Winter 2025

Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

What to do when retirement is around the corner

When retirement approaches, several wealth planning to-do's arise. Taking care of them now means a more enjoyable start to your retirement. To help make these to-do's into a plan, here are the important items in two groups – what you do on your own and what to do with our input.

Your own to-do's

Managing debt and expenses. You'll find paying off debt more manageable while you earn income than paying it off in retirement when you're drawing income. Any home repairs or renovations may also be easier to cover as an income earner rather than as a retiree.

Covering health costs. Upon retirement, you may want private health insurance to cover dental treatment, vision care and other health costs. If you track these expenses before retirement, you could get a better idea of whether you want to pay insurance premiums or cover these costs on your own.

Planning together

Setting the date. We'll work with you to help ensure the retirement date you choose is financially sound. You want to enjoy your desired retirement lifestyle while feeling secure you won't outlive your savings.

Timing government benefits. You should plan the timing of your government benefits sooner rather than later because you have the option to begin Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) as early as 60 and Old Age Security (OAS) benefits at 65. Note that the earlier you start receiving CPP/QPP or OAS payments, the less you'll receive each month. Our input is valuable because the timing is part of an overall retirement income strategy.

Talk to us when you want to discuss wealth planning strategies during the years before retirement.

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In June 2022, Canada's inflation rate reached 8.1%, and in the past several months fell to the government's target of 2%. This cooling of inflation enabled the Bank of Canada to make a series of cuts to the benchmark interest rate, and these cuts can affect investments. An article on page 3 looks at how falling interest rates can potentially influence the performance of fixed-income and equity investments in a portfolio. Please get in touch with us if you have any questions about how interest rate changes – or any changes in the economy or markets – may affect your short-term or long-term investment goals.

The Dumanowski
INVESTMENT GROUP

Choose your beneficiaries carefully

When naming a beneficiary for a registered plan, it's common to simply designate a spouse or adult child, without giving the matter further thought. This might end up being the best choice, but not always.

Here's a look at options to consider, depending on your personal situation.

Note that beneficiary designations can be indicated on the plan form. However, in Quebec, legatee (beneficiary) designations can only be made on the plan form when the investment vehicle is an insurance product, such as segregated funds or an insurance provider's guaranteed investments. Otherwise, the legatee of the registered plan assets is to be named in the will.

RRSPs and RRIFs

When possible, the spouse is typically named the beneficiary of a Registered Retirement Savings Plan (RRSP) or the beneficiary or successor annuitant[1] of a Registered Retirement Income Fund (RRIF). Assets can simply roll over tax-deferred to the spouse's RRSP or RRIF.

However, there are exceptions to the common choice of spouse.

In a blended family. If you're in a blended family and have an estate plan providing for your current spouse and children from a prior marriage, you might name your children as beneficiaries of your RRSP or RRIF.

When you're single. The tax-deferred rollover is not an option if you're divorced, widowed or single. If you name a child or children as beneficiaries, they receive the RRSP or RRIF assets tax-free, and your estate pays the tax liability. Another option is to name the estate as beneficiary, providing instructions in your will for the RRSP or RRIF assets. For example, assets may fund a trust or help offset taxes owed by the estate.

Choosing a charity. If you name a charity as the beneficiary of your RRSP or RRIF, the resulting donation tax credit can offset the tax on RRSP or RRIF assets that would otherwise have been payable to the Canada Revenue Agency (CRA).

TFSAs

Designating your spouse. You can name your spouse as either a Tax-Free Savings Account (TFSA) beneficiary or successor holder.[1] Either way, the transferred assets do not affect your spouse's TFSA contribution room.

Naming an adult child. A child receives the TFSA proceeds tax-free. They can contribute the funds to their own TFSA if they have contribution room.

Choosing a third party. You may want to designate a relative or friend as the beneficiary if you don't have children or for other reasons.

Covering tax liabilities. You can name your estate as the beneficiary and have the TFSA assets help cover taxes owed by the estate.

Making a donation. If you name a charity as the beneficiary, your estate can claim the charitable donation tax credit.

[1] In Quebec, you can only designate a successor annuitant for a RRIF or a successor holder for a TFSA if the plan is funded through an insurance product.

When beneficiaries can change

Life events are the most common reason to change or add a beneficiary – birth, adoption, marriage, divorce, remarriage or a loved one's passing.

Perhaps someone remarries and they remove their ex-spouse as the beneficiary of their Registered Retirement Savings Plan (RRSP). Or a grandparent has a new grandchild, and they update their will to add the grandchild as a beneficiary.

However, other situations or events can also prompt a beneficiary review. These may include a change in your or a family member's financial situation or updating your estate plan. For example, a parent has designated their two children to inherit a vacation property, but now one child has moved to another province, and the parent must find a way to equalize their inheritance. As time goes on, you may have your own situations that call for a beneficiary change.

You'll find it helpful to keep an online or paper record of your beneficiaries for registered plans, life insurance and property. Update the record when you change or add a beneficiary, and review the record periodically to make sure all designations remain sound.

How lower rates may affect your investments

The Bank of Canada's recent interest-rate cuts are the first rate reductions in about four years. We've become familiar with the impact of rising rates on our investments, but what about the effect of falling rates?

GICs

When interest rates increased during the past couple of years, Guaranteed Interest Certificate (GIC) rates also increased, often providing a 5% annual rate. Many investors chose GICs not only to achieve short-term goals but as part of their fixed-income allocation to meet long-term savings objectives.

But GIC rates typically fall as the Bank of Canada reduces its benchmark interest rate. This means that if you purchased GICs for a long-term goal, you'll face a decision when your GICs mature. Will you reinvest in lower-paying GICs or invest those dollars elsewhere, such as in bonds?

Bonds

Generally, falling interest rates are good news for current bond fund investors. That's because newly issued bonds have lower yields, which makes existing bonds with higher rates more valuable in the bond market.

Some investors may be hesitant to invest in bonds due to the recent underperformance – bond funds suffered negative returns in 2021 and 2022, largely due to high inflation and rapid interest-rate hikes. Although such an event can happen again, two consecutive years of negative returns is an extremely rare occurrence. In fact, that was the only time the major Canadian and U.S. bond indexes posted two consecutive years of negative returns in the past 45 years.

Equities

Falling interest rates have the potential to positively affect the stock market. Lower rates mean lower borrowing costs, which can increase a corporation's profitability and encourage companies to invest in their own growth. Also, lower rates can stimulate consumer spending. However, equity performance is affected by a variety of factors, so rate cuts on their own won't necessarily control the direction of the stock market.

Wealth Planning

Making financial decisions when you're single

According to Statistics Canada, the most common type of household in Canada is the one-person household.[1]

If you're single, some wealth-planning components take on more importance, and some are very different.

Building a safeguard. A couple may have a built-in safety net if one spouse becomes unable to work or loses their job – the potential of a second income. For a single person, disability insurance and an emergency fund can provide replacement income in such circumstances. Those with disability insurance through an employer may already have adequate protection for associated costs, but if you're self-employed or a business owner, you might want to consider an individual disability insurance policy. For your emergency fund, liquid savings in a Tax-Free Savings Account (TFSA) or a non-registered account can help cover several months of living expenses.

Saving for retirement. If a couple has two incomes, they can more comfortably cover a mortgage, utilities and car payments while setting aside funds for a retirement savings plan. Singles may need to budget more of their income to take care of these expenses in addition to their long-term retirement planning.

A couple also has the option to split pension income to reduce their overall tax bill during their retirement years. If one spouse needs help with daily living, the other can offer caregiving support, saving the expense of hiring a private care provider. For a single person, boosting retirement savings during their working years may provide a similar financial cushion.

Planning your estate. When you're single, you might not feel any urgency to make a will. But you may be motivated once you identify your beneficiary or beneficiaries. Will you name nieces and nephews, a close friend, a charity?

Couples often name their spouse or an adult child as their executor, also known as a liquidator, personal representative or estate trustee, depending on the province. Other possibilities for this role might include a sibling, friend or trust company, and a single person might find one of these an appropriate choice as well.

Making decisions. Spouses in a couple have the option of discussing financial matters with each other. If you are single and feel uncomfortable talking about finances with a friend or family member, you can always contact us whenever a decision involves wealth planning.

[1] Statistics Canada, "Distribution of households by household type," 2021.

An early-year warning for TFSA contributions

In recent years, tens of thousands of Canadians paid penalties to the Canada Revenue Agency (CRA) due to Tax-Free Savings Account (TFSA) overcontributions.

The penalty is 1% of the excess contribution for each month the amount is in the TFSA.

One reason for overcontributions involves account holders contributing in the early part of the year based on information in their CRA "My Account" portal.

Financial institutions have until the end of February to report clients' TFSA transactions made in the previous year. So, in the first months of the year, what you see listed in My Account as the current year's contribution room may not be up to date. If you only use your My

Account information to determine your TFSA contribution room, you could be at risk of overcontributing.

The solution? Keep your own records of your TFSA transactions, so you always know your current contribution room. Or, if you rely only on My Account, wait until April before contributing – allowing time for last year's data to be submitted and processed.

If you're asked to co-sign a loan

Do you know what you would do if you're ever asked to co-sign a loan? Understand that the decision requires serious thought.

Perhaps a friend who's just endured a bankruptcy asks if you'll act as a co-signer for a car loan. Or your son and his wife are facing challenges in securing a mortgage and want to know if you'll co-sign. When you co-sign, you are legally responsible for any payments your friend or family member fails to make. Also, beyond the financial consequences, there is the matter of your relationship to consider. If you had to step in and make one or several payments, would you be okay with helping out or would you feel resentful?

If you're confident that co-signing the loan is the right decision, you'll have the satisfaction of making a difference in your friend or family member's life.

If you don't want to co-sign, you may wish to explain that your decision isn't personal. You can say that money issues sometimes lead to rifts between friends or family members, so your policy is not to risk jeopardizing a relationship.

The unsung benefit of regular RRSP contributions

When you contribute regularly to a Registered Retirement Savings Plan (RRSP), you don't just benefit financially – you also benefit psychologically. Making regular RRSP contributions can give you peace of mind.

Imagine if you have a sum of money to invest, and you don't make regular contributions. If markets are weak, you might worry it's not the best time to invest. If markets are booming, you might worry about losing value if you invest now and markets fall. Contributing regularly removes the distress of trying to time the market every time you contribute.

An RRSP itself brings peace of mind because you know you're committed to saving for retirement. You're motivated to dedicate savings to your RRSP every year because those contributions reduce your taxable income, resulting in a lower tax bill or a tax refund. Also, compared to other investment vehicles, you're less likely to spend your savings on vacations or other expenses, as RRSP withdrawals are taxable as income.

Editorial correction: The Fall issue listed 70 as the maximum age to start receiving CPP benefits, without including 72 as the maximum age to start QPP benefits.

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571NBF-FF-WINTER2025