October 2022 Financial Planning Email Update

In September 2022, Amanda attended the Canadian Institute of Financial Planners Conference which included many informative and educational presentations.

Mackenzie Investments was represented by the Multi-Asset Strategy Team who presented their “Orange Book”, which is their 10 year investment outlook based on detailed research.

Over the next 10 years, they expect average returns on most asset classes to be lower than realized returns in recent decades. The next 10 year returns for Canadian Equities is expected to be 6.6%, U.S. Equities to be 6.5%, and Canadian Government Bonds to be 2.0%. They are very concerned with the overvaluation of the U.S. dollar and expect it to weaken against other major currencies in the next 10 years. U.S. equities appear overvalued relative to the other major markets following over a decade of outperformance driven by expanding profit margins and dwindling interest rates that flattened the value of future expected earnings of large technology and other “growth” sectors.

Realized returns in the last 20 years were exceptional for fixed income as the steady decline in inflation and interest rates bolstered nominal bonds. Expected returns going forward are lower compared to past decades.

Downward pressures remain on long-term government bonds including the aging of the global population, sluggish productivity growth and inequality. An expected moderation in inflationary pressures should also keep long-term interest rates subdued in the next 5 years.

Peter Bowen, CPA, CA the Vice-President of Tax and Retirement Research at Fidelity Investments Canada presented five key risks to retirement income planning.
They are:

1. Inflation will reduce purchasing power and negatively impact the standard of living,
2. Healthcare costs will deplete retirement savings,
3. The type of investments held will not provide enough income to meet financial needs throughout retirement,
4. Individuals will need to withdraw more of their savings early in retirement, and
5. People will outlive the money they have saved for retirement.

The average age of retirement has increased from age 60.9 in 2000 to age 64.4 today, with men retiring later than women and the rising cost of living being mentioned as the main reason. 60% of pre-retirees plan to continue working to some degree in retirement which is know as ‘hybrid work’.

Anthony Williams, the President of the Canadian Institute of Financial Planners, highlighted that the factors contributing to global run-away inflation include government policies in response to the pandemic, price pressures due to scarcity and supply chain issues. Anthony noted that the Bank of Canada, to date, has been the most aggressive at raising interest rates. The Bank of Canada aims to keep inflation at a level that is low, stable, and predictable. This means maintaining an inflation-control target of between 1.0% and 3.0%.

‘Tax Strategies for Retirement Income’ was presented by Frank Di Pietro, Assistant Vice-President of Mackenzie Investments Tax and Estate Planning Group. Three key strategy decisions in retirement were discussed: when to draw on Canada Pension Plan (CPP) and Old Age Security (OAS) benefits, income splitting in retirement, and the optimal order of the withdrawal of different asset types.

With reference to CPP, the primary consideration is life expectancy (ie. If shorter, take CPP earlier; if longer, draw CPP later). If you start to drawing CPP at age 60, the breakeven point is at age 74; if the pension is consumed. If CPP benefits are started at age 60 and invested at 4%, the breakeven age is 77.5. Both verses starting CPP benefits at age 65.

Other factors to consider are cash-flow needs, impact on other benefits, disability impact, and current versus future tax rates. Income splitting strategies discussed included CPP pension sharing, pension splitting, spousal RRSP's, TFSA's, and prescribed rate loans to spouse or family trusts.

Oscar Belaiche, Senior Vice-President and Co-Head of the Dynamic Equity Income Team, is focussing on the four M's: maximizing cash flow, minimizing taxes, minimizing the impact of declines, and maximizing purchasing power. With a current environment of reduced corporate earnings, inflationary pressure, interest rates rising, bond yields rising, and stagflation moving to recession, Oscar is applying his 'tried and true' principles of investing including choosing quality businesses with strong balance sheets, sustainable yields, free cash flow and growth potential.

It has recently been brought to my attention that 57% of Canadian adults do not have a will. A will is very important in estate planning. If you do not have a will, we can assist you in seeking the required legal advice.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling us at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,
Gary

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