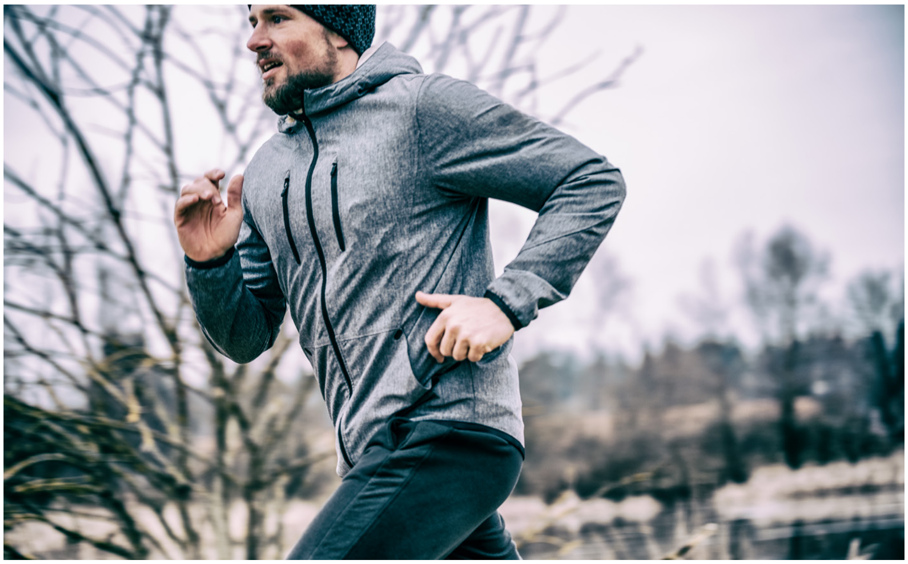
Winter 2023

Financial Focus

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Key to achieving your financial goals



It's human nature to generalize our goals. "I've got to start exercising" is a common one. But a key to achieving a goal is to first identify one specific step. For example, starting to exercise becomes taking a brisk walk every day.

The same idea applies to wealth planning goals. Say that someone's general goal is to take their estate planning – which currently only consists of having a will – to the next level. They identify their first specific step as contacting their lawyer to get a power of attorney for property (mandate, in Quebec).

Make a resolution

If you have a financial goal you want to work toward, think of an attainable first step to take. You may even want to make your step a financial New Year's resolution – the good kind, one you will keep.

Let's say a recently retired couple is struggling with the decision about whether to purchase a summer lakefront vacation property or a home down south where they'd spend each winter. As a first step, they decide to rent a condo in the Sunbelt for one winter to evaluate the snowbird experience.

Or say that someone wants to build an emergency fund. Until now, they figured if an emergency arose, they'd either cash out some savings or use their line of credit. But now they're concerned about selling investments if it's a period when markets are down, or borrowing funds when interest rates are increasing. So they identify their first step as opening a high-interest savings account that they'll designate as an emergency fund.

Involve us

Please feel free to talk to us about the goal you wish to accomplish. First of all, telling someone about a step you want to take can motivate you to commit to the task. Also, we can offer advice and guidance to help you along the way.

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Wishing you and yours health and prosperity in the new year. If your New Year's resolutions happen to involve a life change or financial change, we are here to help create a personalized plan.

As you consider your financial goals for the upcoming year, please keep in mind:

> the 2022 RRSP contribution deadline is March 1, 2023

> the 2023 TFSA contribution limit has increased to $6,500

As always, we encourage you to take some time to think of what matters to you and your family as you consider your financial future. Please remember that we are here to help whenever you need information or advice.

WR WEBSTER REID
ADVISORY TEAM

When should you retire?

Online retirement calculators take your input and typically indicate if you're on track to retire at an age you specify. Many base retirement income needs on a percentage of pre-retirement income. But these results may not give you a true picture at all.

It takes a process involving several factors to determine how much you need to retire and when you can retire.

Envision your retirement

Most people probably dream of what they might do in their retirement years. In fact, imagining how you could enjoy retirement is a helpful wealth planning exercise. What's especially helpful is when you turn those dreams into an actual plan. Once you have a plan you can share with us, we can help you establish financial objectives.

Do you want to travel the world? Stay close to your grandchildren? Turn a life-long hobby into a boutique business? You may want to keep an ongoing record of your retirement plans.

Projecting your retirement date

Once you envision your retirement lifestyle, we can put dollar-value estimates to your plans. But there's still a lot more that goes into our calculations. You may plan to leave a sizeable inheritance to your loved ones. You might want to leave funds to a charity. Some individuals, during retirement, will help support a child or grandchild who requires financial assistance. We make sure that all costs beyond lifestyle expenses are accounted for, everything from insurance premiums to a retirement emergency fund.

Then we assess these financial needs and all income sources to project a retirement date or multiple retirement date scenarios. We can estimate the earliest age you can retire with enough income to support your desired retirement lifestyle and the confidence your savings will last your lifetime. Or, to establish a financial goal, you may want to know how much you need to retire at 65, or any other age. To help choose a retirement date, you may want an estimate of your annual retirement income if you retire at different specific ages.

You might retire earlier or later

Some people's retirement date might be etched in stone, but for many it's fluid. A variety of situations may lead someone to retire earlier than planned. An employee could be offered an early-retirement package that's too good to resist. A sizeable inheritance could move retirement forward. Other reasons include receiving financial assets upon a

spouse's passing, suffering an illness or protecting one's mental health. Or someone just feels ready to trade work for the retirement lifestyle and asks their advisor if it's financially feasible.

Deciding to retire later than planned can be for strictly financial reasons. A couple might change their retirement plans to include purchasing a vacation property and decide to work longer. Or perhaps they want the added financial security to cope with any unforeseen situations. Others may choose to retire later for non-financial reasons – simply because their work is a source of satisfaction.

We're always here to discuss and assess the personal and financial factors affecting your retirement date, so that when you retire, you can feel secure about your decision.

Investing when retirement nears

Investors typically want their portfolio to have a higher degree of safety in the years closer to retirement, so that a market correction wouldn't derail their retirement plans. At one time, pre-retirees could follow a simple formula to establish their portfolio's asset allocation. Subtract your age from 100 and that's your percentage of equities. So, at age 60, an investor would hold 40% in equities and 60% in fixed-income investments.

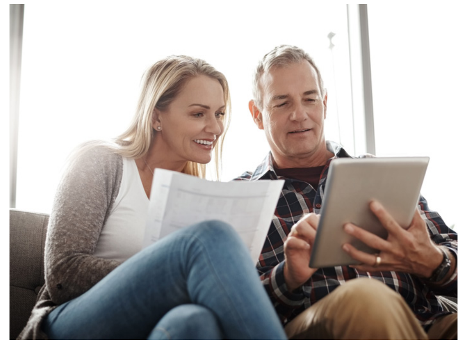
But with today's modest yields on fixed-income assets and increasing longevity, that formula is no longer valid for many investors. The portfolio may not have enough growth potential to support a retirement lasting 20 years, 25 years or longer.

Now, we take a customized approach to establish an asset mix that balances each investor's need for near-term safety with the potential for long-term investment growth. It's an approach that involves a variety of personal factors, including net worth, desired retirement lifestyle, projected retirement income, risk tolerance and your spouse's financial status.

In some cases, investment plans focused on approaching retirement also factor in one of several retirement income strategies. For example, a cash reserve may be created before retirement to help provide the initial years of retirement income – a reserve that's insulated from any market volatility.

Are your and your spouse's investment personalities a match?

You would think it's always ideal for both spouses to have the same investment personality – and often it is. But sometimes similar approaches may spell trouble, and opposite investment personalities can be beneficial.



When investment personalities conflict

Say that a couple is investing with the goal to fund their retirement. One spouse prefers to invest conservatively and not have to worry about the markets, accepting the need to save and invest more. The other spouse is comfortable with investing aggressively, feeling confident that a portfolio heavily favouring equities will provide higher returns over time.

There are two different ways their conflicting approaches can actually benefit each spouse. The first is by finding a compromise, which would be to develop a relatively balanced portfolio. There would be little or no cash equivalents or speculative investments. This way, the conservatively minded spouse benefits from greater exposure to market opportunities, and the aggressively minded spouse won't put hard-earned savings at unnecessary risk.

Another route is simply for each spouse to invest independently according to their own risk tolerance. This way each has the satisfaction of staying true to their own investment personality. As a couple, their portfolios in combination achieve a healthy balance between capital preservation and long-term growth potential.

When investment approaches are alike

Usually, a couple may consider themselves fortunate when they have the same investment personality. But sometimes the similarity calls for caution.

Say that both spouses are ultra-conservative investors. Since their investments earn relatively moderate returns, they're saving and investing more to meet long-term objectives. This couple may need to watch that their budgeting doesn't come at the expense of enjoying life now.

A couple in which both spouses are aggressive investors needs to make sure they don't go too far. A portfolio that's too high-risk could jeopardize their retirement plan or other financial goals.

In all cases, by working with your advisor, you can have an investment program designed to meet your financial objectives and life goals, while respecting each spouse's investment personality.

The truths and myths about RRSP season

It's been said that Canada has five seasons – spring, summer, fall, winter and RRSP season. That's how common it is for Canadians to make large contributions to their Registered Retirement Savings Plans (RRSPs) during the two months before the deadline.

Canadian income earners have 60 days into the new year to make RRSP contributions that reduce taxable income for the previous year. The deadline is March 1, 2023, to contribute to an RRSP for the 2022 tax year.

But calling these two months RRSP season is somewhat of a myth because the real RRSP season should be all year round, with contributions monthly or every payday. Ideally, this two-month period is a chance to top up your RRSP if needed, not a time to make a large lump-sum contribution.

Benefits of contributing year round

When you invest in your RRSP each month or pay period, you make manageable contributions that won't disturb your budget. Paying yourself first is easy.

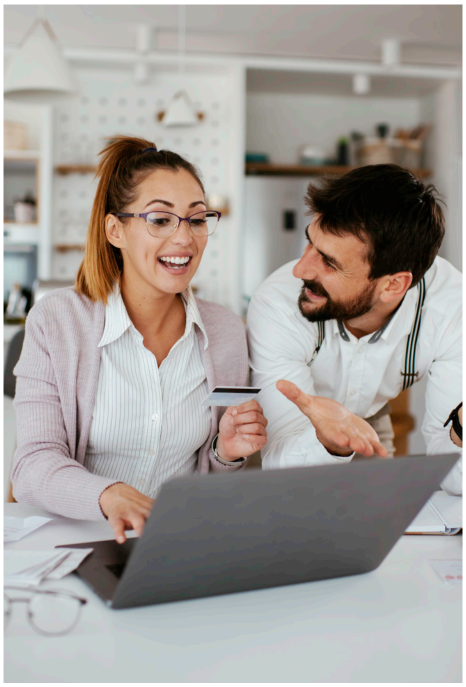
Contributing on a regular basis is also a smart way to invest. You're sure to be investing when markets are down and prices are lower, so you can profit when markets rebound. You'll also be certain to participate in rising markets, without over-investing when stock prices are higher.

Another option – invest early

Some investors make large lump-sum contributions at the start of the RRSP tax year – more than 12 months before the contribution deadline. Investing an annual bonus might be part of the contribution. This approach is based on the idea that more time in the market means more time for an investment to grow and compound. But not everyone feels comfortable investing large sums all at once. It's a decision to make with your advisor, as both financial and psychological factors are involved.

Sharing CPP/QPP benefits to save tax

The Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) allow a couple to balance out their pension amounts, to a degree. A portion of the higher-income spouse's CPP/QPP pension is shifted to the lower-income spouse's pension.



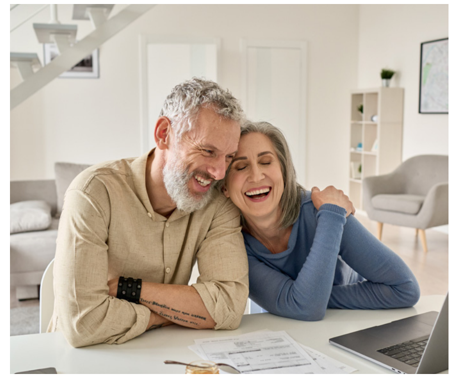
Known as "pension sharing," it's most effective when a couple has been living together for a long period. The government uses that period in determining the amount of pension dollars that can be shared.

Here's an example of a couple who lived together during all the years they contributed to the CPP or QPP. Originally, Elyse received a $900 monthly benefit and her spouse, Robert, received a monthly benefit of $300. With pension sharing, the sum of $1,200 is equally split, so each spouse receives a $600 monthly benefit. They now save tax as a couple by having less pension income taxed at a higher rate and more taxed at a lower rate.

Make the most of charitable donations

It's an easy habit to slip into. When filing your tax return, report just your own charitable donations made only during the tax year. But you might have a better choice.

When you report charitable donations, you receive a federal charitable donation tax credit of 15% on the first $200 of donations and 29% on donations over $200. But you have choices in how you report your donations. You can combine your tax receipts with your spouse's receipts or carry donations forward to any of the next five years – or even do both. Pooling your donations gives you a larger sum that exceeds the $200 threshold, which receives a tax credit at the 29% level.



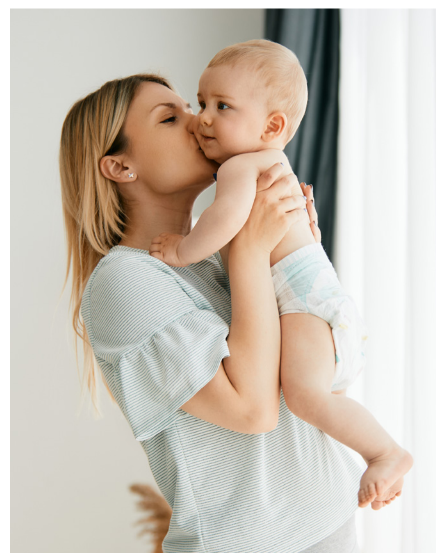
This strategy is worthwhile whenever the pooled amount is over $200, and it becomes even more effective when you factor in the provincial donation tax credit. Either spouse can claim the credit, but typically more tax is saved when the higher-income spouse makes the claim.

Did you or your spouse stay home to raise your child?

A great many Canadians stayed home to raise a young child. But not all Canadians know the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) can take that time into account when determining your pension benefits.

The CPP has a "child-rearing provision" to benefit parents who left their job or worked fewer hours to raise a child, covering the years from birth to age 7. Normally, when your CPP pension is calculated, periods of low income result in a lower pension amount. But with this provision, the CPP doesn't include the months you had lower or no income as a stay-at-home parent – resulting in a higher CPP benefit.

You can apply for the child-rearing provision at the same time you apply for CPP benefits. If you're already receiving CPP payments, you can still request the provision.



Note to Quebec residents: The QPP offers a similar provision. The period that the QPP pension amount is based on can exclude the months when your child was under age 7 and your employment income didn't exceed the basic exemption.

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