Wealth Management
Dominion Securities

RBC Dominion Securities Inc.

Mark J. Krygier
Vice-President, Portfolio Manager & Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Tiffany Wong
Assistant
416-733-5749
tiffany.x.wong@rbc.com

Does one size fit all?

Investors are breathing a sigh of relief after a bit of a rebound in the capital markets in the month of January. The panic experienced in the last quarter of 2018 has, at least for the moment, subsided, allowing a focus on "big picture" items, such as tax and retirement planning. For the procrastinators amongst us, having to deal with forced deadlines in these areas can create a sense of urgency, as we have no choice but to get things done. With a March 1st deadline to get an RSP tax receipt for the 2018 year, together with the April deadline to file personal income taxes, marketing campaigns from the financial and tax industry are in full swing. The challenge is to filter out all the marketing slogans in order to distill relevant advice for one's own unique situation. I thought it would be interesting to review the advice being doled out, and to play "devil's advocate" as to whether or not such advice is truly a "one size fits all" solution.

1. **Retirement Savings Plans (RSPs)/Retirement Income Funds (RIFs):**
   a) **Why contribute?**
      (i) An RSP is a form of forced savings which allows for a tax deferral on growth and income in the RSP/RIF.
      (ii) For a high-income earner, who will have a significantly lower tax rate in retirement, an RSP contribution gives the opportunity to get a tax deduction at a high marginal tax rate (about 53% in the Province of Ontario), and make RIF withdrawals in retirement at a lower tax rate, resulting in net tax savings.
   b) **Why not contribute?**
      (i) One who declares low personal income gets a low deduction for contributions, and may ironically make RIF withdrawals in a higher tax bracket in retirement (for instance if it is combined with pension income, or a widow/er who inherits a deceased spouse's RSP/RIF and holds it as a single tax-payer).
      (ii) For one who is likely to always be a high-income earner (for instance, a member of an inter-generational family business), the initial deduction may be simply a tax deferral (and see point "iii" below).
      (iii) Any money left in an RSP/RIF, upon the death of an individual without a surviving spouse, will be taxed as a lump sum as income in the year of death. The result can be a huge tax grab on a person's bequethment, as that lump sum of "income", if large enough, can easily be taxed at the highest levels, even for those who earned a modest personal income (and deduction) during their working years.
      (iv) Income withdrawn from an RSP is taxed as income in one's marginal tax bracket, even if the income generated within the RSP comes from tax efficient dividends, return of capital, or capital gains.

2. **Tax Free Savings Accounts (TFSAs):**
   a) **Why contribute?** Contributions are from after-tax money, but the income or gains from the investments within the TFSA are tax-free, and the withdrawals are tax-free. The TFSA is really a "no-brainer" for those with excess cash to invest due to the tax efficiency. Canadian resident U.S. taxpayers should consult with their tax advisors whether it makes sense for them to have a TFSA and if so, which types of investments they should avoid.
   b) **Why not contribute?**
      (i) If one is carrying non-deductible debt (mortgage or credit line/card balances) it may make more sense to first pay off the debt before contributing to a TFSA – the annual contribution room carries forward.
      (ii) If one is using all of one's investment capital to generate income to fund one's lifestyle needs, one may have no excess capital to invest in a TFSA.
      (iii) One cannot deduct tax losses on investments in a TFSA so speculative investing loses that "efficiency".

3. **Life Insurance**:
   a) **Why obtain it**?
      (i) For a "bread-winner" upon whom financial dependants rely, and who lacks a replacement for one's income in the event of an untimely passing, it is fiscally irresponsible not to have sufficient coverage.
      (ii) If one has huge estate liabilities (for instance from deferred capital gains, either personally or in a holding company, or RSP lump sums as per point "1 (iii) above) insurance can be a cheap tax planning tool.
   b) **Why not obtain it?** For someone without financial dependants, or whose source of income will continue after one's death (perhaps in the case of an inter-generational company), it may be an unnecessary cost.

4. **Last Will & Testament**:
   a) **Why obtain one?** To avoid dying "intestate" (without a will) and leaving a lengthy and costly legal quagmire for one's heirs to sort out in the court system, and to avoid family feuds from heirs squabbling over an estate.
   b) **Why not obtain one?** If one plans to have no personal assets at death perhaps one is not necessary.

Bottom line

Beyond the daily fascination with stock markets is a world of non-ending advice**.** Call us for a review of your individual situation to be sure that any tax, legal or financial tools you are considering are truly "the right fit" for you!

Global benchmarks
As at January 31, 2019 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	0.5%	9.8%	5.6%
S&P 500 TR - US$	-2.3%	14.0%	11.0%
NASDAQ Composite - US$	-1.8%	16.4%	12.2%
MSCI Europe Index Price Return	-10.9%	1.5%	2.0%
MSCI Emerging Markets	-10.8%	9.9%	5.7%
China S.E Shanghai A Price Return	-25.7%	-4.5%	6.3%
MSCI World Index Price Return	-2.3%	6.8%	8.4%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	1.7%	1.0%	5.1%
10-year U.S. T-Bond - US$	3.6%	0.2%	2.3%
Long GOC Bond (2048)	7.2%	1.1%	5.4%
10-year GOC Bond	6.0%	0.4%	3.4%
5-year GOC Bond	3.8%	0.1%	1.8%
3-month CDN T-bill	1.3%	0.8%	0.8%
US$/CDN$ (1.3122)	6.6%	-2.1%	3.3%

Source: RBC Capital Markets Quantitative Research

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