Focus Newsletter

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How and when should we start spending our wealth?

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Wealth accumulation and planning take up a significant amount of our working lives, but we don't put enough thought into how we want to spend it or use it to benefit our loved ones, not even when the time is right to do so.

Since everyone's personal, family and financial situations are different, there's no one-size-fits-all approach to using our assets. Only one thing is certain: The wealth we build up over the years will help us take care of ourselves and the ones we love. The role of your wealth management team is to have these discussions with you, put your plans into action and identify any blind spots.

One good example is that with life expectancies increasing, our healthcare needs and any related expenses will also rise. Will we have enough assets to maintain our quality of life, especially when choosing a retirement home or opting for at-home care?

Or should we hold off on giving money to our children till after our deaths? Gifting them money while we're still alive puts our wealth to work, while also giving us the pleasure of making a real contribution to their future.

In this issue, we'll talk about some points worth considering with respect to using your wealth.

I encourage you to start this discussion with your wealth management team right away. They'll advise you while taking all the financial and other complexities of your situation into account.

Happy reading!

20 years of commitment to the Montreal Canadiens Children's Foundation

Desjardins Securities recently sent a cheque for $615,217 to the Montreal Canadiens Children's Foundation. Since 2002, we've raised more than $8.8 million to support the Foundation's goal, which is to encourage physical activity among underprivileged youth all over Quebec, especially by building and opening BLEU BLANC ROUGE skating rinks.

Retirement and health: Making sure you have options

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Most Quebecers want to retire before the age of 65, while they're still healthy enough to make the most of it. And they're right—health can turn into a medical and financial challenge.

Life expectancies in Quebec (80.6 years for men and 84 years for women) suggest that retirees can look forward to many years of retirement.[1] You could live a long time, maybe even to 100, but there's no guarantee you'll stay healthy. When you're completely independent, it's hard to imagine that one day circumstances may change, forcing you to seek out specialized care if your health becomes poor.

Retirement planning should factor in the repercussions of any medical issues (whether physical or cognitive) that may arise.

Overview

Private at-home care could cost anywhere from $12 to $90 per hour for housekeeping, meal preparation, or personal or nursing care services. A residential and long-term care centre could cost $900 to $5,000 or more per month[2] depending on status (semi-autonomous or autonomous). You should also expect to pay more for different types of services such as postoperative care, physiotherapy, podiatry, transportation, close monitoring due to cognitive decline, etc. The costs of care could quickly pile up.

According to Statistics Canada, the probability of needing long-term healthcare rises from 30% before 65 to 50% before 75 (that is a 1 in 2 chance). That's something worth thinking about.[3]

Fact or fiction?

Many people believe that care provided in long-term care facilities is entirely paid for by government programs. But that's just not true. The public system only covers a small percentage of the cost of care given (and in some cases not even that). In other words, it's up to the person in question (or their family) to pay out of pocket for much of the cost.

Maybe you can sell your home? This is a possibility for a single person, but if one member of a couple needs to stay in an assisted-living facility and the other doesn't, the healthy partner will still need a place to live.

How about relying on friends or family? Relying on a caregiver is an uncertain proposition, given the physical strength and time required. And, financially speaking, who has the capacity to provide full-time care for a loved one?

Retirement planning must consider the possibility that you may become incapable of taking care of yourself due to a chronic illness, disability or cognitive impairment that compromises your autonomy. When your health deteriorates, it's reassuring to have choices rather than be forced to tolerate the only option available.

The best way to address the issue is to talk to a financial advisor.

1. https://statistique.quebec.ca/fr/fichier/la-mortalite-et-lesperance-de-vie-au-quebec-en-2020.pdf (in French only)
2. https://www.clhia.ca/web/CLHIA_LP4W_LND_Webstation.nsf/resources/Consumer+Brochures/$file/Brochure_Guide_Long_Term_Care_ENG.pdf
3. https://www.conseiller.ca/retraite/les-couts-de-sante-inquietent-les-retraites-avec-raison/ (in French only)

Helping adult children buy a home

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Parents often wonder what kind of resources they have at their disposal to help out their children financially. With real estate prices skyrocketing recently, buying a first home could prove to be difficult. Many people are planning to give their children or grandchildren money to help them acquire a home. This is also a way for parents to have their kids benefit from money that would otherwise only be available to them after the parents' deaths.

> But these parents worry whether they or their child would have to pay income taxes on such a gift.

Cash gifts to adult children aren't taxable for parents or their children. However, the parents must have the cash available to make such a gift. The difference may seem trivial, but if they must cash out on an investment or sell an asset with an inherent capital gain (which may even trigger a "recapture", especially in the case of real estate), these transactions (and not the gift itself) will trigger tax implications for the parents.

As for their children, they're not taxed on the gift they're given. But if they use the gift to purchase a second home or a rental property, they may have to pay income tax on the capital gain they make at the future sale. This isn't the case for a primary residence since it's exempt from capital gains tax. Once again, it's the real estate transaction and not the gift itself that may cause income tax repercussions for the child.

The thought process surrounding the parents' wish to make a large cash gift to their child must include an assessment of how this could impact their own retirement savings. Projecting retirement income, including developing a withdrawal strategy, gives parents a better picture of their finances so they can make sure they'll be able to afford their desired standard of living. This will help ensure that the gift won't have a negative impact on the income they need for their retirement.

Useful tips

Parents who plan to give their child a substantial gift also often wonder about the rules that apply if their child gets separated or divorced.

- For a married child
  Any gift or inheritance received before or during the marriage is not considered part of the shareable family patrimony in the event of a divorce. It's also worth noting that it is generally understood that the reinvestment of savings owned by a spouse before the marriage to acquire family assets during the marriage cannot be deducted since they are not included in the family patrimony.
- For an unmarried child
  It's even simpler since they're not subject to the rules on family patrimony and matrimonial regimes. Consequently, if parents give their child money for a down payment so the child can buy a house with their common-law partner, the money given is not subject to any sharing or division.
- In all cases
  If the money is used to buy a house or cottage that gains value and which is later sold, this increase on the initial gift must be prorated. But it's important to document the gift that was used for the down payment and keep track of it.

Other kinds of gifts can be given and they have their own widely varying specificities and tax repercussions. For example, giving a property rather than money won't have the same tax implications for the parents and their child.

Please speak to your advisor if you want to learn more.

A positive backdrop despite current turbulence

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The financial markets have had a turbulent start to the year. Worries about inflation, monetary policy, interest rates and the situation in Ukraine have driven investors to crystallize some of their recent gains. This profit-taking kicked off a brief correction that sent the S&P 500 and the Nasdaq tumbling. In the depths of winter, the Canadian stock market fell by around 8%.

However, volatility and profit-taking are all part of a normal investment cycle. Since 1981, the S&P 500 has experienced an average intra-year decline of 14%, but it still delivered positive returns for 32 of the intervening years. Meanwhile, the intra-year decline for the TSX is 16.5% and its annual returns were positive for 30 out of 42 years. How do we explain this difference? The TSX is overweighted in the finance (38%), energy (14%) and materials (11%) sectors, while the S&P 500 is exposed to technologies (30%), consumer discretionary (13%) and healthcare (13%). In other words, the TSX has a value bias while the S&P 500 focuses on growth.

In February, Facebook saw its value plummet by US$232 billion after a disappointing earnings release. This was the greatest decline experienced by one of the 20 biggest companies on the S&P since 2018. Apple and Microsoft came in second and third place with valuations that dropped by $182 billion and $178 billion, respectively, in 2020. Facebook's historic plunge reminded investors that stock markets are highly efficient and react immediately to both the upside and the downside. The day after the Facebook selloff, Amazon's value jumped by more than $191 billion.

What's in store for 2022? The economic and financial prospects look good for a continuation of the cycle. We'll have to adjust to monetary policy that drives interest rates up. Economic conditions point to at least 3 key interest rate hikes this year. Even if rates rise to 1%, financial conditions will still be easy.

As long as the economic boom lasts, the stock market cycle will keep going. Of course, 2022 still has a lot of challenges in store, but as long as households keep spending, companies will generate revenue and profits. Rising unit labour costs will erode corporate profit margins if companies can't pass the costs on to consumers or boost productivity.

This environment, which favours stocks, looks less promising for bonds. The normalization of monetary policy and inflation will push interest rates upward, thereby bringing down portfolio returns. Your wealth manager will be able to recommend a strategy that suits your needs.

Reach out today!

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100%
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