CIBC Wood Gundy

Perspective

Personal Newsletter from the Boychuk Knoblauch Financial Group

Third Quarter 2016

Planning for Retirement

Planning for retirement often generates a mix of emotions that can range from excitement to fear. There are many choices to be made, although the objectives are often the same — financial freedom and the ability to dictate our own retirement lifestyle. Along the way, there are also many challenges. Today, low interest rates and slow growth are concerns of many retirees looking to generate income.

But every generation has had its setbacks. Those in retirement may remember the Great Depression and a world war; older baby boomers may recall the struggle with stagflation of the 1970s. And, we experienced recessions in the early 1980s and 1990s and, more recently, two financial crises. Unanticipated events in the financial markets have occurred throughout history that have challenged the retirement plans of investors. But those with a solid plan in place have been better prepared to overcome the inevitable challenges.

How Much Will Be Enough?

There are varying opinions regarding the amount of income needed to ensure a comfortable retirement. Some suggest that a minimum of 70 to 80% of pre-retirement income is necessary to maintain a similar lifestyle; others believe that much less is necessary. Of course, the actual amount varies based on the individual and their particular circumstances.

How Long Will Retirement Last?

We are living longer. Decisions need to be made with this in mind, including whether to continue to work for more years and when to start receiving pension payments from plans such as the Canada Pension Plan (CPP). Over recent years, changes to the CPP have been made as a result of increased life expectancy, with lower payments for those who start CPP earlier and higher payments for those who wait. This shows how the pieces of the retirement planning puzzle can change over time.

One of the most important services that we offer to our clients is helping to map out a plan that sets retirement income targets and helps meet retirement goals at every stage. Fostering a sense of perspective, developing attainable goals and following an appropriate investment plan, with adjustments along the way, can help to keep you on course as you look forward to the golden years ahead.

In This Issue:

	Page
Your RRSP Questions Answered	2
Beneficiary Designations	2
Upcoming Tax Changes: Budget 2016	3
Understanding the Fees You Pay	4

BOYCHUK KNOBLAUCH
FINANCIAL GROUP

Speaking Personally: Summer brings warmer weather and, for many, some well-deserved down time. While enjoying the sun, don't forget that time can be one of your greatest allies, just as one of the greatest enemies in wealth creation can be procrastination.

Whether it is retirement planning, investing, estate planning or other wealth planning, we are always here to provide the support that you need. Do your best to avoid procrastination and ensure that time is on your side.

You Asked: Your RRSP Questions Answered

Can I hold a Registered Retirement Savings Plan (RRSP) and a Registered Retirement Income Fund (RRIF) at the same time?

Yes. Investors most commonly choose to transfer funds to an RRIF on a tax-deferred basis once the RRSP needs to be wound down at age 71, but there may be instances before that time where you would want to have both. If you need to generate pension income to take advantage of the federal pension income tax credit, consider opening a small RRIF at the age of 65. At the same time, you may wish to continue holding the RRSP until the end of the year in which you turn 71 to capture ongoing tax deductions from your contributions.

What is the "forgotten" RRSP contribution at age 71?

In the year in which you turn 71 years old, you must wind up your RRSP by December 31. You will not be able to make further contributions after this date. Since RRSP contribution room is based on your previous year's earned income, if you are still working at age 71, you may have created RRSP contribution room for the following year. If you have already contributed the maximum amount for the current year, consider contributing the additional amount at the end of the year. It will be subject to an over-contribution penalty of 1% per month (in excess of the lifetime over-contribution amount of $2,000, if unused). However, in January of next year, it will no longer be considered an over-contribution. The penalty will apply for one month (December) but this may be offset by the potential after-tax, longer-term incremental benefit that the extra RRSP contribution may provide, that may otherwise have been overlooked.

If you have a younger spouse/common-law partner, you can also make a spousal RRSP contribution by the normal RRSP deadline.

Estate Planning: Thinking Ahead

Beneficiary Designations: The Big Picture

As you think about your estate plan, one important consideration is naming and updating your beneficiaries. Beyond thinking about who will be named, consider the significance of how different assets are treated depending upon the named beneficiary. *Note: In Quebec, beneficiary designations on registered accounts (such as RRSP, RRIF, Tax-Free Savings Account (TFSA)) are generally not allowed in the plan and must be made within the will.*

Certain Tax Considerations May Be Important…

Naming a spouse/common-law partner (CLP) as a beneficiary (or successor annuitant/holder) generally leads to the best tax treatment upon the transfer of assets. For the RRSP/RRIF, upon the death of the holder, the surviving spouse/CLP beneficiary can defer taxes on the account's holdings by arranging a tax-deferred rollover. When other beneficiaries are named (not including financially dependent children/grandchildren), the value of the RRSP/RRIF is taxed. Similarly, with the TFSA, a spouse/CLP can continue to benefit from future tax-free growth as the successor holder. When other beneficiaries are named, the plan must be collapsed and any income and gains realized after the date of the holder's death are considered taxable income to the beneficiary.

Naming beneficiaries (or successor annuitants/holders) may also help to bypass probate/estate administration tax, in provinces where applicable. If no beneficiary is named, and assets now pass through an estate, they may be subject to probate.

…But There May Be Other Considerations

However, certain tax implications are only one part of the equation and there may be other situations to consider, including:

Estate Equalization — Naming the estate as a beneficiary may simplify the task of equalizing an estate amongst beneficiaries. For example, if the estate is not named as the beneficiary of an RRSP/RRIF and taxes are due on the value of the RRSP/RRIF, the estate (and its beneficiaries) will be responsible for the taxes, while the full value of the RRSP/RRIF will pass along to the RRSP/RRIF beneficiary. This may complicate a situation in which the intent is to equalize the after-tax amounts received by all beneficiaries.

Covering Costs of the Estate — Naming the estate as a beneficiary for certain assets such as life insurance policies can provide funds to help cover the costs of the estate, such as the capital gains tax liability of an appreciated family vacation property.

Maintaining Control — If an individual is not currently financially responsible, establishing a trust, with the terms established within your will, may help to protect assets for your beneficiaries. Consult with legal and tax advisors to determine how this strategy may affect registered assets.

As you review your beneficiary designations, take some time to consider the big picture implications of your selections. As always, please seek legal advice as it relates to your particular situation.

Federal Budget 2016

Recent Tax Changes May Affect You

As a result of the federal budget, which was released earlier this spring, there are a variety of tax changes* that individuals should be aware of. Here are some of the highlights:

What Investors Need to Know

Tax-free switches of classes of shares of a mutual fund corporation will be eliminated. As of October 1, 2016, the exchange of the shares of one class of a mutual fund corporation for another class of shares of the corporation will be considered to be a disposition at fair market value for tax purposes. Currently a tax-deferral benefit is available to investors for these exchanges. If rebalancing is needed, consider doing this before October.

Taxation of linked notes is changing. As of October 1, 2016, any interest realized on the sale of a linked note, such as a principal-protected note, will be treated as ordinary income. Currently, if notes are sold on the secondary market prior to maturity, the interest may be taxed at favourable capital gains rates.

No changes to the rules surrounding donations of proceeds from the sale of private company shares and real estate. The federal budget reversed a proposed measure that, starting in 2017, would have eliminated the capital gains tax on the sale of appreciated private company shares and real estate if the proceeds were donated to charity.

What Businesses Should Know

Small business tax rates remain flat. The federal small business tax rate for Canadian-controlled private corporations (CCPCs) will remain at 10.5% after 2016. It was previously set to decrease to 9.0% by 2019.

Small business deduction limit rules are changing. The federal budget proposed some technical changes to address concerns about partnership and corporate structures that multiply access to the small business deduction, which allows for lower tax rates on active business income up to $500,000 federally.

Eligible capital property (ECP) rules are changing. Starting in 2017, the ECP regime (applicable to goodwill, copyrights, etc.) will be replaced with a new capital cost allowance class, which generally eliminates a tax-deferral opportunity that may arise from the treatment of gains on the sale of ECP as active business income.

Rules for the transfer of life insurance policies have changed. The tax benefits associated with certain transfers of life insurance policies to a corporation have been limited.

Personal Measures That May Affect You

Federal tax rates have changed. As promised last year, the federal tax rate for taxable income between $45,282 and $90,563 has been reduced to 20.5% from 22.0% for the 2016 tax year. A federal tax rate of 33% will apply for income in excess of $200,000.

Various tax credits and benefits have changed. The Family Tax Cut (an income-splitting tax credit for couples with children) has been eliminated starting in 2016. The Universal Child Care Benefit (UCCB) has been replaced by an income-tested Canada Child Benefit (CCB) intended to provide support to lower and middle-income families. The Child Fitness and Arts tax credits will be eliminated for the 2017 tax year. For the 2016 tax year, they have been reduced. The Education and Textbook tax credits will also be eliminated as of the 2017 tax year.

For more information, see: budget.gc.ca.

**At the time of writing, the legislation enacting the federal budget measures had yet to receive royal assent, although this is not expected to be an issue.*

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.

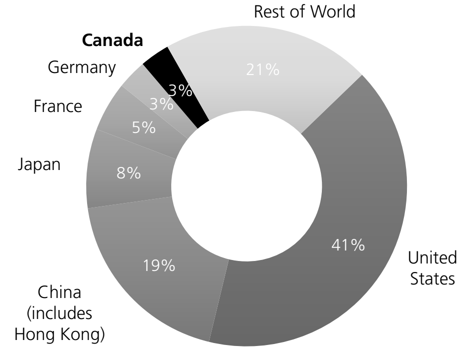
A Global Perspective: Where Does Canada Stand?

It is sometimes difficult to remember that the Canadian financial markets are small. In fact, the Canadian equity market represents only 3% of the world's total equity market (by market capitalization). Canada's equity market is ranked as the 6th largest in the world, which shows how fragmented markets are internationally. The largest? Our neighbour to the south, the United States, which represents over 40% of the worldwide equity markets.

However, the world has become increasingly integrated, thereby blurring geographic boundaries. As such, foreign exposure can often occur within domestic markets. For instance, many Canadian companies have multinational operations with international sources of revenue. As a result, they may also be exposed to the geopolitical factors that affect the nations in which they operate. We live in a world where globalization continues to have a significant impact.

Source: The World Bank. Data for global market capitalization as of Jan. 1, 2016.

Global Market Capitalization % by Country, as of Jan. 1, 2016



Understanding the Fees You Pay

Over the past year, we have been making changes to the information you receive to provide greater clarity about your investment fees and portfolio performance. Given the focus on costs in our industry, we wanted to provide some background to help give our clients a better understanding.

Types of Accounts

There are two main ways to pay for the advice of a professional advisor: i) through a fee-based or ii) a commission-based account. With a fee-based account, a fee is paid each year for the account's management or for a limited number of trade transactions, often calculated as a percentage of the account's value. With a commission-based account, fees are based on the purchase and/or sale of the portfolio's investments. In addition, fees may be associated with the cost of owning certain investment products, such as a mutual fund.

Over the years, the industry has moved towards a fee-based model. Some advantages may include:

- Tax-deductible portion of the fees
- Less bias in recommendations
- Potentially lower overall costs for significant portfolio activity

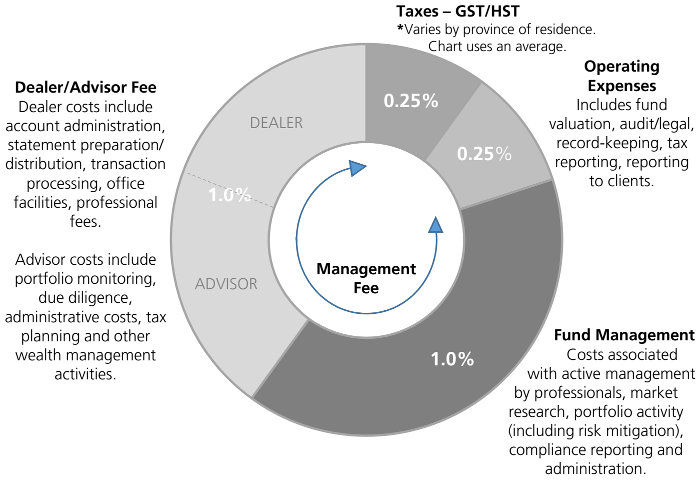
What is an MER?

The costs associated with running a mutual fund are included in the management expense ratio (MER) and charged as an annual percentage fee. There are three main components: i) Management fee — The cost associated with fund management, which includes having a dedicated team of professionals who actively research and monitor the underlying holdings of the fund and make adjustments when necessary to manage risk. The fee may also include a dealer and advisor component, which helps pay for the services that we provide to our clients; ii) Operating expenses — Various administrative fees, including legal, tax and financial reporting costs; and iii) Sales tax (GST/HST) charged to the fund, which depends on the province of residence of the investors of the fund.

For Canadian equity mutual funds, the MER generally ranges between 1% and 3%. Any returns reported by mutual funds are net returns after fees. Mutual funds that are part of a fee-based account often have discounted MERs.

What Makes Up the MER?

The following chart illustrates what the fees paid on a mutual fund, with an MER of 2.5%, can typically comprise:



The Bottom Line

Understanding the costs associated with your investments is important. More important, however, is that you feel you are receiving value for what you pay.

Our objective is to keep your money working as hard as you do which involves fostering investment discipline, managing your portfolio within your level of risk tolerance and maintaining suitable asset allocation. Wealth management also extends beyond investment advice and we have a broader team to support retirement planning, estate planning and succession planning, as examples. Don't forget that this is all part of our ongoing service to you.

We can be contacted at any time and are always here to support you.

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