and multi-tasking skills; the legal obligations also necessitate that attorneys be prepared and diligent with duties around record keeping and accounting.
- May require coordination with an attorney for personal care, to ensure funds are available to meet personal care needs and wishes.

Geographical proximity/ travel flexibility

- Appointing someone who lives far away from you may create logistical, career and/or emotional stresses and challenges for that person.
- If the appointed attorney lives in a different jurisdiction, there may be additional challenges because of legal and administrative complexities related to managing your affairs from afar. This may be further complicated if you own property in different geographic locations and divide your time between those homes, for example, as you may require Power of Attorney documents that are effective in each jurisdiction.

Making the right choice

Stage in life and availability

- The duties of an attorney may span a number of years and the level may increase over time depending on circumstances.
- It's important to consider the value of spending that time with loved ones without the pressures of them being tasked with duties of being the attorney.
- If an individual has young children, a busy career, travels frequently or has other lifestyle demands, these may make it difficult for him or her to properly fulfill the duties.
- Naming an alternate is also important, in case the person appointed is not physically or emotionally well if/when the time comes to act.

Ability to maintain emotional neutrality

- Depending on family relationships and circumstances, some family members may have an emotional bias that disrupts their ability to carry out your wishes.
- Complex family dynamics can also impact decisions; for example, a family member may feel pressure from other family members to act in a way that's not consistent with what you outlined you wanted.
- Incapacity can cause significant emotional stress within a family; an attorney who's a family member may become emotionally vulnerable in this type of situation and thus have difficulty acting with the impartiality required of attorneys.
- A potential conflict of interest could arise if the financing of your care will affect his or her (or other family members') potential inheritance.

Assessing the various options

Depending on circumstances and preferences, some individuals may want to consider appointing more than one attorney. If this is the case, there are various choices; some examples include requiring that your attorneys act together ("jointly") or giving flexibility of carrying out duties separately or together ("jointly and severally"). The kinds of tasks your attorney or attorneys can carry out depend on the power that is given to them in the Power of Attorney document. For example, some people do a general Power of Attorney for Property that covers all property and financial affairs while others are more specific for only some of their affairs. You can also grant independent decision-making power to separate individuals for different tasks (i.e. you can arrange for one person to conduct day-to-day banking and one person to make investment decisions). *Note: For all of these scenarios, it is crucial to seek advice from a qualified legal advisor so that you understand what each attorney can do on your behalf alone, what actions must be taken jointly and how to deal with conflicting instructions.*

Given any number of factors, the potential for emotional burden or complex family dynamics, some individuals choose a trust company to act as their attorney, which provides a professional, unbiased approach, by a company licensed to provide this service. When appointing a trust company, the process is much the same, with a written, signed agreement as to the duties that will be carried out on your behalf. But unlike family members who may not be familiar with the duties or legal requirements, choosing a trust company offers reassurance that advice is timely and based on current regulations and that tasks will be carried out by experts in the field.

What happens without a valid Power of Attorney?

While some may assume their spouse or next of kin will automatically be appointed should they become incapacitated, the unfortunate reality is that without a valid Power of Attorney in place, each province and territory has specific rules for guardianship and decision-making. What this means is that without a court order, your spouse or next of kin will generally not be able to access your financial information and assets. In that situation, they must apply to the provincial/territorial government or court to have someone appointed. This process can be lengthy and expensive, and competing applications can also be filed, which will only add to the cost and time delay.

Not just a senior decision

Appointing a Power of Attorney is typically perceived as a decision to make as individuals reach their senior years, but a situation of incapacity can happen at any stage of life. And while many health statistics focus on seniors, they should also serve as reason to be proactive in thinking about creating a Power of Attorney and gaining the peace of mind that comes with doing so as early in life as possible. For example, for adults with young children, those in the Sandwich Generation (roughly those in their 30s to 50s) who are already facing additional stresses of handling the financial and emotional stress of caring for both their parents and their dependant children, or individuals with blended families or otherwise complex family dynamics, an unexpected event where that individual becomes incapacitated could lead to incredible burden and stress, and compromise your and your family's personal and financial future.

All other factors aside, an individual's own protection should be the number-one priority when creating a Power of Attorney and appointing an attorney. Unfortunately, without this written document or by appointing someone who isn't suitable for the duties, the door remains wide open for individuals to be taken advantage of in a number of ways. The sad reality is that elder abuse is on the rise across Canada, and of all forms of abuse, financial is the most prevalent.

For a more in-depth discussion on planning for seniors, including healthcare and elder abuse, please refer to the earlier article in this issue of *Perspectives*, "Is age but a number?" on page 6.

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Acting as attorney

For those who are acting as attorney for a family member or friend, some may find the duties overwhelming or very difficult to manage while caring for that individual. To help guide them in this situation, RBC Estate & Trust Services offers useful resources, including an "Attorney for property duties checklist" and a "Reference guide for acting as attorney under a Power of Attorney" at: https://estateandtrust.rbcwealthmanagement.com/en/resource-centre/power-of-attorney-resources.

For more information on choosing or acting as an attorney and Power of Attorney services, please visit https://estateandtrust.rbcwealthmanagement.com/en/solutions/incapacity-solutions.

Tax changes
for private corporations in Canada

A look at what business owners need to know.

According to Government of Canada statistics, Canada is home to almost 1.2 million employer businesses, with about three-quarters of them operating in the service sector and the remaining one-quarter in the goods-producing sector.[1] The large majority of these Canadian enterprises are small businesses (defined as 1 to 99 paid employees), with particularly strong representation in the construction and retail industries, along with professional and technical services industries.[2] Yet while the industries, products or services, and structures may vastly differ from one company to the next, there's one commonality many business owners currently share — the need to grasp the new proposed tax changes for private corporations and the impact they may have.

In the summer of 2017, the Federal Government ("Government") released proposed tax changes that would have impacted almost all private corporations in Canada. One of these changes targeted income splitting with family members through a private corporation. Many business owners raised concerns, and after a consultation period and a review of submissions received during that period, the government released revised draft legislative proposals in December, which outlined the narrower scope of the proposed income splitting rules and offered more clarity in regards to what the changes entail. These proposed changes to the income splitting rules may impact a number of business owners to a varying degree, and there may be additional challenges for some professionals with professional corporations. The Government confirmed its intention to move forward with these proposals in the 2018 Federal budget on February 27, 2018.

Regardless of the industry or size of the business, if you are an owner of a private corporation in Canada, the following provides a description of what may apply to you.

Note: The following information provides an overview of the proposed tax changes for private corporations. To specifically determine the impact of the proposed legislation on you and your business, as well as to gain additional details as they relate to your situation, it is crucial to consult with qualified tax and legal advisors.

What is changing?

A primary focus of these proposed changes is income splitting, or income sprinkling, which is a fairly common strategy some business owners or incorporated professionals use to redirect income to other family members who are in a lower income tax bracket.

Before the proposed changes, there were rules that specifically pertained to income splitting with minor children. Known as "tax on split income" (TOSI) or "kiddie tax" rules, they limited splitting certain types of income — such as dividends from private corporations — with those under 18.

With the new proposed changes, however, these TOSI rules will be expanded to certain family members who are age 18 and over, and will potentially apply to certain amounts received, either directly or indirectly from a related business. (In this context, related business is generally defined as one where an individual is related to another individual who is actively engaged in the business or owns a significant portion of the equity in the corporation that carries on the business.)

In general, the amounts subject to TOSI could include interest or dividends received from a private corporation, or certain income received from partnerships and trusts, but it does not apply to salaries received from the related business. There are, however, certain age categories and criteria that will exclude certain family members from these new TOSI rules. To better determine whether the TOSI exclusions apply, the government has developed "bright-line" tests for these exclusions.

The following chart outlines some basic criteria for the TOSI exclusions:	
Those aged 18 or over	To qualify for an exclusion from TOSI, the individual must be "actively engaged" in the business on a regular, continued, and substantial basis in the current year or in any five previous tax years, which need not be consecutive years. Being "actively engaged" means that the individual works in the business at least 20 hours per week during regular business operation periods.
Those aged 18 to 24	If the individual doesn't meet the "actively engaged" criteria, above, he or she will be entitled to receive a return on capital based upon a prescribed formula. However, if the return exceeds this prescribed formula, it needs to be determined whether this is a "reasonable return" considering only contributions of "arm's length capital" (which is any capital contributed to the business, with the exception of property income from a related business, borrowed funds or funds received from a related person, other than inherited property).
Those aged 25 or over	If the individual doesn't meet the "actively engaged" criteria, he or she can be exempt if he or she has "excluded shares." The main criteria that constitutes excluded shares is owning at least 10 percent of the shares in a private corporation in terms of votes and value. This exemption is not available for professional corporations or service businesses. For those who don't meet the "actively engaged" or "excluded shares" criteria, a reasonable test can be used to determine how much income, if any, would be subject to TOSI. There is specific "reasonableness" criteria that will be considered, including labour contribution, property contribution, risk incurred, historical payments and other relevant factors. The Canada Revenue Agency has also stated that determining a reasonable return will be based on the circumstances of each case.
Any individual (including minors)	Taxable capital gains realized from the disposition of qualified farm or fishing property and qualified small business corporation shares will not be subject to TOSI.

Note: To ensure that your particular circumstances are properly accounted for and to determine if and how any of the new changes and exclusions may apply to your business, it is important to consult with qualified tax and legal advisors.

Are there any specific changes for spouses or partners?

There is a significant age-related exception for business owners and their spouses. If the business owner is aged 65 or older in the year, and if an amount paid to them would not be subject to TOSI under one of the exceptions, then any amount paid to their spouse would also not be subject to TOSI. This exception attempts to account for challenges associated with planning for retirement and better aligns the TOSI rules with existing pension income splitting rules.

Tax impact for professional corporations

Depending on circumstances, the tax effects of these new changes may be felt most among some incorporated professionals, such as physicians, lawyers and dentists, for example. For many in this situation, while incorporation may have provided a wide range of benefits, for some, a main factor in their original decision to incorporate their practices may have been the tax advantages of being able to split income with family members. With the proposed new measures, however, these benefits may have disappeared for some.

While family members of professional corporations do have the opportunity to qualify for some of the exclusions, given the specialized nature of work carried out by many incorporated professionals and the requirements imposed by the governing professional body for regulated professionals, it may be difficult for family members to meet the exclusion requirements.

Based on the new limitations, some incorporated professionals may be in a position where they are no longer able to distribute income to family members who are in a lower tax bracket. As a result, those who have relied on this type of income splitting in the past may now face a higher tax rate on all of their income, which may ultimately impact their household after-tax income.

At a glance: Other exclusions from TOSI

- Capital gains arising from an individual's death
- Income or capital gains from property received as a result of marriage or common-law relationship breakdown
- Inherited property by an individual aged 18 or over (i.e. the inheritor continues to benefit from the contributions made by the deceased individual)

References:

1. http://www.ic.gc.ca/eic/site/061.nsf/eng/h_03018.html
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Boosting safety in an online-driven world

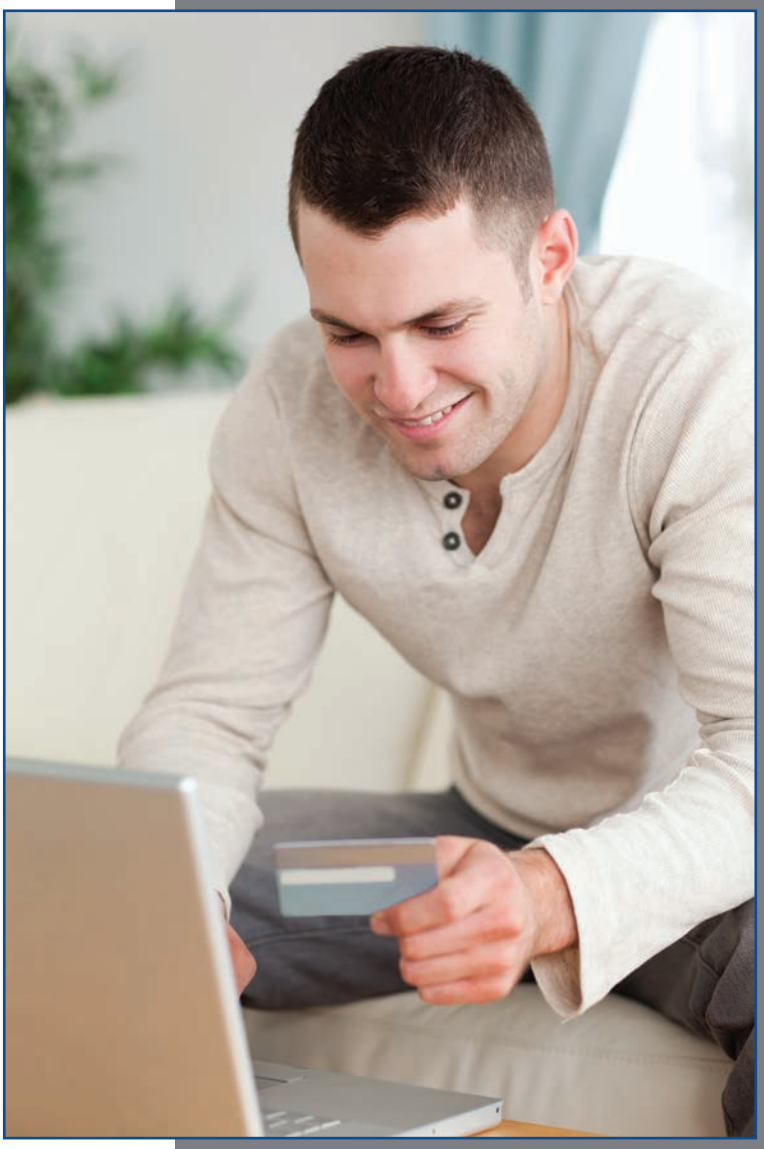
Recognizing digital risks and how to better protect yourself and your family.

Across the globe, there are approximately 3.6 billion internet users and 1.8 billion websites.[1] From an online traffic and functionality standpoint, this translates to about 5.5 billion searches per day (via Google alone), 269 billion emails sent per day and 40 billion e-commerce transactions per year worldwide.[2] These are substantial numbers that illustrate the enormous growth of the digital world, and it's an expansion that shows no signs of slowing down. For many individuals, more and more aspects of daily life now have digital components to them, but the challenge is trying to keep pace with the corresponding online safety measures. With ever-changing technologies, new devices and almost constant connectivity, staying informed on how best to protect yourself and your personal information is more imperative than ever – for every age group. Perhaps you're the parent of a younger child just learning how to navigate online or of a teen using social media. Maybe you're a young adult who's grown up with the internet, or you're an adult who uses online environments within both your professional and personal daily life. Possibly you're a senior who has fully embraced digital functionality or who is continuing to gain familiarity with online tools and activities. Regardless of the life stage or experience category you fit into, developing a better understanding of cyber risks and impacts is crucial for everyone, as is taking the right steps towards helping to ensure online safety for you and your family in all areas of digital presence.

Note: The tips and guidance provided in this article are compiled from the Government of Canada's Get Cyber Safe program. For more information or to find additional resources, please visit https://www.getcybersafe.gc.ca/index-en.aspx.

Protecting against e-commerce risks

Whether your lifestyle is fast-paced and on-the-go, you have a busy household, you live farther from an urban centre or you simply don't like crowded stores, online shopping is very appealing to many individuals because it's convenient, easy and typically time-saving. It also provides a wealth of options right at your fingertips, as well as access to products that aren't available locally. Given that e-commerce is such a strong and thriving trend, and you can now find most products and retailers online, this unfortunately also means it's a rapidly growing target for online criminals and fraudsters. As such, it's increasingly important for consumers to understand the range of risks to be aware of when it comes to e-commerce. This holds true especially when using credit or debit card information or another digital payment system, which are the top three forms of payment used by online shoppers.[3]



It's increasingly important for consumers to understand the range of risks to be aware of when it comes to e-commerce.

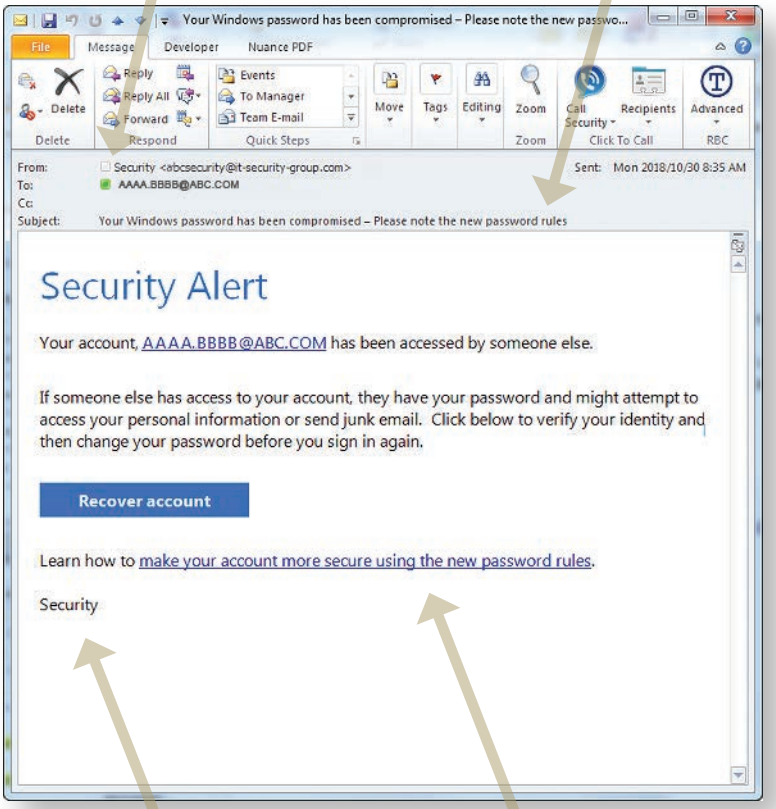
There are a variety of methods that online scammers try to use in the realm of e-commerce, main ones of which being mass marketing emails where they imitate legitimate retailers and promote deals and discounts or phishing emails, which try to obtain sensitive information by disguising as a trustworthy entity. For any promotional or unfamiliar email you receive, it's best to avoid clicking on the link in the email, as this can download a virus or malware to your computer. Instead, visit the retailer's official website to confirm whether the deal exists or contact the company independently to inquire about the email. And when it comes to the website itself, there are some signs that will indicate whether it is trustworthy or not. Some key red flags to look for include a website that's poorly designed or that contains broken links; no business address or phone number listed; or sales, return and privacy policies that are hard to find on the site or are unclear.[4]

What to look for in mass marketing or phishing emails

- Deals that seem too good to be true
- Anything that asks for payment verification
- Improper spelling or grammar
- Generic greeting, such as "Dear customer" and generic signature at end of email
- A sense of urgency or request for immediate response

Do you recognize the sender email address?

What is the purpose of this email?



Where does the hyperlink really lead to? Hover your cursor over to reveal the actual link. DO NOT click the link.

Does the signature provide sufficient information to cross-check the validity of the email?

Did you know?

Currently, Canada is one of the world's top 10 e-commerce markets, and within the country, the e-commerce sector is expected to reach nearly $40 billion in value by the end of this year.[5]

Online shopping safety tips

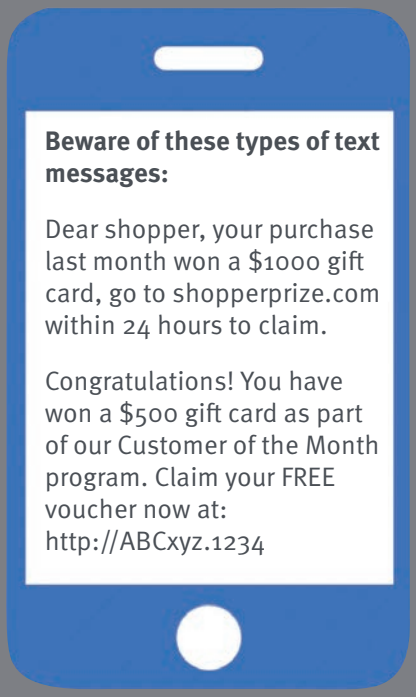
- Ensure there is a lock icon or unbroken key in the bottom right corner of the webpage.
- Check that the web address begins with https:// – the "s" stands for secure.
- Never use public Wi-Fi to shop online.
- Locate and read the privacy policy on any site where you are shopping.
- Don't allow any personal information or passwords to be auto-filled.
- Never allow a site to store your credit card information.
- Review your credit card statements regularly to check for unauthorized charges.

In addition to e-commerce, seniors are unfortunately often a more vulnerable target for various forms of scams and fraud. To find out more, please view the RBC WM article, "How to protect seniors from financial abuse" at https://www.rbcwealthmanagement.com/ca/en/research-insights/holiday-scams-how-seniors-can-protect-themselves/detail/.

Securing mobile and personal devices

It was in 2016 when, for the first time in history, mobile and tablet internet usage surpassed desktop internet usage worldwide.[6] Specifically in Canada, desktops still remain the most common device for accessing the internet, but are closely followed by mobile devices. Despite the growing tendencies to use mobile devices, however, there is quite a gap between this increase in use and actual steps taken to protect them. According to the Department of Public Safety and Emergency Preparedness, while Canadians generally take steps to protect their desktop computers from online threats, only 50 percent know of the risks to their other devices, such as smartphones, tablets and smart TVs.[7]

Connectivity is something that's becoming more deeply rooted in the lives of many individuals, both personally and professionally, among youth and adults alike. But while mobile devices provide that convenience element and enable individuals to maintain access to online environments no matter where they are, they may introduce certain risks. As such, it becomes very important to assess the types of online activities you do on these devices and what risks you may be vulnerable to. Among Canadians, research indicates that over 80 percent are checking emails, using social networks or accessing online accounts from their mobile devices.[8] If you carry out any of these activities on your mobile device, it's crucial to take steps to protect it in the very same way you would protect your home computer.



Wi-Fi on-the-go safety tips

- Use only password-protected Wi-Fi networks.
- Never connect to unknown networks.
- Turn off your device Wi-Fi when not in use, so it doesn't automatically connect to available networks.

Protecting your mobile device

- Lock your mobile phone with a strong password or PIN and set it to auto-lock after a short period of time of non-use. This can protect your personal information if your phone is ever lost or stolen.
- Check your mobile provider's website regularly for operating system update information, and always act on verified operating system alert messages from your mobile provider.
- Download apps and content only from reputable sites or sources you trust, and try to use only the official website or default source of the app for downloads.
- Never open attachments or click on links from suspicious or unknown senders of text messages, even if they claim to be your cell provider.
- Unless you need to use it, always set your mobile Bluetooth to hidden mode so hackers or strangers can't connect to it, and avoid turning on your Bluetooth or making connections in public areas.

Understanding risks in cloud computing

In the grand scheme of the digital movement, cloud storage is relatively newer, and though many have a basic understanding of its uses, some individuals may not be fully aware of exactly how it works, where the data is stored and who manages and maintains the storage. Generally speaking, cloud storage is an online space that's used to store all forms of data including documents, photos, music and videos that can then be accessed from any of your devices. Data is stored on remote servers that are owned and managed by a cloud storage service provider, and the data can be accessed from any location via the internet, or the "cloud." This method of data storage is rapidly expanding, and it's estimated that by 2020, about one-third of data will pass through the cloud.[9] Many may view cloud computing as providing a convenient and streamlined method for storing data off of your actual device and making it accessible, but there are potential risks involved for users who don't do their background research.

Tips for cloud storage safety

- Because the servers are owned, maintained and managed by service providers, ensure you're familiar with the service contract as it relates to cloud computing and online servers.
- There is a potential that data could be stored in one or multiple foreign countries. Clarify which country or countries, as your data will be subject to the laws of that country or countries.
- Familiarize yourself with the security practices and measures that the cloud service provider is using to ensure they are enabling the strongest and most current methods.

Safeguarding personal information on social media

Instagram, Facebook, YouTube, LinkedIn, Pinterest — these are just a handful of the social media and social networking sites that 20.1 million Canadians used in 2017.[10] These types of sites and networks have become a leading way many individuals communicate with and stay in touch with relatives and friends and have truly shifted how many interact with one another. But while the number of users and number of social media and networking accounts people have continue to expand, these are often online spaces where many individuals let their guards down in relation to safety measures. Many also tend to share personal information, pictures and details about themselves more freely, but when this happens, it essentially opens the gateway for online hackers and criminals.

It may come as a surprise to some, but while seemingly harmless and often viewed as a fun time-passer, a common way hackers are gaining access to information is through social media quizzes and interactive posts, which are actually created by hackers in many cases. These types of quizzes and shareable posts typically ask a question or series of questions that encourage you to give up personal information, such as the street you grew up on, what school you went to, your former pet's name or your first car. It's no coincidence that these questions are typically also common security questions or forgotten password questions when you establish accounts or logins for other sensitive sites. Some of these quizzes also require you to follow a link to participate, which may take you to an unsecure site, or you often have to agree to some sort of permissions or allow the quiz application access to your profile and friends list.[11] In doing any of these things, you immediately make yourself more vulnerable to identity theft, and you could potentially be freely giving out personal information that hackers can use to target you and your accounts.

Instagram, Facebook, YouTube, LinkedIn, Pinterest – these are just a handful of the social media and social networking sites that 20.1 million Canadians used in 2017.[10]

Protecting your privacy on social media

- Don't accept friend or follow requests from people you don't know, even if it looks like you may have friends in common.
- Take the time to understand the privacy and security settings on social networking sites, and set controls to determine who sees what. The default settings often provide more access than what many would like, and you can typically adjust the settings to a much higher level.
- Before posting any pictures or information, consider whether they give away too much information, and never include personal contact details on your profile page.
- Avoid posting some fitness app information (like running routes) and upcoming vacation plans, and refrain from geotagging at places you go, as these all give away your whereabouts — as well as the fact that you're not home in many cases, which may leave your home vulnerable.
- Always log out at the end of every session, close your browser and clear your cache.

For more information on promoting internet safety among younger generations, please view the Spring 2016 RBC WM *Perspectives* article "Online security is a family responsibility" at https://www.rbcwealthmanagement.com/ca/en/research-insights/online-security-is-a-family-responsibility/detail/.

Changing your settings

If you have connected to any quiz apps or games through social media in the past, you can likely unlink them by modifying your settings on the site. While each social media website will differ in the steps required to turn off integration with applications, games or websites outside of the site you are connected to, generally speaking, all have a settings menu, which is typically easy to navigate through. Look for key words such as Apps and Websites within the settings menu, and edit accordingly to disable connection to the outside platform.

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