January 2017

Money Wise Magazine

The Value of Advice

How working with a financial advisor helps you achieve your life goals

Your New & Improved Statement:

Expect new fee disclosures and transparency on your 2016 annual statement

RRSP Deadline is March 1, 2017!

Give us a call to make your contribution

How Flying South for the Winter Affects your Finances

From health insurance, to taxation within Canada, to avoiding the American IRS, plan ahead carefully

TRINITY WEALTH PARTNERS

QUADRUS

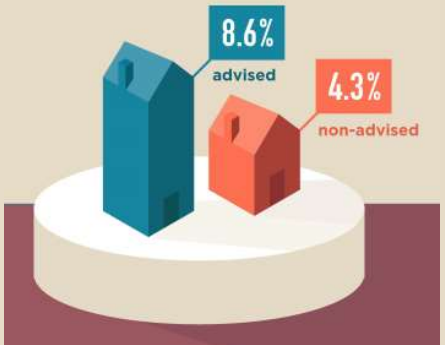
Quadrus Investment Services Ltd.

THE Great-West Life ASSURANCE COMPANY

VALUE OF ADVICE

Households with advisors have more money.

Households using advisors had an annual savings rate of 8.6%, versus only 4.3% for non-advised households – save at twice the rate[1].



Increase your financial well-being by working with a financial security advisor.

You'll have help to reach your goals.

When asked, 61% of advised investors strongly agreed that their advisor helped them increase their net worth and achieve investment returns[2].

You'll be better protected for the future.

84% of advised households have RRSPs (Registered Retirement Savings Plan) compared to only 36% of non-advised[2]

45% of advised households have TFSAs (Tax Free Savings Account) compared to only 20% of non-advised[2].

The longer you work with an advisor, the better off you'll be.

After 15 years or more working with a financial advisor, advised households accumulate as much as 173% (2.73 times) more assets than otherwise identical non-advised households[1].

Sources:

[1] The Investment Funds Institute of Canada, www.ific.ca. New evidence on the value of financial advice, 2012

[2] Investment Funds Institute of Canada, www.ific.ca. The value of advice, Report, 2011

Research surveys the general English-speaking population in Canada (excluding Quebec.)

In this Issue…

A Happy New Year to those of you we haven't had a chance to speak to since before Christmas! Here's hoping each and every one of you had a pleasant holiday and are confidently working away at your New Year's resolutions. If you don't have one yet, and aren't making regular contributions to your RRSP or Tax-Free Savings Account, there's a resolution idea for you!

January and February are easily two of the busiest months of the year for us at Trinity Wealth, between tax-free savings contributions when new room became available January 1st (this year's limit is $5,500) and RRSP top-ups before the deadline. If you're ready to add a bit to either plan (perhaps before heading down south if you're lucky!), give us a call.

If you are heading south, Melissa has an article in this edition about the financial implications of spending half the year in the United States, or being a *Snowbird.*

Also in this edition, Rick talks about how you can optimize your RRSP contributions over your lifetime by making the most tax-favourable decisions, of course with the help of your financial advisor.

This leads me to the theme of this newsletter: recognizing and quantifying the value of financial advice. Regulation changes within our industry have revamped your annual statements and they will now show the fees paid to your mutual fund dealer, a percentage of which is paid to your advisor.

As the only non-advisor in our office, I find this change to be absolutely beneficial to consumers everywhere. You deserve to know exactly what you're paying for the financial advice you're receiving. In some cases, this change will highlight where an advisor or bank fails to deliver valuable advice considering the fees that are taken off your investments each month. In other cases, we hope the case for you as a client of Trinity Wealth, it will serve as a reminder of how many topic areas a financial advisor can cover and the work put into managing your account, no matter how much money you have invested with them.

Take a look at some of the statistics in this newsletter as well as consider the advantages you've already garnered as a client of a financial advisor. We hope to exceed your expectations and always give you the value of good advice.

Natalie LeBlanc
Marketing Assistant

Optimizing your RRSP Contributions

Careful planning of how much to contribute to your RRSP and when can yield more benefits than simply a tax refund in April. Assessing your tax rates now and in retirement can help both you save on income tax and in some cases even increase your Canada Child Benefit.

Winter brings many things for Canadians; for winter sports enthusiasts it's as welcome a season as any, while for others it's dealing with clearing of snow and ice and waiting for warmer days and a return to golf, gardening and other pursuits. In the investment industry winter is associated with another 'season'; income tax and the associated deadlines with filing tax returns before the April 30 deadline and the first 60 day cutoff for making RRSP contributions to reduce taxes payable for the prior year.

It's been well ingrained into us that RRSP contributions are a good thing, both in terms of the long-term accumulation of wealth and the shorter term tax savings. For most Canadians, RRSPs can be the smartest retirement savings vehicle. However, in many cases we can be too caught up with short-term tax savings to appreciate some of the bigger picture short and long-term tax opportunities and/or consequences.

For the typical investor, I would expect RRSPs to yield a greater retirement nest egg than other savings strategy, such as TFSAs. RRSPs offer greater urgency to save given the deadline oriented nature and potentially large up front tax savings. The money is also more likely to be left invested than TFSAs as there are large tax penalties for early withdrawals, which isn't the case with TFSAs.

These behavioural considerations aside, from a purely mathematical standpoint we've always preached that RRSPs will yield the better outcome so long as one's tax rate when they are contributing is greater than the tax rate when they take the money out. (If the opposite is true, TFSAs will yield the better outcome.)

But simple tax rates don't tell the full story. Taking it one step further will help you better assess the total economic benefit of making an RRSP contribution versus a TFSA, as well as the total tax consequence of the withdrawal from either plan in retirement.

To gauge the total economic benefit of making an RRSP contribution during your working years we recommend you assess the following:

1. The rate of the tax refund you will be receiving. Ideally it's generally best to only make RRSP contributions when the refund level is at the second tax bracket or higher and not the lowest. If your RRSP contribution is being written off against income in a higher rate you are buying yourself greater certainty that you will be

Working years: income $70,000	
RSP contribution	$ 10,000.00
Marginal tax bracket	37.17%
Tax refund	$ 3,717.00
Additional Canada Child Benefit payment (5.7%)	$ 570.00
Total benefit to making RSP contribution	$ 4,287.00
Total RSP benefit: %	42.9%

Retirement years: income $40,000	
RRIF withdrawal	$ 10,000.00
Marginal tax bracket	29.95%
Taxes payable	$ 2,995.00
Pension income amount	-$ 403.11
25% of age credit (assumes RSP income is 25% of total income)	-$ 361.94
=Effective tax rate: $	$ 2,229.96
=Effective tax rate: %	22%

better off in the long run as you are more likely to withdraw the money at a lower rate.

2. Additional benefits that may accrue to you by lowering your income. One example of this for working families would be receiving an enhanced Canada Child Benefit.

Example: John and Mary both live and work in Nova Scotia and earn approximately $70,000/year each. They have two children between the ages of six and 18. Their marginal tax rate is 37.17% so they will receive this amount back on any RRSP contributions they make within this marginal tax zone. But they will also increase their (tax free) Child Tax Benefit by 5.7% by lowering their income so the effective benefit of making the RRSP contribution is 42.87%.

Looking at the other side of the coin, withdrawals, one should be mindful of more than just the tax rate at which the funds will be withdrawn. After age 65 there are additional tax credits such as the pension income amount and the age amount, which together represent a combined $1851 credit against taxes payable in Nova Scotia. Just gauging a 37% refund at the time a contribution is made versus a 30% tax rate when withdrawing money doesn't tell the true story. These additional non-refundable tax credits should also be factored in.

This is not to suggest that one vehicle is inherently better than the other. TFSAs are superior for shorter to medium savings goals while RRSPs generally should be used for retirement. TFSAs can and should also make up part of the overall retirement income pie and can actually be a better long-term savings vehicle. It's important to take a big picture view in looking at which savings strategy is best: TFSAs, RRSPs or both. With our 360° plan approach, we aim to strike the right balance between maximizing tax savings and related benefits now while maximizing after tax income in retirement.

Rick Irwin, CFP, CLU
Financial Planner,
Investment Representative

How Flying South for the Winter

Spending half the year in the sunny southern USA sounds like a wonderful idea while we watch the snow fall outside our Canadian windows all winter long. Keep in mind, however, that the IRS is watching how long you're on U.S. soil and waiting for the opportunity to collect income tax from you as a deemed U.S. resident.

Planning to be a snowbird? Be careful to plan and ensure that you're not deemed a United States resident, or else the American Internal Revenue Service (IRS) could require you to pay income tax!

Count your days in the USA

The U.S. allows Canadians to stay up to 182 days per year without paying income tax (people from other counties can stay up to 90 days -- Canadian perk, eh?) However, it's not that cut and dry – the length of time you can stay is also determined by your living arrangement and there is a "substantial presence test" that comes into play. This test calculates the number of days you have spent in the U.S. over a three year term. If it's more than 183 days you may have to pay U.S. income tax.

We sometimes hear of people who get into situations where they pay both US and Canadian income taxes because of lack of research and advice from trusted advisors. The good news is that you can avoid this by filing a form (8840) with the IRS.

Tax liability is not only time-tested

Even if you spend fewer than 6 months per year in the U.S. and/or file the 8840 form you could still be deemed a U.S. resident. This is because it's not only based on where you physically are throughout the year but also where you are "most connected". If you work in the U.S., and/or have a home in the U.S. and/or family in the U.S. you very well may be faced with the complications of filing a U.S. income tax return.

Don't forget life and health insurance down south

Other considerations are medical insurance. You most certainly don't want to be in the U.S. without insurance and most provincial

Affects your Finances

insurance plans require you to be in your home province at least six months of the year to remain insured under provincial plans. Even when covered, your provincial medical plan would offer very limited coverage amounts when you travel abroad. It is imperative you have some form of private health insurance when travelling to the U.S. If you don't, you are leaving yourself at huge financial risk.

My father in law had a stroke in the U.S. two years ago. His insurance was a blessing.

Will I still receive Old Age Security (OAS) or the Canada Pension Plan?

One good thing the Canada Revenue Agency (CRA) has done in recent years is phasing out mailing cheques in favour of electronic deposit. Most Canadians are set up for electronic deposit of their government pensions so your OAS and CPP entitlements should not change based on your snowbird status. Any registered retirement income fund (RRIF)/employer pension can also be deposited into your bank account.

What about my Canadian investment accounts?

From an investment advisor point of view, our mutual fund dealer doesn't allow us to make changes on our clients' accounts if they have a U.S. address on system. You would want to be sure that you still maintain a Canadian address for mailing purposes and of course because you are indeed still a Canadian citizen. You can have CRA forward your mail to your temporary U.S. address or have a friend do so.

These are just a few of the things to consider before travelling abroad. With our dollar the way it has been I do know of a few people who will be shortening their trips or simply not going but many of you will so this list is a handy reminder of your considerations before leaving for the sunny southern US.

Melissa Allan
Investment Representative

How we Earn Your Dollar:

Take a closer look at the annual statement you will soon receive for your mutual fund accounts with us and with your bank. Regulators have taken steps to promote transparency on how your financial advisor is paid.

Of these regulatory changes, one of the most prominent will be the exact dollar figure of the fees paid, out of your investments, to your mutual fund dealer; a percentage of which is paid to your advisor to manage your portfolio and give financial advice. This is a very welcome change in our office as our advisors are upfront about how we are paid from the initial meeting. It is important for you as a client to feel like your advisor's services are valuable, and the compensation your mutual fund dealer pays your advisor is for the betterment of your financial situation. Each of our advisors recognizes the value of advice in the success stories of our clients:

Rick Irwin, CFP, CLU
Financial Planner,
Investment Representative

While clients assume there is a cost associated with working with a financial advisor, most of them haven't seen the exact dollars and cents until now. Advisors can discuss the cost of investing with their clients and demonstrate the value of their advice, to reduce their anxiety.

In 2004, my dealer at the time, launched a fee-based platform. My father and I became among the first advisors to transition our eligible clients to this more transparent business model. At the time, I was looking at industry trends in the US and other jurisdictions and the increased media focus on embedded compensation, as well as what would be the most fair and open business model for my clients.

This shift towards fee transparency (for banks and independent advisors like us) has led to some positive changes to the funds' price structures. For example, the introduction of preferred pricing for larger accounts, normalization of fees that previously paid enhanced trailers, and a higher focus on demonstrating the value of financial advice and actively managed investments. In the end, fee transparency benefits investors and enhances the client-advisor relationship.

So, what is my fee?

The standard "trailer" fee for most equity or balanced funds is about 1%. This fee is embedded in the cost structure of the fund and deducted each month. Moving forward, F-class funds (fee-based investing) do not have an embedded fee; instead, the account is charged a fee of, in my client's cases, 1%, or the same as what the trailer was previously.

My initial focus when I shifted clients to fee-based investing was on non-registered accounts, as clients are able to deduct the investment advice fee for income tax purposes. The fees on registered accounts like RRIFs, RRSPs and TFSAs are not deductible and therefore, these investments are less attractive as fee-based accounts. This has changed over the last year, as many fund companies have improved the cost structure of F-class funds, using them in RRSP and RRIF

Realizing the Value of Advice

accounts, even though no tax savings can be generated.

There are still a few roadblocks. TFSAs, the fastest growing segment of my client base, do not have a fee-based solution available. There are also account and/or household minimums required to set up fee-based accounts. These hurdles have prevented me from fully migrating to a fee-based business, but hopefully the coming year will bring greater flexibility to expand.

Please do not hesitate to contact me if you are wondering whether fee-based investing would work for you.

Lorna Maughan
Investment Representative

The UK has already been through similar changes (back in the mid 1990s) to Canada when it comes to advisor compensation disclosure. The fee cited on statements (in pounds for any investment product, including insurance) includes the administration platform fee and the fund managers' fee. This means the client can see exactly how much the investment product and advice is costing them.

Another more drastic wave of changes was introduced back in 2012, with the idea to improve public confidence in the financial advice sector by enhancing professionalism and increasing transparency in the way advisers are remunerated. The two areas impacted most were advisor education and compensation. Advisors could no longer receive embedded commission for investments, pensions or annuity business – they would have to agree on an upfront service fee. Advisors also have to agree on an ongoing fee for reviews, often called trailers in Canada. Once the fee has been agreed upon, this can be paid out of the investment transaction rather than the client writing a separate cheque. Following these changes, advisors were also held to a higher educational standard before being qualified to give financial advice at all.

These more recent changes went one step further in the UK, and it's been suggested that something similar could happen in Canada.

I have read several reports that concluded advisors obtaining a higher level of education are perceived as having a greater sense of professionalism. Coupled with the complete transparency of the fees and charges, clients now have more confidence in advisors and the advice they are given.

One of the negative effects cited in the review was a large decline in the number of advisors – from 40,000 in 2011 to 31,000 in 2014. A number of banks and credit unions withdrew from the financial advice market altogether. This means that clients who do not have either the ability to pay a fee or a large enough investment portfolio to warrant the cost of fees are at risk of not getting any advice! The long-term effects of this are yet to be seen, but it's fair to say that most face-to-face advice in the UK is given to those who are more affluent, which is detrimental to the financial future of those with lower incomes.

Melissa Allan
Investment Representative

Everyone who helps manage your financial plan gets paid somehow. The fund managers who actively manage your mutual funds get paid for countless hours of stock research. Our mutual fund dealer, Quadrus Investment Services Ltd. (Quadrus), gets paid to keep advisors compliant and work with the CRA on tax reporting, among many other things.

Investment representatives like us get paid a percentage of the fees paid to Quadrus to service your account, rebalance client portfolios, ensure they are well diversified and more. At the end of the day, management fees allow us to provide the advice and products that we do. We plan, research and choose your investments, from the type of account you have to the funds you hold. We monitor and update your risk tolerance as your needs and goals evolve.

At the end of the day, we help keep you on track to meet your financial goals. That is our job and it is one we take pride in. We face a wide range of client questions that need answering, if not by us then by one of our strategic partners:

- Should I invest in RRSPs or TFSAs?
- Should I take Canada Pension Plan at age 60 or 65?
- Should I quick pay my mortgage or save for retirement?
- As a self-employed individual, should I pay myself a salary or incorporate and pay dividends?
- How do I manage the tax-free spousal rollover provision when I die now that I am a widow?
- Should I name my estate as beneficiary on my RRIF or my kids?

An investment representative does so much more than just recommending mutual funds. A tax or estate planning error can be detrimental to your financial future.

Patricia Bell, PFP
Financial Planner,
Investment Representative

The financial services industry and the way Canadians access information is rapidly changing. And while many of us would acknowledge that change can be scary, change also often comes with opportunity.

The year end statement you'll be getting soon is a case in point. No matter where you currently invest your hard earned money, you'll be able to see exactly what fees have been paid to manage your accounts.

When you look at those fees it's important to remember not all financial advisors are created equal. In today's complex marketplace, it can be overwhelming to choose products and build a diversified portfolio that's right for you. Because Trinity Wealth is independent, we have access to sophisticated global investment opportunities and tax efficient solutions that may not be available to you through traditional means like a bank or investing on your own. We meet regularly with the fund and portfolio managers to stay ahead of a rapidly changing marketplace and explore potential opportunities. This is what we do, all day, every day. We don't offer mortgages (although we can point you in towards those who do!), or open chequing accounts, or take bill payments.

Because you work with an independent advisor you are among investors who could enjoy nearly three times the net worth of investors who don't get advice[1]. Statistically, investors who work with an advisor not only accumulate greater wealth but also avoid emotional investment decisions and be more prepared for both retirement and dealing with life's unexpected bumps.

Knowing the cost of investing is an important part of any trusting advisory relationship and if you still have questions about I'd encourage you to get in touch. Our relationship doesn't end with the purchase of your investment, it begins.

[1] *The Investment Funds Institute of Canada, IFIC Value of Advice: Report, November 2011*

The Great-West Life Assurance Company

VALUE OF PLANNING

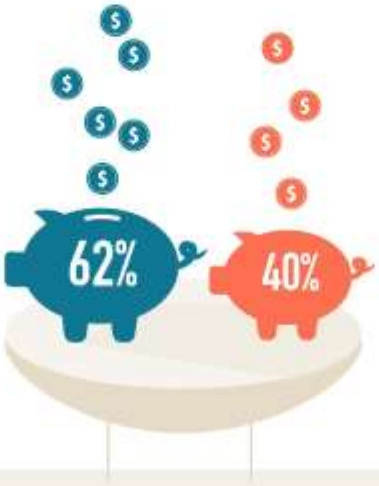
How do you feel about your financial future?

Everyone's needs and dreams are different. The time to start making them happen is right now. It all starts with having the financial power to do it your way, and it all starts with a plan.

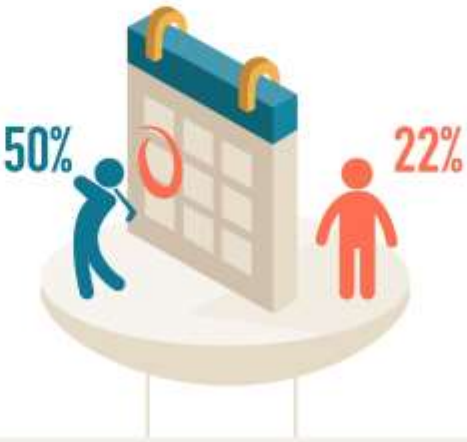
Canadians backed by a financial security plan...

Feel they are better equipped for life's unexpected financial emergencies, to weather tough economic times, and feel assured their loved ones are looked after financially.

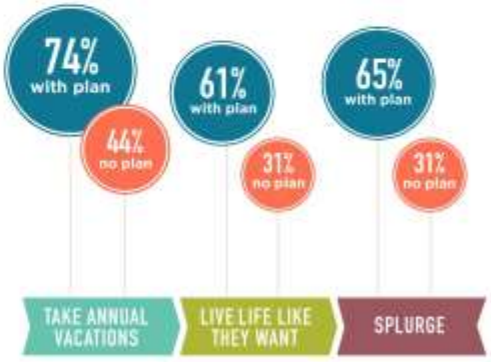
Feel on track with their financial affairs — 81% vs 44% without a plan.



Feel they are better positioned to save more money — 62% vs. only 40% without a plan.



Feel on track to retire when they want to — 50% vs. 22% without a plan.



Are more likely to take annual vacations, live the life they want and splurge!

Sources: Financial Planning Standards Council, www.fpsc.ca, The Value of Financial Planning
Research surveys the general English-speaking population in Canada (excluding Quebec.)

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