Money Ideas

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The Bank of Canada's recent series of interest rate cuts can affect fixed-income and equity investments – and that's the topic of an article on page 3. Please get in touch if you have any questions about how interest rate changes – or any changes in the economy or markets – may affect your investment goals.

▶ RETIREMENT PLANNING

What to do when retirement is around the corner

When retirement approaches, several wealth planning to-do's arise. To help make these into a plan, here are the important items in two groups – what you do on your own and what to do with our input.

Your own to-do's

Managing debt and expenses. You'll find paying off debt more manageable while you earn income than paying it off in retirement when you're drawing income. Any home repairs or renovations may also be easier to cover as an income earner rather than a retiree.

Covering health costs. Upon retirement, you may want private health insurance to cover dental treatment, vision care and other health costs. If you track these expenses before retirement, you could get a better idea of whether you want to pay insurance premiums or cover these costs on your own.

Planning together

Setting the date. A lot goes into setting your retirement date, and we're here to help with the financial side. You can tell us when you'd ideally like to retire, and we'll run the numbers – letting you know if you can live your desired retirement lifestyle while feeling secure you won't outlive your mutual fund savings.

Safeguarding your savings. If the market suffers a downturn just before your planned retirement date, you want to be confident you won't need to postpone your retirement. We develop a plan well in advance that suits you, whether it's making your mutual fund portfolio more conservative, building a cash reserve or implementing another strategy.

Timing government benefits. You should plan the timing of your government benefits sooner rather than later because you have the option to begin Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) as early as 60 and Old Age Security (OAS) benefits at 65. Our input is valuable because the timing is part of an overall retirement income strategy.

Talk to us when you want to discuss wealth planning and mutual fund investment strategies during the years before retirement. ◀

Choose your beneficiaries carefully

When naming a beneficiary for a registered plan, it's common to simply designate a spouse or adult child, without giving the matter further thought. This might end up being the best choice, but not always.

Here's a look at options to consider, depending on your personal situation.

Note that beneficiary designations can be indicated on the plan form. However, in Quebec, legatee (beneficiary) designations can only be made on the plan form when the investment vehicle is an insurance product, such as segregated funds or an insurance provider's guaranteed investments. Otherwise, the legatee of the registered plan assets is to be named in the will.

RRSPs and RRIFs

When possible, the spouse is typically named the beneficiary of a Registered Retirement Savings Plan (RRSP) or the beneficiary or successor annuitant[1] of a Registered Retirement Income Fund (RRIF). Assets can simply roll over tax-deferred to the spouse's RRSP or RRIF.

However, there are exceptions to the common choice of spouse.

In a blended family. If you're in a blended family and have an estate plan providing for your current spouse and children from a prior marriage, you might name your children as beneficiaries of your RRSP or RRIF.

When you're single. The tax-deferred rollover is not an option if you're divorced, widowed or single. If you name a child or children as beneficiaries, they receive the RRSP or RRIF assets tax-free, and your estate pays the tax liability. Another option is to name the estate as beneficiary, providing instructions in your will for the RRSP or RRIF assets. For example, assets may fund a trust or help offset taxes owed by the estate.

Choosing a charity. If you name a charity as the beneficiary of your RRSP or RRIF, the resulting donation tax credit can offset the tax on RRSP or RRIF assets that would otherwise have been payable to the Canada Revenue Agency (CRA).

TFSAs

Designating your spouse. You can name your spouse as either a Tax-Free Savings Account (TFSA) beneficiary or successor holder.[1] Either way, the transferred assets do not affect your spouse's TFSA contribution room.

Naming an adult child. A child receives the TFSA proceeds tax-free. They can contribute the funds to their own TFSA if they have contribution room.

Choosing a third party. You may want to designate a relative or friend as the beneficiary if you don't have children or for other reasons.

Covering tax liabilities. You can name your estate as the beneficiary and have the TFSA assets help cover taxes owed by the estate.

Making a donation. If you name a charity as the beneficiary, your estate can claim the charitable donation tax credit. ◀

[1] In Quebec, you can only designate a successor annuitant for a RRIF or a successor holder for a TFSA if the plan is funded through an insurance product.

Mutual fund investing for beneficiaries

How a beneficiary invests inherited funds depends on the amount and the beneficiary's unique needs. A beneficiary may simply add to existing mutual fund investments or take advantage of a new opportunity. Here are a couple of examples of mutual fund investing decisions.

A grandparent named a grandchild as a beneficiary of their Tax-Free Savings Account (TFSA), and the grandchild, age 26, receives $40,000. The grandchild opens a First-Home Savings Account (FHSA) and contributes the annual maximum of $8,000 in a balanced portfolio of mutual funds. Having enough contribution room in their TFSA, they invest the remainder in mutual funds in their TFSA. The grandchild will withdraw $8,000 annually for four years to contribute to their FHSA, making the maximum $40,000 lifetime contribution.

A husband passes away, and his Registered Retirement Income Fund (RRIF) assets roll over to his wife's RRIF. The husband's RRIF included fixed-income and equity mutual funds, but the surviving spouse doesn't keep that asset allocation in her own RRIF. With her substantial inherited assets and low risk tolerance, she invests only in money market and bond funds. ◀

How lower rates may affect your investments

The Bank of Canada's recent interest-rate cuts are the first rate reductions in about four years. We've become familiar with the impact of rising rates on our mutual fund investments, but what about the effect of falling rates?

Money market funds

When interest rates increased during the past couple of years, money market fund returns also increased, upward of 4% in 2023 and higher than 3% for much of 2024. Many investors chose money market funds not only to achieve short-term goals but as part of their fixed-income allocation to meet long-term savings objectives.

But money market rates fall as the Bank of Canada reduces its benchmark interest rate. This means that anyone who invested in money market funds for a long-term goal faces a decision. Will you remain on track to achieve your goals or should you invest those dollars elsewhere, such as in bonds?

Bond funds

Generally, falling interest rates are good news for current bond fund investors. That's because newly issued bonds have lower yields, which makes existing bonds with higher rates more valuable in the bond market.

Some investors may be hesitant to invest in bonds due to the recent underperformance – bond funds suffered negative returns in 2021 and 2022. But two consecutive years of negative returns is an extremely rare occurrence. That period was marked by high inflation and rapid interest-rate hikes. Now, inflation is under control and interest rates are decreasing.

Equity mutual funds

Falling interest rates have the potential to positively affect the stock market. Lower rates mean lower borrowing costs, which can increase a corporation's profitability

and encourage companies to invest in their own growth. Also, lower rates can stimulate consumer spending. However, equity fund performance is affected by a variety of factors, so rate cuts on their own won't necessarily control the direction of the stock market. ◀

WEALTH PLANNING

Making financial decisions when you're single

According to Statistics Canada, the most common type of household in Canada is the one-person household.[1]

If you're single, some wealth-planning components take on more importance, and some are very different.

Building a safeguard. A couple has a built-in safety net if one spouse becomes unable to work or loses their job – a second income. A single person must build their own safeguard, making disability insurance and an emergency fund vital. You're protected if you have disability insurance through your employer, but if you're self-employed or a business owner, you should look into an individual disability insurance policy. For your emergency fund, you should cover several months of living expenses with money market or high-interest savings mutual fund investments in a Tax-Free Savings Account (TFSA) or a non-registered account.

Saving for retirement. A couple has two incomes to cover the mortgage, utilities, car payments – and to save for their retirement years. Singles must cover everything on their own, making it critical to watch their spending, perhaps even to budget, and to stick to a long-term mutual fund savings plan.

During retirement, a couple can split pension income to reduce their overall tax bill. If one spouse needs help with daily living, the other can offer support, saving the expense of hiring a private care provider. Without these options, a single person may wish to boost their mutual fund savings during their working years.

Planning your estate. When you're single, you might not feel any urgency to make a will. But you may be motivated once you identify your beneficiary or beneficiaries. Will you name nieces and nephews, a close friend, a charity?

Couples often name their spouse or an adult child as their executor, also known as a liquidator, personal representative or estate trustee, depending on the province. If you're single, you might name a sibling, friend or trust company.

Making decisions. Spouses in a couple can discuss financial matters with each other. If you're single, you may feel uncomfortable talking about finances with a friend or family member. You can always contact us whenever a decision involves mutual fund investing or wealth planning. ◀

[1] Statistics Canada, "Distribution of households by household type," 2021.

An early-year warning for TFSA contributions

In recent years, tens of thousands of Canadians paid penalties to the Canada Revenue Agency (CRA) due to Tax-Free Savings Account (TFSA) overcontributions. The penalty is 1% of the excess contribution for each month the amount is in the TFSA.

One reason for overcontributions involves account holders contributing in the early part of the year based on information in their CRA "My Account" portal.

Financial institutions have until the end of February to report clients' TFSA transactions made in the previous year. So, in the first months of the year, what you see listed in My Account as the current year's contribution room may not be up to date. If you only use your My Account information to determine your TFSA contribution room, you could be at risk of overcontributing.

The solution? Keep your own records of your TFSA transactions, so you always know your current contribution room. Or, if you rely only on My Account, wait until April before contributing – allowing time for last year's data to be submitted and processed.

If you're ever asked for a loan

Has a friend or relative ever asked you for a loan? If the person is close to you and has a genuine need, you may find it easy to say yes. But in many cases, the decision can be difficult.

Here are some considerations that may prove helpful.

If the amount is large, you'll need to consider whether loaning the money could affect your financial situation. Will you put your own mutual fund savings goals at risk?

Think of the consequences if the loan doesn't remain confidential. Other friends or relatives might approach you for loans at any time.

A helpful exercise can be to imagine your reaction if the friend or relative is unable to repay you as planned. Would you be understanding or feel resentful?

If you don't want to make the loan, you may wish to explain that your decision isn't personal. You can say that money issues sometimes lead to rifts between friends or family members, so your policy is not to risk jeopardizing a relationship.

The unsung benefit of regular RRSP contributions

When you contribute regularly to mutual funds in a Registered Retirement Savings Plan (RRSP), you don't just benefit financially – you also benefit psychologically. Making regular RRSP contributions can give you peace of mind.

Imagine if you have a sum of money to invest, and you don't make regular contributions. If markets are weak, you might worry it's not the best time to invest. If markets are booming, you might worry about losing value if you invest now and markets fall. Making regular mutual fund investments removes the distress of trying to time the market every time you contribute.

An RRSP itself brings peace of mind because you know you're committed to saving for retirement. You're motivated to dedicate savings to your RRSP every year because those contributions to mutual funds reduce your taxable income, resulting in a lower tax bill or a tax refund. Also, compared to other investment vehicles, you're less likely to spend your savings on vacations or other expenses, as RRSP withdrawals are taxable as income.