Quarterly Exchange

Spring 2025

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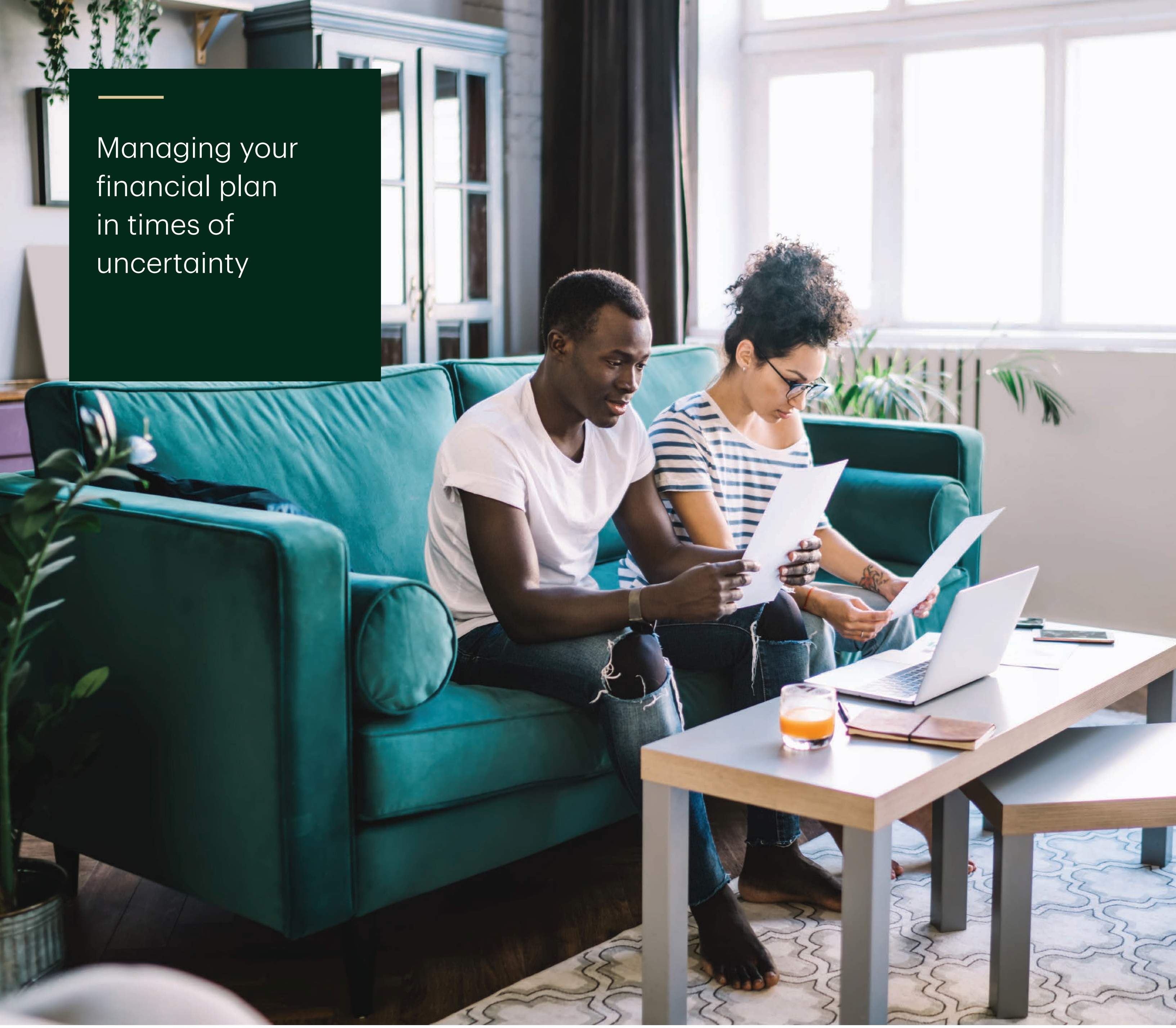
Managing your financial plan in times of uncertainty



Unsettled times can trigger knee-jerk financial decisions, but a strong plan balances adaptability with long-term focus. Here are some steps to help you navigate volatility.

Over the past few years, optimism about the economy has grown — a welcome recovery from 2020 lows. But change can happen fast, and recently, Canadians have been on high alert once again. Markets are volatile. And while international relations have always impacted Canada's economy, the recent trade dispute with the U.S. has left many Canadians feeling unusually anxious about the future.

When you're feeling uncertain about the economy, you may find yourself second-guessing your future plans, replaying worst-case scenarios in your mind and even experiencing financial paralysis (i.e., the inability to execute plans you once believed were sensible).

If you're stuck on what to do in the midst of an unsettled economic environment, that's understandable. But it could also be counterproductive. We sat down with Tannis Dawson, a High Net Worth Planner at TD Wealth, for some insights on how to manage your investments during destabilized times.

A plan is for all seasons

If you've grown accustomed to steady growth in your investment portfolio, losing a portion of it over a short period can be shocking. You may even feel motivated to sell and transfer the funds into seemingly safer investment categories, like cash or a Guaranteed Investment Certificate (GIC).

However, Dawson says fear alone should never drive action when it comes to your finances, and that moving money into cash or a GIC could mean that you're worse off once the economy starts to recover. She believes that rash moves, including fleeing investments during times of volatility, can also lead to problems in the long run. For example, if you leave now, when will you re-enter the market? Instead of running, Dawson says now may be a good time to refocus on your overall wealth strategy and remind yourself that it was designed to weather difficult times.

Dawson explains that while a declining stock market and downturns in the economy may be unwelcome and can even cause panic in those with minimal investing experience, it's important to separate the noise from more subtle messages. After all, a closer look at the market can often illustrate a normal business cycle with unexploited opportunities[1]. In these cases, sticking to a long-term financial plan and working with an advisor can be advantageous.

Good perspective makes for good decisions

As Dawson explains, looking at the overall picture is imperative whenever you need to make important decisions. For example, if you are still many years away from retirement, the ongoing volatility may not impact you very much, as you likely won't need your retirement savings for quite some time. You may have time to wait and see what happens. Historically, economic downturns are followed by upturns, allowing investments to rebound from their lows by the time long-term investors need their money.

For those with a shorter time horizon, the picture may not be as clear. Having said that, for retirees with a good financial plan, you likely have two to three years' worth of living expenses in cash or low-risk investments to fall back on. This type of asset mix strategy can help to insulate investors from the near-term negative impact of market volatility.

> "Try not to make rash decisions — your future goals are why you made a long-term plan in the first place."
>
> Tannis Dawson, High Net Worth Planner, TD Wealth

Perspective is also important, Dawson says, because people often normalize the periods they enjoyed above-average growth, and fail to see that the economy swings both ways with regularity. Remember, a solid financial plan is a strategy that evolves with both its owner and the economic environment in which it exists. It does not require either to remain stagnant in order to be successful.

Trust the plan

Ultimately, while the current state of financial markets may be unsettling, Dawson reiterates the importance of focusing on your long-term financial plans and whether or not they're adequately shielded from short-term volatility.

After all, generations before us have faced economic turmoil, political strife and global conflicts, just as generations after us will. We — and our investment plans — will likely continue to face occasional shake-ups, but often the best approach is to stay the course while making only thoughtful adjustments, where needed, along the way.

"While the short-term results may be disappointing, our historical understanding suggests this current economic uncertainty is just a temporary obstacle," says Dawson. "Try not to make rash decisions — your future goals are why you made a long-term plan in the first place."

- MoneyTalk

[1] https://www.moneytalkgo.com/video/brad-simpson-on-assessing-investment-strategies-amid-market-uncertainties/

The Big Retirement Question: How much money will I need?

One million? Two million? Everybody wants to know how much money they will need to retire, but to answer that question, here are some things you may need to figure out first.

"Well, it depends." Natasha Kovacs knows that some clients are looking for a more definitive answer when they ask her the Big Retirement Question: How much money will I need?

But while the Senior Financial Planner with TD Wealth knows some clients can get frustrated when they hear her answer, she says she would be doing them a disservice if she gave a "one number" reply. People may look for the confidence of having a single succinct answer, but Kovacs says it can't be found in a dollar figure pulled out of thin air.

"If you're asking me, 'Is $1.5 million enough?' then I need to ask you more questions," she says. "It's only by interacting with you, learning about your situation and finding out what you want to do in retirement that I'll be able to give you the answers you want."

One number can't begin to reflect the many overlapping financial and lifestyle decisions and calculations that make up a great retirement plan, she says. As an example, how often you plan to buy a new car in retirement (every three years? 10 years?) can impact how frequently you draw down your savings. And that, in turn, can influence how much money you have to deal with financial obligations or pursue retirement activities you are interested in.

In order to answer this Big Retirement Question, Kovacs says, you need to first consider a host of other variables. A partial list includes savings plans, cash flow, spending habits, corporate and government pensions, downsizing your home, retirement date, tax strategies, debt, family responsibilities, charitable donations and estate planning. Only when you take a closer look at these factors can your future retirement become clear.

Here are five exercises that Kovacs suggests you consider doing before you land on your own answer to the Big Retirement Question.

Examine your saving and investing strategy

If you ask Kovacs, "How much should I save and invest?" she'll look you in the eye and reply, "Well, are you a big saver, someone who saves a little or someone who has never saved a penny in their life?" Your answer to this question can begin to reveal how much planning needs to happen before retirement.

To help clients get started, advisors like Kovacs can take information about their financial lives and project the results out into their 90s. Within this analysis, Kovacs even notes how her clients' situations could change depending on differences in income, expenses and other factors like taxes. She can manipulate the data to show how changes in spending or saving can impact clients well into retirement.

Exactly when you want to retire needs to be considered, as well as the date at which you expect to begin drawing on your savings and whether or not you plan to downsize your home. A big factor, and one that is increasingly relevant, is whether or not you intend to help your children financially along the way. That could mean helping them buy a house or helping pay for higher education.

Plan your lifestyle in retirement

If you want to know how much you need to save for retirement, you will need to consider what it costs to be retired. For example, Kovacs says that anyone who dreams of travelling somewhere warm each year should also consider the costs of out-of-country health care for seniors: It's only getting more expensive. It's that level of attention to financial detail Kovacs says that people need to consider when planning their lifestyle in retirement.

Another area to note is home maintenance: You may enjoy gardening now, but as you get older, you may want to pay for someone else to shovel snow and clean the eavestroughs. Finally, though it can be hard to think about when your kids are still small, someday you may have grandkids to spend money on (or to travel to for a visit).

To help ensure you're adequately prepared, she says everyone should make a list of the things they want to do in retirement — golf membership? RV fees? — and include other day-to-day costs. For her part, Kovacs can add the items you haven't considered (like those health care costs) and then it's back to the projection tables to see whether your savings and investments are on track.

"Let's bring your ideas to light based on the lifestyle you envision," she says.

Start considering now when you want to retire

This is a highly personal decision, yet it can have a large impact on your finances. Deciding when to retire means transitioning from one type of life to another and it requires a thorough discussion about your health, life outlook, goals and finances. If you retire from an established career, one option is to continue working at something you enjoy more even if it does not bring in as much money. You could also decide to work part-time to keep busy and bring in some extra cash. Ultimately, the moment you begin withdrawing savings instead of contributing is pivotal. While retiring earlier can mean stretching your savings for a longer period of time, retiring later can mean working for longer but also potentially saving more.

Kovacs says that the age at which you retire can be a huge and complex decision and the financial details must complement it. She says once you decide on a time you think you should retire, an advisor can look at the numbers and let you know whether your personal outlook is in line with your financial projections.

Reflect on family responsibilities

Retirement is often portrayed in the media as a time when your responsibilities end and you can begin to spend your days walking along sandy beaches with your partner. The reality, Kovacs says, is that many retirees continue to have responsibilities, including helping their own elderly parents, supporting their grown children or both at the same time. With housing already so expensive and the cost of senior accommodation rising, people are concerned their own parents may not be in a position to receive the care they deserve. Or they may wish to ensure their grandchildren have funds available for education.

These types of expenses may not be on your radar today, but they could eventually be draining. Kovacs says a family meeting may be in order to find out just what kind of situation your loved ones are facing.

"I always ask my clients to look into their parents' care coverage," Kovacs says. "They should review their benefits. Do they have at-home care covered? Do they have additional coverage for provincially covered facilities?" If not, now may be a good time to plan for their future care.

Be aware that you may be neglecting something important

Kovacs says that while people often dream about the day they retire and what they'll do afterwards, some forget to check with their spouse or partner to see if they are on the same schedule. Or, if people want to know how much they need to retire, few ask about being tax efficient. Other people want to help their children get a start in life, but neglect to think about who will pay for their own enhanced health care and accommodation if they live to be 95. She says these are the sort of issues that Canadians should be planning for, but she also emphasizes that everyone's situation is unique. Until you consider how your retirement will impact the next 30 years of life, a key part of your financial plan will remain missing.

Besides, she says, if recent years have taught us anything, it's that our circumstances can change rapidly. It's those concerns too that underline the need for a robust plan that can weather any financial storm.

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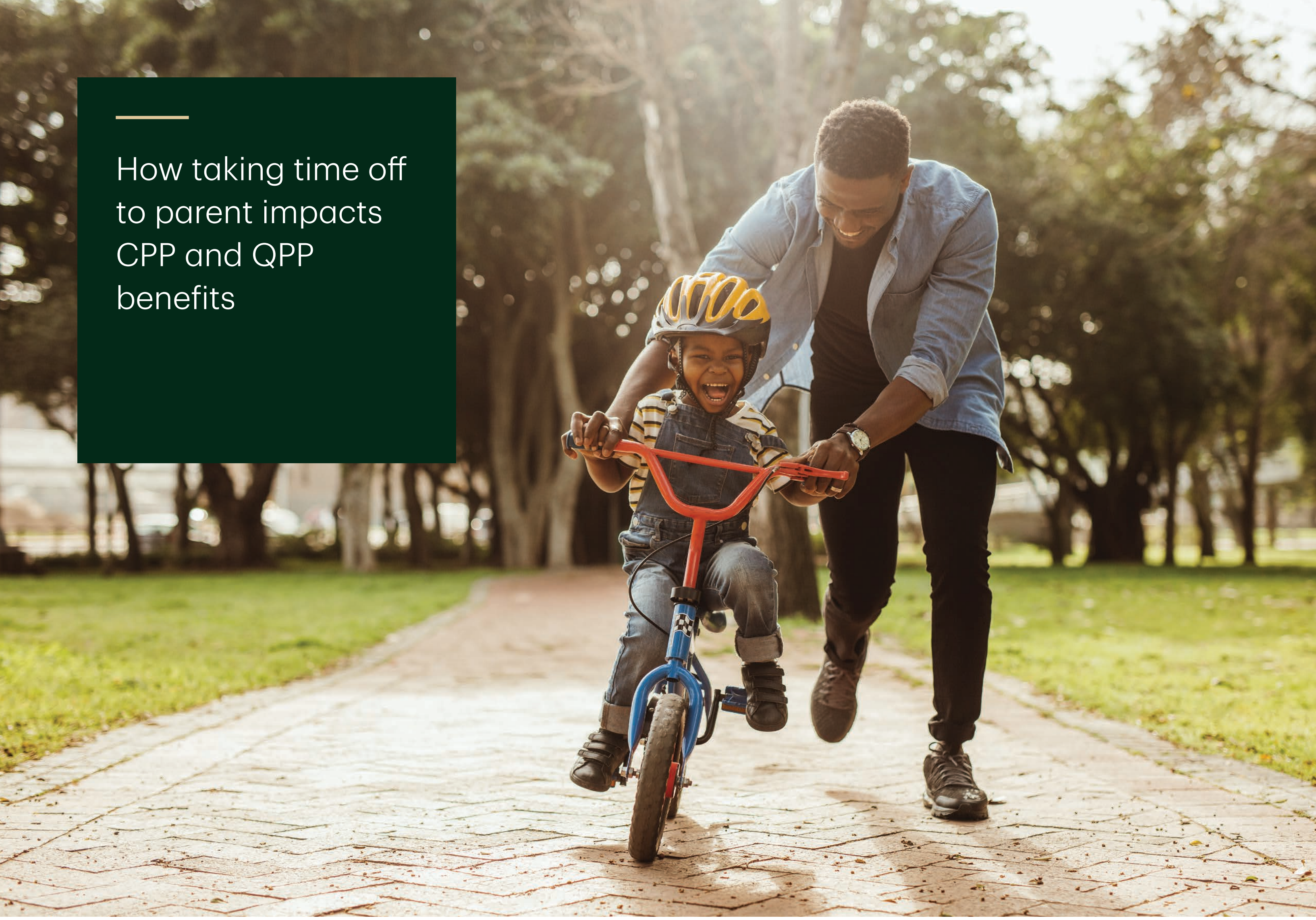
How taking time off to parent impacts CPP and QPP benefits



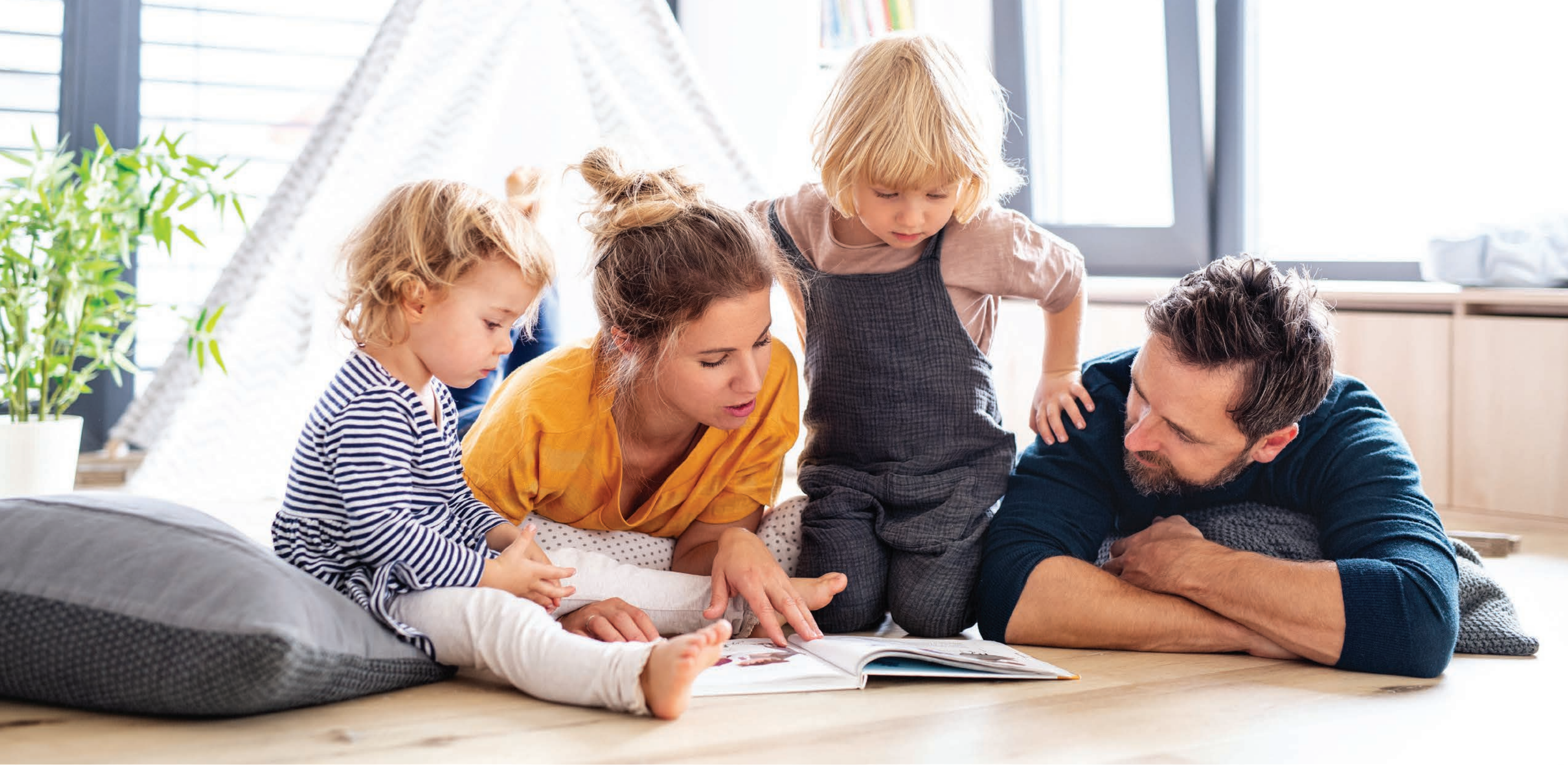
What you need to know about Canada and Québec Pension Plan calculations if raising kids kept you from working.

Staying at home to raise your kids can be a full-time job and, even without a paycheque, it can be time well spent. But how does this impact your Canada Pension Plan (CPP) or Québec Pension Plan (QPP) benefits when you're out of the workforce for a number of years? We spoke with Nicole Ewing, Principal, Wealth Planning Office, TD Wealth, to help us better understand how our pension plans work.

What is CPP/QPP and how is it calculated?

The Canada Pension Plan and Québec Pension Plan are government-sponsored pension plans that collect funds through the contributions of Canadians throughout their working lives. There are several factors that help determine the ultimate value of your government benefits, including how long you were in the workforce, how much you contributed to the pension during that period and at what age you decide to start collecting the CPP or QPP retirement benefit. While it's true that time spent out of the workforce can affect the calculation, there are some mitigating factors. For example, when the government calculates your CPP entitlement, it removes your eight lowest-income years from the equation. The government also excludes any years you were out of the workforce from the CPP base calculation, including years in which you had lower earnings because you were raising a child under seven years of age. In Québec, the QPP works similarly.

With the Canada Pension Plan enhancement starting in 2019, worker contributions have gradually increased in order to raise the value of future benefits. As well, for those who had low or no wages because they were raising children under seven, additional pension credits are added. Those credits are based on enhanced contributions to the CPP in the five years before a worker became the primary caregiver for their children. QPP works similarly in this regard.



But “it’s important to note that you have to apply for these credits,” Ewing says. “It’s not an automatic thing.”

People can apply to have specific months excluded from the calculation when they apply for the CPP/QPP benefit and must include the name, date of birth and social insurance number of their child.

The impact of a temporary disability on CPP/QPP

Raising kids may not be the only reason for a gap in your pension contributions. A disability could have a similar effect. The CPP/QPP has provisions for such circumstances. If a disability prevents you from working temporarily, the plans allow you to exclude those periods from your base calculation. With enhanced CPP/QPP, you can accumulate additional credits during the time you were disabled, starting from 2019 onward.

Where can I calculate my CPP/QPP entitlement?

The simple way to estimate your CPP benefits is to log into your My Service Canada Account. For QPP, visit the Retraite Québec website. “You can put your information in and get an estimate of what your entitlement will eventually be,” Ewing says.

Working with an advisor can help you determine how your government pension benefits might fit into your overall retirement plan. They can help assess any other sources of income you might have during retirement and help you create a strategy that encompasses all your finances, now and in the future, says Ewing. “They can help maximize your assets and any income you have to ensure you’re truly ready for retirement.”

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If you have any questions about the content in these articles, or need help navigating any of the challenges discussed, please do not hesitate to reach out.

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