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STRATEGIES

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Entering the housing market with help from the Bank of Mom and Dad

With prices continuing to rise and stricter rules governing mortgage qualifications, a growing number of first-time homebuyers are turning to the "bank of mom and dad" to get into the housing market.

A survey conducted in December 2018 by financial website Finder.com found that 67% of Canadian parents help their children financially – with 20% providing financial assistance with a major purchase such as a house. That parental support can be extremely helpful when you consider that the average price of a new home in Canada is now $495,000, according to the Canadian Real Estate Association (CREA). In markets such as Toronto and Vancouver, the average house price is $1 million.

On top of steep prices, the federal government passed new rules in 2018 that make it harder than ever for people to qualify for a mortgage from a traditional bank. The new rules require a more stringent stress test to prove that a mortgage applicant can withstand higher interest rates.

Financial institutions now review mortgage applications by using a minimum qualifying rate equal to the greater of the Bank of Canada's five-

Editor's note

Ah, millennials. That highly scrutinized but little understood demographic we so often describe in vastly different ways. As the second largest – and soon to be largest – cohort in Canada, their financial decisions are likely to impact many of us at some point.

This edition of *Strategies* looks at some of the financial issues affecting millennials, but you'll probably find a nugget or two of wisdom even if you're not one of them. So read, enjoy and share it with the millennials in your life.

Lucy Conte, Editor-in-chief

INSIDE

year benchmark rate (currently 5.34%) or the lender's contractual rate plus two additional percentage points. A full 10% of Canadians who got a mortgage in 2016 and 2017 would not qualify under the new regulations, according to an analysis by the Bank of Canada.

In this climate, first-time homebuyers need all the help they can get. And it's natural for parents to want to help their children secure a house to both live in and have for a long-term investment.

> "Be sure that you're able to help without putting your own plan in jeopardy."

"It is quite common today for parents to help their children enter the housing market. It's something we're seeing more often," says Brent Soucie, Vice President & Financial Consultant at T.E. Wealth in Toronto. "There are a number of things every parent should be aware of when providing assistance with a major purchase."

Assess your own finances

The first question that every parent should ask when considering whether to assist a child with a house purchase is: "Can I afford to help?" The answer will require you to scrutinize your own finances – especially if you're close to retiring or are living in retirement already. Wesley Fong, a financial consultant in T.E. Wealth's Vancouver office, says "You need to carefully consider the impact that this may have on your financial situation and your ability to live comfortably throughout retirement."

As a general rule, it is best to use available cash to help your children with a down payment on a house. It is never advisable to dip into savings, especially a Registered Retirement Savings Plan (RRSP), to give money to a loved one. Not only will you diminish your long-term financial security, but you will also be hit with steep taxes if you take money out of a registered account. The withholding tax on an RRSP withdrawal can be as high as 30%, and the amount you take out will be added to your tax return as income for the year.

You could use a Home Equity Line of Credit (HELOC) or unsecured line of credit to get money to help your children. You could also take out a second mortgage on your own house. But, in these instances, you would be going into debt and subject to interest charges. Be sure that you are able to pay off any debt in a timely manner.

"If parents have the funds to help, it can be a tremendous boost to the first-time home buyer," says Darin Yuzyk, Vice President, Financial Education & Employer Services at T.E. Wealth in Calgary. "But do the math and be sure that you're able to help without putting your own plan in jeopardy."

Gift versus loan

Once you've determined that you have the means to help a child purchase a house, the next step is to decide how you want to provide that financial assistance. This will require you to choose whether to give the money as a gift with no expectation of it being repaid, or extend a loan that must be paid back over time. There are pros and cons to each approach.

In addition to being a nice gesture, gifting money to a child comes with tax advantages. This is because, unlike other countries such as the United States, there is no "gift tax" in Canada. Giving money to your children while you're alive also means that there will be less estate tax (i.e., probate) charged to your heirs if money transfers to them when you die. Gifting money to your children essentially keeps it out of the hands of the Canada Revenue Agency (CRA).

"Gifting money to a child is the easiest and most straightforward approach," says Anne Rivard, a financial consultant at T.E. Wealth in Quebec City. "It can also remove some of the emotional entanglements that can arise when family and money are involved."

On the flipside, by giving money away while you're still alive, you could hurt yourself financially if you suffer an unexpected setback. Also, keep in mind future long-term care needs. The average long-term care facility in Canada costs between $1,000 and $5,000 per month, according to TheCareGuide.com.

In lieu of a gift, you might consider extending a loan to help a child enter the housing market. This could be a low interest or zero interest loan that is to be repaid over a period of time agreed upon by you and your child. Taking this approach gives the child the money they need to buy a house, and lets them avoid hefty interest charges, while also ensuring that you get your money back.

"If you do decide to lend your children the funds they need in order to purchase a home, it's advisable to have a written loan agreement signed and in place," says Mr. Soucie in Toronto. "Also, consider who your child marries. If their marriage were to break down, the equity in their matrimonial home would typically be split 50/50."

Co-signing a mortgage

If you don't have cash on hand to give your child, either as a gift or a loan, another option is to co-sign a mortgage with your child. Financial institutions will often provide a larger mortgage amount if there is a co-signer on the title document. However, this approach carries substantial risks. If, for whatever reason, your child defaults on the mortgage payments, you will be on the hook for them.

"Co-signing is an option, but it places a lot of responsibility on everyone involved," says Ms. Rivard in Quebec City. "Children have a responsibility to meet their mortgage obligations, and, if they fail to do so, the parents will be on the hook."

> "Have a written loan agreement signed and in place."

Helping your children buy a house requires careful consideration and planning. Whether you can afford to help depends on your financial situation and retirement plans. And whether you provide assistance with a monetary gift, a loan, or by co-signing a mortgage will depend on factors ranging from how much cash you have available to the maturity of your child and the relationship you have with a child`s spouse. If you're unsure which approach to take, get professional advice from a financial consultant.

Joel Baglole is an independent financial writer.

Are millennials driving ethical investing?

In the transfer of wealth from baby boomers to millennials, the latter are poised to receive more than $30 trillion worth of inheritance. This massive wealth transfer is the reason fund managers are increasingly allocating resources to develop products that target this emerging client base.

As millennials begin to engage with wealth and asset managers, they'll continue to disrupt the industry due to the sheer size of their cohort. One of the key ways they're doing this now is by choosing to invest in companies that have a measurable social and environmental impact in addition to giving them competitive financial returns. They recognize that as population growth continues to exceed available resources, the global demand for food, water and cleaner energy creates a need for innovative improvements in order to address these issues. Millennials want a greater level of integration between their wealth and values, to achieve personal fulfillment (intrinsic returns). This means contributing positively to society and the environment for the benefit of future generations.

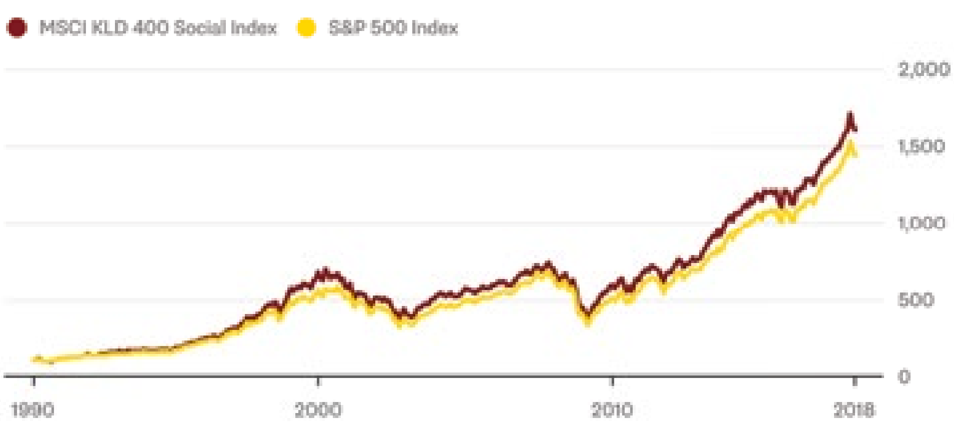
> "Over 75% of investors are interested in ESG products, and 82% of investors allocate a portion of their portfolio towards ESG investment vehicles."

What is ethical investing?

Ethical investing, also known as socially responsible investing (SRI), is the process of incorporating environmental, social and governance (ESG) factors into investment decisions. A recent survey conducted by the Responsible Investment Association (RIA) showed that over 75% of investors are interested in ESG products, and 82% of investors allocate a portion of their portfolio towards ESG investment vehicles. Sustainable investment vehicles may meet – and sometimes even exceed – the performance of comparable traditional investments. For instance, the outperformance of the MSCI KLD 400 (an index which contains firms that have met a very high ESG standard) in comparison to the S&P 500 clearly demonstrates that strong financial performance coupled with values-based investing is extremely attractive, especially to millennials.

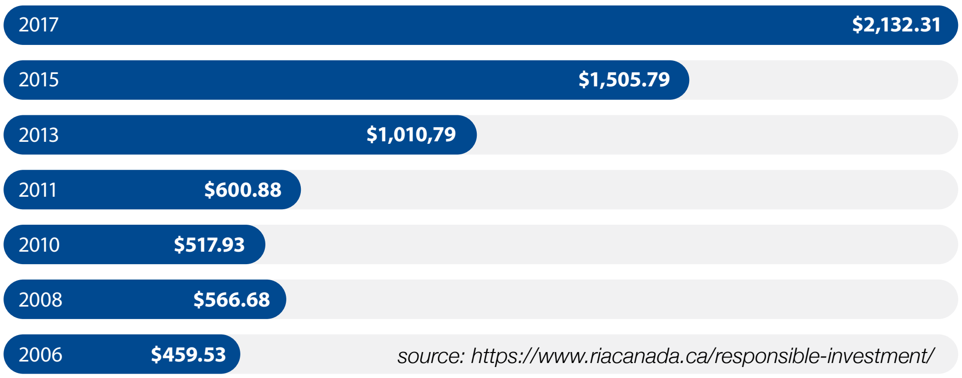
In addition to financial metrics, analyzing a company's ESG performance gives a more holistic picture of a company's quality of management, along with its long-term prospects for success. There's a growing trend where investors have recognized the

MSCI KLD 400 Social Index out-performs S&P 500
1990–2018



Sources: MSCI, S&P
Note: Indexed to 100

Canadian RI Industry Growth (billions)



> **"Millennials are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes."**

opportunity for better risk-adjusted returns, while at the same time contributing to positive outcomes pertaining to social and environmental issues. Over the past few years, we've seen a professed interest from millennials for sustainable investments, along with a significant movement of client funds into ESG products.

Growing demand

There's a growing body of international evidence that suggests millennials are increasingly driving the demand for ethical investment vehicles that incorporate environmental, social and governance criteria. According to a report by the Morgan Stanley Institute for Sustainable Investing, millennials are nearly twice as likely to invest in companies or funds that target specific social or environmental outcomes. In addition, 84% of millennials insisted on investing in ESG products as a central goal. It's becoming more evident that the demand for sustainable investment products is being driven by millennials who prefer to invest in alignment with their personal values.

The rise of globalization has brought about greater awareness that our world is increasingly interconnected, which, in turn, has positively impacted social behaviour. Furthermore, the dramatic increase in global travel has exposed people to other cultures and societies, helping reduce personal bias and ignorance. This makes some of us more likely to empathize with global issues and seek to correct them.

Looking ahead

The general trend in human demographics is that the younger generation always strives to improve on the models, ideas and values that have been passed on from the previous one. Millennials seem to have a much closer connection to global social issues than their predecessors and have a strong conviction to make a difference. This conviction is expected to grow with the next generation (Generation Z). Both generations seem to take a progressive approach to investing, recognizing that our actions and words affect not only ourselves but can impact everyone's lives in some shape or form. You could say that millennial investors are *putting their money where their mouth is.*

Sameer Amin, Research Analyst
T. E. Wealth, Toronto

4 things money-savvy millennials do

"*Time is on my side, yes it is…*" – The Rolling Stones

For millennials born between the early 80s and mid 90s, the above quote rings true – particularly in the quest for financial independence. What we know today is that millennials generally have relatively little savings, are carrying debt and have mixed expectations about their chances of retiring comfortably in the future. But we (yes, I'm a millennial) have time on our side. At this point, it's our best asset.

But, time is fleeting. Once it's gone, it's gone. There's increasing pressure to get your act together as soon as possible because life tends to become more complicated as time goes on. You may have pressures, stresses and responsibilities from other areas of your life, be it from your relationships, your career or your health.

In my employee financial wellness seminars, I often present the challenge in this way. If you're sitting in one of my seminars, it's because you have a job and your employer is paying for this benefit. So, congratulations on having a job and getting paid. If you're fortunate, you may be able to receive income for your work for many decades to come. The sum total of all this income over time can be quite significant. But much of it is spent on lifestyle expenses, paying down debt, paying income taxes and other obligations. Over time, the decisions you make in these areas, guided by your behaviours, will impact your future net worth. This will ultimately determine whether you're able to reach financial independence in time for you to enjoy it throughout the final years of your life.

So, what are these critical behaviours that influence our financial decisions? Basically, they're encompassed in these four areas: earning, spending, sacrificing and saving & investing. Let's explore each.

1. Earning behaviour

Your earning behaviour is your ability to earn income. This is the "money in" part of your basic financial equation. What can you do to influence this? Certainly, education and skills will play a role. Your ability to evolve and acquire new skills over time will help, so that maybe you can move on to a higher-paying job in the future. Just working more is another option. Whether that's working longer hours with one job, or adding a secondary job on the side – even if it's one that you do intermittently around your main job. The challenge is finding the right balance of hours worked so that it doesn't negatively impact you in other areas of your life.

2. Spending behaviour

You're likely spending in a way that lets you maintain the lifestyle that suits you. But be aware that your lifestyle comes with a financial cost and you need to assess that cost periodically. Do this by tracking your spending over a period of time – perhaps over a few months – and then analyze the results. I find this a fascinating exercise to do because it can reveal a great deal about what an individual values and prioritizes. You may recognize that some of your spending goes into things you value a great deal, whether that's particular hobbies, vocations or interests. You'll likely want to maintain these expenses, assuming you can afford to, because they bring significant benefits to you. But you'll also see that some of your spending goes into areas that you do not place high value on. This gives you an opportunity to reduce the unnecessary spending, leaving you with greater flexibility to pursue your interests and goals, and to significantly improve your future net worth.

> **"Your lifestyle comes with a financial cost and you need to assess that cost periodically."**

3. Sacrificing behaviour

Sacrificing behaviour speaks to your ability to maintain expenditures on your high-value items while reducing or eliminating your low-value expenses. This behaviour should be reviewed on a regular basis, as your views on what is high value versus low value may change over time. The goal is to be able to afford your lifestyle while having some money left over at the end of the month to pursue other goals with, whether it's saving for something special or paying down your debt.

> "How are you putting your surplus cash to work?"

4. Saving and investing behaviour

If you're living within your means, congratulations! But, how are you putting your surplus cash to work? The answer to that question is really what underpins your investing behaviour. Think of it as the ability to supercharge your net worth with the help of compounding. This doesn't just apply to savings. Paying down debt also uses the principle of compounding to reduce your balance, which will impact your future net worth. This is especially true if you're carrying high-interest debt, like credit cards. You may want to prioritize paying those down immediately.

Whether you're fortunate enough to have a company-sponsored savings plan or are doing it on your own in a personal RRSP or TFSA, recognize that your long-term horizon is an advantage and that you should be taking an appropriate level of risk in your investments. In due time, it will be prudent to reduce your risk, but now is the time to go after growth. Completing an investor profile questionnaire can help you determine an appropriate level of investment risk.

> "Recognize that your long-term horizon is an advantage and that you should be taking an appropriate level of risk in your investments."

If you pay attention to these four financial behaviours, it's more likely that time really will be on your side. Your future self will thank you.

Roland Chiwetelu, Consultant
Financial Education & Employer Services
T.E. Wealth, Toronto

3 lesser-known tax tips for millennials

If you're a member of the millennial cohort, now is a good time for you to educate yourself on some of the lesser-known tax deductions and credits that you might qualify for. These tips will help if you're still paying off student loans, have work-related expenses, or if you have a diagnosed disease that requires you to purchase special food items.

Employment expenses

Many people think that only self-employed individuals can deduct work-related expenses on their tax returns. This is actually not the case. If you're salaried or commissioned and your employer requires you to pay expenses to earn your employment income, you can deduct those costs. The following expenses qualify and can be deducted under employment expenses on line 229 of your tax return:

- Accounting and legal fees (applies to commission income only)
- Allowable motor vehicle expenses
- Travel and parking
- Supplies
- Salary-related (e.g., an assistant)
- Office rent or work space in the home

Your employer must issue a Declaration of Conditions of Employment (form T2200) for you to be able to deduct these expenses. Make sure to keep all of your receipts and a log book of any travel. For more information on what you can deduct as an employment expense, check out the CRA's website.*

Interest paid on student loans

If you're still paying off student loans, certain interest payments are deductible. Your loans must have been received under the Canada Student Loans Act, the Canada Student Financial Assistance Act or a similar provincial or territorial government law to qualify.

Interest paid on a personal loan or line of credit is not deductible even if the loan was used solely for education-related purposes. Also, interest paid on a student loan that has been combined with another kind of loan is not deductible, nor is interest paid on a student loan from another country.

You can claim interest paid in the current tax year and up to five years preceding. If you're still in school and don't have enough income to use the deduction now, you can choose not to claim the interest and instead carry it forward for up to five years.

Medical expenses (gluten-free products)

If you're one of the many people who suffer from celiac disease, you may not know that you can claim the incremental cost of buying gluten-free (GF) products as a medical expense. The CRA states that "the "incremental cost" is the difference in the cost of GF products compared to the cost of similar non-GF products.

To claim this incremental cost on your tax return, you'll need the following supporting documentation:

- A letter from a medical practitioner confirming you suffer from celiac disease and require GF products as a result
- Receipts for any GF products purchased
- A summary of each item purchased during the 12-month period for which the expenses are being claimed. This should indicate each GF item, its cost, the cost of it's non-GF equivalent, and the sum total of the difference between the two.

A complete list of other health-related expenses can be viewed on the Government of Canada website.*

These are just a few deductions and credits that millennials could benefit from. If you think you qualify for any of the above, consult a tax practitioner or financial planner for confirmation and to see if you're eligible for any other deductions.

Marcy Ages, Vice President & Certified Professional Consultant on Aging
T.E. Wealth, Toronto

*Rules differ in Quebec.

Welcome to the Money Clinic

Losing sleep over financial worries can be a nightmare. The Money Clinic is here to help.

The Money Clinic is a new feature coming to our website soon that answers your money management questions. Just submit your personal finance issue to our team of experts and, if selected, one of them will come up with a strategy to help you manage the situation.

Some issues we can help with:

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- Complex tax issues
- Helping your children with home ownership
- Ensuring you retire without debt
- Building your dream home

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