CIBC Wood Gundy

Perspective

Personal Newsletter from the Boychuk Knoblauch Financial Group

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The End to Globalization?

Is this the end of globalization as we know it? Since last summer, we have seen both Brexit — the British vote to exit the European Union — and a newly elected U.S. government with an increasingly protectionist economic stance.

Given that Canada's economy is so trade dependent on our neighbours to the south, Canadians have been cautiously watching as "Trumponomics" begins to take shape. Many questions have emerged over the developing U.S. protectionist vision, including how Canada may be impacted by U.S. domestic deregulation, the elimination of trade agreements and the possible implementation of border taxes on imports.

At the same time, there have been positive signs. At the time of writing, deregulation and promised tax reform have helped to give a boost to North American equity markets, which hit all-time highs in the first quarter. The revival of the Keystone XL pipeline project has brought renewed optimism to the struggling resources sector. The Trump administration has also indicated that Canada shouldn't be overly concerned about future trade restrictions, since the focus will be on countries with which the U.S. has large trade imbalances.

What impact will these changing times have on investors? While there is never any way to predict what the future may hold, keep in mind that it isn't uncommon for financial markets to hastily react to new nuggets of information. New policies or changing programs may be a source of volatility in the markets. During these times, focus on your personal objectives and how your investments fit into your longer-term plan, rather than on the temporary noise. Your portfolio has been built with asset allocation and diversification in mind. These elements have been put in place to help mitigate the unforeseen changes that occur over time.

Longer-term equity investors should also remember that many quality companies are expected to continue to perform over the longer term and adapt to any new challenges, in spite of any political changes.

It remains to be seen whether new developments in global politics will significantly change globalization as we know it. One thing is certain: the financial markets will progress just as they have done over the course of history. We continue to monitor these developments and make adjustments where necessary to position your portfolio to its best advantage. Please call if you have concerns.

BOYCHUK KNOBLAUCH
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Speaking Personally: If there's one lesson to be learned from recent times, it's that a short-term focus can be counterproductive. North American equity markets have continued to grow, regardless of whether the current political news is bad or good.

This is the season when taxes are top of mind. As part of investing in a tax-wise way, don't overlook the Tax-Free Savings Account (see pg. 3). Endeavour to maximize your contribution!

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The Positive Impact of Dividends

The Dividend Effect: Dow at 2,340,000?

The Dow Jones Industrial Average ("Dow") recently received much attention as it hit the milestone close of 20,000 points back in January. Tracked since 1896, the Dow is a price-weighted index that does not include dividend payments. However, if the Dow was to include the impact of reinvested dividends, it is estimated by some to be around the level of 2,340,000.[1] This demonstrates the significant potential impact of dividends when reinvested over time.

As investors, we should not overlook the power of dividends in positively impacting our investment strategies. Here are some reasons why:

Drives long-term returns. Dividend-paying companies have provided a significant portion of long-term returns in the Canadian equity market. Between 1991 and 2016, reinvested dividends in the S&P/TSX Composite Index have accounted for around 45% of total returns. This means that an investment of $1,000 would have yielded around $4,350 today on the index alone but around $7,800 if dividends were reinvested.[2] At the same time, dividends in the Canadian equity markets continue to grow. The S&P/TSX Composite index dividend (which compares the S&P/TSX Composite Total Return Index (with dividends reinvested) with the index alone) has had an annualized growth rate of 5.2% over the past 25 years.[3]

Provides a reliable source of income. Retirees today have been faced with persistently low interest rates and slower growth, often making it challenging to find income-generating investments. However, many quality companies have continued to pay dividends year after year, and often because this is seen as a sign of economic health (i.e., there is excess cash with which to pay shareholders). Dividend-paying investments continue to be a reliable source of income for many retirees.

Provides a tax advantage.* Canadian dividends are taxed more favourably than interest and other ordinary income. This is due to the non-refundable tax credit available for most dividends issued by Canadian companies. Consider that for each dollar of eligible dividend income received, an Ontario resident taxed at the highest marginal tax rate in 2017 (as at January, 2017) would keep about 14 cents more compared to fully taxable income (assuming a 53.53% marginal tax rate and a 39.34% effective tax rate for eligible dividends).

Sources: 1. Based on www.wsj.com/articles/SB10001424052970204571404577257373285657442 with 75% growth of DJITR from 03/05/12, when Dow with reinvested dividends was estimated in the article at 1,339,410, to 01/25/17; 2. S&P/TSX Composite Total Return Index (monthly close) and Index Price Return, 07/30/91 to 07/29/16; 3. Using same 25-year data. Index dividend=Index Total Return–Index Price Return. *Note: As always, seek the advice of a professional tax advisor as it relates to your personal situation.

In Brief: Staying Safe on the Internet

In light of the growing number of online scams and ever-evolving cyber crime, here are some practical tips for internet safety, in brief:

Check the source. As criminals become more sophisticated, there has been an increase in the number of hoax websites, impostor emails and other false information on the internet. Be wary of unsolicited messages. Never click on a link when prompted by an unknown or untrusted source. When conducting your own internet searches, do a background check on questionable sources.

Take care when broadcasting on social media. Remember: you generally can't retract items posted on the internet. Be aware that personal information can be unintentionally shared through comments, postings or photographs, which can then be seen by strangers and potentially used for unscrupulous purposes.

Take precautions when internet banking and investing. Use strong passwords for accounts, conduct transactions only on secure (https:) and encrypted sites and avoid using public computers when personal financial information may be involved. Legitimate businesses will never ask for personal information via email or texts. When in doubt, call the financial institution.

Help children and the elderly. As a starting point, understanding what an individual is doing online can be one way to help protect them. Teach kids and adults about cyber safety. It's never too early (or too late!), and the lessons continue to evolve.

Carefully dispose of old devices. Just as it is important to shred paper documents, make sure to erase all personal data from the hard drives of electronic devices you may dispose of.

Educate yourself. A good resource is the Canadian government website: getcybersafe.gc.ca, which outlines many cyber security risks and how to safeguard against these threats.

Retirement Planning with the TFSA

TFSA: Optimizing Retirement Income Streams

As the cumulative Tax-Free Savings Account (TFSA) contribution limit continues to grow, the TFSA has become an integral part of retirement planning, especially if retirement is still years down the road. Canadians who were at least 18 years of age in 2009 and, as of 2017, have not yet opened up a TFSA can immediately contribute $52,000. Consider that in just 15 years, an investor who has fully invested the contribution amount since the TFSA's inception will have an additional nest egg of around $250,000, assuming a continued TFSA contribution of $5,500 at a 5% compounded annual rate of return.

As you look to retirement, the TFSA may provide the flexibility to allow you to prioritize different sources of retirement income. Here are some things to consider.

Minimizing current taxable income — When withdrawing funds for retirement, one of the considerations should be its tax-efficiency. Remember that the TFSA is a non-taxable source of income, so any withdrawals will not be considered to be taxable income. As such, the TFSA may help to optimize your tax planning. For example, if a retiree will be put in a higher marginal tax bracket by withdrawing income from a Registered Retirement Income Fund (RRIF), it may make sense to instead withdraw only the required amount and use TFSA funds to supplement income.

Reducing your lifetime tax bill — In retirement, if your marginal tax rate is lower in a given year than you expect it to be in the future (or at death), you may wish to withdraw funds in excess of the minimum RRIF amounts and put them into your TFSA. These funds will be taxed at the lower-anticipated rates, helping to reduce your overall lifetime tax bill, but they can continue to grow within the TFSA.

Preserving income-tested benefits — Remember that withdrawals from your TFSA will not impact income-tested government benefits, such as the Old Age Security (OAS) or the Guaranteed Income Supplement (GIS). For 2017, the OAS clawback is triggered when net income before adjustments is greater than $74,788. As such, TFSA withdrawals may be drawn upon to keep taxable income at lower levels. Deferring CPP benefits until the age of 70 may also help to keep income levels low enough between the ages of 65 and 70 to qualify for the Guaranteed Income Supplement (GIS). Even the age credit, available to taxpayers who are 65 years of age or older, will be fully clawed back after net income reaches $84,597 (for the 2017 tax year).

Maximizing CPP/QPP benefits — Canada (and Quebec) Pension Plan (CPP/QPP) retirement benefits can be taken as early as age 60 or as late as age 70. Taking early CPP/QPP will reduce the annual benefit. You may alternatively choose to defer the start of benefits beyond age 65, receiving an additional amount for each month that you defer, up to age 70. The TFSA can help to supplement retirement income until you start receiving benefits.

Although the timing decision of when to draw on various retirement income streams will depend on many factors, the TFSA can help as you prioritize. Most importantly, endeavour to fully contribute and have a strategy in place to provide for this flexibility.

Note that the 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.

Then and Now: In Just 50 Years...

As we approach Canada's 150th birthday, a look back in time shows just how far we've come. Consider how things have changed since Canada's Centennial in 1967. Cell phones and the internet — pervasive in our current lifestyles — didn't exist: the first cell phone was introduced in 1983 at a cost of US$3,995 and the "world wide web" went live in 1991! Here are some other interesting observations:

	THEN — 1967	NOW — 2017
Population	20.4 million	35.2 million
Life Expectancy	72 years	82 years
GDP Per Capita	$3,200 USD	$46,200 USD
Interest Rates	5.64% (10+ Yrs.)	2.24% (10+ Yrs.)
Top Marginal Tax Rate	80% (CAN/$400K+)	54% (N.S./$200K+)
TSX (S&P/TSX) Composite	843.44 (1/31/67)	15,385.96 (1/31/17)

	THEN — 1967	NOW — 2017
Avg. Home Price (Toronto)	$24,000	$1,336,000*
Minimum Wage	$1.25/hour	$10.65 to $13.60
Age of First Marriage	22.7 years	30 years
Price of Gas	9 cents/litre (estimate)	$1.05/litre
Price of Bread	$0.28/loaf (675g)	$2.82/loaf (675g)
Cost of Milk	$0.25/litre	$2.47/litre

Sources: Canada Year Book 1967, Statistics Canada; CIA World Factbook; Canada 2016 Census; *TREB (detached, 416 area code, 1/17); Bank of Canada, Hist. Interest Rates.

RRSP Exit Strategy: Joint Last-to-Die Insurance

Many of us spend years contributing to our Registered Retirement Savings Plan (RRSP) in order to take advantage of the tax-deferral opportunity. But we may forget to plan our exit strategy: how and when that money will be withdrawn in the future.

The issue? When the RRSP withdrawal is done once you reach retirement age, every dollar withdrawn from the RRSP is subject to tax as regular income. While postponing withdrawals until retirement is often beneficial, because in many cases the individual will be in a lower marginal tax bracket, waiting too long can create other problems. By age 71, the RRSP would likely be converted to a Registered Retirement Income Fund (RRIF) forcing the plan holder to take out income, whether it is needed or not. In addition, leaving significant RRSP/RRIF funds to your beneficiaries at death can result in a substantial tax liability: inherited funds could be taxed at the highest marginal rate.

Couples: Joint Last-to-Die Insurance as a Solution

If RRSP/RRIF funds aren't needed as income in retirement, using joint last-to-die insurance may be a solution. A joint last-to-die policy may also be more cost-effective than the purchase of two individual single life policies because the insurance company does not plan to pay out the money until further into the future and it will only need to pay proceeds out on one policy rather than two.

Using life insurance may help to minimize taxes that will be paid on the withdrawal of RRSP/RRIF funds, while at the same time maximizing the value of the insurance benefits that can enhance your estate for your beneficiaries, such as your children. A couple can designate each other as a beneficiary on their RRSPs and purchase joint last-to-die life insurance with the children as beneficiaries of the insurance policy. At retirement, withdrawals from the RRSP can be used to pay for the insurance premiums on the policy. Once the RRSP is converted to a RRIF, the minimum required withdrawal amount can be used to continue to pay premiums. By making use of the spousal rollover provision, there will be no RRSP/RRIF-related taxes due

on the death of the first spouse/common-law partner (CLP) as the RRSP/RRIF will automatically transfer to the other spouse/CLP without tax implications. Upon the death of the surviving spouse/CLP, taxes will be payable on RRSP/RRIF funds (which may be lower than they otherwise would have been due to withdrawals to pay insurance premiums) and the insurance proceeds will be paid out entirely tax-free to the beneficiary(ies).

Not only can this strategy help to minimize the amount of taxes paid on RRSP/RRIF funds over a lifetime, in many cases, joint last-to-die life insurance can also help to maximize the size of an estate. In provinces where estate administration tax (or probate) is assessed, there may be additional savings when beneficiary(ies) are named on an insurance policy as the life insurance proceeds will bypass the estate.

The proceeds paid out from the joint last-to-die life insurance policy may also be used to create a legacy by naming a charity as the designated beneficiary.

Determining if life insurance can play a role in your estate plan will depend on your circumstances and your future goals. We can provide perspectives on this, or on any other insurance-related matters, so don't hesitate to call.

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