CIBC Wood Gundy

# Perspective

**Compliments Of Voronoff Private Wealth Management**

**First Quarter 2014**

# For 2014, Let The Bulls Run

The new year is a time of anticipation and reflection. As investors, let's hope that 2014 builds upon the successes of the year that has passed.

In 2013, Canada's growth continued at a modest pace but commodities markets were slow to gain momentum, which impacted Canadian markets. Yet, the price of West Texas Intermediate (WTI) crude oil, a benchmark influencing our resource-dominated markets, hit triple digits and the Toronto Stock Exchange (TSX) performed positively.

In the U.S., 2013 saw new highs for both the S&P 500 and the Dow Jones Industrial Average (DJIA), while U.S. economic recovery started to gain a stronger foothold.

Globally, over $126 billion was raised in initial public offering (IPO) activity, an increase of over 25 percent from 2012. This normally reflects companies' renewed confidence in equity markets.

Despite the many positive strides that were made, there were signals of continuing challenges for investors. One surprise last fall was that the expected tapering of the U.S. Federal Reserve's Quantitative Easing (QE) program was put on hold. Canada followed suit and kept short-term interest rates low.

Up until that time, rising interest rates from the expectation that the program would wind down impacted interest-sensitive investments. Although investor confidence has increased, the delay in tapering created some worries.

If history is any indicator, the running of the bulls can outlast any bears. In Canada, since 1970, we've experienced eight bull markets that have lasted an average of 53 months, while the eight bear markets lasted an average of only 10 months. The story is similar in the U.S. for the same period, with bull markets significantly outlasting bear markets.

As the turn of a calendar year is often synonymous with new beginnings, perhaps this is the start of the continued upward momentum that we have been waiting patiently for in Canada. Let the bulls run!


Voronoff Private Wealth Management

**Speaking Personally:** This issue devotes considerable space to retirement planning, including discussing ways to maximize your pension. It is also a reminder that RRSP season is here, one of the last opportunities to defer taxes for the 2013 tax year.

We extend our best wishes for the year ahead. May 2014 be filled with prosperity, health and happiness.

## Financial Market Monitor

| | *Recent 12-02-13* | *Six Months Ago (06-10)* | *One Year Ago (12-03)* |
|---|---|---|---|
| ***S&P/TSX Composite Index*** | 13419.57 | 12382.67 | 12169.74 |
| ***Dow Jones Industrial Average*** | 16008.77 | 15238.59 | 12965.60 |
| ***Canadian Interest Rates/Yields*** | | | |
| ***Canadian Prime Rate*** | 3.00% | 3.00% | 3.00% |
| ***Treasury Bills* -3 month*** | 0.94% | 1.02% | 0.95% |
| ***-6 month*** | 0.97% | 1.05% | 1.02% |
| ***Gov't. of Canada Bonds* -5 year*** | 1.77% | 1.63% | 1.28% |
| ***-10 year*** | 2.60% | 2.20% | 1.70% |

* Approximate annual rates.
Subject to transaction volumes, availability of specific issues, and other important factors.

## In This Issue:

Income Splitting

# Split Pension Income, Save Tax

For individuals who are retired or over the age of 65, there may be an opportunity to take advantage of a spouse's lower marginal tax rate and/or available tax credits to provide tax savings through pension income splitting.

An individual may allocate up to 50 percent of their eligible pension income to their spouse (or common-law partner) for tax purposes. Splitting pension income with a spouse does not mean that the funds must be transferred from one spouse to the other; it is just an election to shift income from one spouse's tax return to the other.

The age of the person who receives the pension income determines whether or not the amount is considered to be eligible pension income.

In general, for an individual over the age of 65, eligible pension income includes amounts such as annuity payments from pension plans and deferred profit sharing plans, payments from a Registered Retirement Income Fund (RRIF), Life Income Fund (LIF) or Locked-In Retirement Income Fund (LRIF), registered annuity and the interest element of annuity contracts.

For individuals who have not yet reached the age of 65, eligible pension income can include amounts such as annuity payments from pension plans and any amounts received as a result of the death of a spouse that would have been considered eligible pension income if the individual was 65 years old.

Amounts that are not considered eligible pension income include Old Age Security (OAS) benefits, Canada or Quebec Pension Plan (CPP/QPP) benefits and amounts withdrawn from a Registered Retirement Savings Plan (RRSP) that are not annuity payments. In order to split RRSP income for tax purposes with a spouse, the individual must be 65 years of age or older and the RRSP funds must be used to purchase a registered annuity or the RRSP must be converted to an RRIF.

A tax advisor can help to review your situation and best determine if pension income splitting may be beneficial.

## Prescribed Rate Decreases to 1%

As of January 1, 2014, for Q1 2014, the Canada Revenue Agency's (CRA) prescribed rate decreases to one percent, the lowest level possible, from its current level of two percent.

This may be beneficial for Canadians wishing to use spousal loans or family trusts to split income and reduce the overall family tax bill.

The prescribed rate prevailing at the time that a loan is made is the interest rate that remains in effect for the life of the loan. The prescribed rate is determined each quarter based on the rates of certain Government of Canada Treasury Bills.

Retirement Planning

# Parents: Increase Your CPP Payments

For families with one parent who took off time from work (or worked fewer hours) to stay at home and raise a child or children, you may be able to increase your Canada Pension Plan (CPP) benefits.

If you or your spouse (or common-law partner) stopped working or received lower earnings to raise a child or children under seven years of age who were born after December 31, 1958, you may be eligible for the "child-rearing provision".

Either parent is able to request the child-rearing provision, but it cannot be used by both parents for the same period of child-rearing.

For the eligible parent, the child-rearing time period will be excluded from the contributory period that is used to calculate CPP benefit amounts. As a result, there may be an increase in the amount of CPP benefits paid out.

In order to have the child-rearing provision apply to your CPP payments, the child-rearing provision will need to be requested when applying for CPP benefits. You will also be required to provide certain documentation for the related child.

If you already receive CPP benefits and are eligible for the child-rearing provision, you may still be able to request this provision retroactively.

For more information, including eligibility requirements and links to request forms, please visit the Service Canada website at: http://www.servicecanada.gc.ca/eng/services/pensions/cpp/child-rearing.shtml

Estate Planning

# Update Your Beneficiaries

The new year is a great time to review your beneficiary designations. Circumstances can change at any time — there may have been a death in the family, divorce or children born — and you may need to update your beneficiary designations to reflect your current wishes. Surprising to some, updating beneficiaries is one of the most commonly overlooked estate planning tasks.

**Why Is This Important?**

Not only do you want your assets to be left to the people you choose, but you don't want to be left with an unanticipated tax bill. As an example, an RRSP or RRIF is considered to be wound up and taxable in the year of death. However, if a "qualifying beneficiary" such as a surviving spouse is named, the RRSP/RRIF can be rolled over without incurring taxes and probate/estate administration tax, if applicable. (In Quebec, a beneficiary cannot be designated in certain RRSP/RRIF contracts. The designation has to be made in the will for these types of contracts.) As well, life insurance proceeds distributed to a named beneficiary are generally not subject to probate.

Updating your beneficiaries may involve revisiting multiple documents, including those relating to RRSPs, RRIFs, LIFs, LRIFs, annuities, TFSAs, life insurance policies, company life insurance and pension plans, as well as other investments and your will.

If you don't name a beneficiary, assets would typically form part of your estate and be distributed based on your will or the laws of intestacy where no will exists. This may result in the proceeds being used to pay final costs or taxes of your estate prior to distribution.

**Other Considerations**

**Child beneficiaries** — If you wish for a minor child to be a beneficiary, a trustee should be listed. Otherwise, proceeds may be held until the child reaches the age of majority (except in Quebec, where property bequeathed to a minor will generally be administered by the tutor. In Quebec, property could be administered by a third person, as an example, in certain life insurance policies where the benefits are paid outside of the estate and a third person could be named in the contract to administer proceeds until the child reaches majority age).

**Charitable donations** — You may also be able to designate a qualifying charity to be a beneficiary of a plan. This can be a great way to leave a lasting legacy to a cause that you support and may also produce tax benefits.

Keep in mind that provincial laws relating to estate planning are constantly changing and a specialist in this area can provide the best advice for your personal situation.

Please note that comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

Evaluating Performance

# Free Cash Flow

Many of us will remember the collapse of Enron. For years, the company was the darling of Wall Street, appearing to produce impressive profits quarter after quarter, until eventually its operations and reporting were revealed to be fraudulent. A closer look at the company records showed serious accounting issues. This may be an extreme case, but it is a good example of why it is important to look at metrics other than just profit when evaluating a company's performance.

Many seasoned investors use "free cash flow" when measuring a company's performance. Free cash flow measures the amount of cash that a company produces from its operations, less any funds required to maintain or expand the company's asset base (i.e., its capital expenditures).

Those who like the free cash flow metric believe in the notion that "cash is king". Sometimes earnings figures can change based on different accounting practices, but cash flow is much harder to manipulate.

Renowned investor Warren Buffett likes cash-rich companies and uses free cash flow as a metric when he evaluates potential investments. After all, excess cash in a business is great for investors as that cash can be returned to shareholders through dividends or share buybacks, or used for investing purposes to grow the business.

## RRSP Contribution Reminder

Registered Retirement Savings Plan contributions for the 2013 tax year must be made by **March 3, 2014**.

Contribution limits are 18 percent of the previous year's earned income, to a limit of $23,820 of 2012 earned income, less any pension adjustment (PA) for members of a registered pension plan or deferred profit-sharing plan, less any past service pension adjustment (PSPA) and plus any pension adjustment reversal (PAR) and unused contribution room carried forward.

For the 2014 tax year, the RRSP contribution limit increases to $24,270.

# Retirement: Today's New Financial Realities

*Adjustments to your retirement planning may be needed in response to today's new realities.*

Preparing for retirement has become an evolving process. As our world changes, we are faced with new financial realities that will impact retirement.

One of the best developments is that we are living longer. Medical advances over the years have added many active and healthy years to our lives. A 60-year old Canadian male is now expected to live beyond 87 years and a 60-year old female is expected to reach 90 years old.

But there are also new challenges. Housing prices have risen significantly over the years and have skyrocketed in many major metropolitan areas. Home owners with mortgages have been nicely supported by today's historically low interest rates but it is only a matter of time before interest rates increase.

In the past, retirees could rely on cash inflows from employer pension plans and government support. But this, too, may be changing. Some defined benefit pension plans have been challenged by factors such as our increasing life expectancy. Given the expected increase in the number of retirees over the next 20 years, the federal government has responded by making changes to its programs such as increasing the future eligibility age for Old Age Security (OAS) benefits.

Market expectations have also changed. There was once a time when investors could rely on low-risk fixed income investments like guaranteed investment certificates (GICs) or government bonds to generate double-digit returns, but this isn't the case today.

These new financial realities mean that greater savings are often needed to meet future retirement goals. This may not be a challenge for those who see retirement well on the horizon. But for those who may not have the luxury of time, other considerations may be necessary when planning for retirement:

**Work beyond retirement age** — Some individuals may consider working past the traditional retirement age to ensure an ongoing stream of income from employment. For others, continuing to work is one of the keys to staying young, to keep the mind active and engaged.

**Find trade-offs** — Trade-offs made today can help to benefit retirement goals tomorrow. For example, when it comes to a house, one option may be to rent instead of buy.

For those who already own, downsizing to more modest accommodations or moving to a lower-priced neighbourhood may be good ways to provide an inflow of cash that can be used to reduce mortgage liabilities or to invest and grow.

Likewise, trade-offs may also be in the form of having more modest expectations for retirement.

**Consider how portfolio allocation has changed** — Over the years, as the returns on low-risk fixed income investments have reduced and life expectancy has increased, you may consider adjusting your current asset allocations to create a portfolio balance that can help to achieve your long term goals.

**The Good News**

The fact that you are putting thought into retirement planning and taking action is a lot more than many Canadians will do to prepare for retirement. Afterall, the journey ahead is an exciting one and you shouldn't lose sight of those retirement dreams of teeing off in warmer climates, seeing the world or starting new adventures.

**We Are Here To Help**

If you're in need of assistance, we can work with you to help map out your future requirements and determine whether any adjustments today will benefit your needs tomorrow. One of the greatest services we provide is support for retirement planning so that you can reach your goals. Please don't hesitate to call.


With the compliments of...

Anton Voronoff
Ch.P., CFP, FMA, FCSI
Investment Advisor

CIBC Wood Gundy
123 Commerce Valley Drive E.
Suite 100
Thornhill, Ontario L3T 7W8

Telephone: 905-762-2321
Toll Free: 1-800-668-3800
Fax: 905-762-2301

anton.voronoff@cibc.ca

www.cibcwg.com/anton-voronoff