Focus Newsletter

Desjardins Wealth Management

SECURITIES

VOLUME 34 | NUMBER 4 | FALL 2023

Age, retirement and perceptions: The world is changing!

DAVID LEMIEUX
Vice-President and General Manager,
Desjardins Securities

Freedom 55, really?

Do you remember Freedom 55? In the '80s and '90s, ads conjured up an ideal that had many people dreaming of retiring at 55, having time to see the world, travelling to a sunny destination for winter and so on. How times have changed! According to Statistics Canada, in 2022, private-sector employees retired at an average age of 62.7, compared with 68.4 for the self-employed. In both cases, that's about 1 year later than 5 years ago. So what's changed, and why?

We need to reconsider how we relate to work

Have we changed the way we relate to our job, or has the job changed? I believe it's a combination of both. People's vision of their livelihood has definitely evolved. Did you know that the largest age group among entrepreneurs is 50–54, followed closely by 55–59?

Many no longer see their work simply as a way of earning a living, but as a means of growing and fulfilling their dreams, both professionally and personally. It's also not uncommon to see people change careers in their forties and fifties. Some change fields altogether, while others decide to start their own business and turn their job into a passion.

"Many no longer see their work simply as a way of earning a living."

The job market has evolved too

Since the pandemic, we've also seen a change in the workplace approach towards retirees and those on the verge of retirement. Labour shortages have proven that older workers still have a place in the job market. These workers' experience and wisdom are increasingly appreciated and goes beyond simply filling vacancies. Meanwhile, entrepreneurs can continue to run their businesses for as long as they want, and can create a business transfer plan tailored to their image and their wishes.

Whether you're retired, about to retire, or want to return to work, be sure to speak with your wealth manager. Think of the tax implications and how they'll affect your financial plan.

Make the most of your retirement pension with these 4 strategies

MARC-ANDRÉ FOURNIER
Senior Financial Planning Advisor

Applying for a retirement pension as late as possible after age 65 isn't the only option available.

Let's start with the Old Age Security (OAS) pension. If you defer the start of your OAS pension after age 65, you'll receive an additional 0.6% per month of deferral, up to a maximum of 36% at age 70. However, if your net income exceeds the threshold, a part or your entire pension is reduced as a recovery tax.

Here are 2 ways to make the most of your pension or minimize the recovery tax, as the case may be.

STRATEGY 1

If you anticipate significant income from the sale of real estate or a business, you may want to delay applying for pension until a subsequent year, when your net income is below the recovery threshold.

STRATEGY 2

A new asset allocation could lower your personal net income. For assets that usually generate more capital gain, we can prioritize registered plans, interest– and dividend–generating assets and non–registered investments.

Get professional advice

Deferring or anticipating your retirement pension depends on a number of factors such as meeting retirement goals, having health issues or simply due to your marital status. Every situation is different.

Talk to your wealth manager to find the best approach for your needs and values.

Be creative: Donate your pension!

Given the generous tax credits available, you could offer your benefits to a recognized organization you care about through a planned giving philanthropic strategy. This could be a good option if the net amount you're receiving from the QPP and/or OAS would give you surplus cash.

What about the provincial pension?

The Quebec Pension Plan benefit is calculated based on the person's age and the employment income on which contributions were made. It's not reduced based on current net income. Recent and future changes enhance the plan, foster job retention and encourage deferring retirement beyond age 65. Take a look at the approaches below to use them.

STRATEGY 3

If you're an incorporated entrepreneur, by receiving part or all of your earnings in the form of salary rather than dividends alone, you'll be able to make the most of the new additional plan component of the QPP that was established in 2019. You can do this by contributing to the Quebec Pension Plan and increasing your retirement pension.

STRATEGY 4

Other changes will take effect as early as 2024. These include new calculation rules to exclude reduced income after age 65. Plus, the maximum age to apply for a retirement pension will increase from 70 to 72. If you can afford to defer your retirement after age 65 and cover the pre–benefit period with other assets, your pension will be increased by 0.7% for every month you defer. You could receive a pension increased to a maximum of 58.8% at 72.

Three questions about the role of liquidity in your portfolio

MICHEL DOUCET
Vice-President, Investment Strategist
and Portfolio Manager

Liquidity plays a key role in your portfolio, in particular by giving it stability.

What are liquid assets?

A liquid asset is a type of asset that can be quickly converted into cash while keeping its market value. It's an easily accessible product with relatively stable value. Examples include treasury bills, bankers' acceptances, guaranteed investment certificates, cashable term deposits, high-interest accounts and deposit notes issued by financial institutions. Bonds maturing in 12 months or less are also considered liquid investments.

Like equities, bonds and alternative investments, liquidity is an integral part of a well-diversified portfolio. Cash may be underweight, flat or overweight in relation to its strategic target, which depends on your investor profile and risk tolerance.

> "Liquid assets act as a safety valve for erratic market fluctuations."

What are the benefits of liquid assets?

Since the goal is to make money accessible at all times, the risk for liquid assets is lower and, therefore, the normal return levels are also lower.

I like to compare them to home insurance with fire protection: it may seem pointless to have it until your house catches fire. But when something does happen, you're glad you're well insured. In short, liquid assets reduce your portfolio's risk and act as a safety valve for erratic market fluctuations.

How can I determine if the assets in my portfolio are properly weighted?

It all depends on your goals. Liquidity can be used to plan expenses such as buying a home, doing renovations, putting in a pool, planning a trip, taking a sabbatical and investing. It's synonymous with quality, accessibility and stability because it matches a specific need over time. It can also help you save for unexpected expenses or build up an emergency fund. When you retire, it provides a regular flow of income from your investment account to your caisse/credit union account.

However, if you're planning for the long term, be careful not to overweight cash in your portfolio. Liquid investments could erode your purchasing power as they generally offer lower returns than inflation. In the long run, there's also a big risk of missing out on market rebounds if you don't invest in the stock markets. The impact can be enormous on a portfolio's long-term return.

Confucius said that it is equally wrong to sin by excess or by default. That's why you need to talk to your wealth manager about how you can best balance the value and cost of liquidity.

Retirement is not all smooth sailing

CLAUDEE L'HEUREUX
Senior Financial Planning Advisor

It's finally time to retire! You've been carefully planning this milestone for a long time now. All that's left to do is enjoy it, right? But what if I told you it should still be actively planned?

The cost of living evolves

Forget universal rules, magic numbers and gradually decreasing expenses; the cost of living is always calculated on a personal basis, whatever the wealth. What's more, reality is rarely linear. Think of the economic context or tax and legal changes, for example. Your health can also cloud the picture, as no one is immune to the unexpected. It costs money to have the best care for yourself or someone you know. It's one thing to be able to afford it, but knowing how to get the best out of it is quite another.

Easing into a new reality

Retirement triggers a whole range of emotions. In the beginning, it's all sunshine and rainbows. Then comes the time for assessment and reflection. Sometimes spouses have conflicting views on their new life, which can lead to frustration and even separation. Some want to feel the recognition that work used to bring, so after taking a break, many are considering going back to work and looking for new challenges. That's the case for numerous entrepreneurs. Plans constantly evolve.

Adapting to changing priorities

I've noticed that people's mindsets are changing more and more. In the past, the priority was generally to leave money to your heirs. Now, many retirees focus on fulfilling their dreams. However, many also want to help their children during their lifetime. Whatever your future priorities, you can adjust your plan while keeping your pocket as full as possible.

Share your intentions

Inform your wealth manager of any major purchases, significant life events or unforeseen circumstances. Each change needs to be analyzed to determine the best way to proceed and to adjust your strategy accordingly. There's a big difference between buying a cottage here and buying a home in Florida, for example. There may be tax, legal or estate issues at stake. You should make your intentions known beforehand, even if they're just ideas, because we can't always measure the actual impact of a decision. Retirement is a lot of work, you say? Rest assured, you'll be able to make the most of it while your wealth manager and their team continue to work for you.

> Financial planning needs to be tailored to your lifestyle habits. You also need to take a hands-on approach during retirement because there's less wiggle room to adjust as needed. A tailored strategy will help you avoid unpleasant surprises and protect your wealth.

Desjardins
Wealth Management
Securities

Head Office
300–1170 Rue Peel
Montreal QC H3B 0A9

100%
This document is printed on Rolland Enviro paper.