Clearview Financial

INVESTOR'S QUARTERLY

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CANADIANS RETIRING LATER

So what happened to "Freedom 55?" We are now retiring later—often *much* later—than the magical age '55' that's been planted in the Canadian brain since the famous slogan made it's debut in 1984. Canadian Economist and demographer David K. Foot, author of Boom, Bust & Echo, says the concept of retiring at 55 "never had anything to do with facts, even originally. It was more a brilliant marketing strategy." Let's look at why the average Canadian doesn't retire at 55...

Demise of Defined Benefit Pension Plans. These have mostly been dropped in favour of Defined *Contribution* Pension Plans, where you have no guarantee what your pension income will be (if you're lucky enough to have a company pension plan at all). Most of us who don't work in the public service sector must fund our own retirement beyond what is provided by the CPP. At one time it was the norm to start and finish your career with one company. After 25 years, you'd get a gold watch at your retirement party and walk away with a generous pension. These days, younger employees move around frequently looking for the best opportunity and there is little job security. Companies trying to remain competitive in our global economy, may reduce pension benefits and lay-off workers to remain profitable. This means more working years are required to save enough to feel secure.

Boredom. Have you thought about what you will do with all that free time? It could affect the relationship you have with your spouse. For people who thrived doing a job they loved, retirement is a big adjustment. We're now seeing more seniors sharing their experience & wisdom by taking on consulting roles or keeping busy with part-time work in a new field.

Health Concerns. Government funded services for the elderly are unable to keep up with demand and it will only get worse as the Boomer generation enters their retirement years. Private Assisted Living Retirement Homes and nursing care don't come cheap. If you're still years away from retirement, consider long-term critical care insurance while you're young enough to afford the premiums. Otherwise, working longer may be necessary to save additional funds for this potentially significant expense.

Increased life expectancy. With record low interest rates, building and maintaining that retirement fund to last a lifetime is more challenging than ever. Interest rates on savings accounts and GICs can't keep pace with the rate of inflation. Professional money management is more important now than ever before to navigate an increasingly complicated investment environment.

UNCERTAINTY AFTER BREXIT VOTE

In our Summer 2015 Newsletter, we covered the situation in Greece and the results of their referendum and it's impact on the markets. We also talked about a slowing economy in China and how that might affect us. The big global story this summer is the BREXIT referendum in the U.K..

On June 23rd, British citizens cast their votes after a heated campaign to decide whether the UK would leave or remain as a member of the European Union (EU), which they've been part of for over 40 years. Globally, many were surprised by the final outcome which saw the Leave side narrowly beat the Remain side. The U.K. a nation deeply divided. With most of the millennial generation, as well as the majority of London, Scotland and Northern Ireland residents feeling shell-shocked, there's already a movement building to hold a second referendum requiring a larger majority of votes before proceeding with a 'no turning back' decision to exit. Scotland's First Minister Nicola Sturgeon has indicated her intent to protect Scottish interests and remain in the EU. This could lead to a second separation referendum there.

Prime Minister David Cameron offered his resignation soon after the results were revealed. Britain now appears to be a rudderless boat as they struggle to come to terms with the outcome of the vote and what it means for their future. An MP on the Leave side admitted they 'have no BREXIT plan.' The scramble is on to replace the Conservative leader while the EU has indicated they will not tolerate delays in moving forward to negotiate an exit strategy. Europe wants a swift exit to limit global fallout. The EU is not perfect and some reform will likely be necessary to dissuade other countries from exiting as well.

UNCERTAINTY

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OPPORTUNITY

The heaviest fallout for the U.K. will be in their financial sector because they will no longer be allowed to engage in unrestricted trade in financial services. Banks will lose their "passport" privileges, which enabled them to easily open branches in other EU countries. The U.K. exports 40% of their financial services to the EU so this is significant. That being said, when they are no longer under the control of EU regulators, the U.K. will have the ability to ensure their own global competitiveness and possibly fast-track renegotiations of trade agreements with other important financial centers in the U.S., Asia, and here in Canada.

As expected, the referendum generated a great degree of uncertainty amongst investors and short-term volatility in global markets is expected as this news continues to be digested. The British pound lost significant value as money retreated to the 'safety' of the US$, Japanese Yen and Gold. We expect some market turbulence this summer as uncertainty weighs on the market. The effect on the Canadian market has not been significant so far. Utilities have held up well, lower stock prices lead to higher dividend yields, and interest rates are expected to remain low.

As mutual fund investors it's times like this when we realize the value of having a professional money management team on our side. Prior to the BREXIT vote, most positions in the U.K. and Financial Services Sector had already been adjusted downward in global portfolios. Active management is key during challenging market conditions. As financial advisors we attend many fund manager meetings and get regular updates. We are fortunate to have a team of pros on our side continuously monitoring market conditions, making portfolio adjustments as necessary and methodically assessing the investment opportunities that inevitably arise during periods of uncertainty.

Sources: Investment Executive, Reuters, Yahoo Finance, The Canadian Press

CHANGES TO CANADA PENSION PLAN

The CPP is not meant to fund 100% of your retirement.

The Canada Pension Plan (CPP) began 50 years ago to build on the existing Old Age Security. The difference was that the CPP payouts would be based on your lifetime earnings, rather than a flat amount. The more you paid in, the more you would receive. The CPP ran into problems in the 1980s, running deficits that extended into the 1990s. Changes were made after negotiations between federal and provincial governments to limit benefits, increase contributions and create a surplus account to be invested. Since then, it has remained stable.

Recognizing that some Canadians still struggled with very low incomes in retirement, reform plans to boost the CPP were made and agreed to by the Federal Government and most Provinces and Territories in June. The goal is to address the evolving needs of our aging population and changes in the economy and labour market.

Premier Kathleen Wynne's proposed Ontario Retirement Pension Plan (ORPP) will now be scrapped in light of the recently announced CPP enhancements. The expanded CPP will be a new, separate tier added on top of the existing CPP. Employer and employee contributions will both increase by 1% and will be phased in over the next nine years to 2025. The new contributions will be accounted for separately and will be tax deductible (not a tax credit).

The new portion of the CPP will be a target benefit plan. This means benefits are not guaranteed and contributions can be changed if reality doesn't turn out the way the pricing actuaries assumed (this is consistent with the design of the basic CPP). And it will be fully funded, which means everyone pays for their own benefits with no debt passed to the next generation.

As payroll contributions increase, there may be some downward pressure on wages or employment, but the payroll contribution increase is limited to 1% for most workers, so pressure should be limited.

A planned expansion of the refundable tax credit known as 'Federal Working Income Tax Benefit,' will help low-income Canadians offset the increase in premiums.

The maximum amount of income subject to CPP will be increased by 14% to $82,700 between 2024-2025. By 2025, every Canadian will contribute up to $9,000 to the CPP annually (includes employee and employer contributions). The greatest benefit of this CPP enhancement will go to the younger generation, as it will take years to realize the maximum benefit (e.g. someone who's 25 years-old in 2025 will have 40 years to contribute at the new contribution level until age 65).

It is vital for Canadians to understand that it's necessary to save for retirement in other ways as well; the CPP is not meant to fund 100% of retirement income. If you don't have a generous pension plan at work, contributing to your individual TFSA and RRSP should be a part of your savings plan—particularly if you are not a member of a generous employer pension plan. Remember, private savings are more flexible because they can be accessed earlier than pension money if unexpected needs arise.

Source: Maclean's, Globe & Mail, Government of Canada, Investment Executive

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