

# MONEY WISE *Magazine*

VOLUME 12; ISSUE 4

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What you need to know

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Not anymore! Province halts  
impending premium increase.



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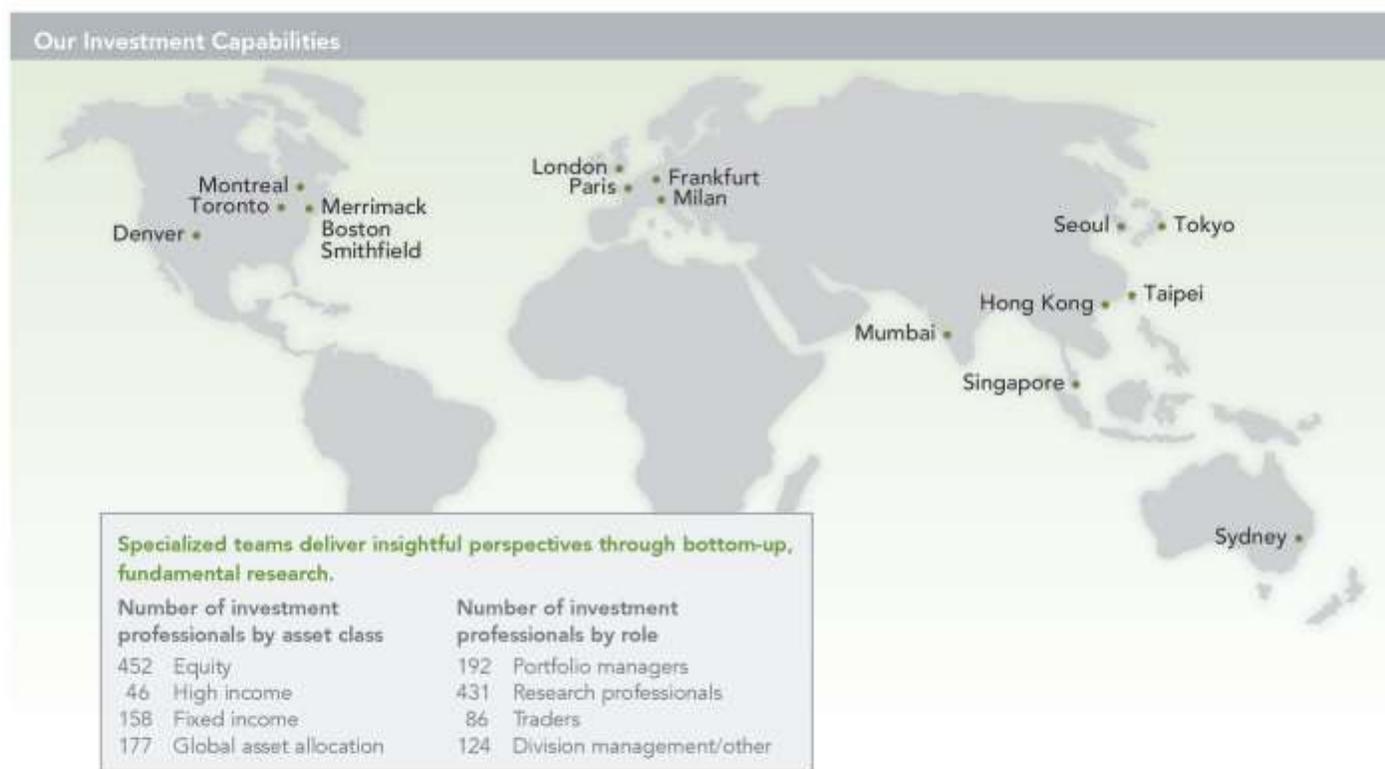
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# In This Issue...

There has been a lot of talk about the state of the markets in the news as of late, along with many changes to taxation laws and Pharmacare news that could affect you. On top of the industry's news, we've also had some recent changes to the office that we would like you to know about.

After 5 years of hosting the YMCA's Regional Development Centre, they will be moving to the YMCA of Greater Halifax/Dartmouth ahead of the construction of the new YMCA facility on South Park Street. While we are sad to see them go, it has opened the door to welcoming new strategic partners to Trinity Wealth over the coming months.

On that note, we are pleased to announce that we've been joined by a new advisor, Lorna Maughan. Lorna moved to Nova Scotia from Bristol, England in 2015 and has over 25 years of experience in financial planning, specializing in pensions and investments in the UK. Whether advising corporate or personal clients Lorna has always prided herself on providing holistic financial planning based on risk tolerance and portfolio management. She is very excited to have joined the team at Trinity and she is very keen use all her skills

gained from the UK here in Nova Scotia. Welcome, Lorna!

New advisors in our office are an excellent opportunity for everyone here to share ideas, stimulate discussion on both investment and insurance product and planning strategies, and has thus far proven to increase the collective financial planning knowledge we at Trinity Wealth Partners have to offer our clients. While each advisor keeps their own business and clients separate from the others (including client files and account access), we have the distinct advantage of a financial think-tank with input from advisors coming from a range of specialties. Lorna's featured article this quarter addresses the complexity of transferring your overseas pension to Canada and the considerations that should be given due to the unique features of UK pension plans.

It's usually around this time of year that we hear from many of you regarding topping up one or both of your RRSPs or TFSAs. Patricia has some good advice in this edition about more effective means to make your RRSP contributions more manageable. This year we've also been fielding questions about the state of the markets and the Canadian dollar. For Rick's thoughts on the markets, see the next page.

2016 is shaping up to be a year of legislation changes both federally and provincially. We've covered the impending/potential taxation changes in more detail in this edition of our newsletter along with the halt on changes to the cost of Nova Scotia's Pharmacare program for seniors.

If you'd like more information on any of these topics please be in touch!



**Natalie LeBlanc**  
*Marketing Assistant*

# Market Watch

I think we can all agree that 2016 hasn't started off on the best foot investment-wise. But unless you had your entire portfolio in energy stocks, the situation isn't quite as bad as the media suggests.

Although the headlines about volatile markets can be unsettling, it is important to keep the big picture in mind. Stock markets in particular are often subject to temporary ups and downs that, at times, can seem extreme but over the longer term the general direction has been up. I continue to believe that a well-diversified portfolio that reflects your financial goals and tolerance for risk can help to smooth out those peaks and valleys as well as provide an excellent opportunity for building wealth, and maintaining purchasing power against inflation over time.

Over the past few weeks I have attended numerous webcasts and conference calls and have heard updates from close to 20 different investment professionals who combined have nearly 500 years of investment experience through many different market environments. The general

consensus is that this is not just a run-of-the-mill correction (defined as a loss of more than 10% and usually short lived) but rather quite likely meets the definition of a bear market (defined as a loss of 20% of greater and usually a little more drawn out). However, it is expected to be a classic "bear market pause" inside of a longer term bull market cycle and, as such, is seen as a healthy adjustment to a market that in many cases was getting stretched. Markets that accelerate positively for too long, and where stock prices soar above economic realities, are the breeding ground for bubbles and it is the popping of these bubbles that leads to more difficult downward market adjustments. That is not to say we should celebrate a bear market, if that's indeed what we are in currently; it is merely to suggest that they are usually a healthy pause and a moment for market participants to reassess their

growth expectations and the prices of the companies trading within the market within that context.

Bear markets are a fairly common occurrence, occurring once about every 6 years, and we haven't had one since the bottom of the financial crisis occurred in 2009. They are a routine part of the upward climb of financial markets, are usually short-lived and markets can recover from them within months or a few years; unlike the much more severe financial crashes of 2000 and 2008 which took many years to recover from. While we may have some further downside to endure, nearly all of the fund managers I heard from felt that things should improve materially in the second half of the year and that, despite this awful start to the year, we should close 2016 with a low single digit positive return; setting the stage for much better results in 2017 and beyond.

This latest downturn was triggered by investors feeling the need to reassess growth expectations, and in turn stock prices, in the face of a (mostly intentional) slowdown in China and the removal of some of the stimulus in the US. In addition, there has been uncertainty as to whether the dramatic drop in oil prices was a result of oversupply in the part of OPEC nations trying to drive Western producers out of market or indicative of a more pronounced global slowdown. Despite these uncertainties, everything I've heard from the investment professionals I've been in contact with suggests that this is a routine market adjustment and not the beginning of any larger downward trend or that we are on the verge of a global recession. My feeling is that this will ultimately be looked

back on as a "v" (and a lower case one too) on the jagged chart reflecting the market's performance over time.

In times like these, the stocks with poor fundamentals or excessive valuations tend to bounce like rocks while the better quality companies that were "thrown out with the bathwater" tend to bounce like tennis balls and rebound sharply once the dust settles. Using another analogy, the stock market behaves like an escalator typically on the way up and an elevator on the way down; meaning the downturns when they come are much sharper and more dramatic than the ups, but over time the trend has been up if you can stay the course.

How your own portfolio's performance has mirrored the broader markets lately depends on several factors; including the overall asset

mix (stocks, bonds, alternative assets), to what degree you are diversified by geography, as well as tactical decisions made by individual managers at the individual stock, bond and currency level. While I am obviously not happy with the shorter term performance of markets I am confident that this is a necessary transition process that will set the stage for better returns later on. I also take comfort that each of the 5 target portfolios we have built for clients, from aggressive to conservative, were designed with a certain expectation of downside capture in mind, and these have held true to their objective in that respect. Should you have any questions about your investments or the outlook for the coming year, please do not hesitate to contact my office.



***Rick Irwin, CFP, CLU**  
Financial Planner,  
Investment Representative*

# How Taxation Changes

There is an old saying that the new broom always sweeps clean. This is certainly true in politics. Last year Trudeau's Liberals won a decisive victory and promised sweeping changes for Canadians, including in their tax policy.

Here is a look at some of the proposed tax changes based on the specific groups that they will impact:

Middle class taxpayers

The federal second tax bracket (known as the "middle class bracket") will be lowered from the current rate of 22% to 20.5%. The middle class bracket includes income between \$45,282 and \$90,563 and will provide a maximum tax break of \$679/year for individuals who earn at the highest end of this range. There were no tax breaks for those earning less than \$45,282.

To help pay for this modest tax cut a new tax bracket of 33% for annual incomes over \$200,000 has been introduced. Previously those who earned over \$200,000 were taxed federally at 29%. When combined with the provincial tax rate, this will push the effective tax rates on higher income to well over 50% in several provinces (Nova Scotia being one of the

highest at 54%). Several commentators have suggested that the government will likely not collect as much tax revenue as expected from this higher bracket as higher income individuals will have behavioural responses to earn less, or augment their financial positions in other ways, to stay below this limit. Many have also suggested that having a tax bracket north of 50% puts Canada at a competitive disadvantage globally. Another, perhaps unintended, consequence is the number of estates of middle class Canadians that will have at least some portion, and perhaps a fairly large portion, of the estate taxed at this new higher rate. Perhaps some consideration will be given in future to an intended tax increase to higher income individuals punishing middle income Canadians upon their passing.

## INCOME SPLITTING

The Family Tax Cut, in force for just one year which

allowed families with young children and spouses who had a large dispersion in income between them, to reduce taxes by up to \$2,000, will be cancelled. This probably has a fairly limited impact as this program was not being utilized by the vast majority of working families.

Do keep in mind that pension income splitting for seniors remains unchanged.

## FAMILIES WITH YOUNG CHILDREN

The government announced that it intends to create a new Canadian Child Benefit which is a monthly tax free payment that will replace the current mix of programs that include the Universal Child Care Benefit (a non-income tested program) and the Canada Child Tax Credit & National Child Benefit Supplement (both income tested programs). The new benefit will be income tested and will provide a maximum benefit of \$11,800 for families with two children where household

# Will Affect Canadians

income is \$15,000 or less. This benefit is clawed back as income increase and will disappear completely when combined family is \$200,000 or more. For combined family income between \$90,000 and \$140,000, the income will be similar to what was provided under the former UCCB (though it is now a tax free payment.) More details and a calculator to see what your new estimated entitlement will be can be found here: <https://www.liberal.ca/realchange/helping-families/>

## LOWER INCOME SENIORS

As a positive for soon-to-be retirees, the government announced that it will roll back the eligibility age for the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) to 65. (It was planned to be phased out to age 67 under the Conservatives).

The Guaranteed Income Supplement, which is an enhancement to OAS that is payable to low income seniors, will be increased by 10 percent.

Another positive development is the introduction of a new “Seniors Price Index” which will ensure that OAS and the GIS payments keep pace with the real world inflation experienced by seniors on things like food, heating and prescription drugs; the costs of which have historically exceeded the basic inflation rate. (It is not currently expected to be linked to CPP.)

## STUDENTS

The government plans to eliminate the education and textbook tax credits. Combined these credits were \$465 per month of full time enrollment and \$140 month of part time enrolment. For a typical 2-term school year this means a diminished tax credit of \$3,720 per year.

Better news is that an overhaul of the student loan system is likely; ensuring that a graduate will not have to make any repayment until they are earning at least \$25,000/year.

## FIRST TIME HOME BUYERS

This program is also likely to be given a facelift. Currently

you can only use the program for your first home or if you haven't owned a home in the preceding 5 calendar years. The government proposes to make the plan more flexible, to better respond to sudden life changing circumstances such as caring for an elderly relative.

## INVESTORS

As expected, the government rolled the TFSA contribution limit back to the previous limit of \$5,500 and re-introduced indexing (meaning that every four years the limit should see an increase of \$500). As of 2016 the allowable lifetime contribution limit is now \$46,500 per person.

If you would like any further details on any of the above, and how they might impact your financial situation, do not hesitate to get in touch.

*Rick Irwin, CFP, CLU  
Financial Planner,  
Investment Representative*

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# Will Pharmacare Cost You More this Year? Not Anymore!

Pharmacare is a program offered by the province of Nova Scotia that allows both seniors and families access to a drug care program at an affordable price. The provincial government was set to increase premiums April 1st but backed down after backlash from Nova Scotians.

The program is designed to provide relief to families who either do not have insurance coverage or require more prescription drug coverage. There is no cost to join the family Pharmacare program but there can be a large deductible which is based on your family income and the number of dependents you have. The seniors Pharmacare program is utilized much more than the family program and is available to seniors age 65 and older. (You should contact Pharmacare three months prior to your 65th birthday to request an enrollment package.) If you do not enroll into this program within 90 days of your 65th birthday you will be considered a late applicant and have to pay additional fees.

In April, 2016 the provincial government was set to implement changes to this program that could have

resulted in hefty costs to Nova Scotian Seniors:

- The annual premium being based on income, up to \$1,200 per year (and therefore disclosing annual income to the province of Nova Scotia);
- Seniors on the GIS no longer being automatically exempt from the annual premium;
- The copayment (amount of each prescription you pay out-of-pocket) being reduced from 30% to 20% per prescription, which actually would have been a positive change.

Thankfully, as announced by Stephen McNeil on February 18th, the province has halted the above planned changes. The Canadian Association of Retired Persons for Nova Scotia received such outcry from

residents that the province decided not to increase premiums this year.

In fact, in a bit of good news, once change will proceed: the premiums for seniors with low incomes that aren't on the Guaranteed Income Supplement will be lowered. The province estimates 12,000 people who paid in 2015 will not have to pay in 2016.

We expect an increase to these premiums is on the horizon in years to come, but the province hasn't yet set a timetable for further changes.

If you would like more information on either program or how they compare to a private policy let us know as we'd be happy to help out.



*Melissa Allan*  
Investment Representative

# How Not to Offset Capital Gains

Capital gains triggered from the sale of non-registered securities like mutual funds or stocks can sometimes take investors by surprise if they don't understand the tax implications of selling these securities. Other times, the planning that went into offsetting these gains doesn't quite pan out.

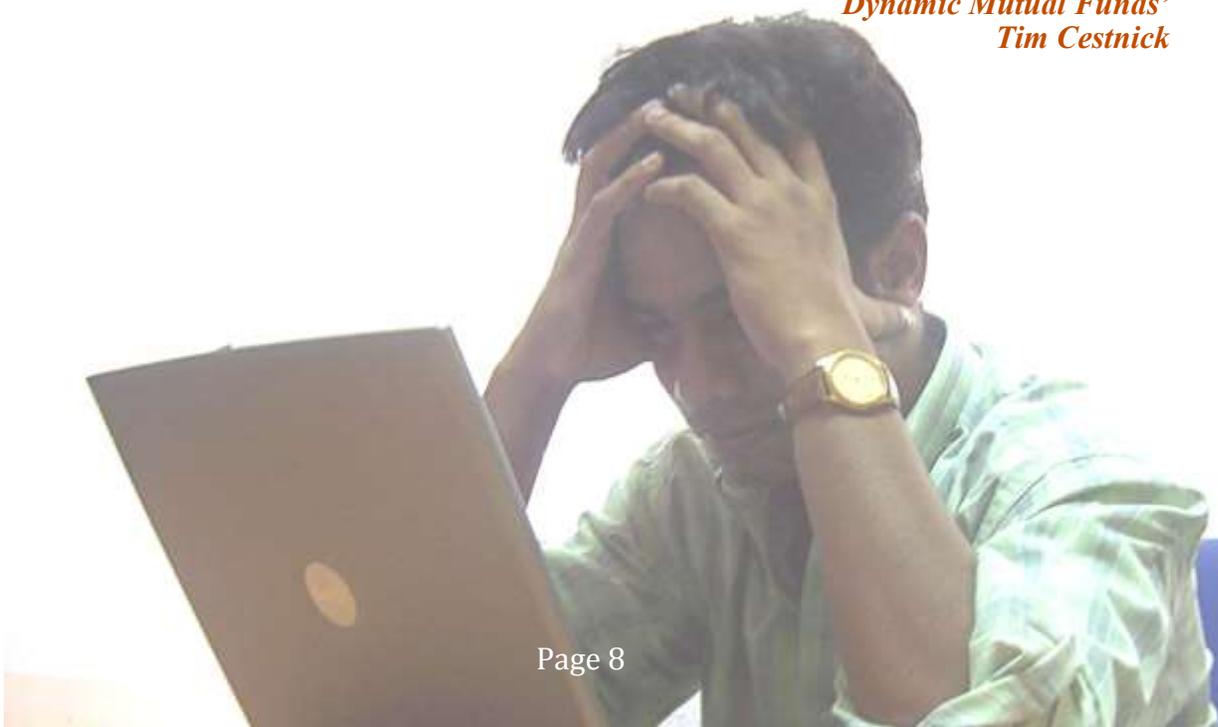
You've got to feel for a man we'll call Jason. He called me last week in dire need of some tax help. Jason had sold some stocks in 2014 for a \$100,000 profit. Without any planning, Jason was destined to pay taxes of \$23,205 on this capital gain.

Not wanting to suffer this type of tax bill, Jason did what many quick-thinking investors would do. He identified several stocks in

his portfolio that had dropped in value, and decided to trigger \$80,000 in capital losses, to largely offset his capital gains. Jason's problem? He simply transferred the losers into his RRSP, as a contribution in-kind. His thinking was that he'd be able to claim the \$80,000 in capital losses, and an RRSP deduction to boot, which would then offset all the tax on his gains.

Jason didn't realize that when you transfer any investment directly into your RRSP, it's considered to be a disposition at fair market value, but any losses on the transfer are denied. This mistake cost him \$18,564 in tax. The solution? He should have sold his losers on the open market, then contributed the cash to his RRSP. This would have given him the result he was looking for.

*Courtesy of  
Dynamic Mutual Funds'  
Tim Cestnick*



# Transferring Overseas Pensions to Canada

When moving to Canada from the UK I am sure the last thing on your mind is “what should I do with my UK Pension Plans?” Hopefully some of the information below will prove useful and informative.

When I first moved to Canada, I saw lots of ads encouraging British expats to move their pensions. However, I've been a pension advisor in the UK and know how complicated UK pensions can be. You could have one of several pension types, including: final salary, money purchase, Section 32, 226 or a straight forward personal pension. Each has different pension rules – and both positive and negative attributes. Whether you should transfer your pension depends on a number of considerations. Would it be beneficial or detrimental to transfer your pensions to Canada? What tax benefits would be lost or gained? How would Her Majesty's Revenues & Customs (HMRC) view a transfer? How easy would it be to transfer your pensions to Canada?

In deciding whether or not to transfer, the first question I would ask is do you think you're likely to retire here in

Canada? If so, having all your finances in one place and in a single currency would certainly be beneficial since currency rates, of course, fluctuate. At the current CDN-GBP exchange rate, for every £1 you get \$2. This means that for every £50,000 transferred you would be able to invest \$100,000. With the Canadian dollar's current value, now certainly seems like a good time to consider transferring your pension.

If you've decided that you're ready to consider transferring, you need to be sure you're not giving up valuable benefits. It's important to review each of your pension plans with your advisor and assess the advantages or disadvantages of transferring. The transfer must be what HMRC calls a “recognized transfer” and your pension plan administrator must approve an overseas transfer. If you don't meet these conditions, you might have to transfer

between plans within the UK before transferring overseas. The actual UK to Canada transfer process is quite simple – the difficult part is understanding what pensions you have and which ones you should transfer.

Once the transfer has been made you also need to decide how to invest your pension – there are several factors to consider. Having in-depth knowledge of UK pension rules helps me guide you through this process.

There are complexities of UK pensions that I don't believe comes across from advertising I've seen, but with the right help, this process doesn't have to be difficult. It can be very beneficial to transfer your pensions, but it's crucial to get the right advice.

If you'd like more information on UK pension transfers, please give me a call.



**Lorna Maughan**  
*Investment Representative*

# Scrounging for an RRSP Contribution?

The term “RRSP Season” should be familiar to those of you who own an RRSP: the scramble to top-up your RRSP before the deadline in order to either reduce your tax bill or increase your refund. But is there a better way than to scrounge for extra cash, especially after Christmas?

Well, it’s that time of year again. The media’s investment gurus are barraging us with pleas to make our RRSP contributions before the Feb. 29, 2016 deadline.

Don’t get me wrong, making an annual RRSP contribution is one of the best ways to plan for your ideal retirement (you know the one you see in all the glossy ads). Not to

mention it’s an effective tool for reducing your taxable income. But is there a better way than scrounging for extra cash after recovering from the holidays or planning your winter escape?

Yes, there is!

A regular monthly or bi-weekly RRSP contribution – also known as pre-authorized contributions (PACs) – not only takes the sting out of the last minute scramble for cash, it’s also a better investment strategy. Financial markets are unpredictable. Instead of making a single lump-sum RRSP contribution, having a regular PAC helps you take the guesswork out of when the best time to invest might be.

Today? Tomorrow? Next week? Regular contributions smooth out the bumps. When markets are down, you’re buying into your investment when it’s more or less “on sale.”

This year, after making your RRSP contribution, why not start a regular contribution to your retirement dream? It’s easier on your wallet, easier on your time and just better planning. Whether your dream looks like the ads or not, help yourself make it a reality.



**Patricia Bell, PFP**  
*Financial Planner,  
Investment  
Representative*





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1095 Bedford Highway  
Bedford, NS  
B4A 1B7

(902) 835-1112  
[www.trinitywealthpartners.ca](http://www.trinitywealthpartners.ca)  
[info@trinitywealthpartners.ca](mailto:info@trinitywealthpartners.ca)

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