

Newsletter VOL XXXIV - Bubbles bubbles toil and March 2021

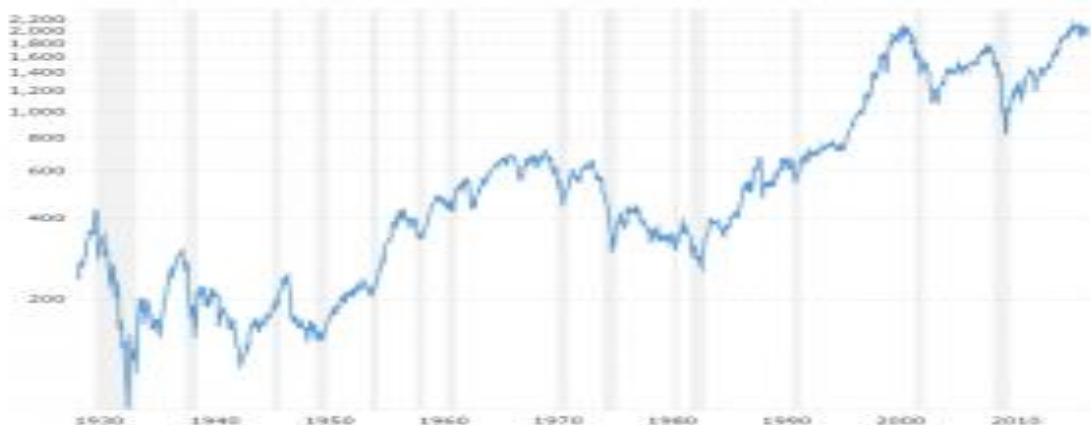
Retirement planning requires time and effort. It is particularly challenging at this time. This newsletter provides information about and retirement and tax issues. It is intended to help you plan your retirement. *It does not provide investment advice.*

Overview – February 2021

Sars-COV2 concerns have abated somewhat except in India, Brazil, and Canada. The shortage of vaccines in Canada has resulted in an appalling situation. The incidence of Covid-19 in India could become very serious (about 15 million of Indian died from the Spanish flu). The confrontation with China in the South China Sea is also a festering issue that could 'accidentally' lead to armed conflict and disruption in world trade. In his first 100 days, Biden has been surprisingly pro-active on difficult issues. His huge US infrastructure proposal package is interesting – will it pass? Central banks continue to promise to keep interest rates low. This has fueled fears about inflation, has led to housing and equity market 'bubbles' and could create future economic problems.

The recent federal budget did not appear to include tax increases that would affect the average Canadian. The spending and deficits proposals appear to be part of a pre-election strategy.

Stock markets always go up - right? The graph below is a 90-year history of the US S&P500 Index which shows a consistent upward trend. Inflation contributed to this but, more importantly, the upward trend is the outcome of **poor performing stocks regularly being removed from the index and replaced with better performing stocks**. In other words, the stocks in the index over 90 years or even 1 year ago are different: it is like comparing 'apples to orange'. Balanced ETFs and passively managed index funds, with low management fees, are an alternative to investing in individual stocks and mimic the returns and risk of an index.



The price of copper, a traditional indicator of economic growth, continues to trend upward.



"In life, as in chess, forethought wins." - Charles Buxton

A. Tax Issues

1. 2020 Tax Filing requirements

You are required to file your 2020 tax return and pay any tax owing by April 30, 2021. Self-employed taxpayers have until June 15, 2021 to file. If you are required to file a **US tax return** the filing date has been extended to **May 17, 2020**.

2. 2019 Notice of Assessment (NoA)

Check your 2019 NoA. It will show any deductions that are available in 2020, your RRSP contribution limit for 2021, your Canada Training Credit amount, and the date the return was assessment. (CRA can audit a return for four years from the date on the Notice of Assessment)

You should retain tax returns and documents supporting the return for six years from the date on the current NoA.

3. 2020 Digital Subscription Tax Credit (RJOs)

Effective in 2020 you can claim (Line 51350) up to a \$500 (maximum per family) each year if you subscribe to a qualified Canadian Registered Journalist Organization (RJO) saving \$75 of tax. However, CRA has not issued a list of the RJO's (Ho hum! – what can you say). The Globe and Mail is an RJO.

4. Pandemic Benefits

Make sure you report the various federal and provincial pandemic and payments received e.g., CERB, CRB, CRBC, CRSB. You should have received a T4 for the taxable amounts.

B. Other Issues

5. Canada Training Credit (CTC)

Effective in 2019 you are entitled to a refundable Canada Training Credit if you meet certain qualifying conditions. The credit accumulates at a rate of \$250 per year – lifetime maximum \$5000. You can claim this credit if you enroll and pay fees in a post-secondary or vocational course from an eligible university or educational institute.

If you meet the eligibility requirements, you will automatically accumulate \$250 towards your Canada training credit limit. The credit will appear on your NoA. It appears that you do not have to apply to qualify for this credit.

To qualify you must be 25 to 64 years old and your income for the year must be between \$10,000 and \$150,000. You can claim the lesser of 50% of tuition fees or the accumulated amount in this fund, whichever is lower, as the training credit. The maximum lifetime tax value of the credit is \$750 (15% of \$5000),

6. Canada Child Benefit (CCB)

Families can apply for a payment of \$6,833 for each child under 6 and up to \$5,765 for each child aged 6 to 17. You have to apply for this benefit and provide additional documents. This is tax-free money.

7. OAS increase for Seniors

Good news for seniors in the recent federal budget. If you are 75 or older at the end of **June 2022**, you will receive a one-time payment of \$500 in **August 2021**. In addition, the monthly OAS benefit will increase by 10% in July 2022.

The OAS claw-back for 2021 starts at \$79,845 and is totally recovered at \$129,260.

8. Bank of Montreal – Class Action lawsuit settlement

More good news re: the class action lawsuit against the Bank of Montreal Investorline Inc and BMO Nesbitt Burns Inc (the defendants - BMO). The lawsuit applies to ~135,000 BMO class action members with certain types of registered accounts with defendants between June 14, 2001 and Sept 6, 2011.

In February 2020, the Court found the defendants liable for breach of trust, fiduciary duty, and contract. Under the settlement terms the defendants will pay \$100 million into a settlement fund. (The defendants do not admit any breaches in settling the lawsuit.) The settlement is scheduled for approval by the Court on May 12, 2021 and payments should go out within a year of the approval date.

The settlement amount will be pro-rated amongst the class members who purchased or sold investments or received interest or dividends denominated in a foreign currency. Also see www.rrspclassaction.com.

9. Bonds - 'Risk Free' Interest Rates

April 23, 2021	Current Rate	Previous Month
3-Month Treasury Bill	0.09%	0.13
1-Year Treasury Bill	0.24%	0.16%
2-Year Treasury Bond	0.33%	0.25%
5-Year Government Bond	0.94%	0.82%
10-Year Government Bond	1.52%	1.34%
30-Year Government Bond	2.05%	1.77%
Prime Rate	2.45%	2.45%

Inflation (CPI) for the 12 months ending March 31, 2021 was 2.2% up from 1.1% in February 2021. Short-term 'real rates' of return (interest rate minus inflation) are negative for all the periods shown above. The Prime Rate, set by the major Canadian banks, is unchanged at 2.45%.

There appears to be a significant disconnect between what people are seeing daily with respect to higher food, gasoline, and other goods vs. CPI. For 2021 CPI inflation is projected to be ~1.6%.

10. Measures of Investment Performance

“if you aren’t measuring your (investment) performance you aren’t managing it”

Return performance is the sole responsibility of the owner of registered pension plan accounts such as a RRSPs, DCs, LIRAs. LIFS etc.

Despite the economic impact of COVID the median return for Canadian balanced fund managers in 2020 was 8.75% before fees - definitely more than inflation or paid interest rates. The 2020 returns for major Canadian Fund Balanced funds are shown in the attachment.

How did you do vs. professionally managed balanced funds?

Tax is a critical part of a financial plan.

The investment industry keeps churning out new products such as SPACs, leveraged ETFs and new junior equity issues. If you are in an employer pension plan such as a DC, RRSP or PRPP, you should be provided with information and tools to assist you in managing your pension investments and plans but, you have to use them. Do not depend on a 3rd party to understand your financial objectives or ‘look after you’.

Without a financial plan you are likely facing future retirement problems and stress. A financial plan helps you ask the right questions and understand the issues: it leads to better financial decision making for you and your estate. An ‘informal’ plan is not effective - each individual’s situation is unique and can be complicated. In addition, things usually change with time with unexpected consequences, A comprehensive tax component has to be part of a financial planning model. Consider using an experienced person using a comprehensive financial model to develop your financial plan.

Avoid paying advisor fees based on the value of your investments. Use an advisor who provides good service and charges a flat annual fee (generally \$500- \$1500 per year).

If you would like a specific topic covered in a future Newsletter or, to be removed from the mailing list, please let me know.

Previous Newsletters and additional pension information is available at <https://www.thepensionadvisor.info/>

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