Strategy UPDATE
Issue 53

Derek Polson, CFP®,CEA
Investment Advisor

2019 CPP Enhancements

Have you noticed a change in your paycheque yet? If you are still actively employed and are receiving a regular income you likely have noticed a slight deduction in your NET (after-tax) pay. The Canada Pension Plan Enhancement program which was announced in 2016 has now officially begun.

The CPP was introduced in 1965 and was designed to provide retirees with a predictable monthly pension (current annual maximum $13,160). The objective of the programme was to replace approximately 25% of your income up to a set limit. With the new phased-in enhancements that will take place over the next 7 years (Phase 1: 2019-2023, Phase 2: 2024-2025), CPP will be designed to replace 33% of your income (approx. $16,000) up to a specified limit by the year 2065.

It's important to remember that both you and your employer evenly split the cost of your annual contributions (4.95% each for 2018). If you are currently self- employed you are responsible for the full contribution of 9.9% for yourself and an additional 4.95% for any employees that you may have. Let's look at the table below and see how Phase 1 of the new programme will ultimately impact your paycheque.

Year	Employee Contribution Rate	Employer Contribution Rate
2018	4.95%	4.95%
2019	5.10%	5.10%
2020	5.25%	5.25%
2021	5.45%	5.45%
2022	5.70%	5.70%
2023 and later	5.95%	5.95%

What's inside

Polson Bourbonniere Derby
WEALTH MANAGEMENT

HollisWealth®

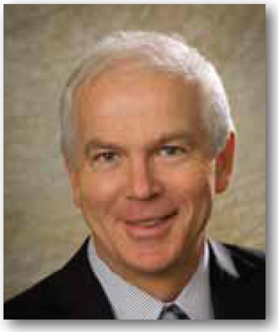
CPP is currently calculated on the difference between your personal exemption rate ($3,500) and your yearly maximum pensionable earnings (up to $57,400 for 2019). Therefore the CPP maximum earnings for the 2019 calculation is $53,900. Multiply this figure by 5.10% and you will contribute $2,748.90 to CPP for 2019 – an increase of $80.85 compared to 2018. By 2023 you will be paying an extra $458.15 per annum compared to 2018.

Phase 2 of the programme will begin in 2024 and later. The yearly maximum pensionable earnings rate (YMPE) will continue to increase and will be subject to the 5.95% contribution rate. However, there will also be a separate contribution rate that an Employee/ Employer will contribute only to earnings that are above the YMPE (subject to a maximum upper earning limit).

All current CPP contributors (both employees and employers) are impacted by the increased payment schedule and every new CPP collector stands to benefit slightly from the new enhancements. It's pretty clear that people entering the workforce today with an anticipated 40+ year working period (retirement date of 2065 or later) will be the main beneficiaries of the updated plan. Individuals and retirees who are already collecting CPP benefits or those that retired at the end of 2018 will see no benefit from these changes.

If you have any questions or want to discuss this in more detail please don't hesitate to contact your Polson Bourbonniere Derby CERTIFIED FINANCIAL PLANNER® professional.

Choose to be Worry-Free™.



Paul Bourbonniere, CFP®, CLU, CH.F.C., CIM®,CEA
Investment Advisor

Book Value

Financial reporting can be best described in a fashion similar to Winston Churchill's description of Russia – "…a riddle wrapped in a mystery inside an enigma." One term in particular seems to be a source of misunderstanding and confusion, and that is "Book Value", or sometimes reported as 'Adjusted Cost Base' in the case of mutual funds, segregated funds, or Exchange Traded Funds (ETFs).

Unless you are an author, publisher, or librarian, 'Book Value' is a financial term that reports a share or unit value, or dollar amount of a particular investment or security. Because it seems to relate to the amount originally invested, and because it often appears on a statement line beside 'Market Value', there is an assumption that there is a relationship between 'Book' and 'Market' values. There is, but it is a tax relationship, NOT a performance relationship. Too often we compare Book to Market and draw performance conclusions. And this is where the confusion lies.

At the time when money is first invested, the investment amount is equal to the Book Value. The Book Value of the entire position changes as units are bought or sold, up or down.

The Book Value also changes when a dividend or distribution is declared by the fund. Since this distribution is taxable in an open account, it is reported to the investor on a T3 form for tax purposes by the fund company. But if the distribution is reinvested, won't that mean being taxed twice when we sell the fund? Fortunately, the answer is 'no'. That is because the distribution has increased the Book Value, and the formula for determining the capital gain is Market Value minus Book Value, not Market Value minus Original Investment. Thus, a fund with high distributions (say, an Income Fund) will tend to have a higher Book Value than one with few distributions. Selling a high distribution fund usually results in a relatively low capital gain, compared to a low distribution, growth oriented investment. That's the tax dimension. If we compare Book Value to Market Value to get a sense of investment performance, we are looking only at that small residual capital gain or loss, and are not taking into account previous distributions we have received and paid tax on. The comparison tells us nothing about rate of return. Book Value is really only important if we are selling a fund from an open account. It means little in an RRSP or TFSA.

Knowing your actual rate of return is the best measure of investment performance. Determining Rates of Return will be addressed in a future article.

Catching Up with the PBD Team

It's been awhile since we updated you on new team members here at PBD! Let us introduce you to our newest.

Imara Kulatunga, Client Relations Manager, joined us three years ago and assists Ruth Ashton and her clients. Imara took the long road to get here having been born in Sri Lanka, then spending a number of years in the UK. She attended Middlesex University in London, graduating with a degree in Accounting & Finance. Imara has enjoyed a career devoted to the financial industry both here and overseas, and brought a wealth of experience to her role here. Imara met her husband in England and the lovebirds came to Canada in 2002. They are located in Markham, where they dote on their two young sons and one imp of mischief named Buddy.

Cory Bruner, Associate Investment Advisor, became

part of the team 2 years ago when he began working with Paul Bourbonniere. Cory's CFA and CFP designations allow him to contribute in-depth investment and financial planning expertise to Paul's practice. But finance wasn't always Cory's thing. He graduated from the University of Toronto with a degree in History & Philosophy. He began dabbling with his personal investments and found the process intriguing enough to take courses at George Brown. That led to a career in the field, and we're glad it did! Cory and his wife live in Maple with their three children, ranging in ages from three to nine. What little spare time he has is spent enjoying movies, TV and sports.

Christine Mack-Jackson, Client Relations Manager, is our latest recruit, having teamed up with Lydia Bzowej a year ago. We stole Christine away from Investors' Group, impressed with a resume that showed strong back office operational and technical skills. Christine attended the University of Toronto and graduated with a degree in Economics. She has spent most of her career in the financial industry, but did enjoy a stint as a Food Stylist which is about as far away from finance as you can get! With a young son of four, she and her husband are a busy and active couple but when time permits Christine indulges her love of sports, most particularly dodgeball and volleyball.

Client Profile

Meet Murray Sye, retiree and travel photographer-at-large.

The Sye family and Polson Bourbonniere Derby have enjoyed a long and happy relationship. Kirk Polson first worked with Murray's parents many years ago, and Murray himself is a long-time client of Lydia Bzowej's. Murray's roots have always been artistic, and as a Creative Director by trade, he ultimately owned his own advertising and design business. Working closely with photographers for many years must have rubbed off, as Murray has found a new vocation in the field since his retirement four years ago.

Sahara Desert, Morocco

An avid traveller, Murray has melded his love for travel with his love for photography. His wife, Mary, is still working full-time, but the couple manages to work around her vacation time to enjoy special journeys. Their most recent trip was to Vietnam, Thailand and Cambodia, while their upcoming plans include three weeks touring France and in December they are off to India. As a photographer, the opportunity to capture magical and mesmerizing images in these places is endless. And Murray seizes every opportunity!

Skogafoss, Iceland

You can follow Murray on Instagram at www.instagram.com/murraysye or enjoy his photos on his website at www.murraysye.com.

Polson Bourbonniere Derby Wealth Management
HollisWealth®, a division of Industrial Alliance Securities Inc.
Hollis Insurance

7050 Woodbine Ave., Suite 100
Markham, Ontario L3R 4G8
Main: 416.498.6181 or 905.413.7700
Fax: 905.305.0885
Toll Free: 1.800.263.0120
Website: www.worryfreeretirement.com

Ruth Ashton, CFP®
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7710
Email: rashton@pbfinancial.com

Paul Bourbonniere
CFP®, CLU, CH.F.C., CEA, CIM®
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 416.498.6181
Email: pbourbonniere@pbfinancial.com

Cory Bruner, CFP®
Certified Financial Planner®
Associate Investment Advisor
Direct: 905-413-7706
email: cbruner@pbfinancial.com

Lydia Bzowej, CFP®, EPC, CEA
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7703
Email: lbzowej@pbfinancial.com

Michael Derby, CIM®, CEA
Investment and Insurance Advisor
Direct: 905.413.7726
Email: mderby@pbfinancial.com

Derek Polson, CFP®,CEA
Certified Financial Planner®
Investment and Insurance Advisor
Direct: 905.413.7709
Email: dpolson@pbfinancial.com

Office Hours
Monday to Friday,
8:30 a.m. – 5:00 p.m.