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2021 Year-Ahead: A Wealth Planning Checklist for Individual Investors

The new year is a great time to review, and potentially reset, personal and financial priorities. Just as we set health and career goals at the start of each year, we should also review our financial and lifestyle ambitions and whether our wealth plan still enables us to achieve them. Have any gaps emerged in your cash flow requirements? Has your risk tolerance changed and does your investment portfolio reflect that change? Are your estate plans up to date and reflective of your wishes?

An updated wealth plan helps individuals prepare for major events and expenses such as buying property, paying for post-secondary education and saving for retirement — or all of the above. Revisiting the plan at least once a year helps to ensure financial needs and goals are on track while taking into consideration any life changes such as a new child or grandchild, a marriage or a divorce. Revisiting the plan also ensures you are taking advantage of current investment management strategies and ever-changing tax rules, which can help to grow and protect your assets.

Below is a financial checklist when revisiting your annual wealth and estate planning needs.

YOUR WEALTH MANAGEMENT CHECKLIST:

1. Review your investment portfolio	5. Review your registered accounts
2. Update your estate planning documents	6. Review income-splitting opportunities
3. Review your retirement goals	7. Consider charitable giving
4. Discuss major expenses	8. Review your insurance needs

CHECK 1: ANNUAL INVESTMENT PORTFOLIO REVIEW

As we get older, and our lives change, so too do our investment goals and the structure of our portfolio. At a basic level, it's better to take on more risk in your portfolio when younger because the underlying investments have more time to recover from market downturns, corrections and more time to benefit from compound growth. As you get closer to retirement, you may wish to focus on capital preservation and put a larger portion of your assets into securities with a more conservative risk profile.

An annual portfolio review will also ensure your asset allocation is in line with your goals and risk tolerance and is optimized for tax efficiency. For instance, someone who has a third of their portfolio in each of Canadian, U.S. and international equities may find that mix is off balance at the start of a new year if one market has outperformed the others. Or, a sector weighting might be higher than desired, such as technology, which has performed very well in 2020, for instance. A portfolio review ensures you have the right mix of assets based on your stage of life and investment goals.

CHECK 2: UPDATE YOUR ESTATE PLANNING DOCUMENTS

Research shows about half of Canadians don't have a will and roughly one-third of those who have one say it's outdated. The new year is a good time to revisit your will and power of attorney (POA) documents (for property and personal care) to ensure they reflect your current wishes for how your assets will be handled if you become incapacitated or pass away. A POA outlines who (your appointed attorney) can manage your affairs if you are unable due to a serious illness or incapacity, while a will ensures your property is distributed to your beneficiaries according to your wishes after your death. Both a will and POAs can help to prevent any miscommunication with family or beneficiaries, which might arise if there's no clarity on how you want your affairs to be managed.

Your will and POA should be reviewed and revised if necessary after major life changes such as buying a home, getting married, a separation or divorce, death of a loved one, change in the residency of a contemplated executor/executrix, trustee or appointed attorney, or a change in employment. During the previous year, your estate may have grown significantly in complexity, which could necessitate appointing a corporate executor, such as a trust company.

In this capacity, a trust company would provide estate administrative services in order to ensure efficiency and continuity in the administration process. Family dynamics, time constraints and geographical challenges could also warrant the use of a professional experienced in the intricacies of estate administration during a highly emotional time for your family. Fees for a corporate executor are typically charged as a percentage of the overall estate value. This is important to note because using the services of a corporate executor will reduce the overall value of the estate assets available for distribution to the beneficiaries.

CHECK 3: REVIEW RETIREMENT GOALS

The new year is also a perfect time to review your retirement goals. Your retirement target date may have changed in the past few months: Maybe you've decided to retire sooner or work longer. By revisiting your retirement goals at the start of each year, you can adjust your portfolio accordingly to account for changing cash flow needs. You can also take advantage of any tax strategies that may be available. For instance, someone working beyond age 65 may choose to defer taking their Canada Pension Plan (CPP) or Old Age Security (OAS) benefits. An annual retirement check-up will help determine the best strategies based on your latest retirement goals.

CHECK 4: DISCUSS MAJOR EXPENSES

A new year can bring planned or unplanned expenses, such as you or a child getting married (or remarried), a move to another city or country or an opportunity to buy an investment property arising. Decisions like these require additional spending beyond your regular cash flow needs. By reviewing these upcoming costs with a wealth management professional, you can determine the most tax-efficient, and financially prudent, strategies to fund any major expenses. For example, to buy a recreational property, you may wish to sell some securities that have outperformed and borrow the rest of the money, particularly given record-low interest rates. To pay for a wedding, you may decide to use a line of credit or draw from your Tax-Free Savings Account (TFSA), instead of pulling the funds from a non-registered investment account. Your advisor can help you determine the best ways to pay for these expenses that are both tax-efficient and maintain your wealth long-term.

CHECK 5: REVIEW REGISTERED ACCOUNTS

Most Canadians contribute to a registered account of some kind such as TFSA, Registered Retirement Saving Plan (RRSP) or Registered Education Savings Plan (RESP). RRSP holders may also convert their accounts to a Registered Retirement Income Fund (RRIF) before the end of the calendar year in which they turn 71 (if not already done in a previous year). By reviewing each of these registered vehicles at the start of the year, as relevant, Canadians can ensure they maximize the potential benefits.

TFSA: By making maximum use of your TFSA contribution room at the start of each year, you can benefit from any potential investment gains throughout the year. The start of the year is also a good time to make any additional contributions you may have room for if you didn’t maximize them in previous years. As many Canadians are aware, the TFSA enables you to earn tax-free investment income, including interest, dividends and capital gains. You can make tax-free withdrawals at any time and any amount you withdraw is added back to your available contribution room on Jan. 1 of the following year. While it’s best to contribute to a TFSA at the start of the year, it’s recommended you make a withdrawal towards year end: This will allow you to recontribute the amount withdrawn in short order when the new year arrives, instead of withdrawing at the start of the year and having to wait almost a full year to recontribute.

RRSP: The new year is also a good time to ensure you’ve contributed enough to your RRSP to receive the tax benefits both now and in the future. For instance, the RRSP deadline is March 1, 2021, to make a contribution for the 2020 tax year, which will help to lower your taxable income. While many Canadians wait until the new year to contribute to their RRSP for the previous year, it can also be a good idea to make contributions in the same year, as early as possible, to benefit from the tax-deferred growth and potentially increase your retirement savings.

RRIF: The new year is also a good time to consider whether to convert your RRSP into a RRIF. Your RRSP will mature at the end of the year you turn 71 and the funds must be transferred to a RRIF (or used to purchase an annuity or withdrawn in full). With a RRIF, there are mandatory withdrawals required by law each year, based on a certain percentage that rises as you get older. Some Canadians choose to convert their RRSP to an RRIF earlier, either to avoid having to take out the set amount each year in their 70s and older, or to take advantage of certain tax strategies. For instance, if you convert some of your RRSP to an RRIF in the year you turn 65, you can take advantage of pension income splitting with your spouse (more on this later) or the pension income tax credit. It's also possible to use your younger spouse's age for the minimum RRIF withdrawal, which would allow you to keep the money growing tax-deferred in the registered account for longer.

RESP: RESPs are highly recommended to help save for a child's or grandchild's post-secondary education, the cost of which continues to increase. The lifetime RESP contribution limit is $50,000 per beneficiary and there is no annual contribution limit. RESP contributions may also be eligible to receive the Canada Education Savings Grant (CESG). Each year, the federally-funded CESG provides a grant of 20% of the RESP contributions made in a year, to a maximum grant of $500 for each beneficiary during the year ($1,000 if there is unused grant room from a previous year), with a lifetime limit of $7,200 in grants per beneficiary. Similar to TFSAs and RRSPs, consider contributing to RESPs earlier in the year to take advantage of tax-deferred growth.

CHECK 6: REVIEW INCOME-SPLITTING OPPORTUNITIES

Income splitting can be an effective tax-planning strategy for people who are married or in common-law relationships in Canada. Income splitting involves the transfer of income from a family member in a high tax bracket to a family member in a lower tax bracket, which often helps to reduce a family's overall tax exposure in a given year.

Couples with varying incomes are prime candidates for income-splitting strategies. The start of the year is an ideal time for families to work with their advisors to plan and execute on income-splitting strategies for the year ahead. Below are some options for Canadians, including business owners, to split income as part of a holistic, tax-advantaged wealth planning process.

Personal income splitting options include spousal loans, spousal RRSPs and pension income splitting, as well as prescribed rate loans to family trusts. A brief summary of each below:

- **Spousal loan:** A spousal loan allows a high-income earning spouse to lend money that they otherwise would have invested in their own name, and had the resulting income taxed in their hands at a higher marginal tax rate, to their lower-income earning spouse to take advantage of their spouse's lower marginal tax rate. To avoid punitive tax results, the loan must bear interest at the Canada Revenue Agency's prescribed interest rate and the interest on the loan must be paid within 30 days of the end of the calendar year. Ideally, the strategy plays out with the lower-income spouse investing the funds to earn a higher rate of return than the prescribed interest rate, with the difference being taxed at their lower marginal tax rate. (Another reason why it's best to review this option at the start of the year so that you can have a full year's worth of income in the lower income spouse's hands). The higher-income earning spouse has to pay tax on the interest income received on the spousal loan. An additional major benefit of the spousal loan is that the prescribed rate in effect at the time the loan is made remains for the life of the loan, which is particularly attractive given the prescribed rate is currently 1%.
- **Prescribed rate loan to a family trust:** Individuals subject to tax at the highest marginal rates can also consider setting up a family income-splitting trust. Similar to the strategy above, this would involve a prescribed rate loan being made to a trust, often with a spouse, children and/or grandchildren as income beneficiaries. The income earned in the trust is then allocated to the beneficiaries and taxed in their hands, which traditionally would be at a significantly lower marginal tax rate. Parents and

grandparents can use this strategy to fund a child or grandchild's expenses, such as private school or post-secondary tuition, on a tax efficient basis.

- **Spousal RRSP:** With a spousal RRSP, the higher-income spouse (often with more RRSP room and in a higher tax bracket) contributes to the spousal RRSP and receives the tax benefit against his or her income. The assets grow on a tax-deferred basis in the spousal RRSP and, provided certain conditions are met, the withdrawals are taxed in the hands of the lower-income spouse. The goal is for couples with varying incomes to save for retirement and split income to reduce taxes.
- **Pension income splitting**: With pension income splitting, a higher-income spouse can elect to transfer on their income tax return up to 50 per cent of their eligible pension income to their lower income-earning spouse, such that the income is subject to tax at their spouse's lower marginal tax rate and access their pension income tax credit. Couples can also split income from their RRIF if they're age 65 or older.

Business owners and income splitting: The rules for income splitting for family members in businesses have tightened in recent years, but there are still ways for individuals to take advantage of tax-efficient strategies. Today, business owners can split income by paying family members a salary or wages that is reasonable in light of their contributions to the company. Dividends can be paid to family members from the corporation, however business owners must be aware of recent tax changes that limit the ability to do so on a tax-efficient basis. The rules can be complicated and business owners are encouraged to discuss strategies with an advisor to ensure they're abiding by the rules as well as maximizing their income-splitting opportunities.

CHECK 7: CONSIDER CHARITABLE GIVING

Making a charitable donation not only feels good, but can also prove to be tax-efficient. While year end is often the most popular time for making charitable donations, year-round, strategic giving can help to build financial stewardship in the next generation, enable you to make an impact while alive or **establish a long-term philanthropic legacy for your family.** A wealth management professional can discuss your goals, desired impact and timing to help you to map out a strategic giving plan that incorporates your core values in a tax-efficient way.

CHECK 8: REVIEW INSURANCE NEEDS

The new year is also a good time to **look at your insurance coverage**, whether you have enough or maybe too much, depending on your stage of life. There are two main categories of insurance to consider as part of wealth planning: Living benefits—including disability, critical illness and long-term care protection—and life insurance, including term and permanent coverage.

Living benefits insurance can be an attractive solution for those who have income and assets they wish to protect. Living benefits provide an income stream and also help to protect the depletion of retirement assets in the event of an unexpected illness, injury or long-term care need.

Life insurance is a fundamental part of a wealth and estate plan that is used to protect assets and provide liquidity. Insurance can protect assets, as it replaces income if a loved one were to die prematurely. It is also a common tool in estate planning to provide liquidity to pay tax liabilities, equalize assets for beneficiaries and/or to fulfil philanthropic wishes strategically.

TALK TO YOUR ADVISOR

The New Year is an ideal time to review these and other wealth management and estate-planning strategies with your advisor. A qualified advisor can determine what strategies are most suitable for you in your current circumstances and help you make adjustments as needed. For more information on the wealth planning process, please contact your Gluskin Sheff Client Wealth Management team representative and set up a meeting with the Gluskin Sheff Wealth Planning team.

Checklist

- ☐ Check 1: Review your investment portfolio
- ☐ Check 2: Update your estate planning documents
- ☐ Check 3: Review your retirement goals
- ☐ Check 4: Discuss major expenses
- ☐ Check 5: Review your registered accounts
- ☐ Check 6: Review income-splitting opportunities
- ☐ Check 7: Consider charitable giving
- ☐ Check 8: Review insurance needs