

Return On Investment

TD Wealth Private Investment Advice

Summer 2015

Exclusively for Clients of Noseworthy Wealth Management

Preparing for Retirement

Preparing for retirement, regardless of the plan, can be an unnering task or an exciting journey. Which will it be for you? It's never too early (or too late!) to start, and there are many options available and choices to be made. But the final objective is often the same for everyone: financial independence and the ability to steer our own course.

How Much is Enough?

It seems that everyone has an opinion on what level of retirement income will be sufficient to help ensure a comfortable way of life. Some suggest that a minimum of 70 to 80 percent of pre-retirement income is necessary to maintain a similar lifestyle. Others believe that 50 percent is an adequate objective.

Of course, the actual amount will vary depending on an individual's particular circumstances. In some cases, retirees may even realize that their retirement fund exceeds what was in fact necessary to achieve their desired retirement lifestyle, especially those who have lived modestly before retirement and continue to do so afterwards.

Then there is the reality that we are living longer than ever before. In 2015, the federal budget acknowledged this by proposing to reduce the minimum annual withdrawal amounts for registered Retirement Income Fund (RIF) holders to allow for a return over a longer period of time. Changes to Canada Pension Plan (CPP) payments over recent years have also been made in response to longer life expectancies, penalizing those who start receiving payments earlier and rewarding those who wait longer before taking payments.

Recent challenges in the financial markets — lower interest rates and slower economic growth due to low oil prices — have also

In this issue

RIF Changes.....	2
Estate Planning & Your Children.....	2
Good News for TFSA Savings.....	3
Cottage/Cabin Succession Planning.....	4



Stephen Noseworthy, CFP, CFA
Vice President, Portfolio Manager
Branch Manager, Investment Advisor



Regina Best, BA
Investment Representative

changed the dynamic for retirement savings. Today, traditional low-risk, fixed income investments continue to yield historically low returns. Generating income for retirement has become more challenging and investors are now faced with balancing the changing risk and return profiles of investments. But over the years, modern capital markets have commonly faced challenges of one sort or another — the cyclical nature of the markets affects different asset classes at different times — and we continue to manage your portfolio and help ensure it adapts to each change where necessary.

All of these factors illustrate that the pieces of the overall retirement planning puzzle are constantly changing. And your income needs may also change at different stages of your retirement. Helping to map out how everything fits together in a broader context, and set retirement income targets that meet your broader retirement goals at every stage, is one of the greatest services that we offer to our clients. Bringing a sense of perspective, focusing on what is realistic and establishing an appropriate investment philosophy can bring comfort to those reflecting on what retirement will bring in the years ahead.

RIF Changes: Lower Minimum Withdrawal Factors

As a result of this year's federal budget, the minimum withdrawal factors for the registered Retirement Income Fund (RIF) for seniors ages 71 to 94 have been lowered.*

As a result of lower withdrawal factors, a greater amount of capital will be permitted to be preserved for a longer period of time than with the previous factors. Withdrawal factors will now start at 5.28 percent at the age of 71, compared to the previous 7.38 percent**. This may help to reduce the risk for some seniors that they will outlive their savings.

RIF holders who have withdrawn more than the reduced minimum amount in 2015 will be permitted to re-contribute

the excess amount (up to the amount of the reduction in the minimum withdrawal amount provided by this change) to their RIF. Re-contributions will be permitted until February 29, 2016.

This is great news for seniors. Together with the increase in the annual limit of the Tax-Free Savings Account (TFSA) (see page 3), the new budget proposals may potentially allow seniors to benefit from greater tax-free growth of their retirement savings. RRIF income is taxable, but it can be contributed to a TFSA to allow for future tax-free growth of retirement savings.

Note: *At the time of writing, the bill approving the budget has not been passed. **A table of the revised RIF withdrawal factors can be found at: <http://www.budget.gc.ca/2015/docs/plan/anx5-1-eng.html>.

Estate Planning and Your Kids

The Importance of Having “the Discussion”

The topic of inheritance and succession planning is a very private one and, as such, it is quite common for parents to avoid engaging in a discussion with their children. After all, it can be an awkward topic to bring up in conversation. Sometimes, parents also may be concerned that opening up a discussion will generate a sense of entitlement amongst children and negatively impact their work ethic.

However, avoiding the subject can be counterproductive. How will your family know how to best deal with your assets if you have kept your finances secret? Having a conversation with your heirs before death or serious illness can often help protect your wealth in the long term because your children may be better prepared to step into a money-management role.

The conversation doesn't necessarily need to give detailed information about your finances. The objective may be simply to share your general intentions and avoid any surprises. In some cases, a discussion with your heirs may lead to changes in your initial plans. Perhaps a child doesn't want to be involved in your business' succession or in the sharing of a vacation home. Or, your children may express interest in acquiring a particular family heirloom that extends beyond any dollar value. The opportunity to personally explain the reasoning behind your decisions to your children can also help promote family harmony and avoid any hostility later on.

Ideally, you should start the dialogue with your children when they have established themselves financially. The conversation doesn't have to happen on just one occasion; a series of discussions over a period of time may be a great way to help your children better understand your expectations and values, or for you to introduce the responsibility of asset custodianship.

Plan Ahead

Planning ahead has the potential to produce immense gains for your beneficiaries down the road. If we can provide assistance as you prepare for this discussion, please don't hesitate to get in touch.



Benefits of Having the Discussion

Here are four reasons why having the conversation with your children can be beneficial:

1. Avoids surprises and allows for expectations to be managed.
2. Allows you to explain your reasoning, which can help to avoid misunderstandings.
3. May allow for changes in your initial plan, if you become better aware of your children's wishes.
4. May help to promote better money management — through the introduction of the responsibility of asset custodianship.

Saving Gets a Boost!

Great News for Tax-Free Savings Accounts (TFSAs)

This year's federal budget proposed* to increase the annual TFSA contribution amount to \$10,000, from the existing \$5,500. This amount will no longer be indexed to inflation. Based on the Canada Revenue Agency's (CRA's) administrative practice, financial institutions may immediately allow contributions up to the proposed maximum, bringing the current total contribution room available to eligible Canadians who have not yet contributed to \$41,000.

The TFSA continues to be a compelling savings plan! Here are three things that you may not have considered when it comes to the TFSA:

1. TFSAs may be a good way to split income. With the TFSA, you can effectively split income with a spouse (or common-law partner). Often, attribution rules under the Income Tax Act do not permit income-splitting between spouses and any income or capital gains will normally be attributed back to the original spouse. The TFSA provides an exception to this rule. If the higher income-earner in a couple gifts funds to the lower income-earner to contribute to the account, this could result in a sizable tax-savings opportunity over the years.

Note: The exemption from the spousal attribution rules does not apply once the transferred funds or property is withdrawn from the TFSA (i.e.: future income/capital gains earned on withdrawn funds or securities would be attributed back to the individual who was the original source of the funds).

Money for a TFSA can also be gifted to children who are 18 years of age or older without attribution of income or capital gains.

2. TFSAs may help to pass wealth tax efficiently. Taxes will not apply on a TFSA's investment income or growth up to the date of the holder's death. If the TFSA is left to a spouse (or common-law partner), it is advisable to name the spouse as the plan's "successor holder" rather than the beneficiary, so as to avoid being taxed on any income or gains earned after the holder's death (except in Quebec); the TFSA will transfer to the spouse who has the choice



to either continue operating it tax free or close the account. Naming a beneficiary or successor holder also allows TFSA assets to bypass the will, thereby avoiding the application of probate tax imposed in certain provinces.

3. Beware of transfers In! If transferring an investment "in-kind" to a TFSA, you are considered to have sold the investment for its fair market value at the time of the transfer. If there is a capital gain, you will be taxed on the gain. If there is a loss, a capital loss will be denied. This is because the superficial loss rules generally prevent individuals from claiming a loss if the same investment is repurchased within 30 days of the sale.

*Note: at the time of writing, the bill approving the budget has not been passed.

Global Perspectives: Canadian Housing Market

Over recent years, the continuing rise in Canadian housing prices has made the headlines. Canada's housing market has often been criticized for being overvalued as the major metropolitan cities of Vancouver and Toronto continue to drive up the average price of a Canadian home.

Interestingly, our increasing housing prices have been outpaced by many other nations globally. According to the Economist Magazine, over the past 25 years Canada's housing prices have increased by 62 percent. Yet, of the 26 international housing markets tracked, Canada falls somewhere in the middle.

Here are the leaders:

- | | |
|---------------------|------------------------|
| 1. Hong Kong: +193% | 4. South Africa: +124% |
| 2. Singapore: +187% | 5. Australia: +111% |
| 3. Belgium: +129% | 6. Ireland: +109% |

Source: The Economist: Percentage change in real house prices between Q3 1998 and Q3 2014.

Cottage/Cabin Succession Planning: Beware the Taxes

Summer is here, and the cottage and cabin season is now underway! If you are enjoying a break at your summer vacation property, keep in mind that its succession plan should be part of your overall wealth and investment plan given the potential tax and estate issues associated with passing on the property.

Capital Gains Tax

Quite often, the capital gains tax associated with a summer vacation property can be significant, especially if the property was purchased many years ago at a fraction of its current value. For tax purposes, upon death you are deemed to have disposed of your assets at their fair market value, and your estate will be subject to the tax on the capital gains associated with the property, unless it is left to a spouse (or common-law partner), in which case the tax will be deferred until their death.

The principal residence exemption (PRE) could potentially be used to eliminate some or all of the capital gain subject to tax. However, individuals and/or their spouses often own more than one residential property. As the PRE is only available to one property per year, use of the PRE in respect of the summer vacation property may be limited.

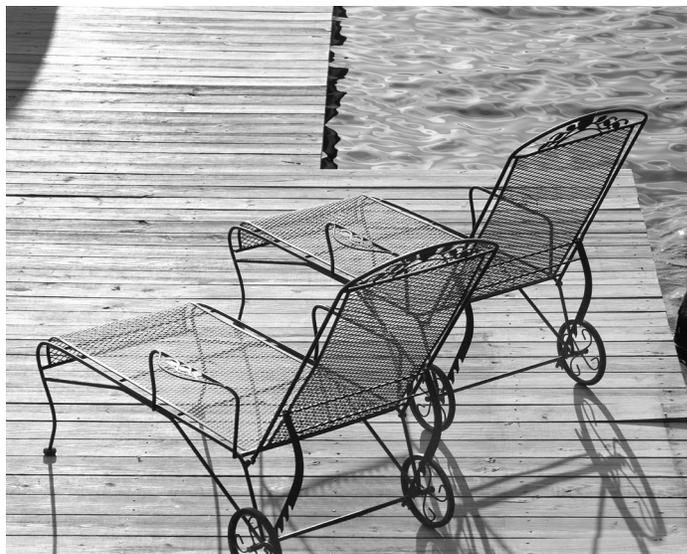
Probate Fees

If you live in a province where probate fees apply, you may consider strategies to reduce your exposure to these additional costs for your estate. You may avoid probate by jointly owning the property. However, if you are currently the sole owner, adding a joint owner to the property title could potentially trigger a capital gain for tax purposes (if you transfer beneficial ownership), result in a loss of control over the property and expose the asset to potential creditors of the joint tenant.

Another potential way to avoid probate is to gift or sell the property to the intended beneficiaries during your lifetime. However, this is considered a disposition for tax purposes and may result in a prepayment of capital gains tax. Changing the ownership of the property could also result in land transfer tax and other professional fees.

Trust Planning

Trust planning has become more common in recent years for a property's succession. Here are some benefits associated with this strategy.



Transfer the Tax Liability — Transferring ownership of the property to a trust could potentially transfer future growth in the value of the property to the next generation, which may allow beneficiaries of the trust to use their own PREs. However, the transfer of a property into the trust will be a taxable event.

Facilitate Sharing — If the property is intended to be used by multiple beneficiaries, the terms of the trust can help to provide a framework for sharing the property. In addition, you can fund the trust with a portion of your liquid assets or insurance proceeds so that capital will be available to cover the property's ongoing maintenance and/or allow certain beneficiaries to have their interest in the trust bought out.

Reduce Probate — If the trust owns the property, it would not be included in determining the value of your estate, reducing your exposure to probate fees (where applicable).

As always, we recommend consulting with a professional tax advisor to determine the best approach for your property's succession.

Stephen Noseworthy, CFP, CFA
Vice President, Portfolio Manager
Branch Manager, Investment Advisor
(709) 758-2560 | stephen.noseworthy@td.com

Regina Best, BA
Investment Representative
(709) 758-5289 | regina.best@td.com

TD Wealth Private Investment Advice
A Division of TD Waterhouse Canada Inc.
8th Floor, 140 Water Street
St. John's, NL A1C 6H6

Fax: 709-758-5299
Toll Free: 1-888-758-5289

Noseworthy
Wealth Management



The information contained herein has been provided by J. Hirasawa & Associates for TD Wealth Private Investment Advice and is for information purposes only. The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, trading, or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth Insurance Services means TD Waterhouse Insurance Services Inc., a member of TD Bank Group. All insurance products and services are offered by life licensed advisors of TD Waterhouse Insurance Services Inc. All trademarks are the property of their respective owners. All third party products and services referred to or advertised in this newsletter are sold by the company or organization named. While these products or services may serve as valuable aids to the independent investor, TD Wealth does not specifically endorse any of these products or services. TD Wealth makes the third party products and services referred to, or advertised in this newsletter, available as a convenience to its customers only, and is not liable for any claims, losses or damages however arising out of any purchase or use of third party products or services. J. Hirasawa & Associates, TD Wealth Private Investment Advice, The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered. TD Wealth Private Investment Advice is a division of TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. TD Waterhouse Canada Inc. - Member of the Canadian Investor Protection Fund. ©The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.