Newsletter VOL XXXII - The next big 'event' January 2021

Retirement planning requires time and effort. It is particularly challenging in times like now. This newsletter provides information about and retirement and tax issues. It is intended to help you plan your retirement - ***it does not*** provide investment advice.

Overview – January 2021

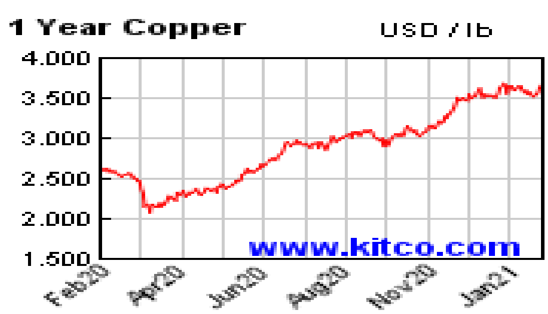
It appears that little will be easy in 2021. While several Sars-COV2 vaccines will be available problems with manufacturing and distribution are now the issues. The huge US stimulus package will help economic and job creation but, it will take time to have an impact. The way things have been going it would not be a surprise if another 'big event' –an unknown unknown – happens.

The number of variants of Sars-Cov2 are increasing but, it is possible the current vaccines will be reasonably effective. Global economies are holding up primarily because of government financial assistance and exceptionally low interest rates. Unfortunately, central banks are running short of options to help. At some point, inflation will become an issue.

Equity markets continue to anticipate a strong economic recovery. The VIX ('fear') index is now **21.5** (**24.6** – December) down from the high in March 2020.

Certain technology stocks should continue to drive the markets. The Canadian airline industry, a vital part of the economy and society, is struggling to survive. The federal government is dragging its feet on assistance (anything for a vote or two) creating more hardship for stressed communities and airline employees and putting the industry at a disadvantage globally.

The price of copper is a traditional and fairly reliable indicator of economic and growth – it has been trending up.



Tried and true – or something 'new'? Yeah Brady!!!

A. Tax Issues

1. 2020 RRSP Contributions – March 1, 2021

The last day for 2020 RRSP contributions is March 1, 2021. The maximum total (employer and employee) contribution is **$27,800** for 2020. Dec 31, 2020 was the final date you could have made a RRSP contribution if you turned 71 in 2020 and had PA room.

2. TFSA Contributions - 2021

The TFSA contribution limit for 2021 is $6,000. The maximum that can be contributed since 2009 is $75,500. If you have withdrawn money from a TFSA you can put the same amount back into the account without affecting your annual limit. However, you can only put the money withdrawn back in a year following the year of the withdrawal.

2021 and catch-up contributions can be made throughout 2021. CRA closely monitors TFSA contributions.

3. Government COVID Assistance - Taxed?

The following government programs provided COVID financial assistance in 2020.

- **CERB** – Canada Emergency Response Benefit - **Taxable**
- **CESB** – Canada Emergency Response Benefit - **Taxable**
- **CRB** - Canada Recovery Benefit - **Taxable**
- **CRSB** - Canada Sickness Benefit - **Taxable**
- **CRCB** - Canada Recovery Caregiving Benefit – **Taxable**
- **CERS-** Canada Emergency Rent Subsidy – **Taxable**
- **CEWS** - Canada Emergency Wage Subsidy – **Taxable**
- **GST/HST** - one-time payment - Not Taxable
- **OAS** – one-time payment ($300) – Not Taxable
- **GIS** – one-time payment ($200) – Not Taxable
- **British Columbia Recovery Benefit -** ($500-$1,000) - Not Taxable
- **Person with Disability Payment** (up to $600) – Not Taxable

Withholding tax of 10% is applicable to CDB, CRSB and CESB payments. T4As for taxable benefits will be issued and reported on Line 13000 of the tax return. If your Net Income is more than $38,000 (Line 26300) you may have to repay 50% of the CRB.

B. Other Issues

4. Decumulation – Challenges in drawing down your RRSP or DC Account

Many retirees only have a Defined Contribution (DC) plan or RRSP as a pension plan. If it is an employer plan, the administrators, platform providers or advisors tend to focus on the period before you retire (the accumulation phase) and pay far less attention to the drawdown (the decumulation phase). Of the two, decumulation is the more challenging and riskier: 'time' is a bigger factor. To manage your pension account in the decumulation phase you need specific information. As long as you are in an employer sponsored DC or RRSP the employer has a fiduciary responsibility to act in your best interest and provide relevant information.

See the attached article 'Decumulation' for a review of the issues and shortcomings in the decumulation phase.

5. 'Short' Selling – punishing "short sellers" - Caveat Emptor.

Understanding the basics about short selling is critical to understand the inherent risks in short selling.

a) Short selling is making a 'bearish' investment when you expect the stock price to drop.

b) Some argue 'shorting' is unethical because it is a bet against growth however economists usually realize it important as part of a liquid and efficient market.

c) To sell short, the security is first borrowed, on margin, and then sold, then bought at a later date.

d) A **'shorted'** security is held in a **margin** account.

e) **You have to** maintain margin or cushion of **150%** of the value of the position in a margin account.

f) The 150% represents 100% of the value of the **short** plus an additional **margin requirement** of 50%.

g) More security is required (margin requirement increases) if the price of the shorted stock goes up (referred to as a short 'squeeze').

h) According to the CRA interpretation bulletin IT-479R a ***Canadian security includes a security that is sold short.***

i) **Gains** and **losses** from the **sale** of securities are usually capital **gains** and **losses**. i.e., only 50% is **taxed** vs. 100%.

j) Gains or losses from short sales however are considered ***income gains or losses unless*** an election is made.

k) A taxpayer can elect under s. 39(4) of the Income Tax Act to have their transactions in ***Canadian*** securities to be treated as capital transaction.

l) The election applies *to all sales of Canadian securities* in the *year of the election is made and for future years*,

m) An election *cannot be rescinded*.

The risk in short selling is that the stock price goes up. Theoretically, a short seller can face 'unlimited risk'.

Also see attached - "Short selling a stock."

<u>Punishing Short sellers</u>

There have recently been many stories about short selling and short sellers. A company in the US, Reddit, through its internet forum WallStreetBets, has been encouraging young investors to 'punish' short sellers by forcing up the price of low-priced stocks ('swarm trading'). This results in a 'short squeeze' for the short sellers. Some swarm traders have made money by buying then selling it at a higher price. However, the price inevitably collapses as people stop buying and start selling in mass.

'Swarm trading' has the characteristics of Ponzi scheme: it only works because new players and others keep forcing the stock prices up. It is very risky approach and more akin to gambling than 'investing'.

6. Fees negatively impact retirement saving.

It cannot be said often enough that the fees you pay advisors and fund managers have a negative impact on your retirement savings. The 1-2% that you automatically pay each year may not seem like much but over time it amounts to a lot of cash- $500 - $5,000 in annual fees becomes $100,000s over time. Do not hesitate to ask your service providers or your company plan administrator to tell you exactly how much was taken out of your account(s) in 2020 (the dollar amount not the rate). Did you really get a sufficient payback and service for what you paid? The onus is on you to ask.

A popular alternative to high fee mutual funds is low-cost EFTs. However, the following articles point out that an ETF may not be cheap - caveat emptor!   See – 'ETF fee competition stalled' and 'ETFs are cheap but …'

7. BC - Class action Suit Re: Fees

The BC Supreme Court approved a class-action suit against RBC Global Asset Management. The suit alleges investors were overcharged fees for actively managed mutual funds they usedin their accounts that did little more than mirror the returns of the fund benchmarks. In other words, higher active management fees were charged for mutual funds with returns similar to lower cost passively managed (Index) mutual funds.

8. Bonds - 'Risk Free' Interest Rates

Feb 10, 2021	Current Rate	Previous Month
3-Month Treasury[gw1] Bill	**0.08%**	**0.07%**
1-Year Treasury Bill	**0.12%**	**0.14%**
2-Year Treasury Bond	**0.20%**	**0.20%**
5-Year Government Bond	**0.50%**	**0.50%**
10-Year Government Bond	**1.00%**	**0.88%**
30-Year Government Bond	**1.59%**	**1.45%**
Prime Rate	**2.45%**	**2.45%**

Inflation (CPI) for 2021 was ~**0.7%** for the month. Short term 'real rates' of return (current interest rate minus inflation) are now positive. The forecast inflation rate for 2021 is 1.6%. The Prime Rate is set by the major banks and is unchanged at 2.45%.

Best to anticipate the unexpected in 2021.

Certain industries and stocks will recover quicker than others over the next 6-12 months. Fixed income interest rates will remain low and fixed-income yields will drop as interest rates creep up. If equities are the main sources of your retirement income, maintaining a reasonable level of income will likely mean investing in riskier investments.

The investment industry keeps putting out new ways to make your fortune – caveat emptor. You need to understand the investments you are using. You are responsible for the decisions regarding your retirement finances and *investments.* Do not depend on a 3rd party to understand your objectives and situation. If you are in an employer pension plan such as a DC, RRSP or PRPP, information and tools will be provided but, you have to make use of them.

Having a financial plan is important for retirement saving and tax and estate planning: an 'informal' plan is not sufficient. You should also consider hiring an experienced person to help you. You may simply need to talk to someone about investing, retirement or, get a bit of help to get started or stay on track.

Avoid paying advisor fees based on the value of your investments: use an advisor who is experienced, provides good service, charges a flat annual fee (generally $500- $1500 per year). Not getting help is 'penny wise but pound foolish' in most cases.

If you would like a specific topic covered in a future Newsletter or, to be removed from the mailing list, please let me know.

Previous Newsletters and pension information is available at https://www.thepensionadvisor.info/

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