

The Financial Corner with Joanne Vesprini



A quarterly newsletter filled with practical wealth management advice to help understand various aspects of financial well-being.

Spring 2017

- Market Update
- When Should You Review Your Will or Estate Plan
- Tax Planning Basics
- Ready, Set, Retire – Stage 3



Machu Picchu, Peru

My thoughts,

In 2008 & 2009 I met many new clients frantic about their portfolios in light of the significant market decline and global financial crisis. When asked their return expectations these clients responded 'happy to earn more than a 5 year GIC at 6 or 7 percent'. Yet each of their portfolios held between 80 and 100 percent stock exposure, clearly over-weighted in stocks for those return expectations at that time.

Once again I see clients appearing complacent with the potential for a market correction and are only expecting stock markets to continue to go up. As per Warren Buffett "Be Fearful when others are Greedy and Greedy when others are Fearful".

I am not suggesting that there will be a significant decline. I will say though that a US recession historically leads to a 30% to 35% market correction and has taken 30 to 36 months to recover. I do not have a crystal ball so will not pretend to be able to predict when this will happen. I do know that if unemployment remains low, wages rise, inflation rises, interest rates rise, credit increases, cost of goods increase, consumers spend less, companies produce less goods, there is a lower demand for services and we have two consecutive quarters of negative growth then the papers report the US is in a recession. At that point it's too late to adjust your allocation to stocks because the market has already declined.

The time to adjust that allocation is now. Take some of the gains and add some income or perhaps even keep a bit more in savings. A decline is a great time to buy. No one can predict when corrections will happen so take control and make sure the risk you are taking matches the return you need and if that's all stocks, perfect.

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When Should You Review Your Will or Estate Plan?

Divorce

It's very important to know that unlike marriage which cancels any previous Wills, in many jurisdictions, separation and divorce do not cancel an existing Will so you should both have new Wills prepared unless you want to leave your estate to your former spouse. The same applies to Power of Attorney documents and any beneficiary designations in place, such as RRSP/RRIF or insurance policy designations. This is even more important if you have children together. You both need to indicate in your Will your wishes for your children's care and support, should either of you die.

Retirement

Your goals for, and needs from your estate plan may change as you prepare for retirement depending on your personal situation as well as that of your family members. This presents another good opportunity to review your estate plan and Will to ensure they both meet your requirements and wishes. Is everything up-to-date? Are there ways to reduce costs such as taxes and probate fees at the time of your death? Are all your named beneficiaries current?

Death of a Life Partner

Usually the death of a spouse or life partner will also necessitate an update to your own Will and estate planning tools. If your late spouse is named as the executor of your Will, beneficiary of your estate or any life insurance, retirement or pension plans, these documents will all need to be revised. If you have minor children, you should also review your choice of guardian.

Death of an Executor or Beneficiary

If your executor dies you should change your Will as soon as possible to ensure that you still have a primary and alternate executor. Also of note, if your executor moves out of the province in which you reside or moves out of Canada, you should name a new executor as in some jurisdictions, an out-of-country executor may be required to provide surety, in a required form, before receiving formal authority to administer an estate in a jurisdiction other than the one in which they are resident. Similarly, if one or more of your beneficiaries dies, you need to update your Will and any other documents with new primary and alternate beneficiaries, as necessary, for your entire estate.

Change in Province or Country of Residence

Every jurisdiction has its own laws and requirements pertaining to Wills and estate planning. Make sure you consult your legal and tax advisor to ensure both are still valid when you relocate. In addition to confirming that the provisions in your Will are still executable, you should confirm that your choice of executor and trustee, if applicable, are also valid in your new province or country. The same advice applies to your powers of attorney.

Changes to Legislation

In addition to any personal life changes that may affect your Will and estate plan, it's important to stay abreast of any changes to legislation that affect estate planning. Federal and provincial laws can have a significant effect on estate planning and taxation so it's important to consult your legal and tax advisor to find out the impact of any changes on your personal situation.

Not surprisingly, as people experience the joy or sorrow of any one of aforementioned life changes, reviewing their Will and estate plan is probably not top of mind. However, the sooner it is addressed the better, and the less chance of larger issues presenting themselves in the future with a Will or estate plan that is out of date

For the detailed version of this article please contact us.

Try those things you are going to do when you retire, long before you retire
~Anonymous



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Tax Planning Basics

Canadian income tax system

Canada taxes its tax residents on their worldwide income. In the majority of cases, this means that you must report all your taxable income for Canadian tax purposes, regardless of where in the world you earned that income. Tax residency is based on the relevant facts and circumstances which include the residential ties you have in Canada, any ties you have abroad and the amount of time spent in Canada. Canadian citizenship is generally irrelevant in determining your obligation to pay Canadian tax. If you move to Canada during the year, you are considered to be part-time resident and are only taxed on your worldwide income from the time you become a resident of Canada.

Average vs marginal tax rates

Your average tax rate (also referred to as your “effective” tax rate) is calculated as the total tax payable divided by your taxable income. Your marginal tax rate is generally the percentage of tax payable on the final dollar of your taxable income. There is a difference between the two rates because, as mentioned above, Canada has a system of progressive tax rates. Your average tax rate is always equal to or less than your marginal tax rate.

Your average tax rate can be used to estimate how much tax you will pay on a similar amount of income in a future tax year, while the marginal tax rate can help you evaluate the after-tax return of an investment of new funds.

Stay tuned next quarter for “**Investment income earned in non-registered accounts**”

British Columbia (BC) Combined Federal & Provincial Tax Rates				
2017 Taxable Income	2017 Marginal Tax Rates			
	Other Income	Capital Gains	Canadian Dividends	
			Eligible Dividends	Non-Eligible Dividends
first \$38,898	20.06%	10.03%	-6.84%	8.27%
over \$38,898 up to \$45,916	22.70%	11.35%	-3.20%	11.36%
over \$45,916 up to \$77,797	28.20%	14.10%	4.39%	17.79%
over \$77,797 up to \$89,320	31.00%	15.50%	8.25%	21.07%
over \$89,320 up to \$91,831	32.79%	16.40%	10.72%	23.16%
over \$91,831 up to \$108,460	38.29%	19.15%	18.31%	29.60%
over \$108,460 up to \$142,353	40.70%	20.35%	21.64%	32.42%
over \$142,353 up to \$202,800	43.70%	21.85%	25.78%	35.93%
over \$202,800	47.70%	23.85%	31.30%	40.61%
Marginal tax rate for dividends is a % of actual dividends received (not grossed-up amount). Marginal tax rate for capital gains is a % of total capital gains (not taxable capital gains). Gross-up rate for eligible dividends is 38%, and for non-eligible dividends is 17% for 2016.				
BC Basic Personal Amount				
2017	Tax Rate			
\$10,208	5.06%			
Federal Basic Personal Amount				
2016	Tax Rate			
\$11,635	15%			

Ready, Set, Retire- Stage 3: You're Retired Now, or Have Retired Recently

You've spent time building enough income to retire on, and are embarking on this new stage of your life. These considerations can help you maximize your retirement income and enjoy the fruits of your labour.

Order your sources of retirement income. At the time you retire, your tax rate is generally higher than later in retirement when you have less taxable income. Generally, if you're in a higher tax bracket, it makes sense to begin withdrawing lesser-taxed assets before those that trigger greater taxes. For example, income drawn from your RRIF is fully taxable at your marginal rate, while capital gains and eligible dividends drawn from your regular non-registered account receive favourable tax treatment.

Make arrangements for RRIF income payments. When you convert your RRSP to a RRIF, you must receive at least a minimum payment from the plan each year. But if you don't yet need this income, you can contribute it to your TFSA so that it can continue to grow tax-free. If you have a spouse younger than you, you may choose to base your minimum annual RRIF withdrawal on your spouse's age in order to minimize the amount of the annual withdrawal, thereby keeping more assets in your RRIF to grow tax-deferred.

Find your balance. Whether it's to continue earning some extra money for retirement, or to simply ease in to the next state of life, many people become semi-retirees before they become retirees. Think about whether you want to transition into retirement gradually instead of all at once, for example by consulting, working part-time or training your successor.

Think beyond the money. Your financial well-being is important, but so is your mental and physical well-being. People who are active in their communities have higher self-esteem, a brighter outlook on life and better health, according to a 2008 Statistics Canada study. As you near retirement, think about what you'd like to accomplish with your time—perhaps volunteer at local organization or on a Board of Directors, or support a charity that's close to your heart.

Stay tuned “**Stage 4: You're Enjoying Your Retirement and Thinking About Your Legacy**” in the next edition of The Financial Corner with Joanne Vesprini.

***Please let us know if there are any topics of interest that you would like us to discuss in future Newsletters.**

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