

Spring 2025



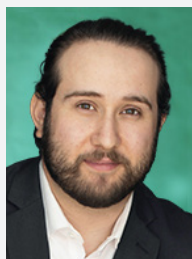
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We're approaching the end of tax season, and you may have a couple of opportunities. One is if you'll receive a tax refund, discussed in the "Is all money the same?" article. Another applies if you have a child who's a post-secondary student, is 19 or over, or has income – see "Why your child should file a tax return."



MUTUAL FUND INVESTING

Staying true to your investment personality

During a period of exceptional stock market returns, such as the market performance of 2024, different types of mutual fund investors might be tempted to stray from their investment plan. It's only human nature to want more of the action – or even just to get in on the action.

Wanting more

In a rising market, some balanced or growth-oriented investors may want to add exclusively to their equity mutual fund investments, but aiming to capture the upside can have a downside. Say an investor is considering using some high-interest savings from their emergency fund to invest only in equity investments. Typically, you should invest new funds according to your personal asset allocation, not exclusively in one asset class. If this investor increases their allocation to equities, they may push their portfolio's risk level beyond their accepted risk tolerance.

Not wanting to miss out

Some conservative investors, especially those holding some equities, may see enticing returns and keep thinking about the bull run they've been missing out on.

But imagine this scenario. A conservative investor takes the plunge and ramps up their portfolio's allocation to equity funds. Then, soon after, the markets suffer a 10% drop. This investor becomes anxious, worries the markets are in a free fall, and sells their recent investments at a loss. If you stay true to your investment personality, you won't succumb to the fear of missing out.

Respect your risk tolerance

An investor may be taking a financial and psychological risk by overinvesting in equity funds and raising their portfolio's risk level beyond their comfort zone. The bottom line is that your portfolio is designed to meet your long-term investment objectives across a variety of market conditions, so you don't need to change your investing habits when markets rise or fall. ◀

Managing risk in retirement



Our retirement years come with several financial risks, but fortunately, you can take measures to help defend against each one. Many of these measures begin well before retirement.

Here are some more common financial risks, along with strategies to reduce each one.

Longevity

Canadians are living longer, but increasing longevity poses a risk – a retiree outliving their mutual fund savings. Today, retirees may need income to last 20, 25 or even 30 years.

Safeguarding against this risk begins with determining your retirement savings goal. You can find all kinds of calculators online, but we take a detailed and customized approach to arrive at a goal and retirement date you can regard with confidence.

During retirement, various methods are available to help your savings last your lifetime. A couple may split their pension income to pay less tax. A retiree may defer government benefits to receive higher

payments at older ages. A risk-averse individual might purchase an annuity for a steady stream of income for life. These are just a few of the many strategies to help ensure you won't worry about outliving your savings.

Inflation

Not too long ago, in June of 2022, inflation in Canada reached a 40-year high of 8.1%. Canadians may feel comforted that inflation is now around the Bank of Canada's 2% target range, but mutual fund investors shouldn't be lulled into a false sense of security. Even a 2% inflation rate can have a significant impact on your investments. That's why inflation is sometimes called the silent thief of retirement savings.

Helping to control this risk involves two measures. First, the effect of inflation is taken into account when determining your retirement savings goal. Second, investments – especially low-risk investments – should offer yield or growth that aims to outpace the inflation rate.

Market volatility

Before retirement, market downturns can be mutual fund buying opportunities, but there's no such silver lining during retirement if you're not investing new money.

How does a retiree deal with market volatility if they still want some growth in their portfolio? One factor involves the time horizon. A retiree may feel comfortable holding equity funds in the earlier years of retirement, knowing the markets have time to recover in the event of a downturn. However, as the years progress, any retiree's portfolio is typically adjusted to become more conservative.

Some retirees use a cash reserve to safeguard against market volatility. In a year when equity investments lose value, they draw retirement income from a pool of low-risk investments, such as money market funds.

Very conservative investors can simply hold little or no equity investments, favouring fixed-income funds and guaranteed investments.

Long-term care

Long-term care can be expensive, whether you receive private care in your home or live in a long-term care residence. As Canadians live longer, the probability increases of developing a medical condition or illness requiring such care. Almost three in 10 Canadians aged 85 and older live in a long-term care facility.¹

You can purchase long-term care insurance to help manage this risk or set aside funds before retirement. If you choose to self-insure, these mutual fund investments can become estate assets if not needed for long-term care. ◀

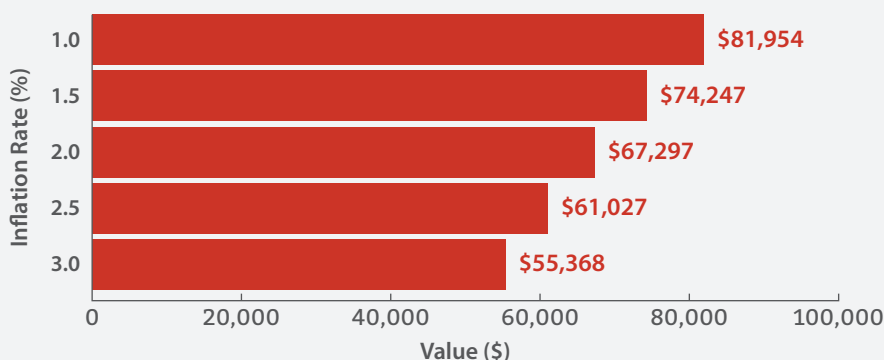
¹ Statistics Canada, *A portrait of Canada's growing population aged 85 and older from the 2021 Census*, 2022

The impact of inflation

Purchasing power of \$100,000 after 20 years

Even relatively low inflation rates have the potential to greatly diminish the purchasing power of savings. This chart is for illustrative purposes, showing the impact of inflation on savings that do not earn interest. ◀

Source: Bank of Canada inflation calculator



Are you a member of the sandwich generation?



What happens when many couples are having children in their 30s or even 40s, and their parents are living longer? You have the sandwich generation – Canadians financially supporting their children while caring for their parents.

Supporting children

When the term sandwich generation was first coined, the children in mind were young. But today, the sandwich generation's children include young adults. According to Statistics Canada, 35% of young adults aged 20 to 34 live with one or both parents, many requiring financial support.¹

Also, parents may help children who have moved out, either to meet their cost of living or contribute toward a down payment on their first home.

Caring for parents

Helping one or both parents can be through financial support or providing care. Financial support may include expenses related to home modifications, private home care or an assisted living facility. Having the money talk with parents isn't always easy, but you'll want to know whether their income and savings will cover these expenses, so you can plan accordingly.

Typically, providing care involves helping out with one or more of household chores, meal preparation, personal care and coordinating care. Many sandwich generation caregivers reduce their work hours or take time off to care for a parent. A Canadian survey shows that decreased income from helping parents results in 63% of caregivers reporting financial hardship.²

Making it work

Helping your children and parents can be emotionally stressful and exhausting, so it's important to take care of yourself too. It's also important to have a wealth plan in place, to help avoid being one of the sandwich generation members who suffer financial hardship. You'll want to estimate the costs of supporting your children and parents, then develop a strategy to manage any impact your support may have on your wealth plan and retirement savings. We're always here to assist you in creating a plan that meets both your immediate and future needs. ◀

¹ Statistics Canada, *Census of Population, 2021*

² Canadian Centre for Caregiving Excellence, *National Caregiving Survey, 2023*

The investment component you control

You can't determine how the markets perform, and you can't control the return on your mutual fund investments – unless, of course, you only have investments with fixed interest rates. But you do have control over the amount you save and invest.

For some investors and in certain situations, the need or opportunity may arise to increase the amount they invest. Here are three such situations.

Becoming less tolerant of risk

For many investors, tolerance to risk is a personality trait that remains the same over time – but not for all. For example, say that a young investor with modest investment assets will tolerate a 15% or 20% decline in their portfolio value. However, later in life when their assets have grown, this investor feels uneasy about how such a decline would significantly impact their portfolio's dollar value. So they make their portfolio more conservative, focusing on funds with greater stability but lower potential returns. As a result, this person saves and invests more to keep their investment goal on target.



When goals change

An investor may be on track to meet their financial objectives but then add a new life goal. Perhaps a couple about 10 years from retirement now wishes to be snowbird retirees, which hikes up their financial objective. The couple doesn't want the increased risk of choosing mutual funds with higher potential returns, and they prefer not to postpone their retirement unless necessary. Saving and investing more

can give them the chance to realize their dream of enjoying winters down south.

Capitalizing on opportunities

You may wish to boost the amount you save for retirement if your cash flow increases. An opportunity might be receiving a raise, paying off your mortgage or your children becoming financially independent. With these additional mutual fund investments, you may be able to retire earlier or enhance your retirement lifestyle. ◀

Is all money the same?

One hundred dollars is one hundred dollars, right? Well, if you found a \$100 bill on the sidewalk, would you use it the same way as \$100 you earned?

This idea is known as “mental accounting,” a term coined by behavioural economist Richard Thaler in 1985. According to the mental accounting principle, we may value a sum of money differently depending on how it’s received or its intended goal.

A topical example is the upcoming tax refund many Canadians will receive. Some people view their refund as free money, like that \$100 bill on the sidewalk. Though a refund may seem like a windfall, it’s your own hard-earned money that you overpaid in taxes throughout the year. So the financially sound decision is to invest the money in mutual funds or pay off debts.



Though mental accounting can tempt us to spend frivolously, it can also benefit us. For example, we can view money in an emergency fund as untouchable – until a genuine emergency arises. ◀

Withdrawing more than the RRIF minimum



Starting the year after you open a Registered Retirement Income Fund (RRIF), you must withdraw a minimum prescribed annual amount, taxable as income.

When the required annual amount is enough to support your retirement, withdrawing only the minimum can make financial sense. You limit your tax bill for

the year and leave more RRIF mutual fund assets to grow tax-deferred.

However, sometimes you may come out ahead tax-wise by withdrawing more than the minimum, even when you don’t need it.

Take the case of a single, divorced or widowed retiree who will eventually have remaining RRIF assets in their estate. Without the option of having RRIF assets rolled over tax-deferred to a spouse, they seek other tax-saving measures to maximize the inheritance they leave to their heirs. This retiree makes annual RRIF withdrawals up to the limit of their current tax bracket and contributes the unneeded after-tax funds to mutual funds in their Tax-Free Savings Account (TFSA), provided there is contribution room.

The tax paid on this RRIF income can be less than the tax their estate would have owed, leaving a greater amount for their heirs. ◀

Why your child should file a tax return

If your child is a student with earned income in 2024 less than the basic personal amount of \$15,705, they’re not legally required to file a tax return – but they can benefit when they do.¹

Potential tax refund. If the employer deducted tax from your child’s pay, your child may be eligible to receive a tax refund.

Tuition tax credit. Post-secondary students can claim tuition costs using the tuition tax credit to reduce their tax bill. If they don’t need the tax reduction now, they can carry it forward to any future year – or they can transfer the credit to a parent, grandparent or spouse.



GST/HST credit. Canadian residents must file a tax return to be eligible for the GST/HST tax credit. Your child can begin receiving quarterly payments when they turn 19, even if they have no income.

RRSP contribution room. Your child can start building Registered Retirement Savings Plan (RRSP) contribution room at any age, as long as they have earned income *and* file a tax return. ◀

¹ An exception is that Canadians age 18 or over must file a tax return if they have net self-employment income of more than \$3,500.

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