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# DARING to DISRUPT

Bespoke advice that transcends the mainstream approach to wealth management

Personal Newsletter from Nicole Deters, Harbourfront Wealth Management – Gilman Deters Private Wealth

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## Winning the Longevity Lottery

*“Plan on Living Past Your Life Expectancy”* — this is the headline of a recent article in the popular press that suggests many of us will live longer than we expect.<sup>1</sup> In fact, many of us systematically understate our chances of living to age 75 by 10 percentage points or more.<sup>2</sup> Yet, according to longevity researchers, those of us alive today have won a longevity lottery. We have been handed an extra 30 years of life compared to just 100 years ago.

In 1921, the average life expectancy was 57 years; today it is around 84. Reaching the esteemed 100-year milestone is no longer a rarity. As many as half of those born today can expect to become centenarians. The good news is that we are living longer and healthier lives. The not-so-good news is that some may realize too late that they have claimed government benefits too early, passed up the opportunity to buy insurance or annuities or have simply undersaved for these additional years.

What is the possibility that your life might last much longer than you believe — will it change your perspectives on the present moment? Of course, this means a whole new set of issues — notably, those relating to our wealth planning to ensure a good quality of life over an extended period. As advisors, we make retirement planning and beyond a key focus in the wealth planning process. Whatever your plans, you should have the necessary financial means to enable you to make choices freely.

Some will not have that choice. With the increasing cost of living, coupled with greater longevity, some retirees will need to consider work in some form. A recent survey suggests that over two-thirds of those who retired during the pandemic have considered returning to work, with more than half citing financial need as their main motivation. We may be on the verge of what has been referred to as the “Great Unretirement.”<sup>3</sup> Yet, there may be a “silver” lining. The growing population of contributing seniors may spur a demographic dividend, accelerating growth per capita, driving economic expansion and enhancing social development. This “longevity economy,” in which the anticipated economic contributions from older adults will be higher, is expected to benefit everyone. Yet, it’s not just those who need to work to support themselves. Others are challenging the traditional notion of retirement: No longer is it a time for rest, and some will choose to reinvest themselves in different roles to share their wisdom or to enjoy income-generating hobbies.

What about you? What is your vision for retirement and beyond? Regardless of your aspirations, make sure to give your wealth plan the attention it deserves today. Even small contributions can build wealth down the road. Consider that an extra \$250 per month invested at a rate of return of 6 percent would yield over \$250,000 in 30 years — not an insignificant amount, by any means, for those “extra” three decades we’ve been granted. By recognizing the current opportunities, even in more challenging times, and committing to them, investors can share in the growth that lies ahead to make that vision a reality. Continue to invest and plan for tomorrow to build your flexibility. And, above all, continue to look forward with confidence.

1. “Plan on Living Past Your Life Expectancy,” Josh Zumbrun, Wall Street Journal, Feb. 11, 2023, page A2; 2. [www.wsj.com/articles/death-finances-and-how-many-of-us-get-our-money-needs-wrong-51a660a2](http://www.wsj.com/articles/death-finances-and-how-many-of-us-get-our-money-needs-wrong-51a660a2); 3. <https://weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/>

### In this issue

- The Housing Market & Your Retirement
- Six Questions Answered: The PRE
- This Summer: Check Your Credit Score
- The TFSA at Every Stage of Life

## The Housing Market: Will It Impact Your Retirement Planning?

For much of the past year, we've experienced a period of declining housing prices. One reason has been the rapid rise in interest rates. Historically low rates made the cost of holding a mortgage affordable, but rising rates have increased the cost of borrowing substantially. Consider the impact on a \$160,000 mortgage: A 5-year, fixed-rate mortgage with a 25-year amortization and 3 percent interest rate will have monthly payments of around \$757. If interest rates double to 6 percent, monthly payments increase by \$267. At first glance, this may not seem significant, but over the life of the mortgage, this equates to an additional \$80,000 in interest costs! Higher borrowing costs have also made it more difficult to qualify for a mortgage and reduced the amount that some are eligible for.

At least for the near term, interest rates are likely to remain elevated as the central banks continue to fight inflation. New rules have also been put in place to try and slow the housing market, such as federal government measures like the "Residential Property Flipping Rule" and the "Prohibition on the Purchase of Residential Property by Non-Canadians Act." However, there continues to be a significant supply shortfall, which is expected to support prices, especially as the population continues to grow. In fact, the latest figures (April) suggest signs of a housing market rebound that may largely be driven by a lack of supply. According to recent reports, the supply of new homes on the market is at a 20-year low.<sup>1</sup>

For many investors, the evolving housing market has changed the way we think about retirement planning. Here are two challenges:

**Supporting (grand)kids to buy a home.** With the cost of home ownership increasingly out of reach, many are assisting children. By some accounts, the average gift in the two most expensive housing markets — Toronto and Vancouver — has ranged from \$130,000 to \$180,000.<sup>2</sup> Given this substantial amount, it is essential to carefully factor in how financial support may affect the giver's own retirement

plans — a recent survey suggests that 34 percent of parents are using their own retirement savings to help adult kids.<sup>3</sup>



Consider also that there are different ways to provide support, including purchasing the property in your name, gifting cash or lending funds to the child. Each comes with various tax and family law issues. For example, if the home is not designated as a principal residence, there may be a future capital gain payable upon its sale or disposition. Or, if the child is married/common-law, what happens if there is a marital breakdown? As such, seek advice from tax and family law professionals.

**Relying on home equity in retirement.** Sometimes a home's value is viewed as a potential source of retirement income. We often suggest exercising caution with this perspective for various reasons: e.g., future real estate prices are not guaranteed; there are often unanticipated costs with a sale, such as renovations or maintenance — and, at the end of the day, you still need a place to live. Or, in due course, some find that selling a lifelong home ends up being too emotionally difficult. Of course, there are exceptions: some choose to become renters; others retire abroad to more affordable destinations. Even in these circumstances, planning for contingencies is important — you may be unable to find a suitable rental property or perhaps you will eventually decide to move back, such as to access Canada's healthcare system.

These factors, along with others, may influence the wealth planning process for retirement and beyond. For a deeper discussion, please get in touch.

1. <https://financialpost.com/real-estate/housing-market-sales-surge-double-digits>; 2. <https://www.theglobeandmail.com/investing/personal-finance/article-parents-gave-their-adult-kids-more-than-10-billion-to-buy-houses-in/>; 3. "How Parents are Helping Their Adult Children," R. Carrick, 04/11/23.

## This Summer: Check Your Credit Score

When was the last time you checked your credit score or credit history? It may be important for young and older people alike, for benefits beyond just understanding your credit position.

For older couples, one issue that sometimes arises is when one spouse has a good credit rating, but the other has none: If the spouse with the good rating passes away, the survivor may have difficulty qualifying for credit, such as a loan, or even something as basic as a credit card.

Establishing a good credit score can take time. It involves creating a credit history and showing that you are able to pay bills on time and in full. The two main Canadian credit bureaus, Equifax and TransUnion, keep track of your credit through public records of lenders like banks, collection agencies and credit card companies. Credit scores are usually based on a range between 300 and 900, with a score of over 700 considered very good.

### Support Younger Folks: The Importance of Building Credit

Many young people may have limited experience with credit and do not realize that having a good credit history can make life easier. It

is important because this score determines how lenders assess an individual's credit capacity — the higher the score, the greater the likelihood that you'll be approved for loans or credit. And, it is often checked when applying to rent a property or even for certain jobs.

### A Preventative Measure: Protect Against Fraud or Identity Theft

Periodically accessing a credit report may be especially important in this age of increasing fraud and identity theft. A credit report can often detect fraudulent activity, such as identifying accounts you may not have opened or inquiries from companies with which you've never done business. The credit bureaus also offer monitoring services that can notify you if there are changes to your credit position, which may indicate fraud. You can also request extra security measures, such as a "fraud alert," notifying you when financial providers issue new credit in your name. Some of these services have associated fees, but the cost may be worthwhile to help minimize any damage if you become a victim, especially as new scams grow in sophistication. They may also be a consideration to help protect those who are more vulnerable, such as isolated and elderly individuals.

## The Principal Residence Exemption: Your Questions Answered

Summer is often one of the busiest seasons for residential home sales. With many investors owning multiple properties, thinking ahead to their eventual disposition may be worthwhile.

As a reminder, when you sell your home and a capital gain is realized,\* the resulting tax may be eliminated/reduced if the property is designated as a “principal residence” by claiming the Principal Residence Exemption (PRE). As of 2016, you must report the sale of a principal residence on your income tax return and claim the PRE. If you own multiple properties and sell one, you will need to decide which one to designate as the principal residence for each of the years it was owned: only one can be named each year.<sup>1</sup> Generally, you should consider designating the property with the largest average capital gain per year to reduce the overall tax liability. Yet, the decision is rarely straightforward and may involve multiple factors, such as predictions about the future value of the remaining residence(s).

Here are six common questions relating to the PRE:

**1. To qualify, do I have to live in the unit most of the time?** A principal residence generally refers to a housing unit that is “ordinarily inhabited.” This doesn’t mean that the taxpayer needs to live there the majority of the time. The property may qualify if the taxpayer or member of the family unit lived in it at some point during the year.

**2. Can a cottage/cabin qualify?** Yes, seasonal residences, even those outside of Canada, may be designated as a “principal residence.”

**3. What if I forget to report the sale on my income tax return?** The Canada Revenue Agency (CRA) may charge a late-filing penalty of \$100 per month, up to a maximum of \$8,000. As well, the PRE may be denied at a further date.



**4. Can I use my property for rental/business income?** If a property is predominantly used to produce income, it will not be eligible for the PRE. If part of a principal residence is used for rental/business purposes, you may be able to claim the PRE for the portion used as a residence. If you change the use of a property, if it was a principal residence prior to the change, the PRE may be claimed for those years. Note: a “change in use” may result in additional tax implications.<sup>2</sup>

**5. What if I leave Canada for extended periods?** If you weren’t a resident of Canada for the entire time you owned a designated property, the period of non-residence may reduce/eliminate the PRE.

**6. What if I move into a care home?** The PRE is only available if the unit is ordinarily inhabited, so a property may not qualify during the time an owner lived in a seniors’ facility. As you plan ahead to use the PRE, one option may be to have an adult child occupy the home during this time.

\*Or a deemed sale for tax purposes; 1. Per family unit. For years before 1982, each spouse can designate a different property; 2. [www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-12700-capital-gains/principal-residence-other-real-estate/changes-use.html](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-12700-capital-gains/principal-residence-other-real-estate/changes-use.html)

## A Reminder: The TFSA is a Valuable Tool for Every Stage of Life

Do you have available TFSA contribution room? Many of us are not fully maximizing tax-advantaged accounts — even the wealthiest Canadians are overlooking the opportunity. At last count, only 30 percent of taxpayers earning \$250,000 or more had fully contributed.<sup>1</sup> Beyond the significance of growing funds on a tax-free basis, here are some reminders of how the TFSA can be a valuable tool:

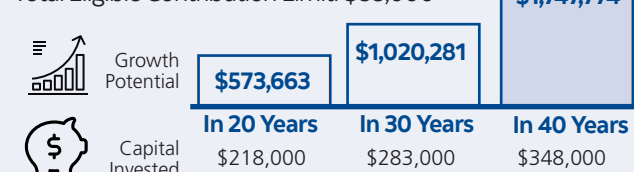
**Transferring Wealth While Alive** — The TFSA may help to gradually transfer wealth to beneficiaries while you are alive. Gifted funds can be used by adult children to contribute to their own TFSA to grow over time, keeping in mind the loss of control of funds. This can also simplify an estate and potentially minimize taxes upon death.

**Approaching Retirement: RRSP/RRIF Meltdown Strategy** — There may be benefit in gradually drawing down RRSP/RRIF funds as you approach retirement. One significant reason is if you are in a lower tax bracket than you will be in the future. A strategy may be to use RRSP/RRIF withdrawals to fund TFSA contributions. As the TFSA grows, this tax-free income can augment or replace RRIF withdrawals later. At death, these funds can pass entirely to heirs; residual RRSP/RRIF income could potentially be subject to the highest marginal tax rates.

**Funding Retirement** — The TFSA can help optimize retirement income and cash-flow streams. TFSA withdrawals are not taxable and won’t affect income-tested benefits such as Old Age Security. A TFSA may also help with tax planning. For example, if generating RRIF income will put you in a higher marginal tax bracket, you may be able to minimize tax by withdrawing only the required RRIF amount

### The Extra \$1.7 Million: Don't Overlook the Opportunity

2023 Annual TFSA Dollar Amount: \$6,500  
Total Eligible Contribution Limit: \$88,000



This assumes full contributions since 2009 and ongoing \$6,500 annual contributions compounded at a rate of 5 percent annually.

and using TFSA withdrawals to supplement income. On the other hand, if your marginal tax rate is lower than you expect in the future or at death, funds in excess of the RRIF minimum requirement can be withdrawn and put into a TFSA where they can continue to grow. This can reduce an overall lifetime tax bill. The TFSA can also supplement cash flow if a retiree chooses to defer Canada Pension Plan benefits.

**Your Estate** — The TFSA can be an excellent way to pass along assets on a tax-free basis. Consider the way you have designated beneficiaries: a named “beneficiary” will receive proceeds upon death tax free. However, if a spouse/partner is named as “successor holder,” they can continue operating the account “as is” going forward. Please contact the office if you require an update to beneficiary designations.

**The bottom line?** Ensure you have fully contributed to your TFSA!  
1. <https://www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-ceii/2019/table1c-en.pdf>

# The Start of a Revolution? The Age of Artificial Intelligence Has Arrived

*“In my lifetime, I’ve seen two demonstrations of technology that struck me as revolutionary...the graphical user interface, the forerunner of every modern (computer) operating system...and artificial intelligence (AI).” — Bill Gates<sup>1</sup>*

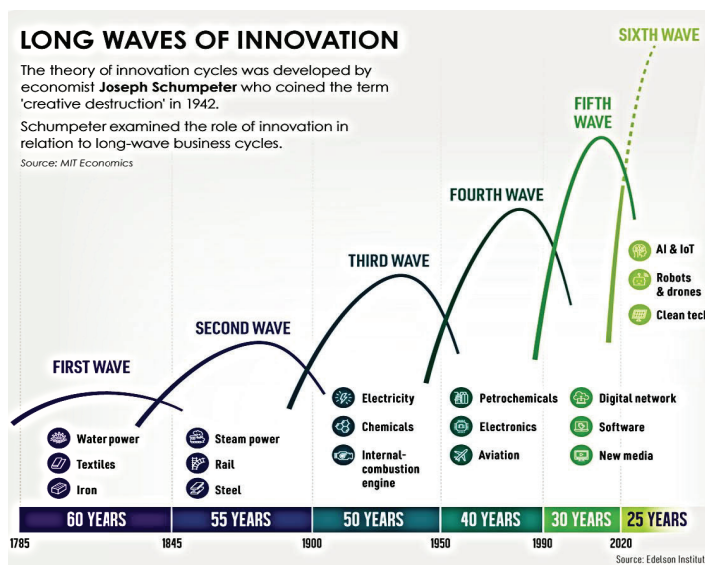
In the summer of 2022, technology pioneer Bill Gates met with the team that developed the algorithm ChatGPT and left them with a challenge: *“Train an artificial intelligence to pass an Advanced Placement biology exam...if you can do that, you’ll have made a true breakthrough.”* Expecting to keep them busy for two or three years, they came back to Gates in less than a few months. ChatGPT would correctly answer 59 of 60 multiple choice questions on this college-level test and provided outstanding answers to six open-ended questions. Then, to further amplify its capabilities, it masterfully answered this non-scientific question: *“What do you say to a father with a sick child?”* The experience, according to Gates, was *“stunning.”*

Indeed, the age of AI has begun. The remarkable capacity of artificial intelligence is increasingly demonstrating its potential to be a significant disruptor. Quite understandably, it has also ignited a new debate about the threat of our technological advances. Yet, beyond this deeper existential debate, the evolution of AI should remind us of the continued pursuit of humans to constantly advance.

Earlier revolutions, such as those sparked by the development of railroads, electricity and the automobile ignited upwaves of economic growth that lasted for many decades. Consider the impact of the global petroleum industry or the assembly line introduced by Henry Ford — the latter changed global manufacturing processes forever. Will this revolution be any different?

Economist Joseph Schumpeter developed the theory of innovation cycles suggesting that business cycles operate under long waves of innovation (infographic). These new waves emerge as the markets are disrupted by “creative destruction.” One observation is that as time progresses, these waves are getting shorter — some suggest that this is because there are diminishing marginal returns for innovation.

What does this mean for investing? Innovation will continue to drive economic growth, just as it always has. Taking a step back, let’s not



forget that when we invest in the equity markets, we are investing in the businesses that underlie the economy. Over time, economies have continued to progress and grow because of the motivations of individuals and businesses to innovate and advance, as we are witnessing today.

Of course, in the face of increasingly rapid change, our willingness to adapt also remains important. In the third wave of innovation, Ford and GM had hundreds of competitors that caught the imagination of investors. And do you remember Wang and Commodore? They were the high-tech leaders of the 1980s that have faded from view. Investing involves assessing the changing world, with careful analysis, selectivity and a nimble approach.

Though we may currently be enduring slower economic times, we should expect innovation to support the new growth yet to come — and investors can share meaningfully in the change that lies ahead. Continue looking forward!

1. <https://www.gatesnotes.com/The-Age-of-AI-Has-Begun>; infographic: <https://www.visualcapitalist.com/the-history-of-innovation-cycles/>



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