Silicz Birdsall Advisory Group

Newsletter

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In this edition

Perspectives for These Uncertain Times......................1

Reasons to Choose One Executor 2

Saving Tax Is a Year-Round Exercise..2

Insurance Strategies for High-Net-Worth Individuals...........3

Socially Responsible Investing: Debunking the Myths........................4

The RRIF & Your Retirement Withdrawal Strategy..........................5

From Our (Home) Office Corner!...6

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Perspectives for These Uncertain Times

The impact of Covid-19 continues to have unprecedented global effects. The extraordinary containment efforts, from quarantining regions, to closing international borders and shutting down non-essential businesses, have begun to have wide-ranging social and financial effects on economies and the markets. This has been an unfortunate reminder of the possibility of "black swan" events — unpredictable occurrences that can have major consequences.

Today's situation may be heightened by the reality that we are much more connected than in the past — this being perhaps the first major global health event of the social media age. This has likely helped to support some of the extreme and rapid reactions we have recently seen. Market swings have been fast and aggressive.

While it may be difficult to remember during this time of uncertainty, containment of the Covid-19 isn't futile. Our medical knowledge and speed to market far exceeds that of any other period in history. While containment efforts are still in their early stages and it may not feel like it now, there will be a light at the end of the tunnel. This, too, shall pass.

There is a unified acknowledgement by global policymakers that the responses taken to contain the virus are expected to have significant economic effects over the near term. However, policy responses have been faster and deeper than ever in history. At the onset of the spread, both Canadian and U.S. central banks engaged in emergency interest rate cuts – the U.S. Federal Reserve dropped the benchmark interest rate to zero while Canada had two rate cuts in March of 50 basis points each. Since then, significant economic stimulus packages continue to be rolled out by global policymakers to provide support for the eventual recovery.

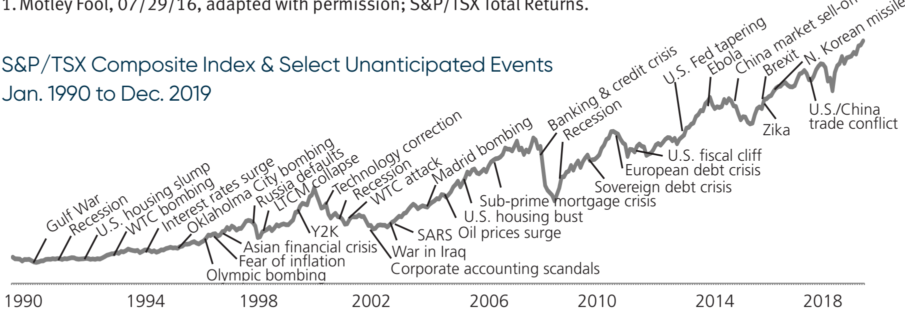
It may also be worth remembering that significant negative market events have emerged from time to time and yet the financial markets have pushed forward. Award-winning finance columnist Morgan Housel shows that over the past 30 years, these events may be more common than we recall (below). Despite their frequency, the S&P/TSX Composite Index still posted significant gains over the period.[1]

Even in the most difficult of situations, we have persevered and progressed. In spite of these setbacks, economies have continued to advance over time. This time is likely no different. As Housel reminds us: "The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of true patience."

We continue to monitor the rapidly changing situation. Should you have any questions or concerns, please do not hesitate to call. As always, we're here to guide you through these challenging times.

1. Motley Fool, 07/29/16, adapted with permission; S&P/TSX Total Returns.

S&P/TSX Composite Index & Select Unanticipated Events
Jan. 1990 to Dec. 2019



Reasons to Choose One Executor

If you have children and are planning your estate, chances are you have considered appointing them as your estate executor. As you are able to name more than one person to serve as estate executor, in some instances parents name multiple children to act as joint-executors. The reasons are many: they want to treat children equally; they don't want to hurt feelings; and, by including all children, it helps to share in the administrative effort.

While the motives are understandable, naming more than one estate executor has the potential to cause more harm than good. Here are three reasons why you may wish to exercise caution:

No executor generally has the legal right to act alone.[1] If multiple executors are named to act jointly, they must work together and will be jointly held responsible for the estate. Each is considered to have equal legal authority. Because co-executors must generally agree and act together, there may be delays to the settlement of the estate in order to reach agreement.

Potential for disagreement. Reaching consensus in any group can be difficult, but things are further complicated when emotion or money is involved. Even the most agreeable of siblings can experience differing views and there are plenty of decisions that need to be made, which may include choices about dividing sentimental items or large financial decisions such as determining the selling price of a home. Disputes have been known to cause years of resentment — perhaps the exact situation you were trying to avoid by appointing multiple executors.

Scheduling can be difficult. Acting in unison can be challenging. Co-executors are generally required to perform their duties as one, which includes activities such as signing all of the documents relating to the estate. The process may be further complicated if executors live in different locations as it may be difficult to coordinate meetings with lawyers or financial institutions.

Instead of naming co-executors, there may be other alternatives. One child could be named as executor and the other as the alternate, in the event that the primary executor is unable or unwilling to fill the role. If one child lives closer than the other, this could be the determining factor to avoid the appearance of favouritism. If a co-executor arrangement is still preferred, consider including dispute resolution language in the will. Or, it may be money well spent to consider a corporate executor to act in the role. This may take the burden off of loved ones during a difficult time.

Regardless, it may be helpful to have a discussion with your children while you are alive to prevent future surprises. It may also help them to understand the rationale behind your decision, which can go a long way in preserving harmony once you are gone.

1. This may not apply in the case where the will provides dispute resolution mechanisms.

Saving Tax Is a Year-Round Exercise

Spring is the time when taxes are top of mind as personal income tax returns are due. Did you take action to reduce your tax bill in 2019? Perhaps you can do better this year. Here are four ways to help minimize payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. If you have an employer, consider updating Form TD1, which is used to calculate how much tax to deduct from your pay cheque. If you will have significant deductions in a given year, file CRA Form T1213 to reduce the tax taken from your pay.

Maximize the RRSP & TFSA — Consider setting up a monthly RRSP contribution plan. By providing an employer with confirmation of the deductibility of contributions, it may reduce the amount of tax withheld at source. While TFSA contributions won't impact your 2020 tax bill, don't underestimate the future value of tax-free compounded growth (see pg. 3).

Split Income with Your Spouse — If your spouse (common-law partner) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RRSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with a spouse. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

2019 Tax Filing Reminders

Sold a home? If you sold property in 2019, and in order to claim the Principal Residence Exemption, it must be reported on an income tax return. The CRA continues to crack down on tax compliance for real estate transactions.

Held foreign assets? If you held "specified foreign property" (SFP) with a total cost in excess of CA$100,000 (outside of a TFSA, RRSP, RRIF) at any time in 2019, you are required to file form T1135. For a full list of assets considered to be SFP, see the CRA website.

Optimize Asset Location — Different types of income (i.e., interest, dividends, capital gains) may be taxed differently depending on the type of account from which income is generated. For example, dividends paid on foreign investments held in a non-registered account may receive a foreign tax credit to help reduce or eliminate foreign withholding taxes. If this same asset is held in a TFSA, no foreign tax credit is available. Having a comprehensive view of your assets may identify opportunities to optimize asset location across different accounts.

Of course, these ideas and others depend on your personal situation. Seek the advice of a tax professional and call with any questions. Now is the time to take action to maximize tax savings for 2020!

Insurance Strategies for High-Net-Worth Individuals

High-net-worth (HNW) investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to tax-preferred accounts like Registered Retirement Savings Plans (RRSPs) or Tax-Free Savings Accounts (TFSAs). As such, the opportunities to minimize the tax burden associated with non-registered accounts becomes important. This is where permanent insurance can play a role.

Permanent insurance offers the benefit of tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries which can help minimize estate settlement costs such as probate fees (where applicable). It may also be a suitable alternative to low-risk, fixed-income investments. With participating whole insurance, the majority of assets held in a separate participating investment account (managed by the insurance company) are often longer-term debt instruments.

Here are four tax-savvy insurance strategies used by high-net-worth investors:[1]

Cascading Life Insurance Strategy — This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild and naming a grandchild/great-grandchild as the policy beneficiary. Upon your death, the policy's ownership would be transferred to the child/grandchild on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.

Back-To-Back (Insured) Annuity — This involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over your lifetime, part of this payment is a return of principal so only the income portion is subject to tax annually. This can result in a higher after-tax cash flow relative to comparable low-risk, fixed-income investments held in a non-registered account.

Joint Last-To-Die Policy — This policy can help offset taxes or maximize an inheritance. A single premium insures the lives of two people and the benefit is not paid until the last insured person's death. The proceeds can offset future tax liabilities, including those that an estate may not be able to cover. For HNW individuals who don't need RRSP/RRIF income and expect to have a high marginal tax-rate in retirement, one strategy may be to fund the policy by gradually depleting the RRSP/RRIF.

Corporate-Funded Insurance — For business owners, the cost to fund policy premiums can be lower if paid by the corporation if the business' tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporation can allow for tax-deferred growth of the cash value of investments. This may be advantageous in light of the small business passive income rules. As well, all (or a significant portion) of the death benefit can be distributed tax free to company shareholder(s) through the capital dividend account.

We Can Help

Have you considered the use of insurance as part of a larger diversified plan? There are many compelling strategies available for the HNW investor. Please call **Charlene Birdsall** at 204-925-2252 for a discussion.

1. With all of these strategies, there are also potential risks.

Socially Responsible Investing: Debunking the Myths

Just a half-century ago, Nobel-winning economist Milton Friedman championed the concept of maximizing shareholder wealth: “There is one and only one social responsibility of business: to engage in activities designed to increase its profits.”

Today, the tides have changed. With growing unrest due to economic, social and environmental concerns, a movement towards “moral capitalism” has emerged. The Business Roundtable, a consortium of CEOs from 181 of the largest corporations, recently declared a shift in corporate attitude and a new social consciousness in serving all stakeholders, including employees, communities and the environment.

Investing is also experiencing a shift in purpose. Socially responsible investing (SRI) includes environmental, social and governance (ESG) factors in investment selection and management. Environmental concerns include the threat of climate change or resource depletion; social factors involve human rights, people management and consumer protection; and governance refers to the responsibility of company management.

Canadian assets under management using ESG factors are now in excess of $2 trillion.[1] As SRI continues to grow, so do certain perceptions. Here are four common myths, debunked.

SRI strategies underperform conventional strategies. Some have argued that the process for screening SRI investments reduces the number of investment opportunities, thereby lowering potential returns. However, there’s evidence that correlations exist between strong sustainability practices and company performance.[2] This may be because corporations that apply ESG factors reduce certain business risks. However, it’s important to remember that there are no formal frameworks or established standards for SRI screening, so careful analysis should be undertaken, just as when evaluating any investment.

SRI mainly involves screening out “sin” stocks. In the past, many SRI methodologies were focused on exclusion-based investing, avoiding companies that were considered to be in sin industries, such as tobacco, gambling, or alcohol. However, as SRI grows, there’s a distinct move towards inclusionary factors, whereby companies are managing sustainability-related issues.

SRI is limited to equity investments. There has been a growing movement towards SRI across all asset classes. For example, municipal “green bonds” have increased in popularity. These bonds are used to finance climate and environmentally-friendly projects, such as clean-tech. In 2018, $580B of green bonds were sold.[3] Even alternative investments, such as real estate and private equity, have begun to integrate ESG factors into their investing.

SRI is a “fad.” Sustainability is quickly becoming a standard. This past January, the world’s largest fund manager, Blackrock, announced sweeping changes to help position itself as a leader in sustainable investing. It will now assess ESG factors in its investments “with the same rigor that it analyzes traditional measures such as credit and liquidity risk.” This is significant within the investing industry, as it shows a commitment to supporting SRI.

How We Can Help

Most of us genuinely want to do something good for the world. SRI gives us the opportunity to actively invest and contribute to a better tomorrow. Given the many options, we can help you explore the alternatives based on your own ESG values. In addition, we can provide support and clarity in the selection and monitoring process. Please feel free to contact **Michael Silicz** at 204-925-2265 for more information.

1. riacanada.ca/responsible-investment/;
2. tiaa.org/public/pdf/ri_delivering_competitive_performance.pdf; forbes.com/just-companies/#2ea3f1c82bf0; Gunnar Friede, Busch & Bassen, “ESG and financial performance”, Journal of Sustainable Finance & Investment, 2015;
3. bloomberg.com/news/articles/2019-03-24/what-are-green-bonds-and-how-green-is-green-quicktake

The RRIF & Your Retirement Withdrawal Strategy

Many of us contribute to a Registered Retirement Savings Plan (RRSP) to achieve tax deductions and tax-deferred growth to plan for retirement. When the RRSP must be collapsed, funds are often converted to a Registered Retirement Income Fund (RRIF), which requires minimum withdrawals prescribed by the government based on age (please see the Canada Revenue Agency website for the withdrawal rules: **https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/completing-slips-summaries/t4rsp-t4rif-information-returns/payments/chart-prescribed-factors.html**). RRIF withdrawals are treated as taxable income.

If you plan on holding a RRIF, some forethought should go into your withdrawal strategy. Why? In some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. On the other hand, funds kept in the RRIF for as long as possible can benefit from tax-sheltered growth.

Here are some considerations, depending on your situation:

1. Use a younger spouse's age as a basis for withdrawals. If you have a younger spouse, you may use their age to determine the minimum withdrawal for your own RRIF. This may allow funds to be tax-sheltered for as long as possible or help in preserving income-tested benefits such as Old Age Security (OAS). Keep in mind that you will need to notify us to make the change before the first RRIF withdrawal. Changes can't be made once a spouse's age has been used.

2. Accelerate withdrawals to optimize a lifetime tax bill. If your RRIF minimum withdrawal amount and other income put you in a lower tax bracket today than in the future, it may make sense to withdraw more than the minimum to minimize your overall lifetime tax bill. A withholding tax will apply to withdrawals above the minimum amount. If significant RRIF funds remain at death, in the absence of a spouse (which will permit a tax-free rollover of the RRIF), consider that the estate may also be subject to a high marginal tax rate.

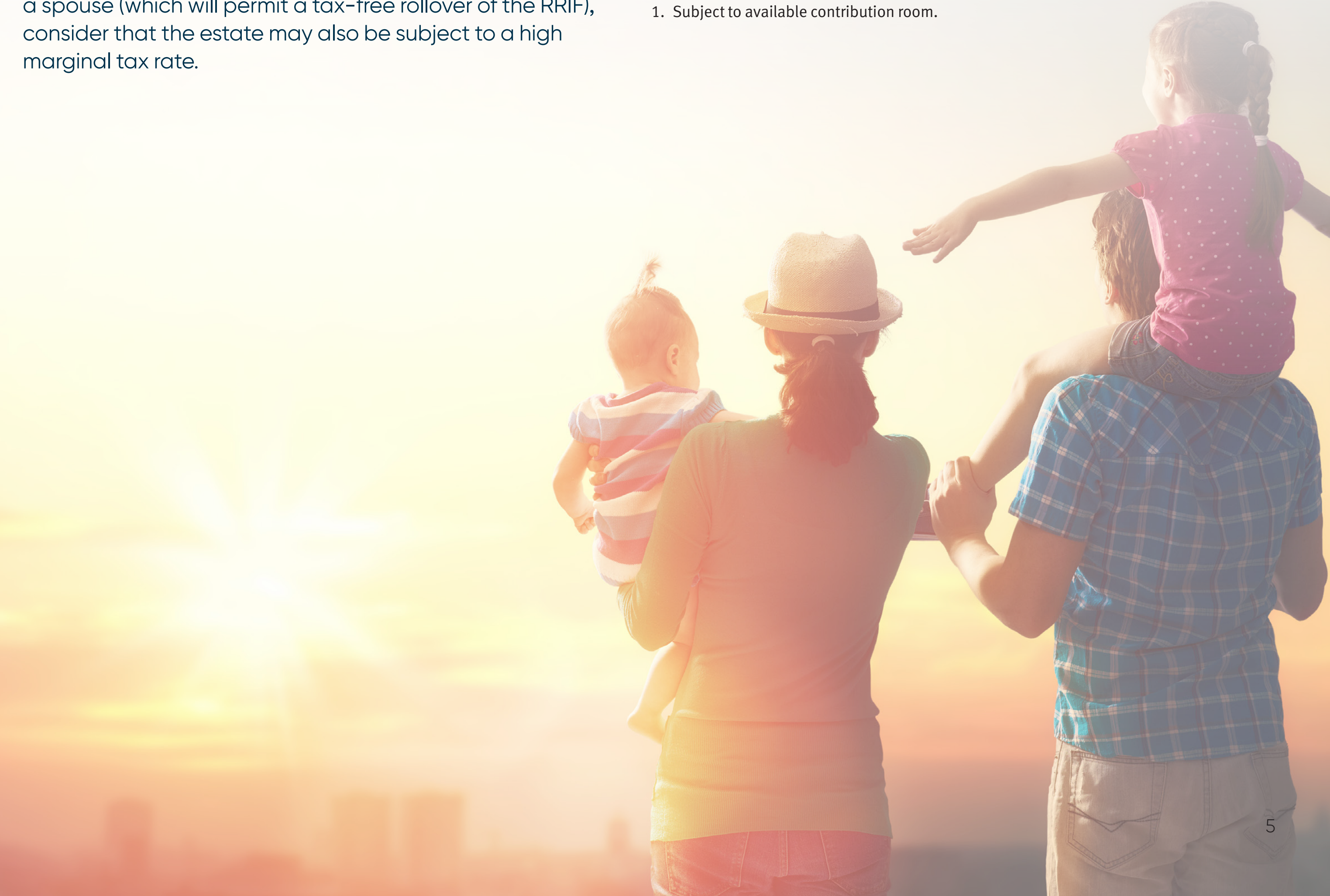
3. Use RRIF income to split income or save tax. If you have a spouse in a lower tax bracket, RRIF income may be used for income-splitting purposes. Transferring a portion of the RRSP to a RRIF can occur as soon as the year in which you turn 65 to take advantage of pension-income splitting and the pension tax credit.

4. Use withdrawals to fund a TFSA. If RRIF withdrawals are not immediately needed, consider contributing funds to a Tax-Free Savings Account (TFSA).[1] This may be a great way to continue benefitting from tax-preferred growth: future growth in the TFSA will be tax free.

Plan Ahead

RRIF withdrawal considerations should be part of a larger retirement withdrawal strategy. Every situation is different, so please call if you require assistance.

1. Subject to available contribution room.



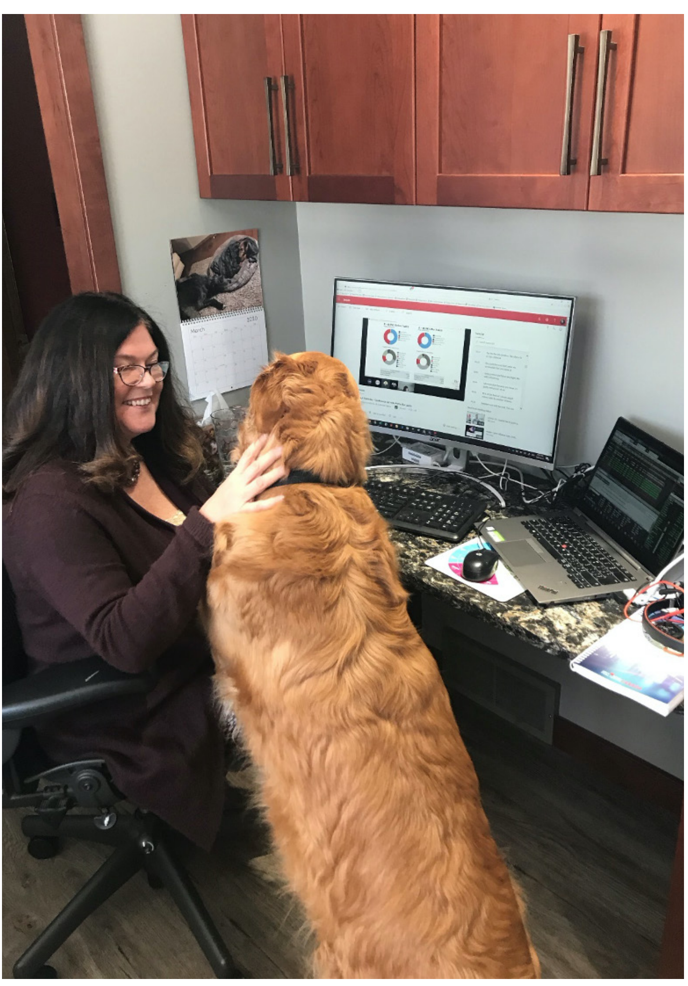
From Our (Home) Office Corner!

For the past 2 weeks, our entire team has been self-isolated and working from home. Fortunately, National Bank has provided us with technology to make this simple, easy and rather effortless. We are proud to say that out of all the firms in Canada, National Bank is considered the leader when it comes to working remotely. While other banks/investment advisors are trying to figure out how to bring their computers home, we are already up and running without interruption. Further, if you want to meet with us, we are able to call you, Skype with you, or if you download Microsoft Teams (free) we can even share our screens with you. We are here to help and listen to you and advise you. Again, it's business as usual for all of us. We thought you'd like to check out our "new offices!"

Here's Kim's office, with Chewie barking out orders and making sure he's working hard!

Check out Tracy's view with the window, and Colton, Olivia and Winston making sure the operation is running smoothly!

Here's Michael's office set up, with Eli making sure the phone is picked up by the second ring and Asher yelling "buy! Buy! buy!"



Finally take a look at Charlene's new office – someone wants to learn about asset allocation!

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