Topic 4

INVESTING

LET'S TALK MONEY

seniors

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INVESTING

If you're like a lot of Canadians, you have been saving and investing for many years to have enough money to retire. After you retire, you may be drawing on that nest egg for two or three decades. Stats Canada reports the average Canadian today lives almost 20 years in retirement.

How do you help make your money last? If you're investing, one of your big is to determine an appropriate asset mix. In simple terms, your asset mix is how you divide your savings across different types of investments (stocks, bonds and cash).

You may want to consult a financial adviser to get the right mix for you. An adviser can help you make sure your asset will align with your goals, your income needs and your tolerance for risk. An adviser can also help you minimize the taxes your will pay on your investments.

Would you like to learn more about investing in retirement? Read **Approach retirement with confidence** or **Five timeless tips for retirees.**

What’s to talk about?

A. What are the best kinds of investments to hold in your retirement years – and how might the “best” differ from person to person?

Many Canadians will turn to investments that generate income when they retire. Others will want to focus on preserving their capital and avoiding losses. Still others will worry about outliving their savings and want to continue to invest for growth.

Given that your retirement savings may need to last 20–30 years or more, you may need to balance one or more of these approaches. Here’s how to start a conversation about finding the best investments for you.

If you are parents of adult children:

- Sharing your thinking about investing with your child(ren) can be a great way to help them learn more about investing. You can start by discussing your financial goals and theirs. Then talk about which investments might work better and why.
- It can be reassuring to your child(ren) to know you’ve had professional advice in choosing retirement investments. If you have a financial advisor, your child(ren) might like to meet with them to learn more about your plans for retirement or investing in general.

If you are an adult child:

- As they prepare to retire, get to know your parent(s) as investors. You can ask them: "Do market swings worry you? Are you worried about how long your savings will last? Have you thought about inflation? Will you invest in stocks knowing there is a higher risk of losses? Or are you trying to reduce risk and avoid losses?"
- It's natural to wonder how your parent(s) is/are preparing their investment portfolio for retirement. You can ask them: "Are you thinking differently now about the way you invest? Are you looking to reduce the risk of losses? Create monthly income? Or is growth still a priority?"
- If your parent(s) are willing to share information on their investment portfolio with you, ask them about changes they've made to align their plan to their goals and their investor profile. What do they think are the best investments for them in retirement and why?

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B. Is it best to put investments into cash and low-risk investment options when you retire?

Some Canadians close to retirement want to reduce the risk of losses when they invest. They may transfer money to fixed-income investments or even cash. Keep in mind there's another kind of risk associated with fixed-income investments: inflation risk. If the interest rate on your bond, GIC or high interest savings account is lower than the rate of inflation, you will be losing purchasing power every year.

Here's how to start a conversation about whether low-risk investments are right for you.

If you are parents of adult children:

- Ask your child(ren) if they are currently invested in cash or low-risk investments and why. Would the same approach work for you? How are your financial goals different? Discuss the difference between investing for the long term and short term.
- Have you consulted with a financial advisor about low-risk investments for your retirement? Have they run scenarios with you so you understand what will happen to your portfolio over time? Share what you've learned with your child(ren). They will want to know that you've invested in a way that will help you finance your retirement over the long term.
- If you filled out a risk assessment questionnaire with your adviser, you could also share it with your child(ren) and discuss.

If you are an adult child:

- If your parent(s) has/have invested a lot of their savings in low-risk investments, you may want to ask them: "How will this affect your income when you retire? Have you considered the impact of inflation? Are you worried about outliving your retirement savings?"

- Ask your parents if they have put aside enough cash to cover at least two years of expenses. This is a way to help ensure they have the money they need for income in the short term. They could still invest part of their portfolio in stocks with a higher potential for growth.
- Ask your parent(s) if they have they received professional advice on whether low-risk investments are suitable for them. Are they confident they will be able to fund the kind of retirement they want over the decades ahead?

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c. Is there an ideal time to cash in investments in terms of taxes?

In non-registered investment accounts, taxes are lower on Canadian dividends, capital gains and return of capital than on interest income. This means you can defer taxes if you delay cashing in investments that earn interest. Note that this advantage does not apply to most registered accounts, including RRSPs or RRIFs. Withdrawals from these registered accounts are taxed as income at your marginal tax rate.

It's important to understand the taxes on your investment earnings. With planning, you can keep more of what you earn as an investor. Here's how to start a conversation about tax strategies.

If you are parents of adult children:

- Have you done any tax planning for your investments – especially as you plan withdrawals in retirement? Share what you know with your child(ren). Remind them the burden of taxes on these assets may shift to them one day as they inherit your wealth. Make sure they are aware of the different taxes on different sources of investment earnings: interest, dividends and capital gains.
- Share any tax planning strategies you are using to reduce or defer taxes on your investments. If you have a financial advisor, you may ask them to talk to your child(ren) about how to plan for taxes on investments.

If you are an adult child:

- Let your parent(s) know you're interested in learning about ways to reduce taxes when you invest. Ask them what they do and if they've had any professional advice.
- If your parent(s) have not considered tax planning, offer to help them find the names of some tax experts to consult. If you have someone you like and trust, offer to introduce them.

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D. How can you pass along various investments to your adult children? Do investments differ in terms of how to best pass them along?

Deciding the best way to pass on investments to your adult child(ren) can be complex. It's always a good idea to consult a qualified professional, especially if you have a mix of assets in your estate. You can then share your tax planning information on a "need-to-know" basis with your adult child(ren). Here's how to start the conversation.

If you are parents of adult children:

Let your adult child(ren) know if you are planning to transfer assets to them and how the taxes will work.

- If you are leaving the proceeds of your RRSP or RRIF to your adult child(ren): you can simply name them as your beneficiary on the account. Let them know the amount is fully taxable as income on your final tax return and discuss how you've planned for your estate to cover those taxes. For example, the taxes due could be paid from the funds in your RRSP or RRIF. Note: if there is not enough cash in your estate to pay the tax, your child(ren) may be personally liable for the tax due.
- If you are leaving the proceeds of a TFSA to your adult child(ren): you can again name them as your beneficiary on the account. In many cases, no taxes will apply. The account will simply transfer to them from your estate.

- If you have other non-registered assets: you may be able to transfer them as gifts to your adult child(ren) or grandchild(ren). In some cases, you may be able to transfer the gift to a TFSA or RESP to reduce the taxes on investment earnings.
- If you want to transfer non-registered investment income and capital gains to lower income family members: seek financial advice about discretionary family trusts. This strategy requires professional advice but can reduce yearly taxes as well as taxes due at your death. After you consult a tax expert, you could arrange a family meeting for them to share information with your adult child(ren).

If you are an adult child:

- Ask your parent(s) if they have considered the taxes due on their estate. To open the conversation, you could talk about a story in the news related to someone who didn't get tax advice on their estate and what happened.

- Research and discuss how your parent(s) might cover the taxes due on their estate. For example, can they afford a life insurance policy to pay the taxes? If not, could you (and your siblings, if you have them) pay for the policy to protect your inheritance?
- You may also want to ask if your parent(s) have received professional tax advice. If they are comfortable with sharing details of their plan, you could suggest everyone meet with their tax specialist.

E. What is a sound investment strategy in retirement to help preserve or grow wealth?

Choosing your asset mix is one of the most important decisions you will make as an investor. It sets the balance of potential risk and growth in your investment portfolio. In retirement, a conservative approach can help you preserve wealth and avoid losses. A more growth-oriented approach can increase your potential returns, but it will also increase the risk of losses.

How do you know which approach is right for you in retirement? Here's how to have a conversation about choosing your asset allocation.

If you are parents of adult children:

- It used to be that retirees chose very conservative investments so they wouldn't risk losing money they might need. But now that people are living 30+ years in retirement, it's more common for people to continue to invest at least some of their savings for growth. Your child(ren) will want to know you've got the right balance of safety and growth for your savings in retirement. Also, do you have quick access to cash if you need it for expenses? If you're comfortable, tell them what asset allocation you've chosen and why.
- If you've consulted a financial advisor to help you set your asset allocation, let your children know. You might want to share how you arrived at your plan and if you plan to revisit it regularly.

If you are an adult child:

- One way to start a conversation is to ask your parents how they're feeling about their investments in general as they retire. You can ask them: "Are you worried about the markets? Are you worried about putting too much money at risk? Are you worried about inflation and the rising cost of living?" This can naturally lead to a discussion about the steps they're taking to balance these concerns.

- If your parent(s) are comfortable talking about their investments in more detail, you may want to ask them how they've divided their portfolio across the different asset classes. Why did they choose this asset allocation? Did they get professional advice? What's their plan if they don't get the results they were hoping for?

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F. How do you know if the person currently managing your investments is doing a good job – and what if there is a difference in opinion about the quality of the service being rendered?

One of the common ways people assess their financial advisor is by comparing their investment returns with an appropriate yardstick, like a stock market index. Yet there are other measures to consider. How well are you doing on your most important financial goals? For example, are you getting the retirement income you need? Are you minimizing the taxes on your investments?

What about harder-to-measure things like effective communication? Here's how to start a conversation about the services you've received from your financial advisor.

If you are parents of adult children:

- If your investments are professionally managed, you may want to let your adult child(ren) know if you're satisfied with the services you receive. How do you evaluate your advisor? Are there areas where you are more satisfied? Less satisfied?
- If you have a concern, you might want to ask your adult child(ren) how they think you should bring it up with your financial advisor. Is the issue something that they think can be improved? Or is it time to get a new advisor?

If you are an adult child:

- Do you have any reason to be concerned about the quality of the service your parent(s) is/are receiving from their financial advisor? To find out more, ask them how satisfied they are with the service(s) they receive. Is there any issue that is affecting the performance of their portfolio? Would they recommend their advisor to others?
- If you uncover an issue, ask your parent(s) if they feel it is something they can work on with their advisor to improve? Get the specifics. For example, if they would like better communication from their advisor, what would they like to see change? Would they like more frequent communication? Or is the problem more about how clearly their advisor communicates?

Ready to learn more?
Read more now about **how to make the most of your financial advisor relationship**

Let's Talk Money: Seniors Conversation Starters

Investing

Questions for you as an Older Adult

- I have been thinking about getting some advice from a Wealth Management Advisor at our bank to help me make some decisions around my longer term retirement objectives. Do you have any advice on what I should be looking for based on your experience with your financial planner?
- My goals as I age are changing, and I want to think about how I can really achieve what I want in my sunset years? Have you any advice or thoughts on what you think I should be considering?
- As I age, my tolerance for risk has been changing? Have you thought about the risks that are involved in your investments?
- I just saw in the news that the stock markets are in for a bumpy ride. Does that concern you?
- I am really concerned about the bite that taxes are taking out of my retirement income. Are you aware of some strategies that might help me reduce the impact of taxes on your inheritance?

Questions for you as an Adult Child

- I have been thinking about getting some advice from a Wealth Management Advisor at our bank to help me make some decisions around my longer-term retirement objectives. Do you have any advice on what I should be looking for based on your experience with your financial planner?
- With all of the changes in our world – COVID, inflation, increased costs related to property, and wild swings in investment returns – I am very concerned about the size of my nest egg for retirement. Given your experience, how did you cope with the changes that you experienced? How are you coping now?
- Can you give me some advice on how to deal with the risks that inherent in investments that you have made – especially as you have gone through different stages in life? I am getting concerned that I am not conservative enough in my planning for the future.
- How are you weathering the storm in terms of the markets and the returns on your retirement investments – are you concerned?
- Are you happy with the advice you are getting from your financial advisor? Do you feel you are getting what you paid for?