Wealth Management
Dominion Securities

Lara Austin Minding Money

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For the friends and clients of Lara D. Austin, RBC Dominion Securities

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Putting our RESP into action

This September everything is about to change.

Change for me, that is. My youngest is heading off to university where he will have an entirely different post-secondary experience than I had. When I went to university, my parents hadn't saved anything for my schooling. I can understand why. Firstly, I wasn't the most academic kid until my final two years of high school, and re-marriage meant multiple siblings to feed and didn't leave a lot left. Secondly, home ownership during the 80s meant the interest on mortgages was 14 to 18 per cent! I worked two jobs, 40-60 hours per week, and went to university part-time.

I practice what I preach to my clients. Since my boys were tiny, we've contributed to their RESP. We saved our change and made coin rolls every Christmas to deposit into their education account. In later years, we added enough to achieve the $7,200 in grants available to all RESP beneficiaries (the age of my boys does not qualify them for the additional $1,200 B.C. grant that is currently available). Every young parent I speak to inevitably gets my lecture on saving for education!

I'm grateful I did so. Residence in this case is $11,000 for eight months (although it includes a meal plan) and off-campus is between $800-$1,000 per month. Tuition for a year is $6,500 not including textbooks.

An important note about RESPs: university application fees, deposits, and initial costs come "out of pocket." It isn't until the institution's registrar can produce a confirmation letter that you can draw funds from an RESP. When you do so, the first draw is maxed at $5,000. After 13 weeks of being in school, you can draw more. This may leave parents in a squeeze if they haven't planned for the outflow of funds before the RESP funds can be accessed!

My boy also has to contribute. This summer he made a switch from part-time work to yanking weeds 40 hours a week at a local farm. He has assured me repeatedly how grateful he is, as he can see some of his friends working even more to save up for school. I'm excited for his future, but also a little worried about what our society will look like as the Silver Tsunami arrives (see p.3). But, I have faith he will have the academics and street smarts to navigate the challenges successfully.

Cheers to all us parents of grads! We made it!

Lara D. Austin

Examining the latest hot term: 'low vol'

What is a low volatility investment? Could this be my "silver bullet" solution?

The financial industry is great at seeing a demand and creating a product to meet that demand. Occasionally, an industry "hot word" will be employed in the name of a product to grab the attention of investors and to present a seemingly magical solution to a complicated problem. In the past few years the term "low vol" or "low volatility" has become a hot phrase.

Low volatility products are popping up in the names of Mutual Funds, ETFs, and advertising, a result of the nervousness that follows the tail-end of a 10+ year bull market and investors who are frustrated with the low interest rate environment in GICs.

Let's explore "low vol."

BALANCING ACT – Creating a balanced portfolio and having a regimented system of rebalancing helps reduce volatility.

GICs as the original 'low vol' product

Mostly, GICs are not transferrable to another person. A few firms (such as ours) offer an 'after-market' for GICs where we trade a GIC into the Bond Desk or swap with another client prior to maturity. Since GICs are not given a daily trading value ("marked to market"), they appear more stable as your statement value never changes. Current low interest rates may mean you are losing money in a different way. If the inflation on the goods you buy is higher than the interest paid (less taxes) on the GIC, then you are losing money.

Bonds: low vol most of the time

If a bond is held back from inception to maturity, the bond agreement nearly always ensures you get your money back. However, since issued bonds are valued daily, it is possible to buy a bond at a premium (more than maturity value) in order to achieve higher yields. In addition, if a bond holder sells before maturity, it could be at a time the bond is out of favour or interest rates have made the bond look less attractive. When you buy a basket of bonds in the format of a mutual fund or ETF, it is often diversified set of bonds that are actively traded (bought after issuance and sold before maturity).

Yes, low vol equities are an option

Stocks that represent companies that have long-term, consistent need of their services (utilities and real estate trusts are two examples) often tend to underperform when markets are boisterous but don't drop as much when markets fall. They can be purchased directly or within a mutual fund or ETF. While more stable than their growth-oriented counterparts, they can often be influenced by interest rates as well as the variables that normally affect equities.

Finding balance

There are other ways to reduce volatility. Creating a balanced portfolio with stocks and bonds, and having a regimented system of rebalancing is an excellent way to reduce volatility. Each asset should be additionally diversified by region, sector, issuer type (government, corporates, etc.), laddering maturities and managing quality.

A balanced portfolio may not be new, sexy, or attention-getting. Understanding how you are invested and having patience with how your investments will react in volatile times is often most of the battle! Unfortunately, there is no silver bullet to help with volatility.

The 'Silver Tsunami' will reshape our society

RESOURCE: *The Silver Book*

The Silver Book is a searchable database that provides free and easy access to the latest information on the burden of chronic diseases that disproportionately impact older Americans. The U.S. is, demographically speaking, a slightly younger nation than Canada. That being said, both nations are experiencing a Silver Tsunami of chronic age-related disease that will impact health care spending and quality of life. Visit silverbook.org/condition/aging-nation for more.

LOOKING AHEAD – By 2031, it's estimated Canada's population of seniors will equal the level we see in Japan today, currently the world's oldest population. This will re-shape every aspect of our society, including how we invest.

According to the 2016 Canadian Census, centenarians (those ages 100+) were the fastest growing population from 2011 to 2016. The first of the baby boomers turned 65 in 2011. While Canada's overall population grew by five per cent, the over-65 category grew by 20 per cent. By 2031, it is estimated that Canada's proportion of seniors will equal the level we see today in Japan, currently the world's oldest population.

This rapid growth will reshape every aspect of our society. More Canadians are receiving Old Age Pension and are seeking more health care services. Transportation needs are changing. Consumption habits are different. Housing needs will change. As of 2016, 1.2 per cent of Canadians lived in nursing homes or residences for senior citizens. It is expected the need for transitional housing will increase substantially in the next 20 years, and governments will have to be ready for it!

Investment approaches will change as more investors chase secure income paying investments as opposed to the traditionally more volatile growth investments. As markets are driven by supply and demand, this will provide additional challenges to those with now increased life expectancy.

There will also be an increasingly female population. Although women account for 50.9 per cent of the population in total, in the over 65 age group, women exceed men by 20 per cent. In the over 80 group, there are two women for every man. Hopefully, the political landscape will change as women realize their vote counts more, and as more women enter politics.

Regions of Canada are affected differently. Ontario is a "younger" province with almost equal numbers of children to seniors (thanks to immigration). British Columbia is noted for having similar senior levels to that of Eastern Canada except in certain regions like Vancouver Island, where more than two out of every five people are over 65 (Qualicum Beach, 52.1 per cent; Parksville 42.4 per cent!).

Comox Valley may be an early indicator of what much of Canada will look like in 20 years.

What OAS at 65 means for younger generations

OAS CONCERNS – If the start date for OAS remains fixed at age 65 and life expectancy continues to rise, younger generations will have to pay higher taxes to compensate.

Sixty-five was once the magic number for retirement. Yet, it is becoming apparent that as we are living longer into our 90s and 100s, funding a retirement for 40 or more years will be no easy feat!

Back when the Old Age Pensions Act was introduced in 1927, it was a means tested pension that started at age 70 for those with little or no income. At the time, life expectancy for men was 60.4 and for women, 62.3.

The previous Conservative federal government raised the eligibility for Old Age Security (OAS) to 67 from 65 in a bid to save on costs and prod people to work longer. The current Liberal government reversed that decision in their first budget. Budget watchdogs warn that if the start date remains fixed at 65 and life expectancy continues to increase, younger generations will have to pay higher taxes to compensate for higher spending commitments and lower tax revenue. Ultimately, this may create a disincentive to work and for firms to invest, leading to a fall in growth and productivity.

Some additional notes on OAS:

The source of OAS v. CPP funds

Unlike the Canada Pension Plan (CPP) where each Canadian pays into the plan from their payroll and is held separate from general tax coffers, OAS is funded by general tax revenues.

The CPP fund is run by a Crown corporation and has been adjusted over the past 40 years to accommodate longevity and a lower interest rate environment (i.e. lower returns).

A fake news warning

Watch out for misleading information about CPP on social media and email chains. There are a number of misleading posts being shared that are inflamatory and untrue. For accurate information, please refer to your investment professional or go directly to the Government of Canada CPP site (tinyurl.com/y3zc434d).

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