



John Armstrong CFP®

STERLING
MUTUALS INC.
Independent Financial Network

JA UPDATE

John Armstrong, CFP®

December 2017

Exciting Changes!

On November 1st of this year we embarked on a new era for our office. Prior to that, our location had acted as a Branch Office for many years, both in the Armstrong & Quaile days and more recently with Sterling Mutuals Inc.

As a branch we were responsible for the support and supervision of the more than 20 advisors that operated through our office.

The bulk of the work that this entailed was done by a member of our team, Joe Shumka, with John

Armstrong and Rich Weiler having lesser roles in the work with other advisors.

We recently decided to simplify our operation by no longer functioning as a Branch. This was not an easy decision, as the relationship with many of the advisors we supported went back more than 20 years. These advisors were transitioned to an existing Sterling

Mutuals branch which operates in Cambridge as of November 1st.

Our new status as a Sub-branch means that our only function is servicing our own group of clients. We're very excited that our operation now has greater focus, and our hope is that our clients will be the big beneficiaries of this change.



One of the best things about this reorganization is that Joe Shumka will take on a new and valuable role as a member of our client service team. Joe has many years of experience in the investment industry, and has been an important part of our team for over 15 years. He will be a familiar face to many of our clients, and in future he will be much more actively involved

in our work with them.

The panel of talking heads on the sports broadcast would say that this change will increase our bench strength; or for you baseball fans, it will add depth to our bullpen. Being a qualified advisor himself, Joe will be an additional resource available to our clients. This will also improve our staff coverage

during periods when other members of our team are away from the office.

Of course Sharon Ogilvie continues to be the quarterback of our team (the sports cli-

chés just keep on coming), keeping the rest of us in line. Her time with us is approaching 20 years, and we're very grateful for the talents she provides to our team every day.

We're looking forward to a great 2018 and we hope that you are too!



Thank you very much for your support in 2017!

Merry Christmas

&

Happy New Year!

John Sharon Joe Rich

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Organizing Income Streams

Generally speaking, while a person is working, their income stream is very simple. They have a renewable resource called a paycheque; the income is received on a regular basis, the employer withholds the required amount of tax, and at the end of the year there is a single T4 slip issued. When the income tax return is filed, the T4 slip is reported. The amount of tax withheld by the employer is appropriate, and all other things being equal, the filing results in either a small tax payable or a small tax refund. Simple.

When one transitions to multiple retirement income streams, the situation changes completely. Organizing these income streams can be a very daunting task. Income may come from many different sources. There may be employment related programs such as a pension plan, or a LIRA, which was the result of money being transferred from an employer's pension. There may be an option to draw from individual or spousal RRSP's. At age 60 CPP (Canada Pension Plan) is available. Payments can start then, or they can be deferred. At 65 OAS (Old Age Security) is available, but it can also be deferred. Many people have built up substantial TFSA accounts that can provide income. There may also be other investment income, interest income, and even possibly employment income from a part time job. How will the choice of where to draw income from be made?

The best place to start is understanding the tax implications, and there are many. In retirement the tax situation changes completely. If there is no employment income there are no CPP or EI contributions; making it feel like taxation has been reduced significantly. There are income splitting rules, so T4 PEN (pension income) can be split using the T1032 Form to split income with a spouse. Starting at age 65, RRIF and LIF income can be split (incidentally this is not the case with RSP withdrawals). There is a 'pension income' tax credit, and at age 65 there is

an 'age' credit. All of these things result in a real moving target. That leads to the question: How do you set up the most tax efficient income stream?

To organize an income stream well it is important to look at the current year and future years. Research often involves building a model. The model is not exact but it will aid in decision making. The Income & Expense Models we develop with our clients will predict the tax situation in the current year and in the future given a particular income stream decision.

For example, an often asked question is "when should I start CPP (Canada Pension Plan)"? In the past, retirees were always advised to start CPP at age 60. By starting CPP income early, they would receive a reduced amount each month, but it was worthwhile because when compared to waiting 5 years until age 65 the break even point for waiting was age 78. Conventional wisdom was that one might not be alive at 78, and that there are good uses for the money now. The Income & Expense Model would have borne this out. Starting CPP early made sense.

The decision as to when to start CPP



has now changed. There is a much bigger penalty applied to taking CPP early and the break even point is now age 72. The advice generally is to delay CPP until age 65. It can even be delayed as late

as age 70. The Income & Expense Model often shows that the reward of a much bigger CPP benefit (CPP increases 7.2% each year it is delayed) is worth waiting for. This benefit is indexed and will continue for life. One avenue to explore would be starting RIF income before CPP, utilizing lower tax brackets and avoiding high tax rates on future RIF withdrawals.

Of course, this CPP advice changes if the individual needs the money at age 60 or if they are in poor health. Indeed there are many other reasons this advice may change. Contemplating the situation fully and providing a sound basis for decision making is the objective of a well prepared Income & Expense Model.

This is just one example of the decisions retirees are faced with in assembling their income stream. When and where to draw on investment assets is another key one. Again, understanding the tax implications is very important. Also important here is the fact that these decisions effect the time horizon of your investment plans. This is the point at which there should be a dovetail between the Income & Expense Model and the Investment Plan.

The investments must be suitable for the uses they are intended for. For example, money needed to provide immediate income should not be invested in investments whose objective is aggressive long-term growth. Until the investment time horizon has been established, it is difficult to nail down what investments are appropriate.

A well thought out Income & Expense Model helps the investor make good decisions about their retirement income streams. One of the best features of a good

model is its ability to run multiple scenarios, Plan A vs. Plan B. It can also be revisited as often as is necessary to confirm that things are on track, and to make adjustments as necessary.

Aging, Power of Attorney, and Decision Making

We all want to make our own financial decisions. However, there may come a time in a person's life when they are not capable to act on their own. The reason for this may be as simple as being out of the country for a period of time or as drastic as losing the faculty of mind. If the person is not capable of making their own decisions due to mental incapacity, an attorney (or advocate) will have to act on their behalf. The legal document that appoints someone to act on behalf of another person is called a Power of Attorney. There are separate Powers of Attorney for both Personal Care and Property. It is the Power of Attorney for Property that we will be dealing with in this article.

Many of us are watching loved ones age gracefully and realizing the decision making capacity and judgment of the people we care deeply for is gradually changing over time. At some point the help they require changes from simple things like needing rides to the bank or medical appointments, to actually needing important decisions made on their behalf.

When does this change occur? When did the relationship graduate from caring helper to attorney (POA)? It is very hard to pinpoint, but in legal terms the point of change is critical. When a person becomes the advocate through a Power of Attorney document, they have become a Fiduciary. This means that the decisions made must be in the interest of the person who appointed them POA. The implications are significant.

The actual point of mental incapacity is a very important milestone. First of all, the incapable individual cannot appoint a POA. That has to be done while the person is of sound mind. Secondly, it is critical that the individual have a Will in place, because this can only be done while the

individual is of sound mind. Further to this, following incapacity the Will can no longer be revised. And finally, the event of incapacity triggers the POA and the onset of Fiduciary Duty.

There is a fairly famous ruling that states that any person can tell if someone is capable or incapable; but when exactly did they become mentally disabled? It certainly would be convenient if we all had little "mental incapacity indicator lights" that flash if, and when the time comes. Alas, changes are often very gradual and



no such indicator exists.

In a simple situation such as a small family with few ultimate beneficiaries to the individual's estate, this may not be a big deal. However, once the POA is a third party or the Will has many diverse beneficiaries, the financial decisions made by a POA become crucial. A Fiduciary, acting on behalf of an individual through a POA must act in the best interest of that individual. The POA, by law, should not be concerned with the incapable person's beneficiaries or any other third party. All financial decisions must be made for the benefit of the incapable person. Every decision and financial transaction must withstand this test. If this issue gets contentious, it may ultimately end up in court.

In the operation of an estate for

example, an Estate Trustee (formerly known as the Executor) may ask, "Were all decisions made by the POA in the best interests of the individual?" The Estate Trustee has an obligation to the beneficiaries. You can imagine how this can get contentious. For example, Grandma gave some money to an individual before she died, thereby reducing the inheritance of one or more of the beneficiaries. Did Grandma make this decision or was it actually the POA. Was Grandma mentally capable at that time? Once it becomes clear that the POA is making these decisions independently of the person they are caring for, those transactions have to be well documented with the reasons for the decision. By the way, if Grandma was deemed to be mentally incapable, that gift should not have been made. The reasoning is, Grandma might need that money to cover her own expenses; therefore, giving the money away is not in her best interest, regardless of how much money Grandma has.

In a small family there are not as many risks, but those risks can start to multiply. The 'secret sauce', as is so often the case, is communication. As POA it is reasonable to talk to family members and beneficiaries about decisions being made, particularly any large transactions. Once the person is deemed incapable, no more gifts should be made. The test of the fiduciary stands, and the incapable person might need the money at some point in the future. Keep good records of all transactions and document reasons for larger transactions.

Nobody wins in estate litigation (except the lawyers). If the POA understands their role and does a good job, the table can be set for an easy transition from the POA to the Estate Trustee, who may or may not be the same person or persons.

John Armstrong is a **CERTIFIED FINANCIAL PLANNER**. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.



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Important Year End Reminders!

✓ **Charitable Contributions** deadline for the 2017 tax year is December 31st. Remember that annual cumulative donation amounts over \$200 receive a tax credit of 40%. Family contributions can be grouped in order to maximize the amount over \$200. The bottom line, donations over \$200 only cost you about 60 cents on the dollar; so don't hesitate to give!

✓ 2017 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is March 1, 2018.

✓ **Tax Free Savings Account** contribution room increases by \$5,500 for Canadians over the age of 18 as of January 1, 2018. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSA's in 2017.

✓ For **Non-registered Investment Accounts**, check your year end fund company statements for capital gains or losses triggered by redemptions or switches made during the calendar year. The 'T' slips issued by the fund companies do not reflect the tax consequences of investor

activity; they reflect only the details of fund distributions paid out in cash or reinvested in the fund. We are happy to provide additional details upon request for any gains or losses triggered during the year.

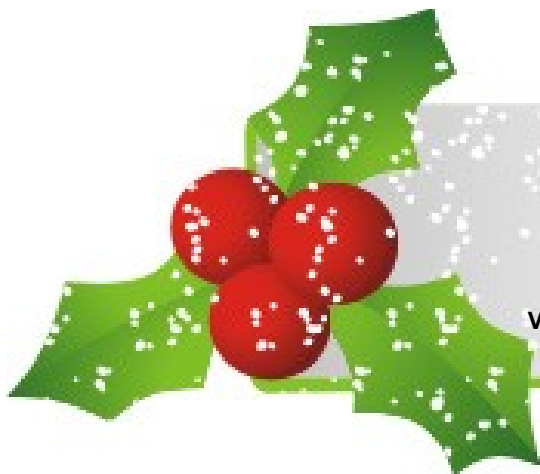
✓ **2017 Income Tax**—If you have any questions regarding what is required in terms of tax reporting investment documentation, please do not hesitate to contact our office. We would be happy to provide a summary of the documentation you should have. We are also able to download many of the documents that you may not be able to put your hands on.

2017 Holiday Office Hours

December 22—9 am—1 pm

December 25-January 1— Office Closed

Voicemail will be monitored for emergencies December 27 –29



Note: Mutual funds are sold by simplified prospectus only. Before investing, obtain a copy of the prospectus and read it carefully. Unit values and investment returns for mutual funds are not guaranteed and will fluctuate. Mutual funds are sold through Sterling Mutuals Inc. CFP® is a certification trademark owned outside the U.S. by Financial Planning Standards Board Ltd. (FPSB). Financial Planning Standards Council is the marks licensing authority for the CFP marks in Canada, through agreement with FPSB. Views expressed here are that of the advisor and are not necessarily shared by Sterling Mutuals Inc.