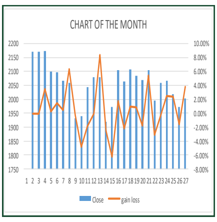
Kleinburg PRIVATE WEALTH
Carte WEALTH MANAGEMENT INC.
KPW LIFE PLAN—IMAGINE YOUR FUTURE
VOL. 10, ISSUE 8 AUG 2021

"Money is always eager and ready to work for anyone who is ready to employ it" -Idowu Koyenikan

Sergio Simone
EDITORIAL COMMENT

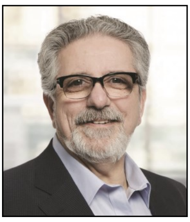
Kristina De Souza
THE BANK OF MOM AND DAD



MOMENTUM BEGETS MOMENTUM

Ryan Simone, CLU, CHS
WHAT YOU NEED TO KNOW ABOUT THE CPP

Editorial Comment



Sergio Simone

A familiar saying states that "there are two guarantees in life, Death and Taxes." I'd like to add a third. Economies are constantly evolving, and the one we are in is no exception.

It seems the expectations for a rapid uptick in markets after the rollout of the COVID-19 vaccine has not quite gone as expected. Unfortunately, neither has the vaccine rollout. Nations that are vaccinating are experiencing lower than anticipated numbers of people getting vaccinated.

Continue Reading

The Bank Of Mom And Dad

Kristina De Souza

More and more it's coming to light that millennials are worse off financially than their parents. This is no longer simply an assumption, but increasingly a fact of life. Although I have seen this issue play out over the last few years, I recently came across an article that really showed the proof is in the pudding.

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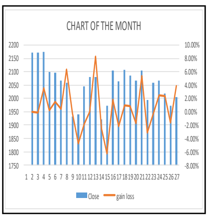
Typical Signs Of A U.S. Recession Are Not Present



Equity markets often follow Newton's First Law of Motion, "an object in motion, remains in motion". Historically, when the S&P 500 Index is up over 20% in a six-month period, there is a 48.6% chance that it will be up more than 10% in the following six months. This is a 10% higher probability than the chance it will be up over 10% in any six month period.

What You Need To Know About the Canada Pension Plan (CPP)

Ryan Simone, CLU, CHS

There is one great question most Canadians will ask themselves at some point: at what age should I take my CPP? Financial advisors hear it all the time and truth be told, there is still no definitive universally agreed upon answer. Mostly because the decision to take CPP is not only a financial matter but a health and longevity matter as well.

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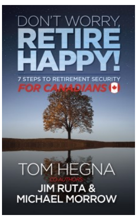


BOOK OF THE MONTH

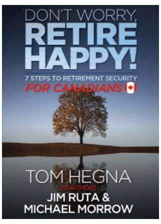
FUND OF THE MONTH MACKENZIE GREENCHIP GL. BAL.

INVESTMENT TERMINOLOGY

OF DOLLARS AND DATA Personal Finance using Data Analysis

BLOG OF THE MONTH OF DOLLARS AND DATA

BOOK OF THE MONTH



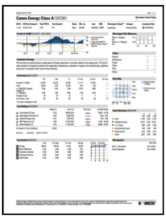
DON'T WORRY, RETIRE HAPPY!

- by Tom Hegna

Straight talk on retirement planning in uncertain times. Complicated retirement planning has kept many Canadians worried and out of the discussion for too long. Discover how to build a solid foundation that will provide more peace of mind today and on which future generations can build for tomorrow. Minimize income tax and maximize your income. Learn about hybrid retirement and how it can improve your retirement experience.

FUND OF THE MONTH

RBC Life Science & Technology Fund A



The Fund seeks to provide long-term capital growth. The Fund invests primarily in equity securities of U.S. companies whose businesses relate to life sciences and technology and are expected to benefit from scientific and technological advances.

PRICE-EARNINGS RATIO EXPANSION

The market is more expensive today than it was a year ago. We all hear that, but do we really know what they are talking about? When we read about the average market price-earnings ratio (P/E ratio) going up, what does that really mean? You pay more than you used to. This phenomenon is called "P/E expansion." I've built this small guide to tell you what it is and why it has an impact on your portfolio.

OF DOLLARS AND DATA Personal Finance using Data Analysis

BLOG OF THE MONTH

MY INVESTING NIGHTMARE

Recently a friend asked me: *"What keeps you up at night financially? What is your version of an investing nightmare?"*

Fortunately, I don't have anything that keeps me up at night (I tend to be an optimist), but if I had to describe my investing nightmare, it wouldn't be something we haven't seen in recent decades. In fact, I'd argue we haven't seen it within the last 100 years of U.S. market history.

Yes, the Great Depression is about as bad as it gets, but even that would have been over in the span of three years. A hellish three years for sure, but three years can go by quicker than you think.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

3 TAX MINIMIZATION ESTATE PLANNING STRATEGIES FOR HIGH NET WORTH

The older they get, the more ultra-high net worth families start to get antsy about how much of their estate will be lost to the estate tax, rather than go to the places, people, and causes they care about. If you don't get serious about tax minimization now, before it's too late, you could end up regretting it dearly. And this is why it's so critically important for those of you with $5+ million liquid investable assets to download this wealth management and estate guide to build your team before you start trying to address your estate's finances.

HOW HIGH NET WORTH INDIVIDUALS INVEST: THEIR ASSET ALLOCATION BREAKDOWN

If you want to get rich, you might as well see how high net worth individuals invest. Specifically, it's good to see their asset allocation breakdown. In a previous post we learned that the wealthier one gets, the larger the business component in the individual's net worth composition.

Once you hit a net worth of $100 million, the business component reaches roughly 50% of net worth. Although most of us will never reach such levels of wealth, it's obvious you should start a business if you hope to get really rich one day.

ATARA TWERSKY, ESQ.

HIGH-NET-WORTH INDIVIDUALS: INVESTING AND SHAREHOLDER RECOVERIES

High-Net-Worth Individuals: Understanding the Ways of the Wealthy

"High-Net-Worth Individual"- A common term in the world of finance. But what makes a High-Net-Worth-Individual ("HNWI")? According to Forbes, a high-net-worth individual ("HNWI") is a person who owns liquid assets valued at $1 million or more.[1] There is actually no legal or official definition for HNWI, but across the board the general concept remains the same: The term encompasses individuals with high financial assets and is generally understood to include only liquid assets-excluding assets like goods and collectibles.

10 ESTATE PLANNING STRATEGIES FOR ULTRA HIGH NET WORTH FAMILIES

Why Is Estate Planning Important for High Net Worth Families and Individuals?

Ultra-High Net Worth (UHNW) individuals are not typical investors. Having accumulated over $30 million in liquid net worth, the primary driver for UHNW individuals is no longer to accumulate wealth, but to preserve and protect their assets for generations to come. For this reason, strategic estate planning for Ultra-High Net Worth (UHNW) families is absolutely critical and must prioritize wealth preservation, estate tax minimization, and intergenerational asset transfer to keep their legacy intact.

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FUND MANAGER COMMENTARY

DAN BASTASIC
IA CLARINGTON
INVESTMENTS INC.

BRENT JOYCE
MACKENZIE FINANCIAL

MYLES ZYBLOCK
DYNAMIC FUNDS

TAYMOUR TAMMADON
T. ROWE PRICE

Dan Bastasic, SVP and Portfolio Manager

IA Investments Inc.

Dan's funds have achieved outstanding year-to-date results. Following is an interview with Dan.

What was the initial outlook in January 2021?

Continue Reading

Brent Joyce, Investment Strategist

Mackenzie Investments

Investment Strategist, Brent Joyce speaks with Financial Post''s Larysa Harapyn discussing why it's OK for equity markets to be "good and stabilizing," after flying high.

Watch Video

Myles Zyblock, Chief Investment Strategist

Dynamic Funds

Timing The Stock Market Is Not Free

The COVID-19 induced equity market crash in early 2020 and its impressive recovery has been one of the most volatile and unprecedented episodes in history. Both fear and greed were seen at extreme levels.

Continue Reading

Taymour Tammadon, Portfolio Manager

T. Rowe Price

Growth Stocks Unlikely To Be Troubled By Short-Term Inflation Spike

Optimism surrounding the nascent U.S. economic recovery following one of the deepest downturns in history has been tempered in recent months by a sharp rise in inflation. Annual consumer price index (CPI) inflation in the U.S. soared to 5.4% in June—well above the Federal Reserve's 2% target—raising concerns that earlier-than-anticipated policy action might be necessary. This prospect has prompted a rise in equity market volatility, with growth-oriented stocks coming under particular pressure.

Continue Reading

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CORPORATE CULTURE

FUNDING A BUY-SELL AGREEMENT WITH LIFE INSURANCE

As a partner or co-owner (private shareholder) of a business, you've spent years building a valuable financial interest in your company. You may have considered setting up a buy-sell agreement to ensure your surviving family a smooth sale of your business interest and are looking into funding methods. One of the first methods you should consider is life insurance. The life insurance that funds your buy-sell agreement will create a sum of money at your death that will be used to pay your family or your estate the full value of your ownership interest.

COVID-19: IMPLICATIONS FOR BUSINESS

The Delta variant threatens health, as well as recent positive economic data.

Among the many cruel and strange aspects of the COVID-19 pandemic is the fact that good and bad news often seem to arrive at the same time. Death rates may fall to new lows while case counts begin a precipitous climb; hospitalizations may drop dramatically in one region while reaching a breaking point in another. This month, McKinsey had good news to report on many aspects of the world economy, but also offered a sobering look at how variants—in particular, the Delta variant—are bringing a fresh tide of bad news.

7 WAYS TO ATTRACT AND HIRE EMPLOYEES IN A TIGHT LABOUR MARKET

As the economy picks up speed and optimism fuels the mood of the country, businesses are starting to ramp up. The next challenge? Many owners are facing post-pandemic labour shortages. We asked the experts for advice on how small businesses can become an employer of choice in a competitive market.

According to a recent RBC Economics Report, difficulties in attracting and retaining qualified workers has become the top concern for Canadian businesses as the country emerges from the pandemic. The job open rate – which is at levels not seen since the mid-1990s – is fuelled by several factors but is exacerbated by post-pandemic temptation and opportunity. For example, workers who remained static amid the uncertainty of the pandemic are considering moves they may have put on hold – during the pandemic, retirements fell 20% compared to pre-pandemic levels, and the number of people quitting jobs

WHEN TO START A HOLDING COMPANY IN CANADA

If your Canadian business is accumulating excess cash and you're looking to invest, incorporating a holding company may be the right decision for you. A holding company is created for the purpose of "holding" various assets such as real estate, shares in stock, bitcoin and even other businesses. It does not have active business income, it passively holds assets that generate passive income.

The registration process for a holding company is the same as any other company in Canada. Decide whether the company will be registered at a regional or a federal level. If you want the company to have an official name, you will have to order a NUANS report to ensure that the proposed business name is available and not used by other people as a trademark or a corporate name.

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LINKS

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Retirement Basics: Understanding How RRIFs Work

It's no secret that saving for retirement is one of the most

Fed vs. BoC: Who Hikes First?

While the Bank of Canada doesn't see a need to raise interest rates before the second half of next year and Federal

Changing Part Of Your Principal Residence To A Rental Or Business Property Or Vice Versa

Before March 19, 2019 you could

What Will Canada's 4th COVID-19 Wave Look Like?

The fourth wave of COVID-19 that public health experts have

Fixed Income Market Update

For the month ended July 31, 2021, the Bloomberg Barclays U.S. Aggregate Bond Index

RRSPs And RRIFs On Death

Most Canadians are familiar with the tax advantages of using registered savings plans to save

It's Time To Pull The Alpha Lever

Has Alpha become disproportionately important to beta? At GMO, we think it has. In fact, the forecasted potential returns to alpha on our data is the

How The Fed Is Hedging Its Inflation Bet

Federal Reserve Chairman Jerome Powell last month told the House Banking Committee

Institutional Investors vs Individuals: Who Wins?

Alpha is a zero-sum game, so if there are losers, there must be winners. But are those winners

A DETAILED LOOK AT SEGREGATED FUND TAXATION: HOW IT'S DIFFERENT AND WHY

We often find that the tax nuances of segregated funds are glossed over, with a general, high-level comparison to non-registered mutual fund trusts.

CPP CONTRIBUTIONS: HOW MUCH CPP WILL I RECEIVE WHEN I RETIRE?

The Canada Pension Plan (CPP) is a defined benefit pension plan administered by the federal government. Its purpose is to provide working Canadians with a source of guaranteed income when they retire.

How does CPP work?

While you are working, you contribute to the CPP through regular deductions from your paycheque. CPP payments can start as early as age 60, and last for the remainder of your life. Not everyone receives the same payment, however.

VIDEO AND PODCAST LINKS

Market Call Shane Obata's Market Outlook

Shane Obata, portfolio manager at Middlefield Capital, discusses his outlook for markets

Bond Market Is A 'Pretty Good' Indicator Of What's Happening

CNBC's Squawk Box interviews Noah Blackstein

Desjardins Critical Illness Testimonial

"Sarah's Story"

Financial health and physical well

FINANCIAL CALCULATORS

INVESTMENT GROWTH CALCULATOR

Find out how much your savings will grow over time by making regular investments

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Find out how a serious illness could affect your finances

CANADA MORTGAGE CALCULATOR WITH 40 YEAR AMORTIZATIONS!

This mortgage calculator is proudly Canadian made!

EDITORIAL COMMENT - CONTINUED

Equity and bond market volatility has been grinding higher recently. Much of this is a reaction to geopolitical events like China’s regulatory crackdown, the rise of the Delta Variant, and concerns over inflation, to name a few.

Looking ahead, I believe that the excess savings that have been accumulating over the last couple of years as the pandemic curtailed excessive consumption and spending, will result in stronger consumption throughout the balance of 2021 and going into 2022.

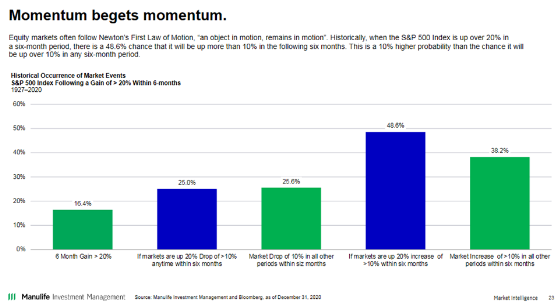
Ed Yardeni, a legendary Wall Street economist and strategist has been consistently bullish on stocks since 2009. Lately he has been focusing on productivity growth in the “Roaring 2020s,” the Fed’s next move, and where the S&P 500 can rise to next.

According to Yardeni, Companies responded to the pandemic by cutting costs on inventories, and profit margins recovered dramatically along with sales. Inventories are extremely lean, creating a lot of backlog orders, meaning there is potential for the economy to continue to grow and generate more earnings. Based on anticipated 2023 earnings and historically high P/E ratios, it would not surprise him to see the S&P 500 achieve 5060 by the end of next year.

We are beginning to see signs that the global economy may have bottomed and is shifting from contraction to recovery. The US is on the road to recovery and will be led by all this pent up demand and well-funded savings accounts.

Since, we at KPW are “fundamentalists”, I would be remiss to state that the markets have staged a very strong and impressive rally driven mostly by valuation or price/earnings ratio expansion. This is very typical of an equity market recovery following a recessionary bear market. Investors seem to be willing to pay more for stocks, in this environment, causing prices to rise. If history is an indicator, the next phase of equity market performance will be driven by a recovery in earnings growth.

Macro indicators are suggesting that we are likely to see a continuation of strong earnings growth for the balance of this year and well into next year. I wouldn’t be surprised to see growth reaching 2019 levels given the release of pent-up demand and burgeoning savings accounts. My caveat about your investment choices is to focus on high quality names as this cycle matures and earnings growth begins to moderate.



Once again, using history as a barometer of future markets, the following graph indicates a high probability that we could see 10%+ growth over the next six months in US equities.

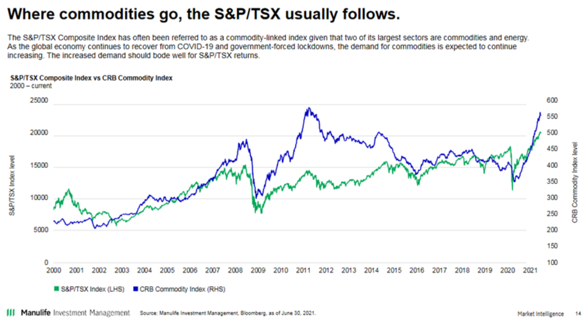
This is the time for investors to put any investment emotion aside and look to the future. I expect higher than normal volatility will continue to cause havoc to investor emotions as the stronger earnings growth leads the markets higher for the remainder of this year and well into next year. Although I still have confidence in the US economy, I believe, for the near term, there are better opportunities elsewhere. For this reason, we will continue to reduce our exposure to the US and increase it in other parts of the world.

Canada is a prime example of a country where we will increase exposure. We have been severely underweighted in Canada for the better part of the 2010’s but, are feeling very confident in the markets looking ahead. My outlook for the S&P/TSX Composite Index remains positive. This is driven by the demand for commodities, including oil. I believe oil prices are currently sitting at a base to grow on as the global economic recovery takes hold.

There is a very high correlation between the price of oil and the year-over-year change in the S&P/TSX earnings and if my thesis for the price of oil is correct, we should expect some decent returns from Canada over the next year. I believe the global economic recovery will lead to higher crude demand and prices will contribute to higher S&P/TSX earnings growth.

The following graph shows how closely tied the CRB Commodity Index is to the S&P/TSX Index. Although not perfectly correlated, the trends seem to be spot on.

EDITORIAL COMMENT - CONTINUED



Across the pond, Europe continues to face challenges with increased COVID-19 cases caused by the Delta variant, and a potential aftereffect from the Brexit deal. Meanwhile, Emerging Markets, led by Asia, should continue to improve. Although this sector has struggled of late, I believe the longer-term focused investor will benefit by maintaining exposure in this sector. Unfortunately, the delta variant is proving more problematic for these developing economies where the vaccine coverage is generally lower.

Inflation and tighter monetary policies have also weighed on the growth outlook for the region, but perhaps, the largest obstacle EM economies face is the Chinese regulatory crackdown. Beijing has recently adopted more oversight for on-line finance, e-commerce, and property and education companies. This is a snippet of the onslaught of new regulations in China.

I believe this is a temporary issue. My thoughts are that the long-term drivers in China are excellent and remain intact.

According to Eric Glober, VP and Investment Director, Mackenzie Investments, "China has adopted capitalism, in increasingly open versions, over the past 40 years. This brought hundreds of millions out of poverty. Continuing to enhance prosperity is the government's mission. Ensuring that prosperity is shared is clearly a concurrent priority today and is at the roots of the steps taken by the government. Fighting "income inequality" is something all governments will have to deal with, this is China taking steps to benefit their people long term."

The uncertainty has burdened the performance of Chinese equities. The S&P China ADR Index has fallen almost 40% since February and given that China has a 38% weight in the Emerging Markets Index, it is easy to conclude that this policy uncertainty has directly contributed to the sector's lackluster year-to-date performance.

I believe we have moved into the second stage of the market cycle. This is the stage where the riskier and lower quality equities that had been dominating the markets, will find it more difficult to lead the way. Now is the time to focus more on funds that invest in companies with relatively strong balance sheets. The early stage of the market cycle typically rewards the "story-driven" stocks. These are the "sexy" stocks. The ones that have a great story to tell about how they will become the next Google or Amazon. Small companies that hope their innovations will attract large investment dollars.

The next stage is more "fundamentally-driven". Now the focus will be on great companies with great earnings and cash flow. Companies that are expected to increase their dividend distributions as their stock price rises. I expect this type of investment environment to persist for the remainder of this year and into next year.

Unfortunately, there are a number of unanswered questions that can quickly change the direction of the markets. Is COVID behind us or will variants like Delta necessitate further lockdowns? When will the economy get back to normal and what will this "new normal" look like? How will government policies, especially as related to taxes, trade and regulation impact equity prices? What will this mean for corporate earnings and what effect will this have on corporate stock prices? Is inflation transitory or will it become a more permanent, longer term problem? If inflation becomes more structural, what will that mean for stock valuations and future returns?

To summarize, I continue to believe that we are in the early stages of an economic recovery that still has legs to run. This does not mean I do not recognize that there are many risks that could affect stock prices. I am fully aware that a time will come when all reverts back to the mean and we will suffer for the strong equity returns and high valuations of the past decade.

The pandemic was a significant event and is a strong candidate to invoke change. You may have also noticed how extremes are becoming a part of many areas in the market including monetary and fiscal policy, the large income and wealth divides, as well as one of the widest gaps in stock prices seen in decades. There are social movements, US/China tensions, racial divides, geopolitical threats and monopolistic corporate behavior, all suggesting that change could be closer than one might otherwise expect. We must be prepared for the unforeseen, and the best method to prepare is through a well-diversified investment portfolio.

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DAN BASTASIC - CONTINUED

After all the uncertainty related to the events of 2020, we were relatively certain at the beginning of the year that the historic injection of liquidity by central banks and their commitment to keep borrowing costs low were going to backstop the economy and most securities markets until economic normalization returned. We expected economic growth and earnings to accelerate to levels not seen in decades as a result of the combined efforts of central banks and a return of our economic engine.

We expected this abnormal growth to propel equities and high-yield bonds for years to come relative to interest rate sensitive government bonds. Financials, cyclicals and consumer-related securities would most likely be the largest beneficiaries of current monetary policies and the backstop provided by excess liquidity in the economy.

Within fixed income, we preferred to allocate capital towards high-yield corporate debt while maintaining a low-duration strategy. We predicated this decision on many of the same arguments that shaped our expectations for the economy, including excess money supply and pent-up demand, coupled with lower defaults and a lack of alternatives for yield.

How have the portfolios been positioned to take advantage of this outlook?

We increased our exposure to financials as well as some consumer-related equities at the end of last year and during the first two quarters of 2021. Our primary exposure in fixed income came from high-yielding bonds with a BB- average credit quality. Low duration remains a key focus of our investment strategy as we expect interest rates to follow economic growth higher during the year and into 2022, creating headwinds for interest rate sensitive portfolios.

We increased our overall equity exposure during the first half of the year relative to the prior year, as we believed the risk-to-reward ratio favoured a higher exposure to equities within our funds. Our focus was to increase exposure to securities that would benefit from expanding economic growth, higher prices and higher interest rates. We remained majority hedged in our U.S. dollar exposure, as we expect the greenback to depreciate over the coming years.

What has transpired this year?

There have not been many surprises this year in terms of the return behavior of different asset classes. Stimulus is high, consumer savings rates are high and global economies have just begun to reopen after many fits and starts over the past 12 months. Sectors that did well last year have generally lagged in the first half of 2021, including technology, materials and gold, while those that were overly burdened with last year's lockdowns have done well to recover, including financials, energy, and consumer-related, as well as the high-yield bond asset class.

As expected, interest rates have increased during the first half of the year, causing problems for long-duration portfolios while being a source of economic growth confirmation for corporate credit. The Canadian dollar has appreciated relative to the U.S. dollar as growth has shifted to economies with higher cyclical and commodity exposure.

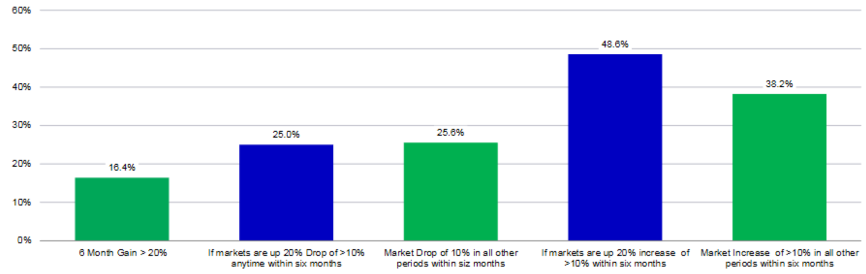
What is your outlook for the rest of 2021?

We remain positive on equities and high-yield corporate credit for at least the next 12 months. Although the rate of economic growth has likely peaked during the current quarter and will probably decline from current high levels, it will remain relatively strong, underpinned by $2.5 trillion of excess consumer savings and loose monetary and fiscal policies. We expect a value bias to continue for the remainder of the year and interest rates to continue moving towards 1.90% on the 10-year U.S. government bond. Recent U.S. dollar appreciation will likely be short lived and we expect a weaker U.S. dollar from current levels as the year progresses.

There will be periods of higher volatility as we approach year-end, but we expect them to be relatively brief. We believe 2022 and 2023 are more likely to see pronounced corrections and higher bouts of volatility – a bull market lifts all boats, until it doesn't. We remain balanced in our investment approach between economic sensitive securities and defensives that provide higher yield potential and favourable characteristics for those unforeseen moments that are sure to arrive.

CHART OF THE MONTH - CONTINUED

Historical Occurrence of Market Events
S&P 500 Index Following a Gain of > 20% Within 6-months
1927–2020



Manulife Investment Management Source: Manulife Investment Management and Bloomberg, as of December 31, 2020

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The Bank Of Mom And Dad —Continued

The article verified that despite earning an average of $90,047 annually at the median age of 31, which is 18.27% more than gen X at the same age, millennials are materially worse off, according to StatCan. They pay on average 22.24% more tax than gen X at the same age and an alarming 31.91% more on housing. It doesn't stop there, on average, millennials have $26,475 in savings, which is for all intents and purposes a good start- but not nearly enough for the down payment on a home.

This is where the good old-fashioned institution comes to play: the bank of mom and dad. Given the numbers, it's unsurprising that older Canadians are helping out their adult children more than ever. According to a survey by RBC, an alarming 90% of parents provide financial support to their adult children, with expenses such as education costs, living expenses, and cell phone bills. According to a survey by FP Canada, 40% of parents currently do, or plan to, contribute to their child's first home. Despite the fact that parents report being happy to financially assist their adult children, nearly a third report being concerned about the impact it could have on their own retirement savings and that this may lead to delaying their retirement.

But there is a way, I've recently learned, for those over the age of 55 to access cash to help their adult children or other family member without risking their retirement plans. The CHIP Reverse Mortgage allows you to access up to 55% of the value of your home in tax-free cash. Once you have paid off any loans linked to the home, you can spend the money on whatever you wish, such as renovations or simply covering monthly expenses. Furthermore, since you don't have to repay anything until you move or pass away, there are no monthly repayments eating into retirement income. The CHIP Reverse Mortgage allows you to access cash without dipping into retirement investments and savings, so you can assist your loved ones while maintaining financial security. Since the funds are received tax-free, proceeds won't affect your marginal tax rate or trigger taxes or claw back government benefits.

Generally speaking, one concern that arises surrounding reverse mortgages is whether there'll be any equity left in the home when it's time to sell. And generally speaking, the answer is yes in most cases. The increasingly high cost of housing is the reason why many millennials still rely on their parents for financial support, however, using a reverse mortgage is one way to turn Canada's unprecedented housing market to the children's advantage.

Please do not hesitate to contact me if this is something you would like to discuss in further detail.

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

What You Need To Know About the Canada Pension Plan—Continued

Popular opinion is to take CPP as early as possible. Statistically 95% of Canadians take CPP at age 65 or earlier and fewer than 1% of Canadians choose to delay to age 70 (MacDonald, 2020). There are sound arguments for both sides, but it really comes down to the individual.

How Much CPP Can You Receive

Canadians can elect to start receiving CPP benefits anytime between age 60 and age 70. The amount an individual receives is adjusted according to the age the individual starts his or her CPP with full benefits eligible at age 65. For example, each month before age 65, benefit payments decrease by 0.6% per month (or 7.2% per year) up to a maximum reduction of 36% at age 60. As of 2021, the maximum monthly amount you could receive if starting at age 65 is $1,203.75. This means, as of 2021, if you take CPP at age 60, your maximum monthly amount is $770.40. Alternatively, for every month after age 65 in which you do not collect CPP, your monthly payments increase by 0.7% to a maximum of 42% at age 70. (There is no additional advantage to starting CPP after age 70). The table below summarizes the CPP benefit reduction and gross up using the 2021 maximum.

CPP AGE 60	CPP AGE 65	CPP AGE 70
Reduction ♦ 0.6% per month; or ♦ 7.2% per year; or	2021 Max. Monthly Benefit: $1,203.75	Gross Up ♦ 0.7% per month; or ♦ 8.4% per year; or
Amount Received Age 60 $774.40 Or $9,244.80/year	Amount Received Age 65 $1,203.75/month Or $14,445/year	Amount Received Age 70 $1,709.33 Or $20,519/year

Your CPP benefit is also affected by how much you've contributed into CPP and for how long you've contributed (i.e. working years). Average earnings throughout your working life are also a factor. To calculate your CPP benefits, you should first go online to the My Service Canada website at https://www.canada.ca/en/services/benefits/publicpensions/cpp/statement-contributions.html

From there you can obtain your most recent CPP Statement of Contributions (SOC) and also request an estimate of your CPP benefits.

Other CPP Benefits & Pensions

There are other types of pensions and benefits linked to the CPP for example:

- Post-retirement benefit (eligible when you continue to pay into CPP after age 65)
- Disability benefit and post-retirement disability benefit (for individuals under age 65 with a recognized disability)
- Survivor's pension (for those legally married or common-law with a deceased CPP contributor)
- Children of disabled/deceased CPP contributors (monthly benefit for children)
- Death be time payment – eligibility depends on contribution period)

CPP Benefit Taxation

CPP benefits are payable for the rest of your life and are considered taxable income. Taxes aren't automatically deducted but you can ask for federal income tax to be deducted from your monthly payments. Whether taken early or delayed, CPP payments on their own will not put you into a large tax bracket; however, when combined with other taxable income such as RRIF income or pension income, careful tax planning may be needed.

What You Need To Know About the Canada Pension Plan—Continued

As a potential tax savings strategy, you can share your CPP retirement pension with your spouse or common-law partner. There are a few factors to determine eligibility, but the portion you are allowed to share with a spouse can only include those months you and your spouse or common-law lived together and one or both of you contributed. Also, the post-retirement benefit is not eligible for pension sharing. Pension sharing should not be confused with income splitting and you may find it helpful to consult a tax professional. In the event of a separation or divorce, CPP credits will be split between the former spouses or common-law partners. If an individual were sharing their pension with their spouse, this will stop in the month they finalize their divorce.

Deciding when to take CPP can be one of the most important financial decisions you make. If you aren't sure whether to take CPP early or late, a financial plan can illustrate the different outcomes and help to inform your decision.

References

MacDonald, B-J. (2020). Get the Most from the Canada & Quebec Pension Plans by Delaying Benefits: The Substantial (and Unrecognized) Value of Waiting to Claim CPP/QPP Benefits. National Institute on Ageing, Ryerson University.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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