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Nakamun ADVISOR

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2016 IN REVIEW

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Two standout events — Brexit and the US election — will mark 2016 in history.

In both cases, equity markets reacted or overreacted sharply to the downside and then returned to pre-election levels. Both decisions will have long-term economic implications domestically and globally. The extent of the change resulting from each vote remains to be seen. Both decisions have also triggered greater uncertainty.

The Canadian equity markets continued strong throughout 2016, which was a bit unexpected, given the lack of good news for the Canadian economy. The commodity sector was the primary driver for a strong market in the first half and the non-commodity sector was the driver in the second half of the year.

Domestically, the US market returns were strong in 2016. In Canadian dollars however, those US returns were muted by the relative appreciation of the Canadian dollar over the same time frame. The dollar rose sharply in the first half of the year with the price of oil, then tapered off in the second half of the year.

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COVER YOUR BASES... WITH A POWER OF ATTORNEY AND A REPRESENTATION AGREEMENT

FLOYD MURPHY, CFP, CLU, CHFC, THE NAKAMUN GROUP, VANCOUVER

Every adult should have an Enduring Power of Attorney and a Representation Agreement.

While each jurisdiction has its own terminology and rules for these documents, essentially an Enduring Power of Attorney enables you to give one or more people of your choosing the authority to make financial decisions on your behalf, should you become mentally or physically incapable of making those decision on your own, while a Representation Agreement covers health and medical decisions.

Without these documents, should you become incapacitated in any way, the process to enable someone you trust to make decisions on your behalf could be lengthy, onerous, and expensive. The first challenge for them might be to prove your mental incapacity.

Enduring Power of Attorney

The fundamental difference between a Power of Attorney and an Enduring Power of Attorney is that an ordinary Power of Attorney ends if the individual becomes incapacitated. That's why an Enduring Power of Attorney is so important. While an individual must have the mental capacity to sign such a document in the first place, if that individual becomes incapacitated, only an Enduring Power of Attorney will remain in effect.

Even if you have an Enduring Power of Attorney, check regularly to ensure its ongoing validity. For example, in BC, the Act was changed in 2011, so if your document was created prior to then, you should review the contents. Also in BC, if the document doesn't state otherwise, authority related to real estate expires after three years. If your document was created in another jurisdiction, and you've moved, you should ensure your Enduring Power of Attorney fulfills all the requirements and is valid where you now live. For example, some jurisdictions require two witnesses while others require only one.

Representation Agreement

A Representation Agreement is essential to ensure somebody you trust will be allowed to make health and personal care decisions on your behalf, should you become incapable of making those decisions yourself. Your representative will be allowed to participate in conversations regarding your health and wellbeing, and access your health and medical information to ensure you receive timely and appropriate care. Without a Representation Agreement, you could be on your own, at a time when you really need help.

Who to Choose

The person or persons you choose to be your Representative or Attorney will typically be your spouse, children, or other close relative. If you choose more than one person, best if they work well together. Be aware of logistical challenges if you choose someone who does not live close-by and legal issues if they live in a foreign country.

If you have significant assets, you might choose a trust company or paid professional as your Enduring Power of Attorney.

Talk to Your Nakamun Advisor

If you don't already have both an Enduring Power of Attorney and a Representation Agreement, please talk to your Nakamun Advisor as soon as possible. If you already have these documents, we'd be pleased to review them to identify any possible concerns.

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Good Advice | Well Given

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One glimmer of good news for the future of the Canadian economy was the approvals of the Kinder Morgan Trans Mountain pipeline and the Enbridge Energy East pipeline. The approvals are just one of many hurdles, and it will be years before even one pipeline provides improved market access...that is, if either of the projects can withstand the protests and court challenges.

International equity markets were rocked by Brexit, and then played catch-up for the second half of the year. Britain's actual exit from the European Union, which is still at least a couple of years away, will no doubt be a drag on the UK economy. The long-term impact to Britain is not currently reflected in the markets.

For most of 2016, Canadian bond yields continued to decline further to unprecedented levels. Bond returns therefore were better than expected for much of the year. The bottom seemed to have been reached and Canadian bond yields began to improve for all maturities at the end of the year. US bond yield increases led the way earlier in the year, as sign of a stronger US economy.

The growth in the US economy has been supported by a robust job market with unemployment now under five percent. Consumer spending makes up a very large part of the US GDP and is highly correlated with employment. Jobs and spending are expected to continue to drive growth in the US economy in 2017.

The common thread among analysts is that the next several years will see slower growth and greater volatility. Headwinds to economic growth include unwinding of quantitative easing, changing demographics, slower global growth, and rising interest rates.

As always, it remains important to stay focused on a disciplined and diversified investment approach with emphasis on the long term rather than events that might rock the boat in the short term.

CANADA PENSION PLAN COMPLEXITIES PART II

In the fall edition of our newsletter, we covered Canada Pension Plan (CPP) contributions, retirement pensions, and disability benefits; and this time, we are dealing with pension sharing and benefits when a CPP contributor dies.

CPP Pension Sharing

You can share your CPP retirement pension with your spouse or common-law partner, if both of you are receiving pensions and living together. If only one of you contributed to CPP, you both can share the one pension. If you both contributed, you and your partner will receive a share of both pensions. The combined total amount of the two pensions stays the same.

The portion of your pension that can be shared is based on the number of months you and your partner lived together during your joint contributory period, when either one of you could have contributed to CPP.

The new Post-Retirement Benefit is not eligible for pension sharing. Pension sharing stops:

- A month after Service Canada approves a cancellation request submitted by both you and your partner
- The month you divorce
- The month the partner who has never paid into CPP begins contributing
- The month one of you dies
- If you and your partner separate after the pension sharing is approved — the pension sharing ceases the 12th month following the month in which the partners started to live separate and apart

When pension sharing ends, your pension will be adjusted to the amount you were to receive before the pension-sharing agreement.

If you are applying for, or are already receiving a CPP retirement pension, you can apply for pension sharing by obtaining the required forms from Service Canada offices or their website.

Pension sharing can be beneficial from a tax point of view and may help recovery of social benefits, such as Old Age Security or age 65 tax credit.

CPP Death Benefit

The CPP death benefit is a taxable, one-time, lump-sum payment to the estate of a deceased CPP contributor. This benefit is equal to 6 months' calculated retirement pension to a maximum of $2,500.

If an estate exists, the executor named in the will or the administrator named by the Court to administer the estate applies for the death benefit. The executor should apply for the benefit within 60 days of the date of death. If no estate exists, or if the executor has not applied for the death benefit, payment may be made to other persons who apply for the benefit in the following order of priority:

- The person or institution that has paid for or is responsible for paying the funeral expenses of the deceased
- The surviving spouse or common-law partner of the deceased
- The next-of-kin of the deceased

Survivor's Pension

The CPP survivor's pension is paid to the person who, at the time of death, is the legal spouse or common-law partner of the deceased contributor. If you are a separated legal spouse and the deceased had no cohabiting common-law partner, you may qualify for this benefit.

If you are widowed more than once, only one survivor's pension — the largest — will be paid.

The amount you receive as a surviving spouse or common-law partner will depend on whether you are also receiving a CPP disability benefit or retirement pension, your age, and how much and for how long the deceased contributor has paid into the CPP. Service Canada first calculates the amount that the CPP retirement pension is, or would have been, if the deceased had been age 65 at the time of death. The second calculation is based on the survivor's age at the time of the contributor's death.

A surviving spouse under age 65 would receive 37.5 percent of the calculated retirement pension of the deceased contributor plus a flat-rate benefit of $183.93 for 2016. The maximum survivor's benefit for 2016 would therefore be 37.5 percent of CPP maximum retirement benefit of $1,092.50 or $409.69 + $183.93 for a total monthly benefit of $593.62.

A surviving spouse age 65 or older would receive 60 percent of the calculated retirement pension of the deceased contributor, to a maximum survivor's benefit of $655.50 (60 percent of $1,092.50).

Combined benefit calculations of the survivor's benefit plus retirement or disability benefits are more involved. Please contact your Nakamun Advisor if you wish further information.

The survivor is responsible for applying for the monthly pension. If you are incapable of applying, you may have a representative, such as a trustee, apply for you. You should apply as soon as possible after the contributor's death, because if you delay, you may lose benefits, because CPP will make back payments for only up to 12 months.

The survivor's pension starts at the earliest month after the contributor's death and continues even if you remarry. This was not the case prior to 1987. If you previously lost a CPP survivor benefit because you remarried, contact Service Canada to determine if you are now eligible.

If you already receive a CPP retirement or disability benefit, the survivor's pension will be combined into a single monthly payment. The most that can be paid to a person eligible for both the disability benefit and the survivor's pension is the maximum disability benefit. The most that will be paid to a person eligible for the retirement and survivor's pensions is the maximum retirement pension. If you are already receiving the maximum CPP retirement benefit, you will not receive the survivor's pension. It takes approximately 6 to 12 weeks to receive your first payment from the date Service Canada receives your completed application.

To obtain more information and to access all required forms and documentation for CPP benefits, visit Service Canada's website at servicecanada.gc.ca.