TAX SHELTERS

Warm weather, low taxes

As income tax rates climb in Canada, the well-to-do are seeking out retirement destinations with low – or no – taxes

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High Net Worth

EDITOR: DAVE MICHAELS

The tempered enthusiasm felt by wealthy individuals like Bernie Li speaks to the restlessness felt by those who have a lot to lose and gain if stock markets move. MICHELLE SIU FOR THE GLOBE AND MAIL

OUTLOOK

Taking the long view

Wealthy investors are as concerned about keeping their fortunes as growing them. How are they feeling about today's economy and markets? Cautiously optimistic

KIRA VERMOND

At first glance, Bernie Li might not seem like a typical high-net-worth investor. He hasn't been building his wealth over decades. He's willing to consider high-risk, high-potential investing opportunities. And he's unapologetically "new money."

Really new. As in 2014 new.

That's when the former entrepreneur sold Toronto-based Pure Energies Group Inc., a residential solar company he co-founded and ran for about five years, to NRG Energy, one of the largest alternative energy producers in the United States. Suddenly Mr. Li found himself solidly in the high-net-worth bracket and looking to build and protect his assets.

But in one way, he's like many long-time affluent investors: how he describes his investment mood. "Cautiously optimistic," he says. While that might sound as if he's hedging his bets, his tempered enthusiasm speaks to the restlessness felt by those who have a lot to lose and gain if stock markets move.

Consider the latest results from the quarterly Tiger 21 survey, which reveals how North American investors with a minimum net worth of $10-million invest. Cautiously optimistic is a good way to describe their mood in early 2016. No major moves, just a bit of portfolio tinkering to firm up the foundation and mitigate risk. There's an uptick in long-term investing in private equity, and a slight shift to fixed-income.

The results aren't a surprise to Tony Maiorino, head of RBC Wealth Management Services. They reflect his firm's data, which show high-net-worth investors are concerned most about protecting wealth, funding retirement, maximizing investment returns and minimizing tax, in that order.

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TAXES

Low-tax havens beckon the wealthiest

With income tax rates at home rising, interest has grown in warm places with low – or no – personal levies

MARY GOODERHAM

Sunny climes have long beckoned retirees who are fed up with freezing Canadian winters. Along with warm temperatures, lower taxes – or no taxes whatsoever – particularly appeal to the wealthy.

The controversy over the release of the so-called Panama Papers, as well as the federal government's new push to raise taxes for high-income earners and to maximize revenue collection, are focusing attention on foreign tax havens. High-net-worth individuals looking to limit their tax exposure by relocating in retirement need to follow residency, tax and other rules.

"For the super-wealthy, taxation can be a very convincing reason to change residency," says Tina Tehranchian, a certified financial planner who is the branch manager and senior financial planner at Assante Capital Management Ltd. in Richmond Hill, Ont.

It's no surprise that Canadians of all income levels are keen to retire in warm places. Popular destinations are detailed in publications such as *International Living*, which issues an annual top-10 index of foreign retirement spots. This year they range from Portugal and Spain to Thailand, Ecuador and Panama.

Lower income earners and people who have not saved up enough for retirement look for destinations that are significantly cheaper to live than Canada. In Nicaragua, you can have a great retirement for $1,200 a month, Ms. Tehranchian says, which is about what a Canadian might receive from Canada Pension Plan and Old Age Security payments.

High-net worth Canadians, meanwhile, take up residence where they can pay little or no tax, which is more important than ever now that those in the highest tax bracket are paying as much as 53 per cent.

Either way it's important to realize that "you're changing your way of life," she says. It's therefore best to seek advice from qualified financial planning, tax, accounting and legal professionals, both in Canada and the place you're thinking of residing.

Those who want to change their tax home must become a resident in the new country and a non-resident of Canada, which is also best accomplished with professional counsel.

Tax considerations are "a significant factor," says Ron Choudhury, a partner at Miller Thomson in Toronto who specializes in tax planning for wealthier individuals. He says his clients ask particularly about low-tax retirement destinations. "As our tax rates keep climbing, the questions keep increasing."

High-net-worth retirees look for stable, warm jurisdictions with a high degree of English spoken and a comfortable lifestyle, while minimizing their taxes both there and in Canada. Mr. Choudhury steers clients away from countries where controls are lax and that may attract investments that are shady in both their legality and security. "Do not confuse legitimate tax planning with tax evasion," he says.

It's imperative to terminate Canadian residency, which means cutting all primary ties to Canada and as many secondary ties as possible, Mr. Choudhury says. Primary ties include your principal residence, your spouse and your dependents; in other words, if you keep your home in Canada and your spouse and children retain residency here, you are unlikely to be considered a non-resident. Secondary ties can be vacation properties, provincial health-care plans, credit cards, cars, bank accounts, newspaper subscriptions and memberships in Canadian organizations.

"The idea is to eliminate as many of those ties as possible," he says, noting that it's especially important to leave your provincial health-care plan.

Upon departure, a final tax return must be filed. The emigrant will be deemed to have disposed of all assets (barring certain exceptions, such as real property and RRSPs, and is taxed on inherent gains on such assets. This can become expensive if capital gains have accrued, Mr. Choudhury cautions. You can ask to post a security to buy time if you lack sufficient cash.

You must take up residency in a new country – living on a boat won't do it – which can require the payment of a hefty fee for a residency permit.

Emigrants should also note which countries Canada has bilateral tax treaties with, Mr. Choudhury says. Dividends, periodic pension payments and other such passive income receipts are subject to a 25-per-cent withholding tax in Canada for non-residents, but that amount can be reduced to 10 or 15 per cent where such a treaty exists.

Some low-tax countries without full bilateral treaties instead have Tax Information Exchange Agreements with Canada, but those do not offer any reduction from withholding taxes, Mr. Choudhury says. The new country in which you are living can give you credit for tax paid in Canada, although you won't get anything back if the personal tax rate in your new place of residence is zero and you're not paying anything, of course.

Emigrants going abroad also should do some estate planning before they go to make sure "you're not exposing your assets to estate taxes," Ms. Tehranchian says, which especially has ramifications for wealthier people. For example in the United States, inheritance taxes are triggered for those with worldwide assets worth about $5.3-million or more.

Special to The Globe and Mail

LOW-TAX DESTINATIONS

A diving competition off Seven Mile Beach in the Cayman Islands. COURTNEY PLATT FOR THE GLOBE AND MAIL

High-net-worth retirees looking for low-tax jurisdictions to emigrate to should seek advice from financial experts both in Canada and their destination country. Tax havens have varying tax rates, pacts with Canada, security and economic stability. The costs of a residency permit and property also need to be factored in. Here are a few top locales.

Bermuda

› Has a humid, subtropical climate, though summer temperatures rarely exceed 30 degrees. Its economy has been buffeted by the global recession, yet it retains one of the highest GDP-per-capita ratios in the world.

› Personal tax rate: 0 per cent.

› Tax Information Exchange Agreement in force with Canada.

› Residency permits are free, but the price of property can be substantial.

Bahamas

› Has a warm, tropical climate and a highly successful tourist industry. The country has a stable government and relatively stable economy.

› Personal tax rate: 0 per cent.

› Tax treaty in force with Canada.

› The annual residence permit fee is $1,000 Bahamian dollars per head of household (about $1,300 Canadian) plus a small fee for dependents. A permanent residence permit costs $10,000 (about $13,000 Canadian) per head of household and a lesser amount per dependent.

Cayman Islands

› This nation has the highest standard of living in the Caribbean. The country is known for having never levied any form of income, wealth, capital gains or payroll taxes on its residents.

› Personal tax rate: 0 per cent.

› Tax Information Exchange Agreement in force with Canada.

› A residency permit varies based on income, but it may be as high as $12,500 Cayman dollars (about $19,700 Canadian).

United Arab Emirates

› This Middle Eastern country is highly developed and has one of the highest GDP growth rates in the world.

› Personal tax rate: 0 per cent.

› Tax treaty in force with Canada.

› The cost of a residency permit is 1,100 UAE dirhams (about $385 Canadian) for owners of real estate.

Hong Kong

› It's one of the world's most important financial centres and a top tourist destination.

› Personal tax rate: 17 per cent, on income of more than $120,000 Hong Kong dollars (about $20,000 Canadian).

› Tax treaty in force with Canada.

› A residency permit costs about $32 (Canadian), with no fee to apply for permanent residency after seven years.

Mary Gooderham

WEALTH PRESERVATION

A tale of two Buffetts: Which would you rather be?

Wealthy clients who no longer want to chase market returns are taking a more relaxed – and stable – view by using hedging

DALE JACKSON

It's good to be wealthy. It's better to stay wealthy.

That's the creed for many high-net-worth investors who have reached a point where dreams of becoming multibillionaire Warren Buffett have given way to the attitudes of laid-back musician and "parrothead" leader Jimmy Buffett.

Before heading to Margaritaville, some of them find their way to Craig Machel's Toronto office. He's a portfolio manager with Richardson GMP who specializes in creating hedges for high-net-worth clients who want to stay that way.

"We're less at the whims and volatility and temperament of the public markets. We can drive our own destiny and be more assured of returns," Mr. Machel says.

His strategy makes wealth preservation a priority over big market returns. "We aim to build more effectively diversified portfolios beyond stocks and bonds. We collect yield, we manage volatility and then we aim for capital growth," he says.

Achieving safety and capital growth is no easy task these days. Fixed-income bond yields are at rock-bottom as the global economy dithers and central banks keep interest rates down. At the same time, volatile equity markets are providing little relief for those who rely on secure returns.

To combat that volatility, Mr. Machel's arsenal includes a variety of hedge strategies for changing market conditions. His objective is to generate consistent returns regardless of the broader market direction with the right mix of reliable yield strategies, defensive hedge funds and equities with potential for growth.

One strategy that has been successful generates yields by investing in private real estate – specifically, family apartments with little turnover and student-designated apartments with high occupancy rates.

"We own apartment buildings or typically stable rental units. We're not after capital growth. We're after yield first and that 'de-risks' things" he says.

Annual yields from private real estate holdings typically run in the 7-per-cent range, he says. The portfolio of apartments spans the country but avoids volatile markets. Economists have been warning that condo prices in some urban centres such as Vancouver and Toronto are rising too fast and could be headed for a correction. "We don't suspect we will suffer much if real estate values fall in Canada. It's apartments."

Another interesting hedge Mr. Machel employs for his wealthier clients involves mergers and arbitrage – but not the highly leveraged, speculative deals we often read about. He invests through another firm that only invests in companies that have already announced takeovers, mergers or corporate restructuring.

"Their leverage is minimal. They don't speculate," he says. "They will investigate the deal, they will speak to the players involved and find how they can profit in that trade."

For some skittish high-net-worth investors, that level of safety might not be enough. Many opt to put some or all of their savings in annuities – insurance products that guarantee fixed returns along with the principal.

Annuities are like defined-benefit pension plans. Holders receive a regular payout for the rest of their lives no matter what the markets do. Annuities can be tailored to an individual's risk tolerance, return expectations and life expectancy. "There is definitely a part for annuities to play for higher-net-worth individuals," says Matthew Williams, head of defined contribution and retirement at Franklin Templeton Investments in Toronto.

What kind of annuity they choose "is driven by their desire or need for income versus the longevity they think they will have, versus the likelihood they want to have at least a portion of their capital transferred to the next generation," Mr. Williams says.

Annuities can provide a specific payment amount for a specific period of time. If the holder dies before the end of the period, a beneficiary could receive the remainder of the payments for that time. "You would be buying a 10- or 15-year term-certain annuity and blending it together with a lifetime annuity that might have a protected term, for example," he says.

Payouts are determined by complicated formulas based on the amount invested and actuarial calculations. While annuities are considered safe, there is a risk if the holder dies early.

"If you purchase a lifetime annuity, and if you die early, the insurance company will retain the capital. That risk obviously goes down the longer the annuitant survives," Mr. Williams says. "The risk then shifts from the annuitant back to the insurance company to continue to pay the income stream."

As always, safety has a price. Annuities are correlated to interest rates, which means returns are low. A tax efficient annuity will generally pay an annual yield in the lower single digits.

"Annuities are largely fixed income. The insurance companies are buying long-dated bonds and having very low exposure to growth assets," he says.

"We're in a much lower real-interest-rate environment than what we have been in history. You can reasonably expect that the internal rate of return generated by an insurance company on an annuity book is going to be lower than what it would have been 15 or 20 years ago."

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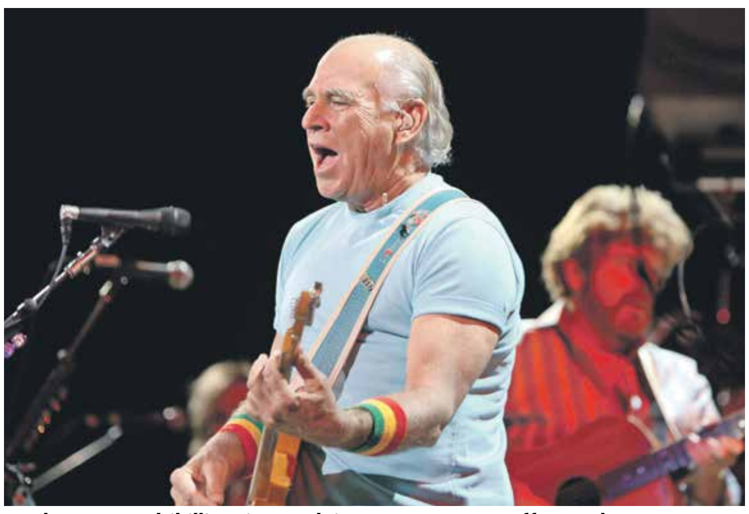

Many high-net-worth investors have reached a point where they no longer hope to become multibillionaire stock investor Warren Buffett and are content to go the way of laid-back musician Jimmy Buffett. CARLOS BARRIA/REUTERS

SPONSOR CONTENT

Want to reduce taxes? Talk to a professional

Tailored to personal and financial goals, tax planning with experts can help you keep more of your money and put your savings to work

John Waters, vice-president and head of tax and estate planning for BMO Wealth Management

Every spring, people focus on filing and paying their taxes, but it's also worthwhile to consider how to reduce them, says John Waters, vice-president and head of tax and estate planning for BMO Wealth Management in Toronto.

A smaller tax bill is one of the keys to retaining more of your wealth, and it's something that high-net-worth investors in particular should think about, Mr. Waters adds.

People need not feel hesitant about planning their finances and portfolios to minimize the tax they pay. The tax system actually offers many common planning strategies.

"Tax planning means organizing your affairs to reduce the amount of tax you pay within the confines and spirit of the legislation," Mr. Waters says. "It's important to have an idea of the strategies that are available to you, an awareness of the taxes you're paying, why you're paying them and if there's anything you can do about it."

For high-net-worth investors, good tax planning can improve the tax efficiency of investment income. It can also capitalize on the tax-deferred savings you can enjoy. And when you're gone, tax planning can ensure that family members receive the maximum possible from your estate.

A tax planning professional can help high-net-worth investors to navigate the complexities.

"The first step is to look at each person's lifestyle and financial goals – understanding what they're trying to achieve," Mr. Waters says.

The aim is not to turn investors into tax experts but to ensure that they understand how the choices they make to organize their holdings can affect their tax position.

Tax planning is one of many financial considerations, "but it shouldn't always be the most important thing," Mr. Waters says.

Tax planning is particular to each individual, but there are some basics that virtually everyone should consider.

"You should be thinking about an RRSP [registered retirement savings plan], a TFSA [tax-free savings account] and other registered plans," Mr. Waters says. "But tax planning starts by looking at the bigger picture – any strategies you undertake should be consistent with your goals."

As a seasoned tax expert, Mr. Waters encourages clients to focus on the big questions: What are your lifestyle and financial goals?

Although reducing current tax is the best move, the next best is to arrange income and holdings to defer tax and pay it later, ideally at a stage in life when income is lower.

"The money that you don't pay today in tax but might pay down the road in five years can be invested today and earn income for you," Mr. Waters says. "You get the immediate benefit of those funds."

For example, a self-employed professional can incorporate their business and pay tax on their business income at the corporate tax rate, which is considerably lower for small businesses than for individual taxpayers.

"At the end of the day, when they take the money out of the company, they'll pay roughly the same aggregate tax as they would today, but they'll have the advantage of deferral so they could build up investments within the corporation," Mr. Waters explains.

Another useful tax planning tool to consider is income splitting, where it's allowed.

"When you have two breadwinners in a household and one has a considerably higher income than the other, the simple strategy would be to ensure that the lower-income spouse's after-tax take-home pay is all invested, and the higher income is used to pay household expenses," Mr. Waters says. "You try to even out the incomes and retirement assets."

Funds can be invested in spousal RRSPs and registered education savings plans (RESPs) for children and grandchildren, which also allow taxes to be deferred.

Those who seek to split income should be careful not to run afoul of so-called attribution rules, Mr. Waters notes. These are rules that attribute income from investment assets that one spouse puts in the other's name back to the original (transferor) spouse.

Interestingly, whereas one spouse can't simply give the other money to invest without invoking these attribution rules, a spouse can lend money to the other with interest to be paid annually, and the income earned on the loaned funds won't be attributed back.

This can come in handy when one spouse receives a bonus or otherwise has surplus funds to invest, Mr. Waters says.

> **"It's important to have an idea of the strategies that are available to you, an awareness of the taxes you're paying, why you're paying them and if there's anything you can do about it."**
>
> **John Waters**, vice-president and head of tax and estate planning for BMO Wealth Management

Top tax-reducing tools

1. **RRSPs and TFSAs** A registered retirement savings plan allows you to defer tax: The taxes must be paid eventually, but the RRSP holder can do so when he or she is retired and has a lower income. With a tax-free savings account, you pay no tax on earnings generated from investments inside the TFSA.
2. **Dividend income** Eligible dividends from Canadian companies are "grossed up" on your tax form, recorded as $1.38 for every dollar earned. But then they get a generous tax credit, which means the taxes you pay will typically be lower than tax on employment income.
3. **Spousal loans** In most cases you can't simply give money to your spouse to split your income, but you can lend it with interest.
4. **Incorporation** Professionals and small businesses can incorporate and pay lower taxes on the company's earnings initially, but when the money comes out of the corporation, personal taxes will generally apply.
5. **Trusts** A trust can be established to benefit other family members, such as children or grandchildren, while providing control and protection over the assets gifted and potential tax benefits through income splitting.

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DEMOGRAPHICS

Wealth, the next generation

Rich millennials are risk-takers, but when it comes to investing, they tend to be rather conservative

MARJO JOHNE

Mike Gettis, left, is CEO of Endy Sleep, an e-commerce company that sells foam mattresses to customers across Canada and the United States. He is pictured with co-founder Ari Herberman. KEVIN VAN PAASSEN FOR THE GLOBE AND MAIL

The very rich, wrote the novelist F. Scott Fitzgerald, are different from you and me. They also stand apart from their economic peers when they happen to be millennials – those born between the late 1970s to early 1980s, and about 2000.

"Higher-net-worth millennials are vastly different than their baby boomer counterparts," says Dave Nugent, chief investment officer at Wealthsimple Financial Inc., a Toronto-based online investment service that combines a robo-adviser platform with access to live advisers. "They view money differently and they also have a different approach when it comes to investing their money."

There are no hard statistics tracking the number of high-net-worth millennials in Canada, but in the U.S. they make up a little more than 10 per cent of wealthy households, according to a 2014 survey by U.S. Trust, the private wealth management arm of Bank of America Corp. in Charlotte.

While they are a small group, wealthy millennials are likely to get even wealthier as they age, thanks to higher future earnings and substantial inheritances from their boomer and Gen X parents, notes the U.S. Trust report.

Financial services providers who want to cater to this new generation of wealthy individuals need to understand what makes them tick, says Mr. Nugent. A notable characteristic among this group: They are more interested in pursuing meaningful experiences than counting the commas in their investment portfolios.

"Material things are not much of a big deal to them because experiences are a bigger priority," says Mr. Nugent. "A lot them will say, 'Great, I have all this money – what's my next project?'"

Many rich millennials are risk-taking entrepreneurs who have made their fortunes by building companies. But when it comes to investing their cash, they tend to be rather conservative, says Mr. Nugent.

"They don't need to play penny stocks to score a home run, whereas baby boomers love that stuff," he says. "For millennials, the stock options or equity in their company – that's their home run."

That just about sums up the investing strategy of Mike Gettis, the 32-year-old chief executive officer of Endy Sleep, a Toronto e-commerce company that sells foam mattresses to customers across Canada and the United States. While he still holds stock in a number of blue-chip companies, these days Mr. Gettis prefers to put his money into the business he co-founded in March of 2015.

"I don't do a lot of investing any more," he says. "With 2008 and all of the things that happened since then, I think I speak for a lot of millennials when I say that we don't have a lot of faith in the system."

Paul Shelestowsky, a senior wealth adviser with Meridian Credit Union in Niagara-on-the-Lake, Ont., has observed this cautious streak among his high-net-worth millennial clients. He attributes this in part to their having gone through several financial crises, including the 2008 recession.

Those at the older end of the millennial age spectrum would also have witnessed the bursting of the dot-com bubble.

"This is a generation that has seen – and continues to see – a great deal of market volatility," says Mr. Shelestowsky.

Most millennials today also don't have the security of working with the same company for the duration of their careers, and few have access to a defined benefit pension plan, he adds.

"There aren't as many implied financial safety nets so when you're a high-net-worth 30-year-old, you know that you really have to look after yourself," says Mr. Shelestowsky. "And when you're an entrepreneur, you may have a risk-taking mindset with your business but when it comes to your retirement, you tend to be more cautious."

Mr. Gettis says that, like other members of his generation, he does have a lot of faith in technology and relies on mobile apps to help him manage his money.

"Even with our business, we have it all set up to do wire payments online," he says. "That's the one thing with millennials: We're happy to use apps and we have faith in encryption technology."

Technology is also helping high-net-worth millennials skip the face-to-face financial adviser meeting, which has long been considered a must for boomers and Gen X investors, notes Mr. Nugent at Wealthsimple.

Instead of sitting down in an office to discuss their investment portfolio, many rich millennials prefer a video chat. "It's basically like having the person beside you anyway," says Mr. Nugent.

This love of technology is certainly drawing rich millennials – as well as millennials with lesser investable assets – to robo-adviser services, says Mr. Nugent. At Wealthsimple, the average age of clients is 30, compared to the industry average of 55, he says.

Because of their financial successes and tech-savvy ways, high-net-worth millennials may now be influencing their own parents' investment decisions, says Mr. Nugent.

"In previous generations, people invested with their parents' advisers," he says. "Now the opposite is happening where older people are saying, 'I'm investing my money where my kids are investing theirs.'"

Special to The Globe and Mail

YOUNG AND RICH

In addition to Mike Gettis of Endy Sleep, who else is young and wealthy in Canada?

Stewart Butterfield

Co-founder of the photo-sharing site Flickr, now founder of San Francisco-based Slack Technologies, Mr. Butterfield was born in 1973 and today has a net worth of $1.6-billion (U.S.).

Garrett Camp

The Uber co-founder was younger than 30 when he sold a social media startup to eBay for $75-million. Today he is reportedly worth more than $9-billion.

Shane Smith

The 46-year-old is wealthy to the tune of $1.3-billion, thanks to the success of his multiplatform media company Vice Media.

Tobias Lutke

He was in his early 20s in 2004 when he co-founded Shopify Inc., an online e-commerce platform for small- and mid-sized businesses. When Shopify went public last year, Mr. Lutke's stake in the company amounted to more than $300-million.

Marjo Johne

INSURANCE

Life insurance is a do-it-all tool

But the complex finances and riskier lifestyles of wealthy individuals can make policies harder to get

AUGUSTA DWYER

It's hard to think of an advantage that average folks might have over the ultra-wealthy. But buying life insurance may be one.

For most of us, a doctor's visit and a lifetime of affordable premiums give our loved ones some financial security upon a parent's or spouse's death. For high-net-worth people, more complicated finances and a riskier lifestyle can make life insurance more complex.

Broker Terry Zive, who has been in the business for more than 30 years, has found it not uncommon to work on policies for $20-million or $30-million, and even $100-million.

"In this market you really need to know what you are doing," said Mr. Zive, who is president of Toronto-based Zive Financial Inc. "You not only need to understand the nuances of dealing with high-net-worth clients, but you need to understand the technical aspects of securing the coverage. If you make a mistake it can have significant repercussions."

Mr. Zive, who is usually brought in on a referral basis by a client's lawyer or accountant, says the goal is to develop what he calls "an attractive planning structure for the client. Each plan is unique."

Insurance companies, meanwhile, are looking at more than the client's general health.

"They will want to know that you have a certain level of net worth, a certain level of income, that there will be a certain level of economic loss associated with your death," Mr. Zive said. That means providing plenty of documentation so the insurance carrier knows that the amount of insurance being applied for is a realistic number.

"Simply because you want to buy it doesn't mean it's necessarily available to you," he said.

What's more, the medical part can also be more complicated.

Many millionaires pay special attention to their health and often visit private clinics and world-class medical specialists, Mr. Zive said. The underwriting process takes much longer, he said, "because you have to collect all these reports from these doctors who have seen them."

A wealthy person's lifestyle also can be problematic. Fast cars, off-the-beaten-track vacations and sports activities such as scuba diving, bungee jumping and mountain climbing present hazards that concern insurance companies. High-net-worth individuals also might travel more for business and to riskier countries such as Iraq, Brazil and China.

As a result, putting a policy in place can take as long as nine months, Mr. Zive said.

For very high insurance amounts, in the range of $50-million to $100-million, carriers need to find secondary market companies to spread the risk. That means three or even four firms need to be satisfied with the application.

Yet life insurance remains an important financial tool for the super rich.

The underwriting process takes much longer for high-net-worth people, says broker Terry Zive of Zive Financial Inc.

It's a tax-shelter investment, said Mark Halpern, chief executive officer of WealthInsurance Inc. based in Markham, Ont. "Not only does the insurance get paid out tax-free – so especially in a corporate setting, it is a way of getting money out of the company tax-free – but if you have the type of policy that accumulates, the accumulation also grows tax-free."

While the tax benefits of some insurance strategies will diminish on plans implemented after Dec. 31, 2016, when new federal rules take effect, Mr. Halpern considers life insurance as "a sophisticated investment in the scheme of a financial planner's overall estate planning," he said.

If policy-holders need to take cash out of their plans, say for an emergency or to start a business, they can do so tax-free – making it a solid investment for younger clients, too, he said.

"Here are these guys in their 20s – what do they need insurance for? But we might put a whole bunch of term insurance in there because some professional athletes and entertainers, in the future, could become uninsurable through drug use, lifestyle or financial problems," he said. "At least having a hedge in place guarantees something for them to access and use to their benefit at some future point."

Other examples of where high-net-worth individuals use insurance include debt repayment, charitable bequests or so that family members won't have to liquidate assets. It can also be used to leave one child a fair inheritance if a sibling takes over the family business.

Probably one of the most common uses, however, is to help offset tax liabilities upon the holder's death, such as on capital gains.

So while it may seem like an innocuous purchase, for the ultra-wealthy life insurance is a key business investment.

When he started in the insurance business, Mr. Halpern said he wondered why a multimillionaire with the best consultants and advisers money can buy would need someone like him.

"But I have found out in my 25-plus years that that is not the case," he said, "and that 80 per cent of the time, because they are very busy and doing what they do best, those people do not have things organized. What they really need is somebody who is going to be looking at things from 30,000 feet."

Special to The Globe and Mail

FROM PAGE 1

Outlook: Canada's wealthy take a seasoned view of volatility

"We're not seeing a lot of doom and gloom," he says. "We're not seeing a lot of people battening down the hatches."

Dylan Reece, a financial adviser and associate portfolio manager at Nicola Wealth Management in Vancouver, a firm that deals almost exclusively with wealthy clients, says the well-to-do have similar concerns as the rest of Canadians, just on a different scale.

"They're worried about volatile markets, low interest rates and reducing and even depleting their investment capital during their lifetime," Mr. Reece says. "Some people would think, oh, high-net-worth investors, they never have to worry about running out of money, but in fact, they do under certain circumstances."

Affluent investors are taking cues from the asset allocation strategies of major pension plan endowment institutions, says Mr. Reece. No traditional retail mutual funds here. Instead, think private equity, income-producing real estate, commercial mortgages, infrastructure and even farmland. "These assets are certainly less liquid than public markets, but they also tend to be less volatile and produce higher returns," he says.

That is, the wealthy are playing a waiting game.

Alan Hart, an accounting executive at an architectural firm in Toronto, knows all about biding one's time to build a healthy portfolio. While not in the same stratosphere as ultra-high-net-worth individuals, he started buying stock years ago and now holds more than $500,000 in investible assets.

He also still holds one of his first major investments, First-Service Corp., which he bought for about $6.50 a share in the mid-1990s. Taking into account a stock split and a spinoff that split the company in two (First-Service and Colliers International), a single share is worth $215 today.

As a value investor, he says he's optimistic even in the midst of market volatility, swinging oil prices and a dipping Canadian dollar. Because he has chosen strong, stable companies, these outside forces are less likely to keep him awake at night.

He also points out that once an investor amasses enough of a financial cushion to live well even in retirement, some of the pressure to grow the portfolio fades. "You're investing money you don't immediately need," he says.

Many wealthy investors are good at taking the long view, whether they are running their own firms or investing, says Laurie Bonten, senior vice-president and senior investment adviser for National Bank Financial in Winnipeg. They have lived through crashes, so they remain optimistic no matter how the markets are behaving. "Very few of them react to that volatility," she says. "Smart money stays smart. They stay true to their plan."

Adam Hennick, a financial adviser for Mackie Research Capital Corp. in Toronto, says he tends to keep his wealthy investors in safer, less risky investments that preserve wealth, since they already have more money than they need.

"Think of it this way. If you had $25-million more than you needed and you came to me saying, 'I've already paid off my house, bought a cottage and got a motorcycle,' what would you want to do with the money? Protect it," he explains.

For his part, Mr. Li, who is 41, says that although he's a new high-net-worth investor, he's got years to play with. He's willing to take a few risks and remain in growth mode rather than focus on preservation.

"I'm watching how to diversify and put a plan in place," he says. "That being said, if you can find an opportunity to invest with some volatility risk taken out, while still achieving performance, you have a winner."

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Retirement planning helps high-net-worth investors see the big picture

From financing your life goals to helping the kids get a head start, a detailed plan takes the guesswork out of taking the next step

At first glance, having $1-million in investible assets raises the question: Does someone with a substantial portfolio need to plan for retirement at all? Aren't comfortable golden years a given?

As it turns out, retirement planning is just as important for the affluent as for anyone else. Canadians are living longer than ever – an average of about 81 years, according to Statistics Canada. There's also children's university to pay off, elderly parents to care for and pricey mortgages to contend with.

High-net-worth Canadians tend to want to retire early, at about 60, according to a 2015 BMO Private Banking study, which also revealed that they believe they need an average of $2-million to live out their ideal retirement.

"Retirement is very different than it was before – and the amount that's going to be required is also going to be different based on what people want their retirement to look like," says Sebastien Souligny, vice-president and national director of wealth planning for BMO Wealth Management.

The changing tax landscape will have an impact too. For those in the highest income bracket, making more than $200,000, Ottawa recently raised the marginal federal tax rate to 33 per cent from 29 per cent. Factor in climbing provincial rates, and in some areas of Canada, affluent taxpayers are looking at over 50 per cent marginal tax.

Sebastien Souligny, vice-president and national director of wealth planning for BMO Wealth Management

Although tax reduction is crucial for maintaining long-term wealth, it's just one part of an effective retirement plan. "The fact that we're in Canada, one cannot ignore tax," says Richard Mason, president and CEO of BMO Private Investment Counsel Inc. "But it shouldn't be the primary driver of the investment decisions."

Yes, it's worth knowing that low-turnover assets can save on capital gains over the long run. But you should choose an investment because it's the best match for your needs, not simply because it gives the taxman less.

How do you know what your financial needs will be in retirement, especially if it's 20 or even 30 years away? It all comes down to looking at personal goals and using them as the foundation of your plan, Mr. Mason says.

Want to travel the world by ship? That will cost you. Or perhaps you'd prefer spending time with family, gardening or volunteering. You're likely to need far less to make those goals a reality. Whether you're cruising or planting, though, the next step is to examine cash flow and retirement income to pay for it. Again, everyone will have a different story.

"A million dollars might be sufficient if someone has a really good pension and they're going to be living off that, and not necessarily relying on their invested assets," Mr. Mason says.

But knowing how much you need to live comfortably is only one reason to have a retirement plan. A good plan also helps people to stay on track financially and informs their decisions, Mr. Souligny says.

Having this blueprint lets you see the big picture: whether putting an addition on the house, buying a vacation property or giving to charity will have a negative impact on your financial future.

Registered retirement savings plans can be particularly helpful for taking a disciplined long-term approach to building wealth. For starters, once funds are invested in an RRSP, the tax implications of withdrawing them early are prohibitive.

RRSPs are also an ideal tool for high-income earners who may already be in the highest tax bracket during their working years. Once they retire, they may pay the same or less in taxes when they withdraw the funds.

What's more, the annual contribution room for RRSPs keeps growing: Next year's limit is $26,010, up from $25,370 in 2016.

Richard Mason, president and CEO of BMO Private Investment Counsel Inc.

Tax-free savings accounts are another key retirement planning tool. Because TFSAs are so flexible, you can use them to pay for extraneous expenses that inevitably crop up. At some point, the furnace or the roof will need replacing. Having easily accessible tax-free savings can be invaluable.

What to do with any money left over after all retirement expenses have been considered? Many affluent Canadians give their children and grandchildren sizable financial gifts while they're still around so they can see the money being used, Mr. Souligny observes.

It's a good plan, he says, not only because the gift means potentially paying less in probate fees later but because the money will probably have more of an impact while the children are still paying off a mortgage in their 40s rather than thinking about retirement themselves 20 years later. That $100,000 could grow in your portfolio – or it could go toward paying off credit-card or other children's debt with a high interest rate.

It doesn't have to be about the kids and grandkids, Mr. Souligny notes. "Some people want to support charitable causes that are important to them, or they want to retire earlier or travel more," he says. "A retirement plan – which is only one part of a full, comprehensive financial plan – allows you to make these kinds of decisions. Most people plan their vacations; shouldn't they also plan for their financial future?"

Speaking of giving to others, Mr. Souligny likens retirement planning to creating a charitable-gifting policy. "Many high-net-worth individuals are solicited from everywhere to donate, and some of them find their gifting lacks purpose or focus," he explains. "They're just saying yes or no depending on from whom the request is coming as opposed to being deliberate about it."

Having a gifting policy could allow you to define that purpose and bring the focus that's lacking, Mr. Souligny says. "A financial plan can do the same for retirement by ensuring to stay on track and maintain focus when important financial decisions are required."

There's still time

Haven't maxed out your RRSP or TFSA lately? Keeping in mind that unused contributions roll over each year, here's the room you may have missed.

YEAR	RRSP LIMIT	TFSA LIMIT
2017	$26,010	$5,500*
2016	$25,370	$5,500
2015	$24,930	$10,000
2014	$24,270	$5,500
2013	$23,820	$5,000
2012	$22,970	$5,000
2011	$22,450	$5,000

*SUBJECT TO AN INCREASE BASED ON INFLATION

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