PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

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Tips, Tricks & Reminders

- **Pedro**
  Did you know? If you're *self-employed* and your home office qualifies for the tax deduction, you can claim a portion of your household expenses. As an example, if your home office takes up 10% of the square footage of your home, you can claim 10% of your property tax, mortgage interest, insurance and utilities!

  For *eligible employees*, you can claim a deduction of up to $400!

  With many of us working from home for the majority of the 2020 tax year, it's important to consult your tax professional to ensure you're maximizing your deductions.

- **Nik**
  Reminders:
  1) 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 myself, Pedro or Katie to confirm that everything has been generated to avoid having to file any amendments.

  2) A final reminder that The Canada Emergency Response Benefit (CERB) payments are fully taxable. If you have any questions regarding your filing, please don't hesitate to contact our team as we can put you in touch with the right tax professional if you don't already have one.

Prioritizing your long term health care plan

By Andrea Thompson, CFP (CAN), CRPC (U.S.), CLU, CHS, CDFA

COVID-19 has put a lens on certain health care considerations that may not have been brought to light without the global pandemic. Many of our clients have reached out to us, adamant about remaining at home in the later stages of life, rather than residing in a long term care facility or a retirement home. Certainly, the appetite for group living has been reduced given the challenges that the pandemic has brought forth.

We have noticed over the years that clients who are nearing or just at retirement cannot envision how to plan for the latter stages of life. Research shows that someone cannot conceivably see more than 10 years down the road, let alone potentially 20-30 years. When someone sees a family member go through their own challenges, then they can better appreciate why proper planning is required for end of life care.

Also, personality has a lot to do with the type of planning you may choose for your own end of life care. Are you a proactive person, who would like to ensure the proper measures are in place today (even though you may still be young and healthy!), or a reactive person, who prefers to deal with things as they arise?

We have put together a list of proactive measures to begin thinking about your own health care planning for later in life. We are happy to discuss this with you in more detail to begin to formulate your personal health care plan.

Proactive Measures

- Researching care options in your community; cost and availability
  - Public housing for low to moderate income adults
  - Assisted living homes
  - Continuing Care Retirement Communities
- Discussing with family members or close friends about their involvement with your future care
- Engaging with health care planners, such as Silver Sherpa, for health planning and crisis management
- Exploring long term care insurance options and insurability

- Reviewing existing private health insurance and what options are available for at-home care
- Setting up a home equity line of credit to be accessed in lieu of a reverse mortgage if future access to funds is required
- Setting up a living will and power of attorney for property and personal care

Avoid these three common Power of Attorney mistakes

Over years of experience with a wide range of clients and families, we have observed three common Power of Attorney (POA) mistakes that clients make. These three mistakes can result in unnecessary confusion and expenses, as well as unfortunate family squabbles.

Mistake #1:

Getting a 'Bank' Power of Attorney or a Joint Account

The first mistake that many clients make in their POA planning is listening to their local bank branch representative. Often, a local bank representative will suggest that clients use a 'Bank' Power of Attorney or a Joint Account when the Power of Attorney discussion is raised at a bank. A bank POA, or conversely a Joint Account, is often the incorrect tool to use, and here's why:

1. Most clients expect the POA to be effective if they lose capacity; however, many bank POAs are not effective in the event of incapacity. "What?" you say, yes, that's right.
2. The Bank POA will only deal with Bank assets. In that sense, it is an incomplete Power of Attorney. Assets outside the bank will not be covered.
3. Another tool often recommended by banks is the Joint Account. Joint Accounts are powerful, often too powerful.

Joint Accounts can easily dilute a good estate plan or good family relationships. Just ask two sisters, one who lives in the same city as Mom and has helped her out for the last ten years, and the other who lives out of town. Did Mom intend for the Joint Account's proceeds to flow by right of survivorship to the in-town sister, or are the Joint Account proceeds meant to form part of Mom's estate? Often, a Joint Account muddies the waters and contributes to family troubles.

Be aware that, from a pure efficiency perspective, banks like their own POA documents, or Joint Accounts, because they are easy; no one in the bank has to review and approve that pesky POA document prepared by an outside lawyer.

Mistake #2: Choosing the Wrong Attorney

The second common POA mistake that clients make is picking the wrong (POA) Attorney.

Clients should appoint a (POA) Attorney that:

1. They trust absolutely.

2. Has the required skill.
3. Is interested in the job, not just the “power.”
4. Understands what it means to be a “Fiduciary.”

If the (POA) Attorney does not have the above attributes, think about utilizing someone who does, or perhaps a Trust company.

Think carefully before appointing a (POA) Attorney who has a conflict of interest and who does not understand what a ‘fiduciary duty’ is. To help you think about ‘conflict of interest,’ consider the following scenario:

Imagine that your eldest son is your (POA) Attorney, and now is the time for you to receive greater care. Your son must now decide from the following three alternatives:

1. Approving in-home care services that will likely deplete 70% of your net worth (his estate) over your lifetime, or
2. Authorizing the high fees for very comfortable retirement care at home, which will likely deplete 50% of your net worth (his estate), or
3. Moving you into the local retirement home that has recently recovered from a COVID breakout, which will likely deplete your net worth (his estate) by only 20%.

Which alternative will the son, who has a conflict of interest, choose? I often see choices being made that include the (POA)'s interest rather than what is best for the parent.

One alternative in the above situation would be to appoint an independent Power of Attorney who has no interest in the estate size. Another alternative is to name an Enduring Power of Attorney who does have a conflict of interest but clearly understands that their Fiduciary duty is to look after you, regardless of the impact on your estate.

Mistake #3: Using a “trigger” in the Power of Attorney

About 90% of the Enduring Power of Attorneys that we see in our practice include an embedded “trigger.” A “trigger” is something that must occur before the Enduring Power of Attorney becomes effective. A common example is a clause that requires two doctors to sign off on a person’s incompetence.

In our view, using a “trigger” event is often a mistake when viewed in the context of a traditional long-term couple relationship. Why, in most cases, would you want your loving spouse to have you declared incompetent before they could help with your finances?

Contrast the following two scenarios. In both scenarios, a 68-year-old male has a debilitating stroke, leaving his wife of 45 years to look after the finances.

Scenario 1

In the first scenario, the couple created POA documents several years ago, appointing each other as (EPA) Attorney immediately, with no requirement to have the donor declared incompetent before acting. After completion, the POA documents were distributed to various financial institutions, brokers, banks, the CRA and other financial entities to enable the institutions to learn of the POA and to act on the spouse’s direction. Next, the spouses required the various institutions to complete a transaction based on the instructions of the Attorney named in the POA. The institutions pushed back, but the spouse insisted, forcing the financial institutions to recognize the POA. This process took about a year to complete.

When the spouse had a stroke, the surviving spouse seamlessly assumed responsibility for managing the various financial assets.

Scenario 2

Now compare this to the second scenario where a spouse could not do any of the work noted above in advance because the POA required a medical determination of incompetence before acting. This is not a great situation. After the spouse had a stroke, the remaining healthy spouse is now forced to go through the same (often year-long) frustrating, institutional run-a-round while coping with the stress of caring for a partner who just had a stroke.

Don't let a Joint Account lull you into a state of complacency. A Joint Bank Account can work when one party is incapacitated; however, just try selling a home that is in Joint Tenancy when one of the Joint Tenants has had a stroke… a court order will likely be required.

Conclusion

So, if you are in a situation where you are creating a Power of Attorney, avoid these three mistakes. Don't listen to your bank about getting a Bank POA or Joint Account. When a proper Enduring Power of Attorney is required, find a good Attorney (this is not your lawyer, this is who you appoint to act for you) who you trust and who understands what it means to be a "Fiduciary." Lastly, in a long-standing, trusting relationship, consider appointing a spouse as an Enduring Power of Attorney ***without a trigger*** so that the couple can ease the burden for each other if the unthinkable happens.

Client's Corner

A Tale of Five Decades

ONE OF THE GREATEST ADVANTAGES THE individual investor can possess—and the one least available from the 24-hour financial "news" cycle—is long-term perspective. As President Harry Truman said, "The only thing new in the world is the history you do not know." In many important respects, the history of the last five decades is one of tremendous progress in the well-being of the world's population, the performance of our financial markets, and the affluence of the average American household. Herewith, some selected highlights.

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1970

Construction tops out and the first tenants move into One World Trade Center (the "North Tower") in New York City. At that moment, it is the tallest building in the world; it will cease to exist 31 years later. The first Earth Day is observed. The United States and its South Vietnamese allies invade Cambodia; National Guard troops fire on an anti-war demonstration at Kent State University in Ohio, killing four students and wounding nine. Paul McCartney announces that he is leaving the Beatles. Jimi Hendrix and Janis Joplin both die at age 27. An explosion aboard the *Apollo 13* spacecraft on its way to the moon imperils the lives of three astronauts; four days later—in a triumph of grit, ingenuity and sheer piloting skill—they return safely to Earth.

- Global population: 3.71 billion, ***fully half of whom live in extreme poverty, as defined.***
- U.S. population: 203 million
- U.S. real GDP per capita: $23,944

- S&P 500 year-end close: 92.15
- Earnings: $5.51
- Dividend: $3.91

1980

In the "Miracle on Ice," the U.S. Olympic hockey team defeats the Soviet Union 4–3; they will go on to win the gold medal. An attempt by the Hunt brothers to corner the market in silver implodes. Mount St. Helens erupts. The Pac-Man video game debuts, and CNN begins broadcasting. In Poland, the trade union Solidarity is established; it is the beginning of the end of the Soviet Union. Iraq invades Iran, starting a war that will end in stalemate eight years later. In a landslide, Ronald Reagan is elected the 40th president of the United States. John Lennon is shot to death outside his home in New York City.

- Global population: 4.45 billion
- U.S. population: 226.5 million
- U.S. real GDP per capita: $29,863

- S&P 500 year-end close: 135.76
- Earnings: $14.91
- Dividend: $6.44

1990

Nelson Mandela is released from prison after 27 years. The government of Margaret Thatcher—longest serving U.K. prime minister of the 20th century—falls. The Hubble Space Telescope is launched. East and West Germany merge; Checkpoint Charlie is dismantled in Berlin. Iraq invades Kuwait, which will lead to the first Gulf War early in 1991. Mikhail Gorbachev is awarded the Nobel Peace Prize. Tim Berners-Lee publishes a formal proposal for the World Wide Web. Channel Tunnel sections started from the U.K. and France meet beneath the seabed of the English Channel. Jim Henson, creator of the Muppets, dies.

- Global population: 5.3 billion
- U.S. population: 248.7 million
- U.S. real GDP per capita: $37,103

- S&P 500 year-end close: 330.22
- Earnings: $22.65
- Dividend: $12.09

2000

In the first hours of the new year, it becomes clear that the world hasn't ended: the Y2K "crisis" has passed. On January 10, AOL announces the acquisition of old media giant Time Warner, signaling the end of the dot.com bubble. The NASDAQ Composite Index tops out on March 10th; it will subsequently decline nearly 80%. The S&P 500's peak follows on March 24th at 1,552.87, a level it will not reach again for seven and a half years. Vladimir Putin is inaugurated as president of Russia, a position he continues to hold. Charles Schulz dies, having drawn the "Peanuts" comic strip for 50 years. George W. Bush narrowly defeats

Vice President Al Gore for the presidency, in an election that is ultimately resolved in a Supreme Court decision.

- Global population: 6.1 billion
- U.S. population: 281.4 million
- U.S. real GDP per capita: $46,785

- S&P 500 year-end close: 1,320.28
- Earnings: $56.13
- Dividend: $16.07

2010

A catastrophic earthquake in Haiti kills over 300,000 people and destroys the capital, Port-au-Prince; President Obama recruits former presidents George H. W. Bush and Bill Clinton to lead the American relief effort. The "flash crash" briefly erases a trillion dollars of market value on the New York Stock Exchange; it is over in 36 minutes. The last U.S. combat troops are withdrawn from Iraq. An oil well being drilled offshore in the Gulf of Mexico by the *Deepwater Horizon* blows out, causing the rig to explode in a fireball visible 40 miles away, and leading to the largest marine oil spill in history. The first Chevrolet Volt plug-in hybrid electric vehicle rolls off the assembly line.

- Global population: 6.9 billion
- U.S. population: 307.7 million
- U.S. real GDP per capita: $50,751

- S&P 500 year-end close: 1,257.64
- Earnings: $83.77
- Dividend: $22.65

2020

A novel coronavirus sets off a global public health crisis on a scale unseen since the 1918 flu event. Lockdowns aimed at stemming the spread of the virus also cause a savage and all but instantaneous recession; unemployment soars. The S&P 500 declines 34% in 33 days, its fastest such decline ever. Massive monetary and fiscal intervention reverses the decline, such that the S&P 500 regains its previous peak within six months. The development of vaccines takes place in record time; they are going into broad distribution as the year turns. All three major stock indexes end the year at record levels, as does U.S. total household net worth (estimated by J.P. Morgan Asset Management to exceed $128 trillion).

- Global population: 7.8 billion, ***less than 10% of whom live in extreme poverty, and half of whom are already middle class.***
- U.S. population: 330.8 million
- U.S. real per capita GDP: $56,400

- S&P 500 year-end close: 3,756.07
- Earnings: $136 (estimate), ***depressed by the pandemic from $162 in 2019.***
- Dividend: $58.28 (actual), ***its ninth straight annual record.***

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This, then, is the tale of five decades.

• Global population more than doubled, yet extreme poverty was slashed from one human being in two to one in 10; it continues to decline. Half the world's population are now middle class consumers—the lifeblood of a free and growing global economy.

• U.S. population is up more than 60%, and gaining a new person (through net births and migration) on an average of every 47 seconds. And still with almost unimaginable room to grow: population density per square mile is 87, compared with more than 300 in France, 600 in Germany, 700 in the UK, and 850 in Japan.

• In 1970 the U.S. was running out of oil, and increasingly dependent on imports from OPEC. In 2020 we were once again the world's largest oil producer, with an abundance of cheap natural gas that is drawing global manufacturing back to our country. And as relatively clean-burning natural gas replaces coal in our electric utilities, U.S. greenhouse gas emissions continue to decline.

• Real—that is, ***inflation-adjusted***—GDP per person rose 135% in this half century. What mature, fully developed economy has ever done that?

• The S&P 500 rose 40 times, propelled by an earnings increase (to pre-pandemic levels) of 30 times, and a dividend boost of 15 times. (This despite the three deepest bear markets since the 1929–32 event.) ***Yet the Consumer Price Index rose barely seven times.*** Given that about half of all Americans own stocks in some form, is it too much to think that this may have been the largest accretion of real wealth ***by the most people*** in the history of the world?

But perhaps the most dramatic example of the world's progress in these five decades is also among the simplest. To wit: the smartphone in a middle school child's backpack this morning holds more computing power than did *Apollo 13*'s onboard computer that night in 1970 when the ship exploded. Should the student wish to research any given topic, her device can access all the available information in the world—for free. And if some of that information happens to be in a foreign language, the smartphone will translate it for her.

This capability was not just unavailable in 1970. ***It was inconceivable.***

Sources: World and U.S. population growth: U.S. Census Bureau, United Nations. U.S. real GDP per capita: Bureau of Economic Analysis, U.S. Census Bureau. Percentage of world population in extreme poverty: World Bank "Poverty Headcount Ratio." S&P 500: "S&P Earnings History," NYU Stern School of Business. U.S. total household net worth: J.P. Morgan Asset Management, "Guide to the Markets." Percentage of world population in the middle class: Brookings Institution, "A Global Tipping Point," 2018. Consumer Price Index: Bureau of Labor Statistics. Population densities: Wikipedia. Percentage of Americans owning stock: Gallup poll taken annually 2010–2020. U.S. greenhouse gas emissions: U.S. Energy Information Agency.

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