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Financial Focus

Wealth Management
Dominion Securities

Summer 2017

RBC Dominion Securities Inc.

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Dear Clients and Friends,

This is my favorite time of the year! The sun has come out, the flowers are in full bloom and the grass is a nice shade of green (both on and off the golf course). I am looking forward to enjoying the warmer weather and longer days over the summer months.

The last quarter has been rather uneventful in the markets as it appears to be "status-quo" for the time being. The U.S. market has continued to produce investment gains, mostly in the technology sector over the last three months. The Canadian market is relatively flat for 2017 year-to-date as we have seen some declines over the quarter in the two largest sectors of the index, financials and energy. The price of crude oil has continued to bounce around the $50 per barrel level and the Canadian dollar has lost some ground versus the U.S. dollar.

What will happen in the short term? Historically, the summer months are normally quiet and without significant volatility. We do feel that the U.S. will continue to increase interest rates during 2017, which is widely expected in markets. Our RBC analysts continue to recommend that long-term investment clients continue to stay invested. Clients with cash positions should use short-term market volatility as an opportunity to add to their longer-term investment strategies when good quality investments temporarily go "on sale". Our RBC Portfolio Advisory Group has recently recommended an increase to European exposure for longer-term clients, and I will be considering this for clients with the appropriate risk tolerance levels.

On the Financial Planning side of my business, I have been working on many income projections for clients who are considering retirement in the next 3-5 years. This involves looking at current monthly expenses, expected sources of guaranteed pension income, RRSP contributions and investment growth until retirement, an assumed inflation rate, and a life expectancy normally to age 90. Statistics Canada has recently reported that the life expectancy at age 65 is 83 for males and 87 for females. In some cases for clients who have a family history of greater longevity, we may even use an assumed life expectancy of age 95. The objective of financial planning is providing you with information that will give you peace of mind for the future.

Best wishes for a safe and happy summer,

Sandra

Preparing your family for inheritance

Common sense might suggest that the most important element of estate planning is preparing and structuring your assets for the inheriting family members. Equally important is the role of communication: it is critical to ensure the lines of communication are open between the generation that is building the wealth and the one that will inherit it. Yet having that open dialogue is an often-overlooked step in inheritance planning.

Many high net worth Canadians are postponing the 'inheritance talk' or not planning to educate the next generation at all, according to our RBC survey of 1,054 Canadians on giving and inheriting wealth. Unfortunately, this creates a risk that when the time comes, inheritors will be unprepared or ill-equipped for the responsibility of managing family wealth and preserving it for future generations.

Our study identified three main barriers to initiating conversations about inheritance and wealth planning: "my plans have not been finalized," "I don't believe they're old enough," and "I don't think they're ready for the conversation," which could be an indication of maturity or other factors unrelated to age.

Build financial confidence by starting early

Age was a key barrier cited by more than one in four, or 27 percent, of Canadians surveyed – but how much of a barrier is it? Generally speaking, families that start teaching their children between the ages of five and nine can succeed if they continuously repeat their financial values. By the time they are 10, you want to start teaching them key financial concepts, which include saving, spending and sharing.

Our study clearly shows that it's better to start earlier educating children on financial matters. In fact, there's a strong correlation between starting early and building confidence: 66 percent of those who started their structured financial education before the age of 18 describe themselves as confident in wealth matters.

Talk often and reinforce financial values

Even when it is clear the younger generation is ready to learn about finances, broaching the 'inheritance talk' can be daunting. One option is to not broach it formally, but simply to have everyday conversations about money and wealth at the dinner table, when buying groceries, shopping for toys, or when the topic of money arises. The key is to foster a casual environment and make sure that children feel comfortable asking questions and voicing their thoughts.

Family meetings are another, more formal route – and they are an excellent way to establish regular communication among family members. There is no requirement to disclose numbers at a family meeting, but what is important is to facilitate open dialogue around financial concepts, philosophies of wealth, purpose and sharing of family values. If parents do not feel comfortable running the family meeting themselves, it may make sense to bring in an advisor or consultant to help set the agenda, facilitate the meeting, and offer a professional perspective.

Seek opportunities for hands-on experience

Those with a family business have an advantage, because involving children in the business provides a great platform for imparting lessons about personal responsibility and financial knowledge, no matter the age. Families who do not manage an enterprise may find it effective to bring in a third party, such as a mentor, family friend or trusted advisor, to open up a dialogue about family finances and responsibilities.

Estate and succession planning have traditionally been about preparing assets for the next generation but it is equally important to prepare the next generation for receiving the assets. We advise parents to plan with preparing assets for their children, while also preparing their adult children for the assets to ensure that the next generation is capable of managing family wealth responsibly and in a way that is consistent with the family's values.

Planning for income to last a lifetime

If you are nearing retirement or already there, you face a critical challenge.

You have to rely on your pensions and savings to provide income. But you can't know for sure how long you will need those assets to last. If they are not wisely invested or you spend too freely, you may outlive your savings.

Know the five key risks

There are five key risks to your retirement income. Knowing how to manage them will help you achieve financial security for the rest of your life.

1 Longevity

In Canada, both men and women are living longer than ever before. Yet many people underestimate how long retirement could last.

What you can do: *When setting up your retirement income plan, allow for the fact that your savings must last for 20, 30 or even 40 years.*

2 Inflation

Don't let recent low rates fool you – planning for inflation is still a necessity. Let's say you start with retirement income of about $46,000. Even an inflation rate of 2% will steadily nibble away at it. After 25 years it would be worth approximately $28,000, a decline in purchasing power of 39%.

What you can do: *Include investments with the potential to outpace inflation in your portfolio and investment plan.*

3 Choosing the wrong asset mix

Many retirees rely on a "safe" portfolio that's heavy with fixed-income investments such as bonds and GICs. But these may not grow enough to keep up with inflation and maintain your income level over the long term.

What you can do: *Build a moderate portfolio that balances equities for growth potential with bonds, GICs and money market investments for steady income.*

4 Excess withdrawal

During your retirement, there are several variables that can affect how much you can withdraw from your portfolio each year, while ensuring it will last as long as you need it. These include your risk tolerance, retirement horizon, pension income, economic climate, health, and employment if you choose to work in retirement. In addition, these variables can change over time. To better adapt to these possible changes, your withdrawal rates should be reviewed annually with your financial advisor to ensure you are minimizing the risk of using too much of your savings too early.

What you can do: *Annually review your portfolio performance and the market trends with your financial advisor to adjust your withdrawal rates accordingly. Manage your withdrawal rates carefully in your early retirement years. If your portfolio does well, you can withdraw more later on, when there is less risk that you will run out of money.*

5 Health care expenses

While Canada's health system provides good basic care, it does not include many items or services you may need or want in your older years. The government covers many key items only partially or not at all, including long-term care, nursing care at home, private or semi-private hospital rooms, or home renovations to deal with a disability

What you can do: *Include the possibility of future health care expenses in your retirement plan. Put away extra savings and/or buy insurance to give yourself more choice in the future, as well as peace of mind.*

Know your Government Pensions

	CANADA PENSION PLAN (CPP)	OLD AGE SECURITY (OAS)
Age range to start benefits	60 to 70	65 to 70
How is it funded?	Employee and Employer each contribute 4.95% of pay up to $55,300. Funds are then invested by the Canada Pension Plan Investment Board (CPPIB) until needed to pay benefits.	General federal government tax revenues. No money is set aside in advance of when it is paid out, so funding is "pay as you go."
How sustainable is the current level of benefits?	Sustainable for the foreseeable future based on contribution rates, expected investment returns and demographic projections. Largely independent of government fiscal pressures.	Subject to government fiscal pressures from an aging population. The previous Conservative government planned a gradual phase-in start OAS at age 67, which has rescinded back to 65 by the current Liberal government.
Maximum annual pension amount started at standard age of 65	**$13,370** Most recipients receive less than the maximum	**$6,942** Long-term residents generally receive the maximum
What is the basis of the entitlement calculation?	Complicated formula based on averaging each year's relative contribution from age 18 to the pension start date. But you benefit from "dropping out" certain low-earning years from the calculation.	Long-term residency in Canada. You generally get the full pension if you resided in Canada for 40 years since turning 18 and also resided in Canada the last 10 years.
How is the pension indexed?	Prior to starting your pension, your entitlement is increased by average wage levels. Once started, your pension rises with the CPI.	Indexed to the Consumer Price Index (CPI).
Reduction factor for starting early before age 65	0.6% per month (7.2% per year). Pension started at 60 is 64% of regular pension started at 65.	Not permitted.
Enhancement factor for waiting to start pension after 65	0.7% per month (8.4% per year). Pension started at 70 is 142% of pension started at 65.	0.6% per month (7.2% per year). Pension started at 70 is 136% of pension started at 65.
What happens if you start your regular pension then return to work?	You generally contribute to a Post-Retirement Benefit (PRB) that enhances your regular pension (compulsory to age 65, voluntary after age 65)	No impact.
Value of an extra year of maximum contributions at age 65	Generally can increase pension by up to $28 per month (more or less in special cases).	Not applicable.
Related Payouts	CPP Disability Benefits, CPP Survivor's Pension, CPP Death Benefit	Not applicable.

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