JA Update

John Armstrong, CFP ® | **December 2019**

Biggest Change in Corporations in...Like… Forever

I believe in investing in corporations. Companies are the ultimate inflation hedge. They have the opportunity to increase the cost of their product to keep up with the cost of the goods and services that go into producing their product.

As a shareholder, I want the managers of that corporation to increase corporate profits, thereby my dividends will go up and my share price will go up. I can then count on a sustainable retirement income. It is so obvious…..

However, I must admit to wondering: what is the social cost of the never-ending pressure on corporate managers to increase profits? What short cuts are the corporate managers taking? How are the employees paid? What are companies doing to reduce waste, pollution and emissions, if anything?

We had some potentially earth shattering news on this point in August of 2019. The Business Roundtable (which is an association of chief executive officers of America's leading companies) issued a "Statement on the Purpose of a Corporation". The statement is signed by 181 CEOs of the largest US companies (therefore the largest companies in the world) who committed to lead their companies for the benefit of all stakeholders. I.E. Corporations are responsible to shareholders, yes, but also to customers, employees, suppliers and communities. This is huge… potentially.

Jamie Dimon, Chairman and CEO of JP Morgan Chase & Co. and Chairman of The Business Roundtable, has said, **"Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community's unwavering commitment to continue to push for an economy that serves all Americans."**

What I find remarkable is that this is an unsolicited statement from 181 big US companies. There was no regulation. No government agency requiring compliance. It was, it seems to me, an honest statement from corporations who are trying to get with the times. It remains to be seen if this new mantra carries any weight.

Many business leaders do not agree with this and have countered with, "the social responsibility of any business is to increase its profits." Many pundits are saying corporate profits will suffer if companies take on a new mandate to 'save the world'.

Time will tell. But, 181 business leaders have declared a new level of corporate responsibility. I can only imagine that this is a good thing.

Holiday Office Hours

December 23
9 am—4 pm

December 24 to January 1
Office Closed

Voicemail and e-mail will be monitored for emergencies December 27 to 31

In This Issue

It’s So Hard to Save...or Is It?

As part of each year’s tax filing you are required to report your income for the calendar year. Do you ever find yourself looking at that dollar figure and wondering where all the money went? If so, you’re not alone. Many people wonder how they can save for their long-term goals while still having a reasonable lifestyle today. Spending a little time analyzing where the money goes can help to reach your personal financial goals.

Here is an approach used successfully by many clients:

Establish a figure for your yearly household income (after taxes and other deductions).

Figure out what it costs you to live. Include all of your living expenses as well as any important discretionary expenses like hobbies and vacations. Include any ongoing investing activity and debt service as part of this figure. Don’t worry about being perfectly accurate, just try and come up with a figure that is reasonable.

Calculate the excess cash available. Theoretically, the difference between the above figures should be available for long-term savings or for reaching other financial goals like debt reduction. Is the figure you have arrived at a realistic representation of what builds up in your bank account over a one year period? In our experience, the answer here is most often ‘no!’. The figure is usually considerably more than what you are actually saving.

Go on a money hunt. What things have you spent money on that are not accounted for in step one? A quick scan of your credit card bills and your bank statement may provide some insight. If the expenditures you find represent regular ongoing expenses, or provide real value to you and your family, add them to the number you came up with earlier.

Clearly state your savings goal. The new savings figure established after making the adjustments to your expenses is probably still higher than the amount you are saving each year, but consider making this your savings goal. Divide the yearly figure by 12 and commit to saving this amount each month. We refer to this as a *stretch goal*, one that can be reached but that requires a little effort.

Automate it. Set up your savings plan using an automatic monthly payment from your bank account. This sets a high priority to your savings targets and somehow makes the process more painless. People often say that once the money is gone from the bank account, they don’t miss it. Some people also spend more money when there is extra sloshing around in their bank account, so carve it off so that it’s not burning a hole in your pocket. Once in your savings, consider it gone.

Tip: If the commitment makes you nervous, direct the savings amount to an investment that: *1*. has little or no risk, *2*. is very liquid (easy to cash in), and *3*. has no penalty associated with withdrawals. High interest savings accounts and money market funds are two possibilities. This is the ‘training wheels’ stage. Once you become comfortable with the amounts being saved, consider moving to an investment vehicle which has characteristics suited to your objectives and time horizon.

This approach can benefit investors at many different stages of life. For investors contemplating retirement, this approach has a two-pronged benefit: it gives them a feel for living on a lower level of income (as they may need to in retirement), while at the same time helping them to accumulate long-term savings that can be used to provide added lifestyle benefits in retirement. Younger investors on the other hand, benefit greatly from the development of good saving habits. A commitment to saving forces you to live slightly ‘below your means’, and helps put you in a position of financial strength. It gives you choices down the road that you may not have otherwise.

The financial planning process we work through with our clients includes establishing these income and expense figures, estimating the long-term financial needs, and setting the savings targets. The resulting written Income & Expense Model provides a framework for these financial decisions.

The key to establishing an effective savings program is the recognition that some things you spend money on provide *real value* to your life, while others provide little or no value. In many cases, if the latter are taken out of the budget, they are hardly missed.

Get started!

"A journey of a thousand miles begins with a single step." ~ Lao Tzu

If the analysis outlined above sounds like a lot of work, thereby causing you to procrastinate, then try an even simpler method. Decide an amount based on your intuition, one that seems like a bit of a stretch, and start saving it. You will certainly be further ahead after a year than you would have been otherwise.

Long Term Care Homes in Ontario

Many of our clients have experience navigating the system of Long Term Care (LTC) available in Ontario. People become aware of LTC indirectly by either visiting friends or relatives or more directly when helping a loved one negotiate the system. For those who have no experience with LTC, here is a basic primer that will outline what it is and some of the things that Ontario residents moving towards LTC can expect.

LTC homes are partially subsidized by Ontario's Ministry of Health and Long-Term Care. Some are run publicly, for example by the regional government, but the majority are privately run as a *for profit* enterprise. Because of the government subsidy, they are heavily regulated; much more so than other retirement living arrangements. Residents pay an amount specified by these regulations. This amount will differ depending on the type of accommodation (basic, semi-private, or private), and the classification of the particular home as set out by the ministry standard. Things like the age of the facility will effect this classification. Currently the monthly expense ranges from $1,891.31 per month for basic accommodation to $2,701.61 per month for private accommodation in a class A home. What is considered basic accommodation may vary from one home to another.

Further subsidy can be attained on an individual basis based on financial need. This is only available for *basic* accommodation and not for *private* or *semi-private*. In order to qualify for a rate reduction, the individual must prove financial need through disclosure of all sources of income, and must be taking advantage of all government income assistance programs for which they are eligible. There is no asset test for this rate reduction though, so there is no requirement to disclose information pertaining to bank accounts, savings, RIFs, etc.

Long Term Care homes provide a higher level of care than is typically available through other retirement accommodation. An assisted living arrangement in a retirement lodge would be the closest to this level of care, but many additional care hours beyond what is usually provided would be needed in order to bring it up to

that of LTC. These hours can be put in place by 'a la carte' additional offerings from the retirement lodge or by using third party providers (some of which may be subsidized), but both of these options can become very expensive. LTC homes are often more modest in terms of their facilities than retirement lodges, but for those in need of this level of care this becomes a very secondary consideration.

Because LTC homes have some obvious benefits, an individual can spend months or years waiting for a space. Individuals are ranked in terms of need with the highest level being 'crisis'. Even those ranked at this level are further categorized. Application for a space in LTC is made through the Local Health Integration Network (LHIN- formerly referred to as CCAC). This application process includes both paperwork and an assessment of the individual.

As part of this application a list of acceptable homes (by order of preference) must be provided by the individual or their representative. Putting this together involves some research, usually including both a review of 'wait list' data (which is available online), and on-site facility tours, which are arranged directly with each LTC home. Up to five different homes can be listed, and in the case of an individual classified as 'crisis', many more may be permitted.

Once the application has been completed, the wait begins for what is termed a 'bed offer'. A bed offer is received directly from LHIN personnel (not from the home itself), and there is a very specific protocol. The individual or their representative is given 24 hours to respond to the offer. It is very important to understand the protocol here. If an offer is turned down, the individual must start the application process over again, and they must wait a period of 12 weeks before they may do so. Not only that, if they are receiving any additional subsidized care through the LHIN (which is very likely for a person who is a candidate for LTC) that care stops.

It is therefore critical that no facilities are included on the list that the individual or their representative are not willing to accept. Occupancy is required within 5 days of the offer. Additional bed offers may come between the time of acceptance and the occupancy date indicated by the LTC home. If the first offer came from a home which was not the first choice, it is important that LHIN staff are made aware that other offers will be considered until occupancy.

Long Term Care homes provide an essential service to many Ontarians, but the learning curve for navigating the system is steep. Homework done in advance will be very worthwhile.

Secure Online Client Portal

Did you know that Sterling Mutuals Inc. offers all clients secure online access to their account information? This portal also provides us with a very secure way to electronically exchange documents with clients. If you would like to discuss the benefits of the portal or you would like to get started with it, please let us know. The set-up is very easy!

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 2019 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!

√2019 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is February 29, 2020.

√**Tax Free Savings Account** contribution room increases by $6,000 for Canadians over the age of 18 as of January 1, 2020. After January 1st, investors can re-contribute amounts withdrawn from their TFSAs in 2019.

√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. These may be included on a form identified as a T5008, but keep in mind that the <u>T3 & T5 slips issued by the fund companies do not reflect the tax consequences of investor activity</u>; 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.

√**2019 Income Tax**—If you have any questions regarding what is required for investment related tax reporting 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.

Thank you for your friendship and support in 2019!

John *Sharon* *Joe* *Rich*