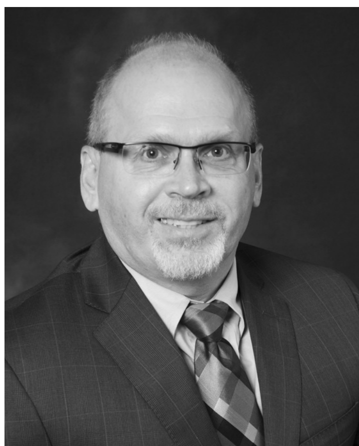

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To Our Clients:

Happy New Year!

Start the year off right by contributing to tax-advantaged accounts, such as your Tax-Free Savings Account. It is RRSP season and on page 3 we discuss some action items to consider beyond contributions.

As equity markets have continued to perform at high levels, try and enjoy these times. Remember that corrections, should they occur, are a normal part of the financial markets.

May we offer best wishes to you and your loved ones, and remind you that we are here to provide support in any way.

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FOR 2018: FOCUS ON WHAT YOU CAN CONTROL

The year 2017 will go down in the record books as one that brought many positive surprises. The Canadian economy delivered solid growth, and the Bank of Canada expressed its confidence with increases to the overnight target interest rate. Corporate earnings were strong. Although Canadian equity market performance was muted relative to that of the U.S., the TSX still achieved record highs in the fourth quarter.

Looking forward, however, certain challenges persist. There are questions as to whether growth is sustainable at last year's pace. Canadians are carefully watching the outcome of NAFTA discussions to understand how U.S. political policies may impact our business competitiveness.

Many investors are asking: can the equity markets continue their climb in 2018? While we can never influence or predict the direction of the markets, in this time of new year's resolutions, why not focus on things within our control? If you are looking for some ideas, here are potential actions to consider:

Have confidence in your plan. During positive market times, it may be easy to lose sight of what portfolio risk means and how it is managed. There is an old industry saying: "don't confuse brains with a bull market". The inference, of course, is that it is easy to look smart when markets are rising, but the challenges come when markets inevitably decline. This is a good reminder that portfolio guidelines have been put in place to mitigate risk. They can include diversifying across asset classes or geographies and rebalancing where necessary, limiting the size of any one holding and focusing on quality securities. These guidelines are tailored to your investment objectives, personal needs, stage of life and risk tolerance. Embrace the potential for continued up markets, but have confidence that your plan is working for you throughout any market.

Save more. If you want to positively impact your future wealth, a good place to start is by controlling your spending habits. If college students can live off of barely any income and still manage to survive, perhaps we can all do a bit more to reduce our expenses. Small changes, like foregoing the fancy coffee or reducing the restaurant bill, can add up over time. Or, take action to save in other ways, such as minimizing the amount that is sent into government hands in the form of taxes.

Be a role model. Financial education is good for everyone. Like many things, developing good habits at an early age can lead to benefits down the road. Why not help to teach kids about the value of money? Wealth creation and preservation for the next generation can start with you.

But above all, **invest in yourself.** Follow through with your pledge to eat better or to get to the gym. While there may be limits as to how much we can control our health, it is certainly an area in which many of us could easily improve. It can also impact your financial well being. Consider, for instance, that you may be able to work longer or reduce future health care expenditures if you stay healthy until a ripe old age. In the words of Warren Buffett: "anything you invest in yourself, you get back tenfold, and nobody can tax it away or steal it from you."

Here's to health, wealth and happiness for the year ahead!

SPOUSAL TRUSTS: A VALUABLE ESTATE PLANNING TOOL

Do you own investment assets or shares of a private corporation that your spouse would be unable to manage if you were to pass away? Have you remarried and would like to provide for your spouse but also preserve assets for children from a previous marriage once you are gone? These are situations in which a testamentary spousal trust could potentially benefit your estate plan.

A testamentary spousal trust or common-law partner trust is created upon the death of the individual. The trust will be eligible for special tax treatment if the individual's spouse (including a common-law partner) is the only person who can receive the income and distributions of capital from the trust during his/her lifetime. After the surviving spouse passes away, any remaining assets are distributed to surviving beneficiaries according to the trust terms.

When an individual passes away, capital property is treated as though it was disposed of immediately before death and unrealized capital gains may be subject to tax. One exception is when assets are transferred to a spouse, either directly, or indirectly through a spousal trust. Here, assets transfer at cost and any associated capital gains tax is deferred until assets are sold or the surviving spouse passes away. In the past, testamentary trusts were eligible for lower graduated tax rates and, thus, were often created for their income-splitting potential; however, the government largely eliminated this benefit in 2016. Yet, there are many non-tax reasons for using a spousal trust within an estate plan:

Asset management — Sometimes a spouse may require assistance managing assets of the estate, perhaps in a situation in which the individual owns a private corporation or a spouse suffers from a medical condition. These assets can be transferred into a trust for the benefit of the spouse. The trust's assets will be managed by a trustee.

Creditor protection — Since assets are held by the trust, and not directly, they may be protected from a spouse's current or future creditors.

Legacy planning — If an individual wishes to preserve assets for beneficiaries other than a spouse (such as children), the trust may help to preserve a portion of the estate for them. This can be particularly useful in remarriage situations; for example, if an individual wishes to leave funds to children from a previous marriage. The trust can provide funds to maintain the surviving spouse's lifestyle and upon the spouse's passing any residual assets can be distributed from the trust to the surviving beneficiaries according to the trust agreement.

Probate fee planning — In provinces where estate administration taxes (i.e., probate fees) are applicable, assets held within the trust will not be subject to these fees upon the death of the spouse.

If you believe a spousal trust can benefit your situation, consult with a professional legal advisor for assistance.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. As always, we recommend consulting your personal legal and tax advisors to understand the implications for your particular situation.

LIFE EXPECTANCY: EXPECT THE UNEXPECTED

Understanding our potential longevity is important in retirement planning. After all, we want to make sure we don't outlive the funds saved for these years. Many use life expectancy as a gauge for how long we will live. Canada ranks 12th globally for longest life expectancy: 80.2 years for males and 84.1 for females. But using life expectancy figures may be underestimating your longevity.

"Life expectancy" is an average figure of how long an individual with certain characteristics (such as specified gender and health) is anticipated to live. This means that there is a significant chance — around 50% — that you will live beyond that, perhaps for many years. Life expectancy is also a moving target. If you've reached age 65, your life expectancy has already increased. In Canada, a 65-year-old has a life expectancy of 83.5 years as a male and 86.6 years as a female.[1]

The "Actuaries Longevity Illustrator" is a tool developed by the Society of Actuaries that looks at how long you can expect to live based on average health and demographic characteristics. If you are married/common-law, it also estimates how long you can expect to live as a couple and how long a survivor will outlive the spouse.

While the tool is based on average U.S. demographics, it is still a good basis for individuals to address their own longevity and its potential impact on managing wealth for the future. **http://www.longevityillustrator.org/**

As longevity continues to increase, consider how far we've come. In ancient Greek times, average lifespans were believed to be only 20 to 35 years. Just 100 years ago, Canadian life expectancy was only about 57 years. Today, centenarians are the fastest growing age group: there are 8,230 Canadians over 100 years old and this has increased by 40% in the past five years.[2]

HOW FAR CAN WE GO?

In a recent study, Canadian researchers concluded that there is no plateau in human life and the human lifespan can be expected to climb far into the foreseeable future.[3] So expect the unexpected, and plan ahead for a long and happy life!

Source: 1. Statistics Canada, Life Expectancy 2009; 2. Canada Census 2016. 3. "No Limit to How Long People Can Live: Study", CBC News, June 28, 2017.

SMALL BUSINESS TAX CHANGES: WHAT YOU NEED TO KNOW

In the summer of 2017, the federal government released a consultation paper focused on eliminating certain tax planning strategies that were claimed as unfairly reducing the taxes of incorporated business owners. It involved three areas: income splitting through income sprinkling and multiplying the lifetime capital gains exemption, holding passive investment portfolios and converting regular income into capital gains.

A consultation period was held in which over 21,000 submissions were received. As a result of much objection expressed by business owners and professionals, the government announced last fall that it would amend these proposals. Here is what you need to know:

The small business tax rate has been reduced. Although this was not part of the consultation paper, the small business tax rate is proposed to be lowered to 10.0% (from 10.5%) as of January 1, 2018. It will again be reduced to 9.0% as of January 1, 2019. (The tax rate for non-eligible dividends will be adjusted to maintain integration of corporate and personal taxes.)

Income-sprinkling measures will be focused on distributions to family members who do not meaningfully contribute to a business. The government had originally targeted owners of private corporations who were lowering taxes by sprinkling income to all family members. At the time of writing, draft legislation is pending, with changes expected to be effective for 2018 and subsequent tax years. Proposed measures to limit access to the lifetime capital gains exemption have been abandoned.

Passive investment portfolios will be permitted at a $50,000 annual threshold. The government originally targeted all passive investment income. This threshold on passive investment income has been determined as the equivalent to $1 million in savings, based on a nominal 5% rate of return. It is intended to provide a financial cushion for emergency or retirement purposes for business owners. Existing passive investments and related income will not be affected. Draft legislation, including a technical description of the threshold and how it works, is expected in Budget 2018.

The proposal to eliminate the conversion of income to capital gains has been abandoned. The government has recognized that this proposal would have created difficulties for many business owners, including farmers/fishers, in passing along their businesses to their children.

At the time of writing, these tax measures are still in proposal stage and have not been enacted into law. For more details, please see the Government of Canada website: fin.gc.ca

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RRSP SEASON: TIME TO TAKE ACTION!

As the annual deadline for contributions approaches, why not consider doing a more detailed check-up on your plan? Here are some things that may be reviewed:

Beneficiary Designations — Ensure that you have updated beneficiaries designated in registered plan documentation (in Quebec this designation must be made in your will or marriage contract). Understand that there may be tax consequences to your estate depending upon who has been named as beneficiaries. There may also be special considerations to address if designating a minor child (which vary depending on provincial or territorial laws), an individual with a disability (whether or not they are a beneficiary of a Registered Disability Savings Plan) or non-residents.

U.S. Estate Tax — Currently, U.S. securities held within your RRSP can have U.S. estate tax implications, even if you are not a U.S. citizen. Depending on your particular situation, you should consider whether it may be advantageous to hold U.S. securities directly or instead, indirectly — such as through a holding company or through a Canadian mutual fund that invests in the U.S.

Spousal RRSP — Are there opportunities to split income through the use of a spousal or common-law partner (CLP) RRSP? Remember that the total amount you can deduct for contributions that you make to

your RRSP and your spousal/CLP RRSP cannot be more than your RRSP deduction limit.

REMINDER

The last day to make RRSP contributions for the 2017 tax year is **March 1, 2018**. Please call for assistance with any RRSP matters.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. As always, we recommend consulting your personal legal and tax advisors to understand the implications for your particular situation. 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.

RETIREMENT PLANNING: SEG FUNDS

Are you a conservative investor looking for the peace of mind that comes with a full or partial guarantee of principal on your investments? During these low interest rate times, segregated funds have the potential to offer higher potential returns than through traditional fixed income investments like guaranteed investment certificates. If used as part of a retirement plan, certain segregated funds may offer the prospect of having a predictable income stream in retirement.

Segregated funds, known "seg" funds, are the insurance industry's equivalent to mutual funds. While these two products are similar in many ways — in that investors' funds are pooled and invested in stocks, bonds and other securities — there are some key differences. Technically, seg funds are insurance contracts. Under insurance law, they must guarantee the protection of at least 75% of an investor's principal investment upon maturity or death, and many insurance companies actually offer a 100% guarantee. However, they must typically be held for a certain length of time to benefit from this guarantee, usually 10 years.

There are some interesting advantages offered by seg funds:

Locked-in Returns: In addition to the guaranteed principal, there is also a death benefit guarantee for the policy holder. If the fund value increases over a period of time, some funds also allow you to "reset" the guaranteed amount to a higher value. However, this often resets the length of time that is required by the investor to hold the fund.

Creditor Protection: Seg funds may protect assets from creditors in the event of bankruptcy or litigation. As such, they may be a particularly beneficial protection tool for business owners or other professionals with business creditors.

Bypass Probate: Insurance proceeds generally bypass the probate process. As such, the proceeds distributed to a named beneficiary would not be subject to probate fees, in provinces where applicable. As assets pass outside of the estate, this may help to keep their distribution private.

THINGS TO CONSIDER

Since segregated funds are insurance products, they generally have a management fee that is higher than other funds. Depending on the type of fund, this could range from an additional fee of between 0.15% and 1.0%. This extra fee helps to cover the cost of the insurance protection offered by the fund. Investors should also be aware that money is typically locked in for a period of time. If an early withdrawal is made, the market value of the investment will be returned (which may be more or less than what was originally invested) and there may be an associated penalty charge.

Segregated funds can play a role in retirement planning as part of a diversified portfolio. If the benefits may appeal to your particular situation, please feel free to get in touch to learn more.

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