IG PRIVATE WEALTH MANAGEMENT

SYRJA & ASSOCIATES

Syrja & Associates Executive Guide

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CFP®, CIM®, RRC®, CPCA®, RIS

Introduction

In an ever-evolving financial landscape, executives and high-net-worth individuals are faced with the challenge of navigating markets marked by volatility and uncertainty. The ability to preserve and grow wealth requires a strategic and informed approach to investment and financial planning. This Executive Guide aims to provide valuable insights into key aspects of financial management, offering actionable strategies to reduce volatility, optimize investing, and secure long-term financial success.

Long-Term Investing Philosophy:

Building sustainable wealth requires a steadfast commitment to long-term investing. The guide emphasizes the benefits of adopting a patient and disciplined approach, focusing on fundamental analysis and avoiding reactionary decisions during market fluctuations. Long-term investing not only withstands short-term volatility but also capitalizes on compounding to generate substantial returns over time.

Reducing Volatility:

Volatility is an inherent characteristic of financial markets. However, the guide underscores the importance of adopting strategies to mitigate its impact. Through diversification, asset allocation, and risk management, executives can shield their portfolios from the effects of market turbulence, ensuring a smoother journey towards their financial goals.

The Benefits of a Group RRSP:

The collaborative nature of a group RRSP fosters a sense of shared commitment to long-term financial goals, making it a valuable tool for executives looking to efficiently build their retirement nest egg.

Investing Strategies for Executives:

Executives often face unique challenges in managing their wealth due to concentrated stock positions and insider trading restrictions. The guide explores tailored investing strategies that align with executive constraints, such as rule-based trading, sector rotation, and tax-efficient investment vehicles, to optimize returns while managing risk.

Diversification Beyond Borders:

Geopolitical and economic factors contribute to global market interconnectedness. Executives are advised to diversify across asset classes and geographical regions to hedge against risks and capture opportunities worldwide. The guide delves into the considerations for building a globally diversified portfolio that enhances resilience and taps into emerging market potential.

Strategic Use of Stock Options:

For executives compensated with stock options, the guide explores strategic ways to leverage these instruments for wealth accumulation and risk mitigation. From understanding vesting schedules to implementing option strategies, executives can optimize their compensation packages and align their financial interests with those of the company.

Pension Options Transition:

Leaving an employer presents a pivotal moment for executives to evaluate their pension options. This guide provides insights into the considerations surrounding pension rollovers.

Create Your Retirement Income Plan:

For executives, developing a tailored retirement income plan is crucial for securing financial stability in their post-career years. This strategic approach involves considering unique financial circumstances, optimizing investments, and leveraging executive benefits. Executives can ensure a confident and rewarding retirement by crafting a plan that goes beyond basic savings, addressing their specific needs and aspirations.

Charitable Giving:

Philanthropy can play a crucial role in wealth management. The guide discusses tax-efficient charitable giving strategies, such as donor-advised funds and charitable remainder trusts, empowering executives to make a meaningful impact while optimizing their financial position.

Canadian Ownership of U.S. Vacation Properties:

Navigating the intricacies of cross-border real estate ownership, the guide addresses considerations specific to Canadians owning vacation properties in the U.S. From tax implications to estate planning, executives gain insights into optimizing their real estate holdings while ensuring compliance with regulatory requirements.

Time In the Market, Not Timing The Market, Is what Builds Wealth:

Emphasizing patience and consistency, focus on the long-term benefits of steady investment, leveraging the power of compounding and market resilience. This strategy underscores the value of staying invested and maintaining a disciplined, enduring approach to wealth creation.

In summary, this Executive Guide serves as a comprehensive resource for executives seeking to fortify their financial positions, reduce volatility, and implement strategic wealth management practices. By embracing these insights, executives can confidently navigate the complexities of the financial landscape, fostering long-term prosperity and financial well-being.

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CHAPTER 1: UNDERSTANDING INVESTOR BIASES AND MARKET VOLATILITY

What are behavioural finance biases? And how to avoid them

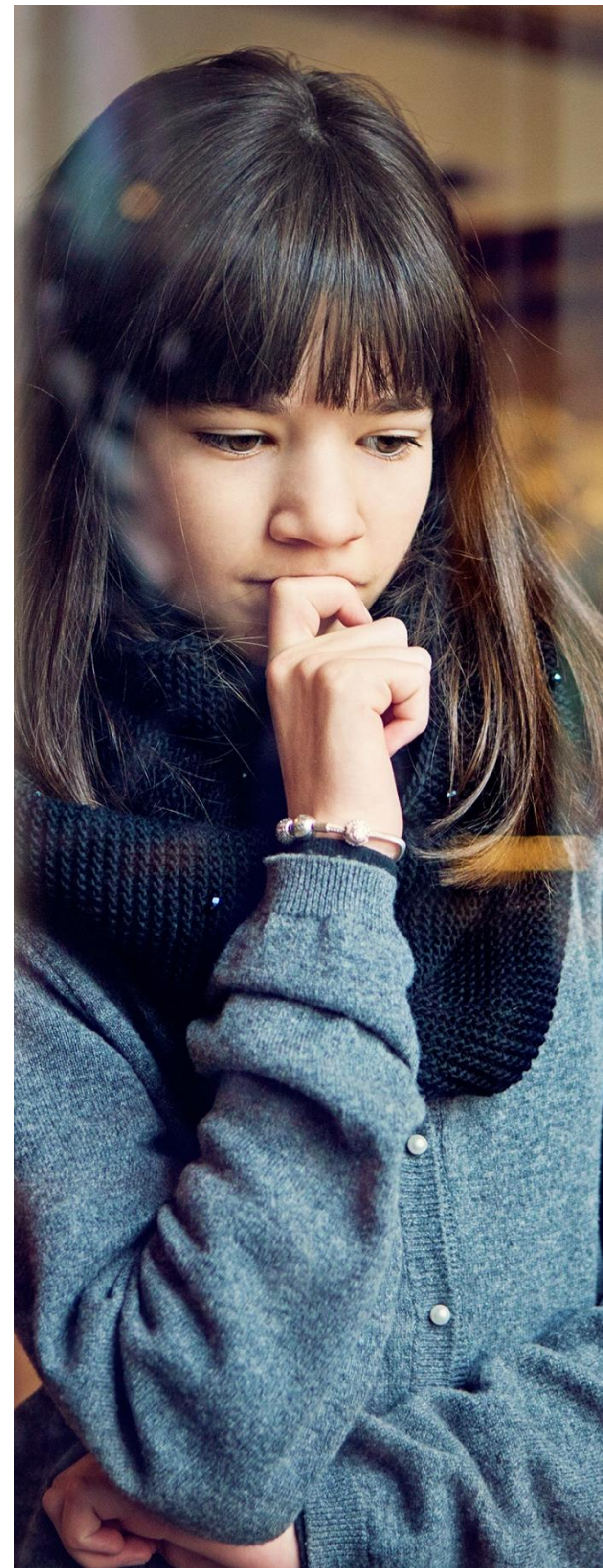
Investors can often behave in innocent, but unwise ways that can derail even the best laid financial plans. These behavioural finance biases are part of the cognitive biases that we all have. By some counts, there are dozens of them: some interact, others overlap, and certain biases even directly contradict others.

Common Behavioural Finance Biases

Anchoring:

This is an over-reliance on the first piece of information you hear and how it can impact your subsequent decisions. It's the phenomenon behind the notion that in a salary negotiation, whoever makes the first offer establishes the range of reasonable options in the other's mind.

Anchors are everywhere in investing: analyst price targets, recent price ranges, high water marks, moving averages and, of course, your buy price. These can all influence your perception of an investment's fair value. Because comprehensive analysis is difficult and time consuming, investors can be over-reliant on anchors. Even stock analysts can have this investment bias, as they're often anchored by their previous ratings because it is much easier to rate a stock relative to its previous price than to start in-depth analysis from scratch.



Conformation bias and commitment bias:

Confirmation bias is perhaps the most widely recognized investment bias. It's not just a behavioural finance bias but also occurs in other areas of our lives. It's the tendency to give too much weight to information that supports our preconceptions, while discounting information that isn't supportive.

Also, the more people you've told of your decision (such as to buy a particular stock), the more likely you are to resist changing your opinion: this is called commitment bias.

Clustering illusion:

This is the tendency to see patterns in random events (such as your favourite stock going up in price 15 days in a row). Sometimes this is referred to as the sharpshooter effect, an allusion to pulling patterns out of data and then painting targets around them after the event.

This happens often in gambling. If red turns up on a roulette wheel a number of times in a consecutive string, people may feel that is more or less likely to turn up again, even though the odds that it will be red are always 50:50.

This is an important concept to keep in mind when watching stock price movements: just because the last few days were up or down, doesn't necessarily imply anything about the likely direction of the next move.

Recency:

Momentum trading is a special manifestation of recency. In more general terms, recency is simply an investment bias whereby more weight is given to the latest information received, and less weight to older data. Recency comes down to allowing our decision-making to be biased by the order in which information is presented to us.

Some of us find it easier to remember the last numbers in a list (recency), others the first (anchoring or primacy effect). Recency can make investors believe the market will always look the way it does today, which can lead to unwise decisions.

Availability bias:

Some people rely too much on information that is easily available. Availability bias can be considered as a reluctance to undertake thorough research, which can be due to the huge choice of stocks and funds available: investors often only consider assets that are brought to their attention.

There are dangers to impulsively buying a fund or stock because you saw an advertisement for it, and there are no excuses for this investor bias, given the tools available to make informed decisions.

Endowment bias and choice supportive bias:

Also called the status quo bias or mere ownership effect, endowment bias describes how people overvalue something they already own. Research has shown how owners value their possessions far more than potential purchasers.

Every security in a portfolio should be re-evaluated on a regular basis with your advisor, but this can become difficult because of choice supportive bias (the tendency to feel positive about something because you chose it).

This behavioural finance bias is even stronger with investors and advisors who built their own portfolios: they can believe their home-built portfolios are better than those created by investment professionals who use sophisticated qualitative tools, massive data resources and modern portfolio theory. Yet they wouldn’t expect to beat a professional basketball player in a pickup game.

Hindsight bias and attribution bias:

Hindsight bias is the tendency to rewrite history to make ourselves look good. Investors often misremember the information and decision-making processes that led to an investment purchase in ways that make them look smarter. This bias of believing past events were more easily predictable is prevalent in the financial industry: few predicted the 2008 financial crisis, yet many today claim it was obvious.

When we look back at events, it can become difficult to imagine alternatives, even if those alternatives were what was expected at the time.

Attribution bias is hindsight bias’s close cousin. When an investment decision succeeds, we’re quick to attribute that success to our skill: when things go wrong, we blame outside causes.

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How to overcome investment biases

Do your homework:

There is one further behavioural finance bias worth mentioning: the blind spot bias. Most people notice investment biases much more in others than they do in themselves. Failing to recognize your own biases is itself a bias. Nobel Prize-winning physicist Richard Feynman noted that, “The first principle is that you must not fool yourself — and you are the easiest person to fool.” Education is an essential tool in recognizing and overcoming your own blind spot bias (for example, realizing that your excessive trading is a sign of overconfidence). You’re more likely to adopt some of the tips listed here to correct it.

Acquiring as much relevant information as you can before making decisions is a powerful way to avoid many investment biases. The more time we take to analyze, the less likely we are to revert to biased shortcuts.

Learning about the long-term performance trends of various asset classes is a good place to start, as it can help you set realistic expectations for your investment plan.

Seek out alternative scenarios

It can be helpful to be your own devil’s advocate and argue the other side’s case. Being able to appreciate other points of view will clarify your own thinking and help you avoid investment biases.

One way to do this is to plot out your decision-making process and identify each step where you had to make a choice. This will help you to consider alternative scenarios and mitigate confirmation bias.

Don’t attach too much significance to short term results:

Chasing performance is a type of recency bias. Following the herd rarely pays off, because the players with far greater resources than you have probably identified and exploited the pattern long before you noticed it.

Many astute investment professionals suggest that being a contrarian is a wise choice. Warren Buffett said, “Be fearful when others are greedy, and be greedy when others are fearful.”

Another way forward is to not check your portfolio too often; as you’ll see more short-term losses and be more likely to make poor decisions. One of the key goals of investing is to dampen volatility and reduce risk through asset class diversification, which should be assessed over a sufficiently long time.

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Investors often ask: Is now a good time to invest?

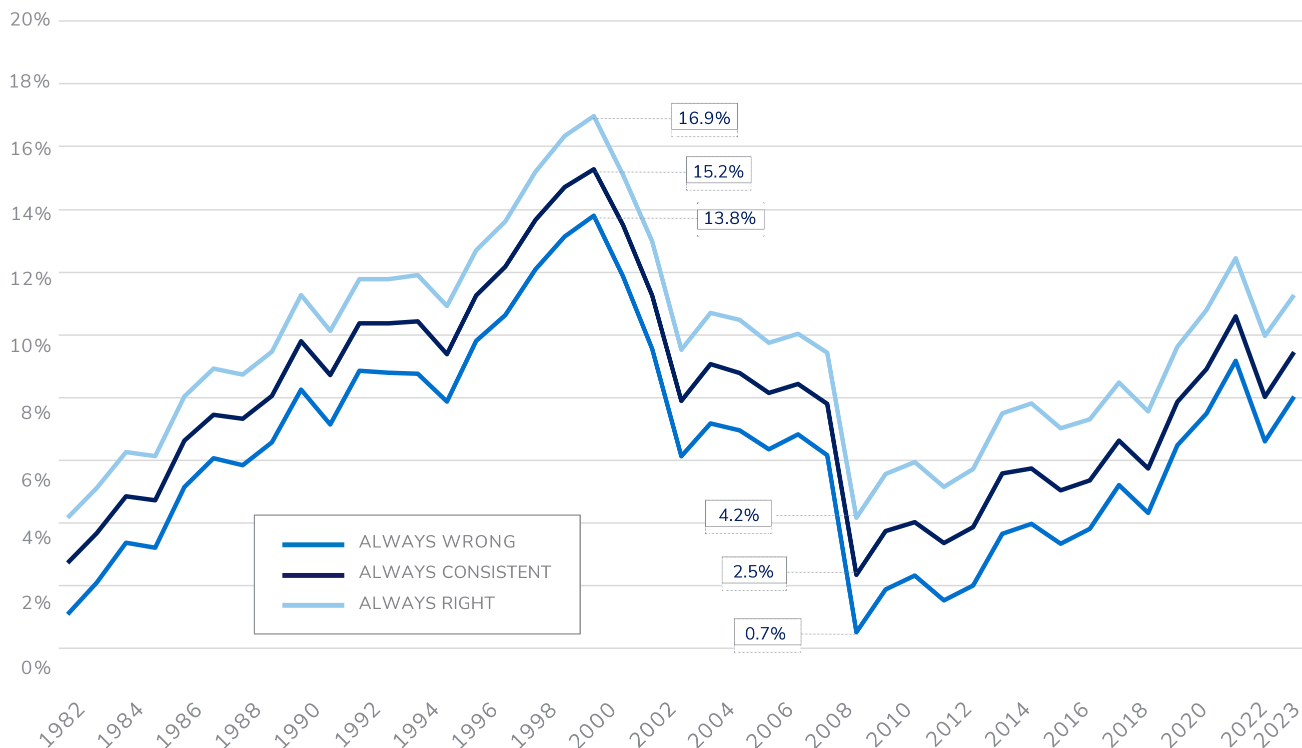
The real meaning behind the question is more likely that investors want to know if their investment will go up rather than down. In truth, it's impossible to know when the "perfect" time to invest is. Rather, if investors are nervous about when to invest, we would suggest buying in regular increments — perhaps monthly or quarterly — as trying to time the market is an exercise in futility.

One of the main reasons to avoid market timing is that it's incredibly difficult to predict when the market will rise or fall. Even the most experienced analysts and economists cannot predict market movements. By trying to time the market, you're essentially trying to predict the unpredictable, and success is improbable.

As an example, we assume three investors make annual lump-sum equity investments of $10,000 each year over 20 years. The first, let's call him Always Right, times the market perfectly every year and buys at the market low. The second, Always Wrong, has terrible timing and invests at the market high for the year, every year. The third investor, Always Consistent, makes his investment on the last trading day of December, every year, like clockwork.

20-year rolling annualized return of lump-sum investments on the year's low (Always Right), high (Always Wrong) or December 31 of each year (Always Consistent)

S&P 500 Index 1982-2023



For illustration purposes only. Source: IG Wealth Management, Bloomberg as of December 31, 2023

We looked at the historical outcomes of each investor on a 20-year basis from 1962 to 1982 and roll forward for every 20-year period ending 2023. The best 20-year period fell between 1979 and 1999. Yet the annualized difference in return between Always Right and Always Wrong was only 3.1%.

Looking at Always Consistent, he fell roughly in the middle. More importantly, the likelihood of timing the investment on the best trading day in a year is 1/250. To try and execute this perfectly for 20 years is a near impossibility — just as it is to have the worst timing every year.

Another point to consider is that trying to time the market can lead to emotional biases, such as fear of missing out (FOMO) or fear of losing money (FOLM), which can cause you to make irrational decisions.

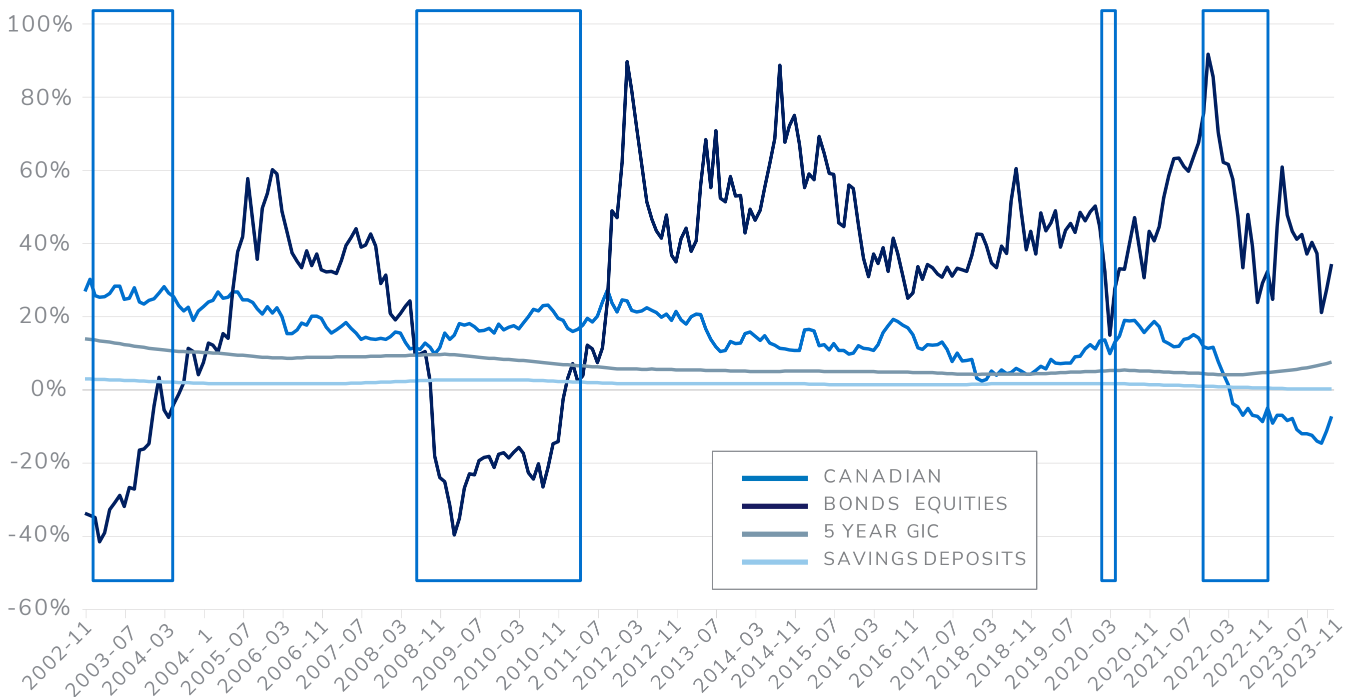
Consistently investing in the market — either monthly or quarterly, regardless of the current price — can help you avoid these emotional biases and ensure a steady investment outcome.

This strategy may not be as exciting as trying to time the market, but it’s been proven to be the most effective way to grow your wealth over the long-term.

Looking at safety and volatility through different lenses

Market volatility can easily test an investor's resolve. Understanding the behaviour of various asset classes through different market cycles and their overall long-term results can help investors make better-informed decisions. In this article, we take a closer look at four asset classes: equities, Canadian bonds, guaranteed investmentcertificates (GICs)[1] and cash.

Over the past 20 years, we've experienced four bear markets: the Tech Bubble crash began shortly after the start of the new millennium; seven years later the global financial crisis hit; the COVID-19 pandemic bear market in 2020; and our latest bear market was in 2022. Below is a chart illustrating rolling three-year returns for all four asset classes, with bear market periods outlined.



Sources: Bloomberg, as at December 31, 2023. Canadian bonds represented by FTSE Canada Bond Index and equities represented by S&P 500 Index. Cash represented by Bank of Canada Savings Deposits (Non-Chequable Savings Deposits) and GICs represented by the historical monthly 5-year GIC rates.

During the first two bear markets, bonds provided positive returns for investors. GICs and cash remained steady, delivering on their promise of guaranteed capital protection, albeit with lower returns than bonds. Equities experienced more volatility and had the largest swings during these periods. On March 11, 2020, equities entered a bear market for the first time in over 10 years amid the economic impacts of the COVID-19 pandemic. Markets rebounded after barely a month as economic sentiment improved.

The most recent bear market of 2022 was different — fixed income fell into negative territory. Historically, there's an inverse relationship between interest rates and bond prices — when rates rise, bond prices fall. As inflation surged in 2022, central banks began raising interest rates quickly and from a very low base. Hence the reason that bond prices and equities fell in tandem.

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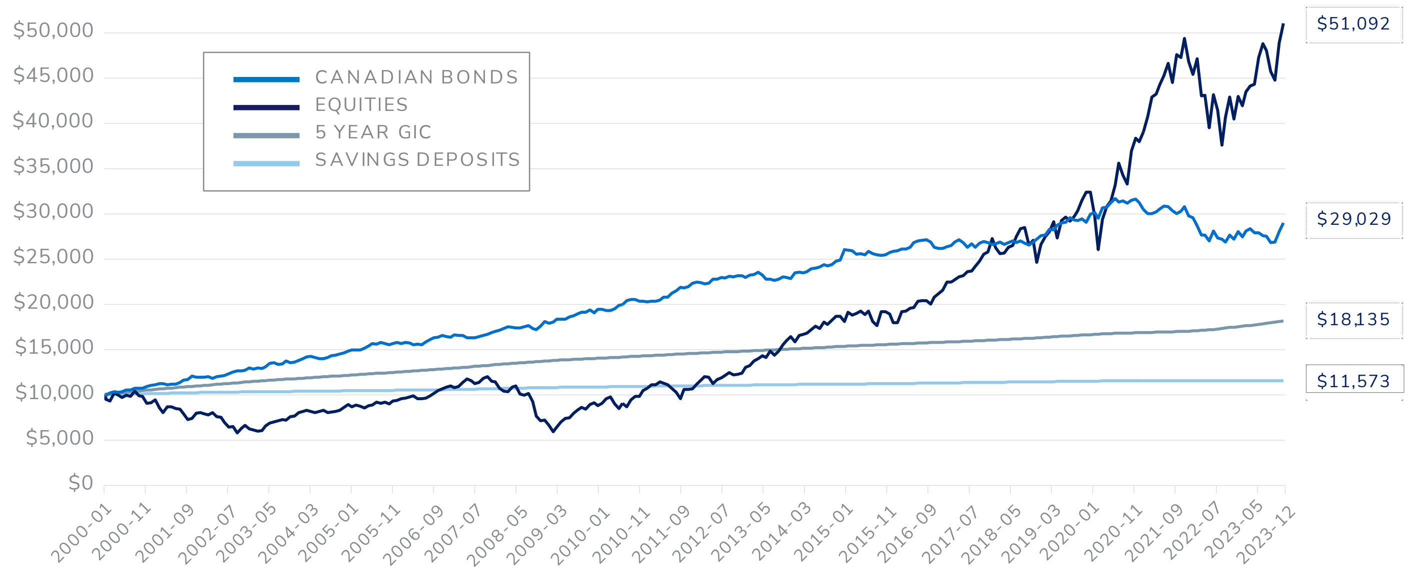
Looking at it through a different lens

Let's quantify this 20-year view. Assuming a $10,000 investment at the beginning of the first three-year rolling period (January 1, 2000), you can see the growth of that investment in those different asset classes in the chart below.

Growth of $10,000



Sources: Bloomberg, as at December 31, 2023. Canadian bonds represented by FTSE Canada Bond Index and equities represented by S&P 500 Index. Cash represented by Bank of Canada Savings Deposits (Non-Chequable Savings Deposits) and GICs represented by the historical monthly 5-year GIC rates.

The ending value for equities was significantly higher than the other asset classes, despite struggling to top the original $10,000 investment for the first 11 years due to the first two bear markets.

Bond returns were relatively stable through most of the study period, before tailing off over the last two years. For GICs and cash, the ending dollar value represents the original investment plus the additional interest income received from each.

These returns illustrate an important point about volatility. An investor who avoided the volatility of the stock market would have earned far less than an investor who embraced that volatility within a diversified portfolio.

A word about income and tax

Bonds, GICs and cash pay interest income, which is taxed at your highest marginal tax rate. Any gains from equities are taxed as capital gains, which receive a favourable tax treatment — only half of the capital gain earned is taxable at your marginal tax rate.

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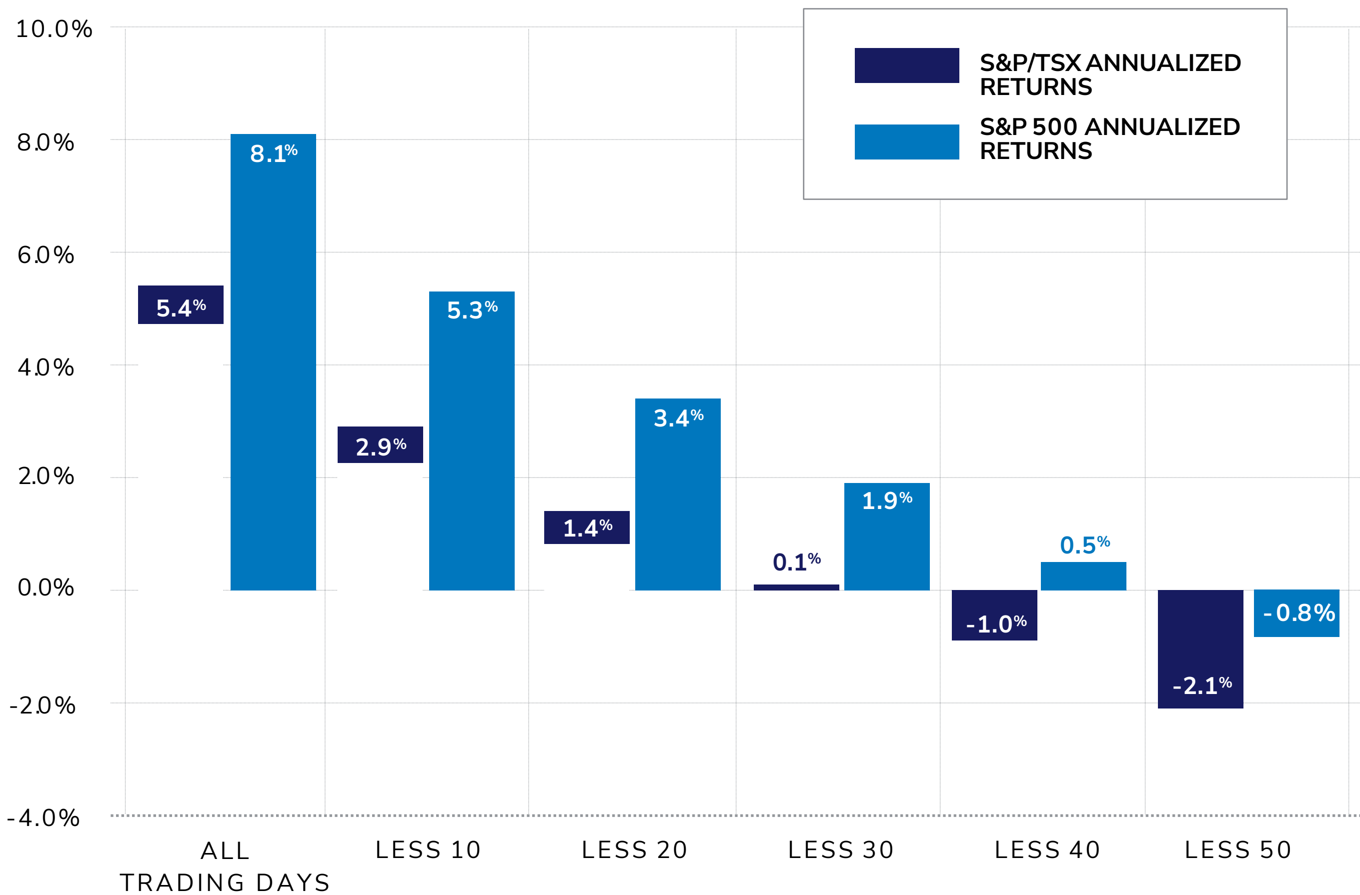
Defence can be costly

All investors love the prospect of a rising stock market; however, once the trend starts downward and prices approach historical lows, many investors feel the need to be defensive and retreat to the security of cash or money market instruments. While no one likes a turbulent market, those investors who can focus on the long term and stay invested – as the chart demonstrates – stand to gain.

For example, an investor who stayed fully invested in the S&P 500 Index from January 1, 1994 to December 31, 2023 realized a 8.1% annual return (excluding dividends). Conversely, an investor who missed the 50 best days of the S&P 500 over that time period (1% of the trading days) realized a -0.8% annual compound return (excluding dividends).

S&P/TSX and S&P 500 Price Indices: January 1, 1994 – December 31, 2023

Source: Mackenzie Portfolio Analytics



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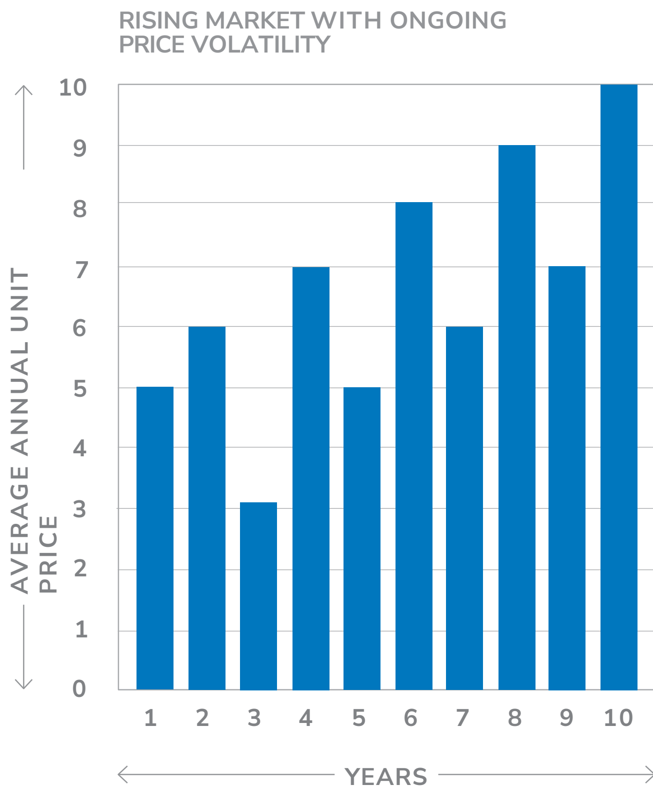
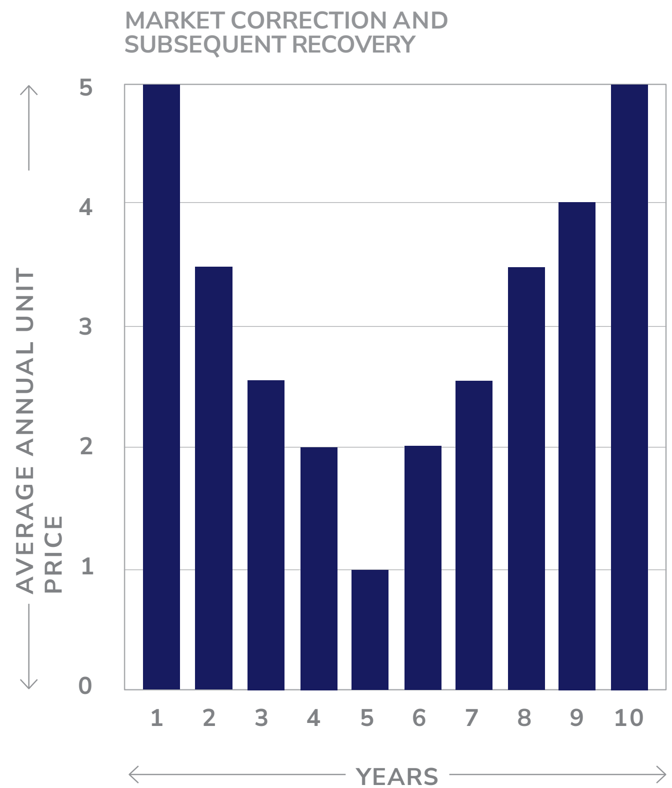
Managing volatility through dollar cost averaging

Dollar cost averaging can help manage the risks of investing. Dollar cost averaging is an investment technique that involves buying equal dollar amounts of a given investment on a regular basis. Rather than investing all your money at once, making a commitment to invest a smaller amount on a regular basis can lower your average cost per unit by purchasing more units at lower prices. Talk to us about how this strategy can result in a substantial increase in the value of your investments.

$500 invested monthly, over 10 years, grows during the following common market scenarios



TOTAL UNITS PURCHASED	**10,130**
AVERAGE COST OF UNITS	**$5.92**
TOTAL VALUE OF UNITS	**$101,300**
GAIN ON INVESTMENT	**$41,300**



TOTAL UNITS PURCHASED	**24,129**
AVERAGE COST OF UNITS	**$2.49**
TOTAL VALUE OF UNITS	**$120,645**
GAIN ON INVESTMENT	**$60,645**

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CHAPTER 2: EXECUTIVE COMPENSATION OPTIONS

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What are Stock Options?

Stock options are – in their basic form – an additional compensation package, that is related to an employee's corporate stock plan.

This program allows for employees – over a certain period of time – to have access to specific amounts of a company stock; outside of their current salaries. It is then up to the employees at those times if they would like to continue owning – or sell – their stock they've received.

There are many ways in which these options are structured, and certain terms which are crucial to understanding the concept fully.

What is the 'Granting' of Shares?:

In essence, a 'Grant' is a specified date where employees have the option to 'buy' corporate shares. These grant dates are usually spread out over multiple years, and is very common across most compensation plans.

Vesting Shares:

Vesting is the time frame available for which employees can exercise their options (or rather, purchase their shares). What this allows is for the employee to either purchase – or not purchase – granted shares over a specified amount of time. With vesting however, there is usually a limit as to when your exercising options disappear; the standard of which is usually five years.

Strike Price:

This is the pricepoint an employee must pay to acquire their allotted shares, under the stock option they have received. This is a set price and cannot be changed, that is outlined in the executive compensation package that you would receive from your lawyer.

What are phantom stocks?

Once meant only for upper corporate management, Phantom Stocks (or Shadow Stocks) are another form of executive compensation that act in a similar – but different – fashion than stock options.

Three types of phantom stocks

The two most common Phantom Stocks seen in compensations packages are Restricted Share Units (or RSU's), and Performance Share Units (or PSU's).

Restricted Share Units:

RSU's are priced out based on the value of the initial award set out by the corporation. They payout calculation for this would be # of RSU's x Share Price (at time of payout). With RSU's, there is an option to receive additional units should the company be paying out more dividends to the receiving underlying shares.

Performance Share Units:

PSU's are similar to RSU's, except for the fact they are weighted against a performance multiplier. In essence, depending on what your performance benchmarks are, your allotted payout could be higher. In most companies, these benchmarks would include metrics such as net income, net sales, or client satisfaction to name a few.

With both RSU's and PSU's, The vesting structures and ways they are taxed are the same. The vesting period is within 3 years of the initial award grant, and taxation of these phantom stocks would be fully taxable to the executive receiving these option

Deferred Share Units:

They take the same premise as both RSU's and PSU's, but there are some differences between them. With DSU's, the value and payout calculation is the same structure; with the formula being: *# of DSU's x Share Price (at time of payout)*. However, vesting can vary; as payment has to occus no later than the year end of the first calendar year after death, retirement, or loss of employment.

Another major factor with DSU's is the potential ability to have other phantom stocks converted to into DSU's themselves. Some compensation plans will allow both RSU's and PSU's to be converted to DSU's – prior to vesting and settlement of those options. On top of this, some plans will allow a portion of your bonus amount to be taken as DSU's – In order to bring down your annual income total.

This structure makes DSU's an appealing option for those looking to defer some income towards their retirement, and also an effective tool to use in a planning scenario.

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Benefits of a Group RRSP

Group RRSP accounts are a great way to leverage pre-tax benefits of contributions, with the potential matching abilities through plan sponsors. Free money is free money after all, and the net benefits of using such an account should be taken with high regard in terms of your retirement plan.

When you choose to use a group RRSP, you benefit from:

- Pre-tax dollars being used for contributions
- Matching component from plan sponsors
- Rollover ability of corporate bonuses with ease

Save for your future the easy way

A group RRSP gives you a convenient way to save. Your contribution is deducted from your paycheque – before you have a chance to miss it. By the time the year is through, you are closer to your retirement goals without needing to make a large payment before the RRSP deadline.

Boost your take-home pay

A group RRSP has all the advantages of an individual RRSP plus the built-in benefit of more take-home pay, because your income tax deducted at source can be adjusted to reflect your regular contributions.

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8 ways a Group RRSP can work for you:

01 **Pay yourself first payroll deductions** put your monthly savings at the top of the list and eliminate the annual scramble to beat the RRSP contribution deadline.

02 **Flexible contributions** let you select your monthly contribution amount so you can save at your own pace.

03 **Instant tax savings** happen with every paycheque because the Canada Revenue Agency (CRA) allows an immediate reduction of your income tax withholding when contributions are payroll-deducted.

04 **No acquisition costs** mean every dollar of your contribution will be invested on a tax-deferred basis right from the start.

05 **Accelerated retirement savings** when you use your group RRSP account to "top-up" other sources of retirement income such as government benefits.

06 **Investment control is in your hands.** Select from a wide range of investments that can be tailored to suit your personal objectives and comfort zone.

07 **Portability** means that if you leave your employer, you can simply continue your account as an individual RRSP.

08 **Spousal option** allows you to contribute to a Spousal RRSP account – which can reduce your taxes now and possibly at retirement through income-splitting.

As a leading Canadian financial services company, we're there for all your financial needs including mortgages, insurance, estate planning, and cash management. Your IG Consultant can offer comprehensive advice to help you reach your life and retirement goals.

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CHAPTER 3: PREPARING FOR RETIREMENT

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You have a vision for your retirement. But do you know how much retirement income you will have, or how much you will need?

A retirement checklist

The sources of your retirement income and your strategy for withdrawing your savings can have a significant impact on your cash flow and tax burden. We can help you calculate your current expenses, project them over your retirement, and develop the customized withdrawal strategy that works best for you.

Here are some retirement income sources you need to consider:

Government sources

- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)
- Canada Pension Plan / Quebec Pension Plan (CPP/QPP)

Employment-related sources

- Company pension plans
- Group RRSPs
- Deferred profit sharing plans

Personal sources

- Registered investments (RRSPs, RRIFs, LIRAs, LIFs, PRIFs, TFSAs)
- Non-registered investments
- Annuities

Other sources

- Part-time employment or income from a second career
- Income from rental property
- Business assets
- Other savings

Multiple retirement income sources multiply the complexity

Throughout your career, you very likely have received a paycheque from your employer or business. When you retire, you could instead receive multiple paycheques made up of government benefits, employer-sponsored plans and personal savings.

Financial management can be challenging when your income is from multiple sources. At IG Wealth Management, we break retirement income planning down into four steps to help you get a firm grip on your retirement income and ensure you live your retirement on your terms.

Step 1: Understand Canada's retirement income system Canada's retirement income system consists of three tiers. Understanding them can help ensure a financially secure retirement.

Tier 1: Government benefits

Old Age Security (OAS) is available to everyone who has resided in Canada for at least 10 years after the age of 18. OAS benefits can begin at age 65, although the government allows for the voluntary
deferral of OAS benefits for up to five years to receive a higher annual benefit. OAS is "clawed back" in increasing amounts as your individual net income climbs above a threshold amount, until it disappears entirely at an upper income level. The OAS amount and claw back threshold are is adjusted annually, so speak with us for more details.

The Guaranteed Income Supplement (GIS) is available to those who have little or no income apart from OAS. GIS benefits are typically based on income for the previous year and are not taxable.

An allowance is available to low-income earners between the ages of 60 and 64 who are widowed, or the spouses or common-law partners of low- income seniors.

The Canada Pension Plan / Quebec Pension Plan (CPP / QPP) is available to every employee or self-employed person who contributed to the plan while working. You may choose to start receiving CPP/QPP benefits any time between the ages of 60 and 65, but your benefit is reduced; if you start to receive CPP or QPP benefits between ages 65 and 70, the amounts are increased. CPP / QPP has historically

You know it's important to have an effective investment strategy. It's equally important to have a detailed plan for withdrawing retirement income from the investments you've nurtured over the years.

intended to provide about 25 per cent of your average annual employment earnings during your working life, up to certain limits. Starting in 2019, the 25 per cent has been gradually increasing to eventually reach
33 per cent after a number of years.

Tier 2: Private pension plans and group RRSPs

Many Canadians belong to employer pension plans and/or group RRSPs. The retirement income from these sources will depend on the type of plan(s) you have and many other factors, such as the amount you and/or your employer have paid into the plan(s) and your years of service. Some pension plans provided a guaranteed income payment for life, while retirement income provided by group RRSPs and other types of pension plans will depend on the amounts accumulated in the plans.

Tier 3: Personal savings

Government benefits and employer pension plans are meant to provide a foundation, but your personal savings are the essential building blocks that can help provide financial security through your retirement years. Your personal savings could include RRSPs, TFSAs, other investments or savings accounts, cash value life insurance plans and real estate that can generate income during retirement.

All of these investments can provide various amounts of money on a variety of schedules and will often demand that you make informed decisions to keep them producing the income you need.

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In retirement, your personal savings will still need to grow and to outpace inevitable cost-of-living increases.

Step 2: Develop a retirement income plan

You know it's important to have an effective investment strategy. It's equally important to have a detailed plan for withdrawing retirement income from the investments you've nurtured over the years. Otherwise, your retirement income may end up being a lot less than you expected and not last as long as you need.

Establish the level of income you'll need in retirement. Some people use a rule of thumb that you'll need 70 to 80 per cent of your current household income to maintain your lifestyle in retirement. But you may need more or less, depending on your personal retirement vision. To see how much income you will need, we merge your retirement vision with the financial realities of your retirement life.

- We will help you identify expenses that can be decreased or eliminated – things like commuting costs and, perhaps, moving from two cars to one. Your budget will break out essential expenses (the money you need to live) and discretionary expenses (the money for your fun, activities such as travel).
- We can calculate the income from government benefits plus employer sponsored plan(s) benefits you expect to receive in retirement. The gap between your expenses and this income will need to be filled by income from your personal savings.

Let us design your plan for retirement. In retirement, your personal savings will still need to grow and to outpace inevitable cost-of-living increases.

At the same time, your plan needs to guard against market volatility, especially a market decline early in retirement that could significantly reduce how much income can be generated from your investments. This doesn't mean relying only on fixed income investments such as guaranteed income certificates (GICs) that are "safe" but deliver low returns. We can help design your portfolio to include a mix of investments that help protect against the downturns while also delivering a cash flow that will sustain your retirement lifestyle.

Your plan should create a steady income stream. Keep in mind that you may require an income for 30 years or more. Our process includes an assessment of the potential longevity of your retirement income. We then recommend retirement income solutions to help ensure you'll have a steady income stream throughout your retirement.

When meeting with us, be sure you identify all your sources of retirement income and when you can expect to receive money from each source (weekly, monthly, yearly). You will want to ensure your guaranteed income sources meet your essential expenses where possible, giving you peace of mind that your retirement is secure.

Step 3: Be tax-efficient

An effective retirement savings withdrawal plan can allow you to take full advantage of tax benefits, such as the age credit, the pension income credit and other tax credits, while possibly avoiding OAS claw backs.

Here are a few of your options:

- Splitting income with your spouse when possible can help not only increase tax credits, but may also shift income to a lower tax bracket.
- Investing in mutual funds that allow you to receive a portion of the income stream from fund earnings and a portion from a return on your initial investment.Your capital is not considered income and is not subject to tax in the year it is received.
- Withdrawing only the minimum for your RIF and other fully taxable investments or, depending on your age, withdrawing just enough to maximize the value of the pension income credit.
- Non-registered investment choices that offer preferential tax treatment.
- Knowing how to manage TFSA withdrawals to provide a tax-free source of cash flow in retirement.
- Working part-time or consulting past your official retirement date.

Step 4: Consolidate and simplify

As you move toward retirement, start thinking about simplifying the administration of your assets by consolidating your various investments, savings accounts, registered plans, and insurance plans. When you have a number of investments and income sources, it's easy to lose track and miss opportunities to enhance your retirement income or reduce taxes. It's often possible to achieve consolidation without financial penalties or incurring tax on capital gains.

We can help you simplify your various sources of retirement income, minimize taxes and develop the right retirement savings withdrawal plan for your unique situation and retirement goals. We will also revisit your plan regularly to account for potential life transitions such as caring for parents or your own health care needs. And if you'd like to continue planning your life in retirement around a regular paycheque – just as you did during your career – we can do that for you, too.

We can help you simplify your various sources of retirement income, minimize taxes and develop the right retirement savings withdrawal plan for your unique situation and retirement goals.

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Considering your pension options when leaving an employer?

There are generally three options to choose from when members of a defined benefit pension plan have the option to commute their pension:

01 **Take the pension** and commence monthly payments on a date allowed by the plan (usually between age 55 and 65).

02 **Transfer the pension's commuted value to another registered pension plan** (if the new employer's plan permits a transfer).

03 **Transfer the pension's commuted value to a locked-in account**, where the commuted value of a defined benefit pension represents the present value of the lifetime pension payments as calculated under the plan's benefit formula. This benefit is usually comprised of an amount that can be transferred to a locked-in account (under provincial or federal pension legislation) on a tax-deferred basis and an excess amount that is subject to immediate taxation.

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CHAPTER 4: LEGACY AND TAXES

Charitable giving: Tax and planning considerations

Giving to causes important to you is both rewarding and helps further the objectives of the organizations you support. However, when deciding to donate, it can be difficult to know where to begin. There are many aspects to consider, and having a plan in place can help enhance the impact of your donations. A well-considered charitable giving strategy can increase tax efficiency and maximize your donations to create a long-lasting legacy.

A charitable donation generates non-refundable donation tax credits, which reduce the taxes you owe.

Tax benefits of charitable donations

Before making a gift, it's helpful to understand which tax benefits you'll receive from making your donation. A charitable organization can issue a donation tax receipt if it meets the criteria of being a qualified donee under the Income Tax Act.

A qualified donee includes registered charities, as well as other registered organizations, such as Canadian amateur athletic organizations, journalism organizations, municipalities, low-cost housing organizations for the elderly, and certain universities outside of Canada.

You should check with the organization you wish to donate to that it is eligible to issue a donation tax receipt. Alternatively, a list of registered charities and other qualified donees can be found on the Canada Revenue Agency (CRA) website.

A charitable donation claimed personally on your tax return generates non-refundable donation tax credits, which reduce the taxes you owe. A donation made by a corporation is claimed as a tax deduction against the corporation's income, which reduces the amount subject to tax.

CHARITABLE DONATION TAX CREDITS

When claiming donation tax credits on your tax return, the credit rate you receive and amount of tax savings for each dollar donated will depend on your specific circumstances. The value of the donation tax credit is determined by the donation amount, your taxable income level and your province or territory of residence:

- Donations up to $200 reported on your tax return receive a 15% federal donation tax credit. The provincial tax credit on donations up to $200 is generally equal to the lowest provincial tax rate. The combined federal and provincial credit rate in most provinces ranges between 20% and 26%. For example, claiming $100 of donations will generate $20 to $26 of tax credits.

You can claim donations up to a limit of 75% of the net income reported on your tax return.

Any portion of a donation tax receipt that is not used in your current year's tax return can be carried forward.

- Donations claimed above $200 receive a 29% federal donation tax credit. In many (but not all) provinces, the provincial tax credit on donations claimed over $200 is equal to the highest provincial tax rate. The combined federal and provincial credit rate is generally in the range of 40% to 50%. For example, $100 of donations (in excess of $200) generates $40 to $50 of tax credits.
- The federal donation tax credit is enhanced to 33% if you have income subject to the top federal tax bracket. The higher credit rate applies to the portion of your donation in excess of $200 that equals your income subject to the highest tax bracket. For example, if the top federal tax bracket is $230,000, and your income for the year is $250,000, then the first $20,000 of donations claimed (in excess of $200) would receive the higher donation tax credit rate. Rules vary by province, but there may also be an increase in the provincial donation tax credit based on your income. The combined federal and provincial credit rate at the highest level is generally in the range of 44% to 54%.

MAXIMUM AMOUNT OF DONATIONS THAT CAN BE CLAIMED

You can claim donations up to a limit of 75% of the net income reported on your tax return.

Net income is your total income after any tax deductions. For example, if your net income for the year is $100,000, up to $75,000 of donations can be claimed on your tax return. In Québec, personal donations can be claimed up to 100% of net income for provincial tax purposes.

The limit on donations that can be claimed on your tax return is increased in certain scenarios:

- An additional 25% of the taxable capital gains incurred on donations of capital property.
- An additional 25% of recaptured depreciation on donations of depreciable property.
- 100% of the amount of a gift of certified cultural property.
- 100% of the amount of a gift of ecologically sensitive land.
- 100% of net income in the year of death and year prior (for donations made in the year of death or by a graduated rate estate within 60 months of the date of death).

Any portion of a donation tax receipt that is not used in your current year's tax return can be carried forward and claimed in any of the following five years. The carry-forward period is extended to 10 years for donations of ecologically sensitive land.

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Canadians Owning Vacation Properties in the U.S.

With our cold winter climate, many Canadians dream of spending more time in the sun. If you are thinking of making this dream a reality and buying a home in Florida, Arizona or another warm-weather destination in the U.S, it's important to consider the tax implications on both sides of the border.

This article provides a brief overview of selected U.S. and Canadian income tax consequences for Canadians owning U.S. real estate as personal-use property. We also briefly discuss some of the implications of renting your property.

Unless otherwise indicated, we assume that the individuals involved are not U.S. citizens, U.S. green cardholders or U.S. residents. Please also note that the discussion in this article is for informational purposes only and does not represent tax or legal advice. We recommend that you speak to your cross-border tax advisor about both the Canadian and U.S. consequences of your circumstances, prior to taking any actions.

Not all province allow for a foreign tax credit for U.S. estate tax.

HOLDING U.S. PROPERTY PERSONALLY

After deciding on the U.S. property you want to buy, one of the most important decisions is how the U.S. real estate should be purchased – personally, through a trust, by your corporation or in another way. The decision is significant as each method has tax implications that you should discuss with your U.S. cross-border advisor prior to the purchase.

The most common way to purchase U.S. real estate is also the simplest – owning it personally. Owning U.S. real estate personally eliminates much of the complexity inherent with other forms of ownership. On the other hand, when U.S. property is owned personally, you must consider the potential impact on the individual's U.S. estate tax exposure and their personal liability exposure.

If Canadian residents (who are not U.S. citizens) are considering the purchase of U.S. real estate, joint ownership is not always the best way to take title.

JOINT OWNERSHIP

In Canada, many spouses own property as joint owners with the right of survivorship. This allows the property to pass directly to the surviving spouse outside of the probate process that exists in all provinces other than Quebec. In the U.S., joint ownership by spouses is used for the same reasons. However, if Canadian residents (who are not U.S. citizens) are considering the purchase of U.S. real estate, joint ownership is not always the best way to take title. If your worldwide estate is large enough, you may have an exposure to U.S. estate tax and joint ownership can exacerbate an estate tax problem. With joint ownership, when one spouse passes away and the surviving spouse is not a U.S. citizen, the entire value of the property will be included in the U.S. estate tax calculation at the death of the first spouse to die, unless it can be proven that the surviving spouse used their own capital to fund a portion of the property purchase. Assuming the surviving spouse continues to own the property, the entire value of the property could be taxed again on the death of the surviving spouse.

As a result, it is important to determine if U.S. estate tax is a concern, which will depend on the value of your worldwide estate and the U.S. estate tax exemptions available. If U.S. estate tax is a concern, Canadians should generally not own U.S. real estate as joint tenants with rights of survivorship, particularly if there is no clear record that each spouse contributed equally to the purchase of the property.

When spouses purchase U.S. property in joint tenancy and one spouse has provided more funds for the purchase than the other spouse, there may be unintended U.S. gift tax consequences upon the creation or termination of the joint tenancy. You should speak with your cross-border advisor to ensure that your purchase is structured to minimize the impact of the gift tax rules.

USING A CANADIAN DISCRETIONARY TRUST

If the taxpayer's worldwide estate is high enough such that their U.S. estate tax exposure cannot be managed using their unified credit and marital credit, if applicable, an alternative way of holding the U.S. real estate is holding it in a Canadian discretionary trust. If the trust is set up properly, U.S. estate tax could be eliminated as, on death, the property would be owned by the trust as opposed to by the individual. It is important that the trust be specifically designed such that it does not trigger U.S. estate tax and, as these rules are very complicated, we strongly recommend that you speak with a U.S. cross-border advisor prior to purchasing the property.

USING A REVOCABLE LIVING TRUST

Revocable trusts are often used as a probate avoidance vehicle in the U.S. The problem is that these trusts are ignored for U.S. tax purposes but recognized for Canadian purposes as a separate taxpayer. In many situations, this structure can create a mismatch between Canadian and US tax reporting at the time of sale or on death, resulting in double taxation for Canadians. Prior to considering a revocable living trust, we recommend discussing your situation with a cross-border tax advisor.

USING A CANADIAN CORPORATION

Many people considering the purchase of U.S. real estate are shareholders of a Canadian corporation and are wondering whether the property should be purchased through their corporation.

Although holding the U.S. real estate within a Canadian corporation may provide an opportunity to avoid U.S. estate taxes, there are several negative tax consequences that arise. It's important to consider that, when a corporation owns real estate and a Canadian shareholder of that corporation uses that real estate for their personal use, the individual would be assessed a taxable shareholder benefit for the fair market value of the rent not paid and that amount must be included on the shareholder's Canadian personal tax return. This, along with other potential negative tax implications, is often a significant deterrent from purchasing a personal- use property in a corporation.

CANADIAN IMPLICATIONS OF HOLDING U.S. PROPERTY ON PASSING

If a Canadian resident passes away while owning U.S. real estate, they are deemed to dispose of that property at its fair market value from a Canadian tax perspective and thus, are taxed on the taxable portion (50%) of any accrued capital gains. An exception to this deemed disposition rule from a Canadian tax perspective occurs if the property is transferred to a surviving spouse or to a spousal trust. A foreign tax credit may be available to offset the federal tax attributable to the gain on the U.S. situs property. There could be double tax if the deceased lived in a province that doesn't allow for a foreign tax credit for U.S. estate tax.

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