cg/ Wealth Management
Canaccord Genuity

GREGORY WEI MUTCH WEALTH COUNSEL

Wealth Perspectives

WINTER 2024

GENERATIONAL LESSONS IN TIME

A Future Better Than Anticipated

"A big takeaway from economic history is that the past wasn't as good as you remember, the present isn't as bad as you think, and the future will be better than you anticipate."[1]

As we look ahead to a new year, this message may serve as a reminder. Much of what we consume is influenced by a negative narrative that can skew our perceptions, and today is no exception. For the past two years, our perception of the state of the economy has been considerably more pessimistic than actual performance may indicate.[2]

This isn't to diminish the challenges of today; many are struggling with the rising cost of living and elevated interest rates. Global economies are highly indebted, economic conditions are softening and we're likely to see lagging effects of the rate hikes, among other concerns. Yet, those who study behavioural finance suggest we may be prone to an '*uncertainty illusion*.' In the present and looking to the future, we rightly sense that we're living amid profound uncertainty. In retrospect, once the past is known, things may not seem as bad.

Consider past perspectives about the future. When asked if the next generation's financial future will be better or worse off, today 75 percent say 'worse off.'[3] This sentiment hasn't changed significantly over time. In 2017, 69 percent felt the same way.[4] In 1995, often remembered as a time of 'giddy optimism,' almost 60 percent still answered 'worse off.'[5] Indeed, the future can evoke a sense of worry.

Perhaps one lesson may be drawn from generational resilience. For many years the Millennials have been dubbed the "*unluckiest generation in history*." Yet, recent statistics paint a more positive picture. Millennial household income now exceeds previous generations at the same age: $9,000 more than the median GenX income and $10,000 more than the Baby Boomers, in 2019 dollars.[6] As they enter their peak earning years, the Millennial future looks bright.

History offers a parallel narrative. Just 30 years ago, there were dire economic predictions for GenX. They entered the workforce in a recession compared to the Great Depression, with unemployment rates hitting 11 percent after interest rates were aggressively raised to fight inflation.[7] Likewise, many Boomers entered the job market in the 1970s, a period plagued by high inflation and unemployment, low growth and a stagnating stock market. Let's not forget that in 1979, the cover of *BusinessWeek* declared the "*Death of Equities*."[8]

And, yet, the future has the potential to unfold in unforeseen ways. In retrospect, the Baby Boomers have lived through one of the most fortuitous financial lifecycles in history. An investment of $100,000 in the S&P/TSX Composite Index during the period of pessimism marked by the *Death of Equities* would have grown to over $4.2 million today.[9] This despite many adverse events along the way: recessions, financial crises, inflation, stagflation, pandemics and even wars.

However, participating in this growth required confidence that the future would be better than anticipated. As we begin another year, this may be a lesson worth carrying forward.

1. Morgan Housel; 2. https://www.economist.com/graphic-detail/2023/09/07/the-pandemic-has-broken-a-closely-followed-survey-of-sentiment; 3. https://www.pewresearch.org/short-reads/2022/08/11/large-shares-in-many-countries-are-pessimistic-about-the-next-generations-financial-future/; 4. https://www.pewresearch.org/global/2017/06/05/2-public-divided-on-prospects-for-the-next-generation/; 5. https://www.washingtonpost.com/opinions/anxious-about-the-election-heres-some-perspective/2016/11/04/586727f2-89af-11e6-bff0-d53f592f176e_story.html; 6. https://www.theatlantic.com/magazine/archive/2023/05/millennial-generation-financial-issues-income-homeowners/673485/; 7. https://en.wikipedia.org/wiki/Early_1990s_recession; 8. Aug. 13, 1979; 9. S&P/TSX Composite Index TR 8/31/79: 1911.69; 8/31/23: 80,418.4.

In This Issue...

GREGORY WEI MUTCH WEALTH COUNSEL

Gregory Wei Mutch Wealth Counsel
CG Wealth Management
520 3rd Avenue SW, Suite 2400,
Calgary, AB T2P 0R3
Office: 403.699.3123
TF: 866.699.3123
gwmwealthcounsel.com

To Our Clients:

Looking back at the past year, it is perhaps a good reminder that outcomes can often differ from predictions. Economies displayed particular resilience, evident in the notable surge in Q3 U.S. GDP, marking the highest growth in years. Though Canada's economic growth remained stagnant, let's not forget that this was the central bank's intention by raising rates. Encouragingly, it appears that we may be on the other side of the significant rate-hiking phase, allowing economies and markets the chance to readjust.

The start of the year is an ideal time to refocus priorities. If you would like to work through a retirement or estate plan, or need any updates if circumstances have changed, please get in touch.

Wishing you health, happiness, peace and prosperity for the year ahead!

TAXING CHOICES

Consider the Implications of RRSP and RRIF Withdrawals

It is Registered Retirement Savings Plan (RRSP) season once again, a reminder that the RRSP continues to be one of the finest tax-advantaged retirement savings vehicles we have. As the cost of living has risen alongside higher interest rates, there may be a temptation to tap into plans like the RRSP or Registered Retirement Income Fund (RRIF). However, early withdrawals may have consequences.

Any withdrawal is considered taxable income and must be reported on your tax return. For the RRSP and any amounts exceeding the required minimum RRIF withdrawal, an immediate withholding tax will apply. If you are using funds to pay down short-term debt, you may end up paying more tax on the withdrawal than you save in interest costs. Consider also that with market volatility in 2023, many asset values were put under pressure, so keeping funds within the plans may allow asset prices to recover.

The RRSP: Early Withdrawal Considerations — Making early RRSP withdrawals can have additional tax consequences. If your current income is higher than what you anticipate in the future, withdrawing funds now may result in paying higher taxes. Additionally, by withdrawing early, you miss out on the chance for ongoing tax-deferred compounding, one of the key benefits of the RRSP. To illustrate, a 35-year-old withdrawing $18,000 from the RRSP would have $100,000 less in retirement savings by age 65, assuming a 6 percent annual return. Moreover, once a withdrawal is made, valuable contribution room is lost, unlike other options such as the TFSA, where a withdrawal is added back to contribution room in the following year. If funds are required, options such as the Home Buyers' Plan or Lifelong Learning Plan, subject to conditions, may allow for tax-free withdrawals and recontribution. For details, contact the office.

Reminders for Tax-Advantaged Accounts

RRSP Deadline: February 29, 2024, for the 2023 tax year.

2024 TFSA Dollar Limit: $7,000, for a total eligible lifetime limit of $95,000.

Turning 71 in 2024? Let's discuss options for collapsing the RRSP.

The RRIF: Minimizing the Tax Implications — Keeping funds within the RRIF is more difficult given the mandatory minimum withdrawal requirement. However, there may be ways to minimize the impact:

End-of-Year Withdrawals — Making withdrawals at year end allows more time for asset values to recover or grow to help optimize growth.

In-Kind Withdrawals — If you don't need income/cash flow, opting for an "in-kind" withdrawal for the required amount allows you to retain ownership of the security. While the fair market value at the time of withdrawal is considered taxable income, transferring to a TFSA (if contribution room permits) can allow for future tax-free growth.

Income Splitting — RRIF income qualifies as eligible pension income for pension income splitting. If you have a lower-income spouse and you're 65 or older, you can split up to 50 percent of your RRIF income to reduce your combined tax bill.

Delayed First Withdrawal — Consider that you aren't obligated to make a withdrawal in the year that the RRIF is opened. Waiting until the end of the following year, when you turn 72, is an option.

Use a Younger Spouse's Age — If you have a younger spouse, using their age can result in a lower minimum withdrawal rate. Note: this can only be done when first setting up the RRIF, so plan ahead.

How Well Are Canadians Planning for Retirement?

Here are a few surprising findings from a recent survey about the savings and retirement behaviours of working Canadians:

32% have not set aside any money at all for retirement

44% have not set aside retirement savings in the past year

80% of those over age 65 have less than $200k in savings*

2023 Retirement Survey: https://hoopp.com/docs/default-source/default-document-library/hoopp-2023-canadian-retirement-survey-presentation.pdf; *Note: small sample size.

THE IMPACT OF TIME ON INVESTING OUTCOMES

Keep Time on Your Side

"A ship in harbour is safe, but that is not what ships are built for."[1]

Don't let a volatile year in the financial markets preclude you from building wealth for the future. Just as ships are built for the open seas, your portfolio has been constructed with the expectation that it will experience market fluctuations as it achieves its intended purpose: to grow and build wealth for the future.

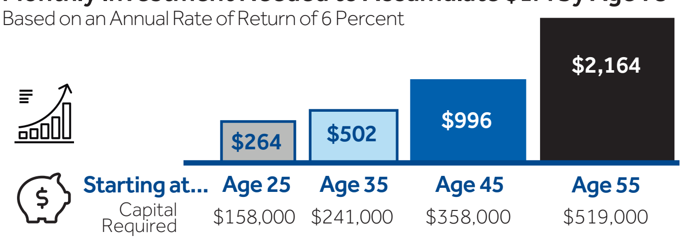
Why is it important to stay invested? Consider the significance of compounding over time. The chart (right) shows the amount needed to generate $1 million by age 75 when starting at different times. At a rate of return of 6 percent, a 25-year-old would need to invest around $264 per month — or the equivalent of under $9 per day — to achieve this goal. By waiting to start at age 55, over $2,160 per month would be needed — and more than three times the total capital — to achieve the same outcome. Indeed, time can be one of the investor's great allies.

It is RRSP season and the 2024 TFSA dollar limit is now $7,000, the second consecutive annual increase due to inflation adjustments. Make sure to use tax-advantaged accounts to your full benefit. After a bumpy year, current valuations and yields may offer opportunities worth considering. Continue to participate and keep time on your side.

Consider the Impact of Time on Investing

Monthly Investment Needed to Accumulate $1M by Age 75

Based on an Annual Rate of Return of 6 Percent



Note: Assumes an annual rate of return of 6 percent compounded monthly, with taxes & expenses ignored. For illustrative purposes only.

1. Quotation attributed to author John Shedd.

ESTATE PLANNING CONSIDERATIONS

A Legacy Worth Considering: Giving While Living

When Chuck Feeney passed away in October, he was remembered as the '*James Bond of Philanthropy*.' He pioneered the concept of '*Giving While Living*' and was a personal hero to both Warren Buffett and Bill Gates.

Many have never heard of Chuck Feeney because he stayed humble and desired anonymity. Though he amassed over $8 billion in wealth by founding the airport retailer *Duty-Free Shoppers*, he lived a life of substantial frugality. He didn't own a house, instead renting a small apartment, and reportedly wore a $10 Casio watch. He was known for flying in economy class, even when family members and colleagues travelled in business class on the same plane. He would spend 38 years awarding his entire $8 billion estate to non-profits around the world.

When estate planning, many of us focus on what happens after death. However, Feeney's legacy may be worth considering: giving while living can play a complementary role. Giving to loved ones or charities while alive can provide benefits — the obvious personal one being the satisfaction of seeing your gift at work. Here are others, including financial ones:

Minimize an Overall Tax Bill — If you plan on gifting to adult children, there may be overall family tax benefits. If they are in a lower tax bracket, if investable assets are transferred, annual investment income may be taxed at their lower marginal tax rate instead of at your higher rate. Be aware that gifts to spouses or minors may result in negative tax consequences; income or capital gains from gifted property may be attributed back to you.

For charitable donations, you may receive greater tax benefits by making gifts annually and over time. This enables the use of the charitable donation credits to reduce your tax liability each year, as opposed to having a large donation credit at death which may not be fully used.

Simplify Your Estate — Gifting assets during your lifetime may reduce the size of your estate and thus the burden of managing assets by others later. This may help to reduce capital gains taxes at death, as well as probate/estate administration tax (where applicable).

Support Asset Distribution — If you wish to provide certain beneficiaries with a greater proportion of an estate, gifting while alive may potentially avoid a situation in which a dissatisfied family member disputes your will.

Facilitate Legacy Planning — This may be a way to involve heirs in family legacy planning, providing an opportunity for open discussions about family values, charitable goals and wealth longevity. It may also be a way to coach adult children to become responsible stewards of wealth, allowing them to manage gifted funds, make decisions and see the outcomes.

Where to Start? There are many ways to give while living. Some choose to gift funds to family members to contribute to a TFSA, First-Home Savings Account or a Registered Education Savings Plan. For charitable causes, some establish family foundations or donor-advised funds. Keep in mind that, as with any gift, you will lose control of the funds. If you wish to maintain control, there may be alternatives, such as the use of a trust. For ideas, please get in touch.

*Given potential legal and tax implications, seek advice from specialists regarding your situation.

FINANCIAL RESOLUTIONS FOR A NEW YEAR

For 2024: Consolidate Your Finances (and Find Lost Funds!)

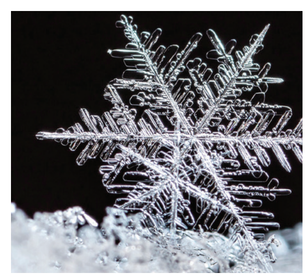
In this time of resolutions, why not resolve to consolidate your finances? Many investors end up managing multiple financial accounts across different institutions. This may be a conscious decision, or, over time, it may have happened without notice. However, there may be potential benefits that come with consolidation. Here are three:

1. Improved Asset Allocation — Consolidating investment accounts can help to better manage asset mix, identifying duplicated holdings or overexposure to sectors or asset classes. As investments change over time, consolidation may also make the task of rebalancing easier.

2. Greater Tax Efficiency — Across your portfolio, the tax treatment of investment income will generally differ depending on the type of income generated (interest, dividends or capital gains) and where the investment is held (in registered or non-registered accounts). Having a consolidated view may help to identify tax-effective ways to structure investments.

3. Better Administration — Consolidation can reduce paperwork and account management, such as simplifying annual tax returns or the eventual administration of an estate. It can also prevent investment accounts from becoming "orphans" over time. For those of us who manage wealth, the magnitude of assets that have been forgotten over time is astounding. Do you have lost funds? Here are considerations:

Bank Accounts — At the latest count, over $1.8B of unclaimed balances are held by the Bank of Canada,[1] including bank accounts, term deposits, GICs and other funds where there has been no activity for 10 years. See: https://www.unclaimedproperties.bankofcanada.ca/



Canada Revenue Agency (CRA) Refunds — The CRA has 8.9 million uncashed cheques totalling over $1.4 billion.[2] Check your CRA "My Account": www.canada.ca/en/revenue-agency/services/uncashed-cheque.html

Canada Savings Bonds (CSBs) — The discontinued CSB was issued in the form of a physical paper certificate, some of which have been lost over time. See: https://www.unclaimedproperties.bankofcanada.ca/app/report-lost-bonds

Pension Plans — It's not uncommon to forget a company pension plan once you've changed employers. Contact the company directly and ask to speak to the plan administrator.

Insurance Benefits — If you have unclaimed benefits or think you're an entitled beneficiary, call the life insurance company directly. If you've forgotten its name, see the OmbudService for Life & Health Insurance: https://olhi.ca/

Old Stock Certificates — There was a time not too long ago when stocks were issued as paper certificates. Some clients have found them tucked away in an attic, and they may be worth more than you think. See: https://www.securities-administrators.ca/resources/additional-information/how-to-determine-the-value-of-an-old-stock-certificate/

1. nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada; 2. www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html

HIGH-NET-WORTH INSURANCE PLANNING

Financial Resolutions for 2024: Revisit Your Insurance Strategy

As a new year begins, many of us refocus our financial goals. This may be an opportune time to reassess insurance needs to help protect loved ones. For high-net-worth (HNW) investors, consider the opportunity to use life insurance as part of a broader wealth strategy.

HNW investors can have more complex needs than the average investor. For many, the focus is not just on growing funds, but also on preserving and protecting wealth to pass on to future generations. Often, HNW investors have maximized contributions to tax-preferred accounts like RRSPs and TFSAs. As such, the opportunity to minimize the tax burden associated with non-registered accounts becomes important. This is where permanent insurance can play a role.

Permanent insurance offers the benefit of tax-preferred growth of the policy's cash value, as well as a tax-free death benefit paid to beneficiaries, which can help minimize estate settlement costs such as probate fees (where applicable). It may also be a suitable alternative to low-risk, fixed-income investments. With participating whole insurance, the majority of assets held in a separate participating investment account (managed by the insurance company) are often longer-term debt instruments.

Here are four tax-savvy insurance strategies used by HNW investors:

1. Cascading Life Insurance Strategy — This may be a tax-efficient way to accumulate and transfer wealth across multiple generations. It involves investing in a permanent life insurance policy on the life of a child/grandchild and naming a grandchild/great-grandchild as the policy beneficiary. Upon your death, the policy's ownership would be transferred to the child/grandchild on a tax-free basis and when they pass away, the grandchild/great-grandchild would receive the death benefit on a tax-free basis.

2. Back-To-Back (Insured) Annuity — This involves the purchase of a prescribed annuity and an exempt life insurance policy with the death benefit equal to the amount of the annuity investment (to preserve estate capital). While the annuity continues to make payments over your lifetime, part of this payment is a return of principal, so only the income portion is subject to tax annually. This can result in a higher after-tax cash flow relative to comparable low-risk, fixed-income investments held in a non-registered account.

3. Joint Last-To-Die Policy — This policy can help offset taxes or maximize an inheritance. A single premium insures the lives of two people and the benefit is not paid until the last insured person's death. The proceeds can offset future tax liabilities, including those that an estate may not be able to cover. For HNW individuals who don't need RRSP/RRIF income and expect to have a high marginal tax rate in retirement, one strategy may be to fund the policy by gradually depleting the RRSP/RRIF.

4. Corporate-Funded Insurance — For business owners, the cost to fund policy premiums can be lower if paid by the corporation if the business' tax rate is lower than the personal tax rate. Holding an exempt permanent life insurance policy until disposition within a corporation can allow for tax-deferred growth of the cash value of investments. This may be advantageous in light of the small business passive income rules. As well, all (or a significant portion) of the death benefit can be distributed tax free to the company shareholder(s) through the capital dividend account.

Have you considered the use of insurance as part of your wealth strategy? There are many options available for HNW investors. Given our familiarity with your financial situation, we can offer ideas.

New Year, New Perspectives?

Our advisory practice is built on the satisfaction of clients like you. Thank you to those who have introduced family, friends and business colleagues who can benefit from our experience, support and advice.

We continue to welcome new clients and are grateful for any such referrals. Whether it is a fresh opinion on an existing portfolio or advice relating to a new situation, we are here to help.

Compliments of Gregory Wei Mutch Wealth Counsel — CG Wealth Management

Gregory Wei Mutch Wealth Counsel
CG Wealth Management
520 3rd Avenue SW, Suite 2400, Calgary, AB T2P 0R3
Office: 403.699.3123
TF: 866.699.3123
gwmwealthcounsel.com