

# Newsletter VOL XXXIX – Running - on one spot . .... Aug 2021

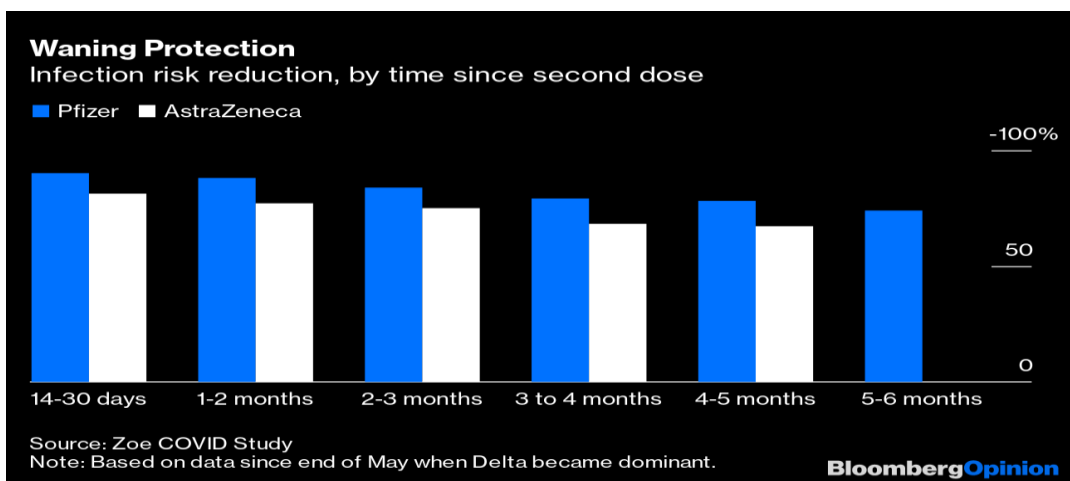
Retirement and financial planning require time, effort, and specialized knowledge. This newsletter is intended to help you plan your retirement and to assist working folks prepare for the future. *It may include general comments on investing but does not provide investment advice.*

## Overview

The election, Covid 19 'D', Afghanistan, and inflation, were dominant issues in August. In August CPI was 4+%. Many economists predicted that CPI would only 3.9 % in the 3<sup>rd</sup> Q. Higher prices and empty shelves are appearing in stores as a result of supply chain bottlenecks and disruptions. Food prices also are higher because of droughts in key agricultural areas in North America. Is the inflationary trend shown below transitory?



A 3<sup>rd</sup> Covid 'booster' shot is likely to be available once the most people have had two shots.



It would appear another minority Canadian government is in the cards: it is not clear what an election will accomplish. Russia will hold elections in September – another example of waste of money. Trump irrevocably set in motion the US withdrawal from Afghanistan. Biden could have done a better job carrying it out.

People and advisors usually focus on accumulating retirement assets and tend to ignore the retirement or de accumulation phase which, in most cases, is more important and complex.

*You've got to be very careful if you don't know where you are going, because you might not get there.* - A.P. Berra

## A. Short and sweet

- a) The best way to measure a fund manager or your portfolios performance is to compare it to a comparable passive (index fund) alternative. [W.F Sharpe, Nobel Laureate](#)
- b) Since 2010 investors in mutual funds and ETFs earned on average 7.7% (a benchmark for your portfolio?) [\(Morningstar\)](#)
- c) J.P. Morgan (USA) is converting \$10 B in mutual funds to ETFs re: intraday liquidity, transparency, lower fees, etc. (Investors have been switching as well re: fees, simple to understand, *minimization of market risk* and performance.)
- d) RBC,TD, CIBC will only offer their own proprietary mutual funds as investments options and no longer offering 3<sup>rd</sup> party funds. The additional fees will add to the banks' bottom line. [Fair Canada](#)
- e) An Ontario Court has denied an appeal by BMO investments for improperly paying trailer fees to discount brokers who were expected to but did not provide advice to investors.
- g) The Canada Pension Plan is worth ~\$476 billion which is ~\$201 billion more than is needed to fund CPP pension payments for ~100 years. [Ross McNaughton, Professor Emeritus](#). Yet, CPP premiums are going up and monthly benefit payments have not kept up with 'household' inflation.
- d) Only 47% in 2021 vs. 48% of people in 2020 feel they are financially ready for retirement. This is less than the 55% in 2019 and 56% in 2015. (Covid-Sar2? Inflation? Uncertainty? No financial plan?) 17 % expect to work longer due to the pandemic. [2021 Benefits Canada CAP Member Survey](#)

## B. Tax Information

### 1. Taxation of Cryptocurrencies

Cryptocurrencies and blockchain technology are frequently in the news. Most people don't understand what they are, how they work or how they are taxed. Caveat emptor! A summary of the basics is included in the attached article - ["CRYPTOCURRENCIES – Basics and taxation"](#)

## C. Other Issues and Information

### 2. Plan Sponsor Conflicts of Interest – Myths

Many sponsors and CFOs incorrectly believe that by offering a DC, RRSP, PRPP or, a TFSA as part of a pension program their fiduciary role and responsibilities and the potential legal risks are minimal. The following are some of the common 'myths' about DC, RRSP and PRRP programs.

- a) **"You can outsource (transfer) all your fiduciary responsibilities"** to limit legal and financial risk. This is incorrect: a sponsor is always responsible for overseeing the 3<sup>rd</sup> parties service providers used in the plan. In other words, you cannot waive fiduciary responsibility for the plan.
- b) **"The plan administrator can be a 3<sup>rd</sup> party"**. The company or financial institution that holds the members accounts and assets i.e., provides the pension platform etc., is the not the plan administrator. The sponsor, by legislation, is deemed to be the plan administrator but can hire 3<sup>rd</sup> parties to assist in administering plan.
- c) **"Fees matter most"**- While fees are important there are other facets of administering a pension program that are equally important and potential sources of litigation: member education and

communication, investment options, monitoring of 3<sup>rd</sup> party providers, fiduciary training and education of oversight committee and the administrator, etc.

- d) **“Regular formal fee reviews are not required.”** Fees are only required to be reasonable, but the sponsor has to be able demonstrate this. Periodic formal fee reviews therefore should be undertaken.
- e) **“The main difference between active and passive funds is cost.”** The demographics of a plan’s membership are a factor in administering the plan and investment options. Age, education levels, location, investment sophistication, whether the member remains in the plan after retirement etc., are facets of a plan that cannot be ignored. Advice and education, and communications and service levels are also factors. Simply having a low cost ‘passive platform’ is not sufficient from a fiduciary perspective.
- f) **“The CAP guidelines are a substitute for legislation and regulations.”** The CAP Guidelines are only guidelines and would only be cited as indicators of best practices in a legal action. New guidelines are regularly issued or updated.
- g) **“Potential litigation risk and cost of administering a DC or RRSP program is less than for a defined benefit plan.”** DB plans have been around a long time. Significant DB legislation and regulations are in place and there is considerable juris prudence on specific issues. Canadian DC, RRSP and PRPP pension programs on the other hand are relatively new. There is limited legislation and regulation in place and, juris prudence for DC, RRSPs and PRPPs in Canada. From a legal perspective DC and RRSP programs likely represent a greater legal risk to sponsors than DB plans. When the fiduciary aspects of overseeing and administering a DC, RRSP or PRPP program and the potential financial and legal risks are considered the cost is likely similar to a DB plan.

### 3. ‘Risk Free’ Interest Rates - Government Bonds

Sept 20 , 2021	Current Rate	Previous Month
3-Month Treasury Bill	0.13%	0.18
1-Year Treasury Bill	0.26%	0.28%
2-Year Treasury Bond	0.45%	0.46%
5-Year Government Bond	0.86%	0.88%
10-Year Government Bond	1.22%	1.25%
30-Year Government Bond	1.77%	1.81%
Inflation	4.1%	3.7%
<b>Prime Rate</b>	2.45%	2.45%

There is a significant disconnect between ‘household’ inflation and CPI. The Prime Rate, which is set by the major Canadian banks, is unchanged at 2.45%.

The inflation rate in August was **4.1%** up from 3.7% in July. The BoC inflation forecast for the rest of 2021 to 3%. Projected inflation for 2022 is 2+%. Both appear to be too low at this point.

The ‘real rate of return’ is defined as the current risk-free rate less inflation. Real rates of return in Canada are negative as well as in other parts of the world.

Negative real returns mean that investors experience declines in the purchasing power. Negative real yields have occurred in the past e.g., in the 1930s, 1940s, 1970s, and early 2000. Overall, they have occurred about a third of the time since 1927. Negative real returns pose significant challenges for government policies and personal spending and investing. For example, one way to offset the loss of purchasing power is to increase investment returns by taking on additional investment risk.

***Tax is a critical aspect of retirement and financial planning.***

The investment industry continually churns out new investment products. The government also provides different benefit programs to help low-income earners. If you have an advisor assisting you with retirement planning, they will know about new investment offerings and, if you qualify for government assistance programs. The advisor should also be aware of the tax rules and requirements regarding all types of investments to assist in filing your tax return.

Using an advisor and having a formal financial plan in place minimizes retirement problems and stress. It leads to better financial and estate planning decisions. An 'informal' plan is not effective - things often change with unexpected consequences. Most importantly, to be effective a financial plan must have a comprehensive tax component. Most don't!

Consider using an experienced person with 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 to see information on specific topic 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/>

**Gerry Wahl, Managing Director, The PensionAdvisor**

**B Comm UBC (Actuarial Science), CPA (BC), MBA**

**Phone – 604-985-0996 – or -778-866-6066**

[pensionadvisorywahl@gmail.com](mailto:pensionadvisorywahl@gmail.com) [www.thepensionadvisor.info](http://www.thepensionadvisor.info)

The comments and opinions expressed herein reflect the personal views of G. Wahl. The information included in this document, including opinions, are based on various sources believed to be dependable, but its accuracy and completeness is not guaranteed. The information presented and any financial service being offered is directed at persons who are residents of Canada.