Financial Planning Guide

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FOCUS ON INSURANCE

Thinking of an annuity? Take action before January 1

On January 1, 2017, new rules will change the way prescribed annuities are taxed, making them less tax-effective than they have been in the past. Fortunately, if you act before the deadline, you can lock in the existing — more generous — tax treatment for life. Here's what you need to know.

What are prescribed annuities, and why are the rules changing?

An annuity enables you to receive guaranteed income for life with a one-time purchase. The new rules affect "prescribed annuities," which are purchased with non-registered funds. With a prescribed annuity, the interest portion is spread out over the annuity's presumed term, reducing the taxable portion of each payment.

However, taxation is currently based on mortality tables from 1971, when life expectancy was shorter than it is today. Using more recent mortality tables, the taxable portion of prescribed annuity payments will increase.

No time like the present

While the new rules don't kick in until the beginning of next year, by purchasing before the end of this year, you can lock in the tax-preferred treatment for life. Better yet, payments need not begin right away for you to qualify. The only requirement is that we get the prescribed annuity set up, to lock in the rates before January 1, 2017.

So, if you think a prescribed annuity might be a good choice for you — or if you're not sure and need some guidance — give us a call as soon as possible. We'll go over the details and complete any contractual requirements before the end of 2016. ■

Fast tips for slow economic growth

MUTUAL FUNDS

The International Monetary Fund (IMF) recently warned about persistently slow economic growth, citing an unfavourable global environment, weak commodity prices, and the strong U.S. dollar. The IMF also referred to China's shift from a manufacturing and investment-driven economy to one based on services and consumption.

What are the key factors driving these trends and what do they mean for mutual fund investors? Let's take a look…

Rise of the Chinese consumer

China's economic boom of the past few decades was driven by investing heavily in factories and infrastructure and then exporting manufactured goods to the rest of the world. Now, China is embarking on an economic rebalancing designed to encourage Chinese consumers to spend more.

The rebalancing efforts are expected to see Gross Domestic Product levels slow to the 5% to 6% range, after explosive growth of 8% to 10% in the boom years.[1]

But it's not just China's move to a more balanced economy that is contributing to a new era of slowing growth. There are other contributing factors, including aging populations, a shrinking labour pool in developed countries, low interest rates, and a reduced appetite for risk.

Boomers spending less

In Canada and the United States, baby boomers are expected to cut back their spending as they move into their retirement years. The boomers are the biggest demographic group in Canada's history, and as they exit the workforce in the years ahead, the labour force and the economy will slow.[2]

Indeed, former Governor of the Bank of Canada David Dodge recently stated that "we're in a lower-growth world" and advised investors to prepare for this new normal.[3]

The good news

While slowing growth becomes the norm, new opportunities are emerging for mutual fund investors:

Technology funds. Innovation will be a heavy hitter in a slow-growth world. As businesses cut expenses in response to slower growth, companies are looking to technology solutions to give them a competitive advantage and allow them to do more with less.

Today's technology mutual funds are more than just hardware and software. Cloud computing, mobile technology, and social media are also part of the technology universe. And unlike their speculative dot-com predecessors, many of today's tech companies are grounded by strong fundamentals.

Emerging market funds. Emerging markets will slow along with China in the coming years. But they are still expected to grow at a clip of more than 4% in the near term.[1] That's more than double the projected rate of growth of developed nations like Canada and the United Kingdom.

Funds that tap into the global consumer. Emerging market consumers are younger than their North American and European counterparts and more likely to spend on the latest consumer goods. Plus, as their earnings rise, they will have more disposable income. As consumer demand in emerging markets rises, consumer discretionary funds may benefit.

Broad-based U.S. mutual funds. Many of the largest U.S. companies now do a significant part of their business abroad and are keenly focused on emerging markets. Large, diversified U.S. funds can provide Canadian investors with an extra level of diversification — and help them tap into emerging opportunities.

Health care funds. Aging populations will become larger consumers of health care-related products. Today's diversified health care funds include pharmaceuticals, biotechnology, managed care companies, and makers of medical equipment.

Dividend funds. Persistently low interest rates mean that investors looking for yield are turning to dividend funds to generate some of the income they need — especially in an environment where interest rates are expected to stay low.

A big part of our role as your advisor is to stay on top of economic developments that could affect your portfolio. We will review appropriate funds for your portfolio with a goal of positioning you for the new normal. ■

1 The International Monetary Fund (IMF), World Economic Outlook Update, "Subdued Demand, Diminished Prospects", January 2016.
2 Statistics Canada, Canadian Economic Observer, "Projected trends to 2031 for the Canadian labour force," August 2011.
3. Rachelle Younglais, *The Globe and Mail*, "David Dodge's message for investors: 'This is a lower growth world,'" April 22, 2016.

INVESTING

Advice creates value — for your savings and for the economy

Navigating the choppy markets we've seen over the past few years can test even the most seasoned investor's commitment. This kind of market climate shows the real value of advice and professionally managed mutual funds. Recent research backs this up:

- 84% of mutual fund investors say that they are satisfied or very satisfied with the advice provided by their advisors.[1]
- 92% of investors say they have earned more from their investments by working with an advisor.[2]

It's not just individual savings' rates that increase. Advice delivers benefits to individuals, families — and even the economy. In fact, if an additional 10% of Canadians worked with an advisor, household wealth would increase by $4.8 billion and the Canadian economy would grow by an additional $2.3 billion over the next 45 years.[3]

Whether investors start small or large, the benefits of advice accrue to all. About a quarter of mutual fund investors had less than $5,000 in financial assets when they started working with an advisor, and more than half had less than $25,000.[1] ■

1 Pollara Research, Canadian Investors' Perceptions of Mutual Funds and the Mutual Fund Industry, 2015.
2 Investment Funds Institute of Canada, Advisor Insights, November 2015.
3 The Conference Board of Canada, Boosting Retirement Readiness and the Economy Through Financial Advice, September 2014.

EYEOPENER
Democrat or Republican: Which is better for investors and the economy?

The world's attention has been tirelessly focused on the dramatic U.S. presidential election cycle for the past year. During every presidential election, the question invariably arises: Which party is better for the economy — Democrats or Republicans?

To find out, two Princeton researchers analyzed a 64-year period beginning with President Harry Truman in 1945 and ending with President Obama.[1] Here's what they found:

Party in power	Democrats	Republicans
Average annual gain in S&P 500 Index (USD)	8.35%	2.7%
Average annual GDP growth	4.35%	2.54%
Total rise/fall in unemployment	- 0.80%	+ 1.10%
Total number of quarters of recession	8	49

While economic indicators show superior performance with a Democrat as president, the authors point out that global forces may account for the Democratic edge rather than the policies of the respective governing parties. ■

1 Alan S. Blinder, Mark W. Watson, Woodrow Wilson School and Department of Economics Princeton University, "Presidents and the U.S. Economy: An Econometric Exploration," July 2014.

Managing the 'known unknowns'

According to a June 2016 study, Canadian baby boomers will inherit some $750 billion over the next decade.[1] This represents the largest intergenerational wealth transfer in Canadian history, and it underlines the importance of estate planning. Without effective planning, much of that wealth may not go where its owners want.

Planning for contingencies

Estate planning would be easy if you knew exactly when you were going to pass away and how your circumstances would change between now and then. But you don't. Nobody does. That's why your estate plan needs to take contingencies into consideration, especially the following three.

1. Shifting relationships. Divorce, remarriage, or the premature death of a beneficiary can blur the lines between generations and create unintended beneficiaries. Precise wording can help make your intentions clear and legally enforceable (one of the reasons it's a good idea to have your will drawn up by a professional).

Consider adding "contingent" (secondary) beneficiaries in addition to primary beneficiaries. For example you might leave half your estate to your son, with his portion going to his children if he passes away before you do.

To keep your plan up-to-date, review it any time there is a significant change in your family circumstances (marriage, birth, death) as well as every couple of years.

2. Shifting asset values. It's difficult to know with any certainty the value of an asset decades in the future. The stock portfolio that's worth half a million dollars today might be worth only 70% of that amount in the midst of a market downturn. Or the family cottage that you purchased 10 years ago for $40,000 might be worth 10 times that amount by the time it passes to your children.

The best we can do is conservatively estimate the future value of your total estate and plan from there.

One way to leave a guaranteed amount to your heirs is through life insurance. The death benefit of the policy won't change over time.

3. Tax changes. When you pass away, your assets are likely to be subject to both capital gains and income tax. But tax laws can change over time. At one time, capital gains were entirely tax-free, whereas today they are taxed on 50% of their value. As you can see, changes in tax laws can have a big impact on how much of your estate goes to your beneficiaries rather than government.

There are a number of strategies available that can help preserve your estate from tax erosion, including transferring assets during your lifetime, transferring assets into a trust, and using life insurance to cover the anticipated tax bill.

Staying on track

A well-though-out estate plan is the cornerstone that can give you confidence your assets will be distributed the way you want them to be. But it's an ongoing process. It's equally important to review your plan on a regular basis. We can help you with these tasks — just give us a call. ■

1 CIBC Capital Markets, June 6, 2016.

How life events affect your insurance decisions

When should you review your insurance protection? Any event that triggers a celebration or family gathering should probably also spur a review of both your insurance needs and any existing policies.

Birth or adoption. Life insurance is essential to safeguard your family from financial hardship in the event you or your spouse die prematurely. It helps protect your loved ones from loss of income, loss of a caregiver, loss of lifestyle, and the loss of future dreams (such as university, travel, buying a home).

Critical illness and disability insurance are also important, protecting your finances from the potentially crippling impact of a debilitating illness or accident.

Starting or expanding a business. In addition to protecting their families, entrepreneurs need to safeguard their business partners and key employees, secure their financial commitments (leases, inventory, business loans), and ensure a succession plan for the future.

Death of a parent. Few events remind you of your own mortality like the death of a parent. Use this time to revisit your own final wishes. Consider tax-smart ways to deploy any inheritance you may be receiving; implement your own transfer-of-wealth strategy; review your beneficiary designations; investigate ways to equalize bequests among your heirs; and look into the merits of long-term care insurance.

Anytime there is a change in your family circumstances, be sure to let us know. We can review your coverage and recommend any changes needed to protect those who depend on you. ■

ISSN 1205-5840