PLANNING MATTERS

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Introducing Ryan Connolly

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January 4th, 2022, 6:31 A.M. PST, a notification pops up on my phone: "Please give me a call" Wasting no time in starting the New Year, literally work day one and I'm still asleep, Darren wants me to come back to Raymond James.

My job at the time was working with business owners to solve corporate and estate planning issues. The previous five years, I worked for the financial planning department at Raymond James, helping advisors with financial planning inquiries nationwide. Vikki and I were on the same team…..until Darren kidnapped her.

Dealing with so many different advisors and clients across Canada was challenging, but it forced me to learn as much as possible and to learn it quickly. For example, I was part of the initiative to bring financial planning services to U.S. resident clients. This led me to obtain the Chartered Retirement Planning Counselor (CRPC) designation.

However, the missing ingredient was ensuring the strategies or recommendations were being implemented. Previously, the implementation was out of my control as soon as I hit send. Joining an advisory team means implementation happens, because everyone works collectively from start to finish. Building rapport with all of you and seeing things through to the end is what I am most looking forward to.

A little about me personally, I've lived in Vancouver my entire life with no current plans to leave B.C. There are three animals running around in the background that may or may not make their way into zoom meetings. Violet, a female Labrador x Bernese Mountain Dog, and two male Ragdoll cats, Ham and Walter. No children (yet, as I'm reminded daily) and my partner is a nurse at a hospital across town.

I try to get out and golf on a weekly basis even though my scores do not reflect my dedication ☹ and put my "washed-up" baseball talents to use on the slow-pitch diamond. Sadly, I am not an avid hiker like every Vancouverite will have you believe they are, but I do enjoy being outside in the sun on a nice patio or at a lake in the summer.

Ask Sixty Five, featuring Darren Coleman

Question: Can the executor of one's estate live outside of Canada? If so, are there implications involved in this choice? The executor is also the prime beneficiary. Thanks in advance.

We asked Darren Coleman, a senior vice-president and portfolio manager at Raymond James Ltd. to answer this one:

Your choice of an executor must be a well-considered one. Along with your executor being trustworthy, responsible and willing, it's also a very good idea that they are also a Canadian resident. While nothing prevents you from selecting a non-resident executor, there are a number of significant issues that make an out-of-country executor a problematic idea.

First, an out-of-country executor, indeed even an out-of-province executor, may be required to post a surety bond in order for the Court to grant probate of the estate (in Ontario, the executor applies for a "Certificate of appointment of estate trustee with a will"). A foreign executor bond can be expensive and inconvenient for your executor to deal with, and the costs are borne by your estate.

Second, the tax residency of the estate is determined based on where the control and management decisions are being made. If the executor is a U.S. resident, then, even if the deceased was a Canadian resident, the estate for tax purposes can be deemed a resident of the U.S. and can be subject to additional filing requirements or lose preferential tax treatments. For example, the estate could lose the preferred tax treatment of capital gains and dividends that apply to Canadian estates. The estate will also be required to file U.S. tax returns and could face double taxation in certain situations.

Third, Canadian financial institutions, particularly investment firms, are unwilling and in some cases unable to take instructions from a non-resident, including your executor. The principal compliance rule is that financial institutions and advisers must be licensed and registered where the client is domiciled. Note this is about residency, not citizenship. Even if your executor is a Canadian citizen, but resides in, say New York or California, your Canadian investment firm will not take any instructions from them. (This is also true in reverse, so if you've been appointed as the executor on a U.S. estate, you'll face the same challenges down there.)

Fourth, the practical matters of attending to an estate are difficult to do from a distance. Managing property, mail, personal belongings, etc., require a local presence. Also, most estate administration is not readily handled electronically. Personal visits to bank branches, accountants and obtaining "wet" signatures are all part of the executor's functions and must be done in person. If your out-of-country executor cannot enter Canada – as many could not during the pandemic, for example – then they will have to appoint someone in Canada to act on their behalf. This again adds cost, delay and inconvenience to the handling of your estate.

The best solution for someone in this situation is to consider appointing a corporate trustee, such as a trust company, to act as their executor. The corporate trustee will be a Canadian resident; moreover, their expertise in handling complicated estates can provide tremendous peace of mind to the family. And, in this situation where the primary beneficiary is a non-resident of Canada, they may be able to identify additional tax and estate planning solutions that would further ease estate administration and avoid problems later.

Finally, it is very prudent to obtain advice from a qualified, experienced professional who can assess your unique situation and provide you with the most appropriate solutions.

Client’s Corner

What Is the “Conservative Investor” Trying to Conserve?

IF YOU HAVE AN INVESTED NET WORTH OF A MILLION DOLLARS, and 30 years later still have that million dollars, then at long-term trendline inflation of 3%, you’ve lost about 60% of your money.

Wait, what? Didn’t we just observe that you’d preserved your million dollars? Indeed we did, and indeed you have. That is, you’ve successfully maintained the same number of units of the currency you started out with. Unfortunately, you’ve lost 60% of your purchasing power. And in the long run, purchasing power is the only rational definition of “money.”

Let’s turn this around. Assume that, as you step into retirement, your first-year living costs (above and beyond Social Security) are budgeted to be $100,000. At trendline 3% inflation, what will it take in the 30th year of retirement to buy just exactly what $100,000 bought the first year? The answer: about $240,000. If your income—or simply your ability to withdraw—from your investments doesn’t increase by something like the same percentage, you may be going to experience some real hardship.

Historically, fixed-income investments like bonds don’t provide such a rising income. Historically, mainstream equities—let’s use the S&P 500 as our proxy—do.

A high-quality 30-year 6% corporate bond that you might have bought as a new issue around the beginning of 1992 has just now been redeemed—still paying 6%. But during these three decades, the cost of living about doubled. Yes, inflation ran somewhat below average during this period—but it was very far from nonexistent.

On the other hand, the cash dividend of the S&P 500 in 1992 was $12.39. In the year just ended, it was $60.40—up just a bit less than five times. Dividends didn’t merely keep pace with inflation; they beat the living daylights out of it.

(You didn’t ask, but that 30-year bond ended its life where it began—at a principal value of $1,000. The S&P 500 came into 1992 at around 418, and went out of 2021 at 4,766—up just over 11 times. This despite the fact that the Index essentially halved not once but twice in this 30-year period—in 2000-02 and 2007-09.)

This is the time to be sitting down with your financial advisor and thinking about whether your notions of “risky” and “safe” still describe the financial world as it really is.

Between the bondholder and the stockholder—again defining “money” over extended periods of time not as units of the currency but as purchasing power—who was the more “conservative” investor over these three decades? That is, who was more successful at protecting and even enhancing his/her purchasing power?

But wait: it gets worse.

Because as I write the 10-year U.S. Treasury note that was yielding 7.2% in early February 1992 is currently yielding 1.85%. And inflation in 2021 wasn’t its average 3%; it was 7%. Thus, at the risk of piling on, it appears to me that a 30% taxpayer buying what may historically be the most “conservative” investment in the history of mankind is bargaining for a current yield (net of inflation and taxes) of something like minus 5%. A rational long-term investor might think twice about doing this—or anything like it.

This is far more than a matter of semantics. If you’re like the average 10,000 people retiring every day in this country—and contemplating what may prove to be a three-decade two-person retirement—this is the time to be sitting down with your financial advisor and thinking about whether your notions of “risky” and “safe” still describe the financial world as it really is.

Everything proceeds from your definition of money.

Sources: S&P 500 levels and dividends: Standard & Poor’s, NYU Stern School. CPI inflation: U.S. Bureau of Labor Statistics, rateinflation.com. 10-year Treasury yields: macrotrends.net.

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