PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Winter 2020 - 1st Edition

Important Dates & Figures

2019 tax year's RRSP contribution deadline: March 2, 2020

Maximum RRSP limit for 2020: 18% of earned income up to a maximum of $27,230

TFSA limit for 2020: $6,000

Cumulative TFSA limit: $69,500 for resident taxpayers age 18 and older in 2009

Maximum RESP contribution: Unlimited annual up to lifetime maximum of $50,000 per beneficiary

Annual RESP contribution for maximum Canada Education Savings Grant: 20% of first $2,500 per beneficiary ($500 grant) plus 20% of next $2,500 per beneficiary if carryforward room is available (additional $500 grant). Maximum annual CESG = $1,000/year per beneficiary

Pedro and Nik's Tips and Tricks

- **Nik:** To protect yourself, when signing any important documents this year, ensure that you date the document with the full year "2020". This will prevent the document from having the date altered. This is especially important if you are writing cheques whereby the cheques do not already start with the digits 20 and instead require you to enter in the full year.
- **Pedro:** It is imperative that you wait to file your tax return until you have received all of your applicable tax slips (T3, T5008, etc.) as some of these are not generated until the end of March. Please feel free to check in with me to confirm that everything has been generated to avoid having to file any amendments.

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Baby Boomers Are Not Wired For Reality

– Darren Coleman

Baby Boomers who were born between 1946 and 1952 now retire at the rate of over 10,000 per day in North America, and we will reach the peak of the Baby Boom retirement around 2028. No surprise then that in Canada today, there are more people over age 65 than under 15.

But many Boomers haven't saved enough for retirement due to inadequate savings, on-and-off employment, and poor investment decisions. And some who will retire comfortably will have difficulty staying that way. Here are two reasons for that.

First, they are retiring with better fitness and more advanced healthcare options which means a longer life expectancy than any generation before. It also means many will live much longer than they or their savings expected.

Second, interest rates are lower than they have ever seen in the Boomers' lives. This reduced rate of return on investments will make it harder for them to keep their income ahead of expenses.

Wrong Information

Something else is at play here, too. Boomers are programmed with the wrong information to help them face such challenges, and they need to change this programming to enjoy life's third act in the style they desire.

To understand what I mean, consider how their 'software' about money, risk, and investing was installed. It was done by their parents

As a father I know that one of my primary roles is to teach my children lessons that will keep them safe and help them thrive. However, if you're a Boomer, consider when your parents were born. Let's assume it was the 1920s or 1930s. They grew up during the Great Depression when the world went from optimism after the end of World War I to economic strife and global immigration. It was a time when many countries around the world were in the grips of violent extremism and mass poverty. Millions fled their homelands to start a new life or struggled in place to raise their families and muddle through.

As Boomers became teenagers and young adults, the world plunged into darkness again with World War II. There is a reason that the Boomers' parents are called the Greatest Generation; they literally saved the world.

Now, consider when their parents were born; likely around the 1890s. What was their world like? North America was gripped by its first great economic downturn just as they were born. There was poverty, mass immigration, and conflicts leading to World War I.

Lessons About Risk

So, what lessons about money and risk did your grandparents teach to your parents? From Boomer's parents' experience, risk was losing not only your job but your home and even your family. It may have been fleeing everything to go to a new country with just the clothes on your back. Risk wasn't fluctuation; it was tanks rolling down the streets. Risk then was catastrophic. As a result, they taught their children lessons to prepare for such risks. And then their children lived with these risks in their adulthood.

Now, what lessons would your grandparents teach their children about money, risk, and safety? Not surprisingly, it was protecting capital at all costs because risk means losing everything.

This is why capital preservation is the primary goal of retirement portfolios of Baby Boomers as they enter a three-decade-long retirement. But this view does not align with their own life experience.

Boomers born or raised in North America did not live through doom and loss but massive economic growth driven by technological and social change. Have there been conflicts and economic disruption? Of course. But the world still charged ahead.

I routinely ask Boomer clients how much their first job paid. It may have been the price of a movie ticket when they were a kid. I also ask them what they paid for their first car and first house, and they always say how small those figures seem today.

Indeed, their parents bought their childhood home in the 1940s for about $3,000. In 1970, a home in Toronto, ON, cost $30,000, the average car cost under $4,000, and gas was 30 cents a gallon. By 1985, that house cost $110,000 and the car cost $15,000. In 2015, the average house in Canada cost about $550,000 and the average family car $30,000.

What is the result of this? To the Baby Boomer, the economic lesson of their life is all about inflation and the loss of purchasing power. However, instead of trying to protect a dollar as their parents taught them, they should be focused on protecting what a dollar actually buys. But they don't and the investment industry certainly doesn't teach them about it.

In fact, all of our account applications and surveys still express risk as loss of capital. Prospective clients are given 'Risk Tolerance Questionnaires' to see how they will react to various levels of portfolio volatility. The underlying assumption is that as one gets older, they can take less 'risk' and again this 'risk' is defined as loss of their original investment.

One Dollar Must Become Three

But at no time is the investor educated about the ramifications of rising expenses over a 30-year retirement which is what people should be planning for today. Bottom line? One dollar must become three dollars just to maintain the same spending power you enjoyed before.

This must be the heart of any reasonable retirement income plan. If your plan does not have as its central tenet a way to triple your income in retirement, you really have no plan at all. Here are some numbers to help share light on a potential solution.

The average Boomer retiring this year is age 62 and was born in 1957. Since that time, inflation has increased nine times. Over that same time frame the S&P 500, a benchmark of the largest companies in the United States, has seen its dividend income rise by 32 times. And the underlying value of the companies has increased by 75 times.

It is said that those who don't know history are doomed to repeat it. Boomers who have saved inadequately and now intend to invest in bonds to protect capital are destined to experience the economic doom and gloom their parents warned them about. Only those who have learned the lessons and paid attention to the world around them will ignore the siren call of 'safety' and 'guarantees' and realize that true safety comes from those very investments (i.e., stocks) which their parents once feared.

Stay tuned to our upcoming spring newsletter for part two!

This article originally appeared in the Private Wealth Canada website, February 3, 2020

Mind The Gap! These Gaps In Your Retirement Plan Will Surprise You.

"Mind the gap!" The voice calls out again, "mind the gap!" The warning is broadcast thousands of times each day on London's 'Tube,' the city's public transportation system. Since its introduction over 50 years ago, "Mind the gap!" has become a branded slogan for British tourism, as well as a distinctly familiar phrase that signifies bringing attention to a problem that may be overlooked in the rush of everyday life.

Much like the hurried, and typically distracted, commuters using the London Tube, most of us moving fast and head-first into older age need to mind the ever-widening gaps in planning a secure retirement. Most of us give little thought to the uncertainty that our future selves will navigate during this period of our lives. We assume that just staying the course of saving a little each year, combined with income from publicly funded sources, with perhaps a little help from an employer retirement plan will take care of those years ahead — just as it did for our parents and grandparents.

Unfortunately for many who hold these assumptions, there will be surprises ahead: This is not your parent's retirement. Here are three surprising gaps that you might not be minding in your retirement plan.

First, retirement is likely to be far longer than you think. It's unlikely to be the vision of a brief period of earned recreation and relaxation imprinted in our imaginations by media and financial product guides. Retirement, given today's life expectancy, is a full one-third of your adult life—8,000 days. That's the same amount of time it took for you to complete your formal education in your teen years, or the same stretch from the end of your college days up to what some call the midlife crisis. Hmmm… My bet is you faced a few surprises in those decades. Why then, would there be stable, predictable waters over the same number of years in older age?

Retirement planning poses questions about future goals and objectives. Responses typically include nebulous goals such as plans "to travel, to volunteer, to spend time with family, and to get to all those hobbies that were postponed for decades."

All those activities sound good — for maybe a year. But, how will you fill 20-plus years? Mind the gap!—the gap between imagining and planning retirement as a vacation instead of an entirely new life stage. Other than work and raising children, how many pursuits in your younger years lasted for decades? Brochure images of beaches, golf, gardening, cooking, bike riding...will those activities alone happily fill your days for decades?

Second, you are going to live longer than you planned. This is great news! In fact, retirees today are reported to have gained a full four more years of life in retirement since 1980. The problem is your employer's pension plan, your savings plan, and even the public and private insurers you may be depending upon did not plan on your good fortune.

Ironic, isn't it. Living longer, a longevity dividend of sorts, is the gap that most people fear —outliving the savings necessary to support quality living. Or worse, becoming a financial burden to your adult children.

Unfortunately, there appears to be good reason to be worried. A recent study conducted by McKinsey shows that pension systems in 22 countries are unlikely to provide the retirement income necessary "to replace average earnings." In fact, in both Canada and the United States, the gap between life expectancy and the security of receiving mandatory pension payments to replace average earnings in retirement is nearly a decade. Mind the gap!

Financial industry-led initiatives such as the Alliance for Lifetime Income have been leading the charge to put the need for a diversity of income sources in retirement on the planning agenda of individuals and families. Regardless of the products and strategies that may provide these income streams, the need for lifetime income is critical to mind the ever-widening lifespan/wealthspan gap.

Third and finally, few plan on social gaps in retirement. Social connection, and being engaged with others, was easily achieved at a younger age by simply going to work each day, belonging to community groups, and participating in activities that typically revolved around the lives of our children. Mind the gap!

Out of the workplace and with the children having moved on, staving off the now chronic condition of social isolation requires reaching out and establishing new sources of connection. Donato Tramuto, CEO of Tivity Health, which operates Silver Sneakers, an exercise and social engagement program available to nearly 15 million older Americans, noted "the health effects of social isolation are a public health crisis. It increases the risk of premature death by almost 30%, making it more harmful than obesity or physical inactivity."

AARP reports that one in three adults over the age of 50 lack regular companionship. Despite what appears to be an ever-growing, and global, problem of social isolation, few people consider how they will remain connected in their advanced years as part of their retirement plan.

'Mind the gap' may be a fun expression plastered on London souvenir T-shirts and mugs, but who is alerting us to the new gaps in retirement planning? While we go through our daily lives, chins up, with the idea that our retirement will be similar to our parents, but maybe just a little longer, we may unknowingly fall into the growing gap between what we think retirement will be, and what tomorrow's retirement actually demands.

This article originally appeared on forbes.com website, Feb 16, 2020

Client's Corner

The One Way to Be Sure to Catch All of a Major Market Advance

AS I WRITE, ON THE EVENING OF MONDAY, JANUARY 13, 2020, the Standard & Poor's 500-Stock Index has just closed at 3,288. (It will be higher or lower by the time you read this, and that will be entirely irrelevant to the point of this little essay.)

On Christmas Eve 2018, it closed at 2,351. Thus, in 13 months less 11 days, it's gone up 40%.

But of course, that's not the whole story. You see, in these 13 months, the companies in the Index paid cash dividends equivalent to about 2% of its value. Thus, the total return of the S&P 500 has actually been closer to 42%. The question then becomes: ***what did one have to do to be sure of earning that 42%?***

The obvious (and too narrow) answer is: you had to own a security that essentially replicates the S&P 500—say, an index fund. This leads to an even larger realization; indeed, one might almost call it an epiphany. To wit: ***you needed to own it when the market closed on Christmas Eve 2018.***

That's because the equity market rocketed upward right from the opening bell the day after Christmas. So if you weren't already strapped in when that rocket blasted off, you missed some (possibly significant) part of the return. (Not to belabor this point, but the first 5% of the 40% advance took place that one day: December 26. You can look it up.)

Ah, but that raises the essential question, which is: **after a sudden, savage, 95-day, 19.8% decline,** ***were you, in fact, still in your seat and strapped in when they mercifully rang the closing bell on December 24th—the worst Christmas Eve in market history?***

Well, you were or you weren't. Either way, I think you can clearly see where this is going, but allow me to spell it out. ***For all practical purposes, the only way you could have been sure of capturing the whole advance was to have sat through the whole decline.*** Indeed, ***the advance may properly be regarded as your reward for enduring the decline.***

Like all the market declines that preceded it, the September 20–December 24 drawdown in 2018 proved temporary; as I write, the much larger advance is ongoing. This is not to be taken as an implied prediction, but as a simple statement of fact.

In fairness, let us consider an alternative hypothesis: that it may be possible for the investor, over long periods of time, to be in the market for much or most of a major market advance, while being out for much or most a major decline. In other words, that one might with some consistency gain a timing advantage over the market's long-term return.

After a sudden, savage, 95-day, 19.8% decline, *were you, in fact, still in your seat and strapped in when they mercifully rang the closing bell on December 24th—the worst Christmas Eve in market history?*

Permit me to doubt that this has ever been your personal experience, or that of anyone of whom you know. (You didn't ask, but I assure you that I've never been able to do it, nor has anyone I know of.) I would like to go a step further and suggest that it can't be done, but I wouldn't know how to go about proving that to you. So I'll stop at expressing my belief that it can't, and invite you to ask your financial advisor—the one who sent you this essay—whether he or she agrees.

I'm pretty sure I know what your advisor will say.

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