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Reducing financial stress: What are your options?

Clients get a lot of advice about investing their money. Many companies promise attractive rates of return for Clients willing to invest with them. Such investments make sense during good economic times. But the financial situation of many Clients has recently changed. Given the current stress on our economy, knowing how to protect and access your investments is becoming as important as choosing where to invest.

We've created the following guide to help you advise Clients during these tough times.

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Options	What you should know
Reduce spending and contributions	
Reduce spending on non-essentials	Recommended as your first option. + Frees up cash for essentials, without disrupting savings. + Simple and easy to do. – No more guilty pleasures.
RRSP[1] and other registered savings (e.g. DC[2] plan)	+ It's easy to reduce or pause regular contributions. + You can carry forward any unused RRSP contribution amount indefinitely. – Reduced RRSP[1] contributions could result in fewer tax deductions. – Could hinder your ability to meet retirement goals. – You may give up some employer-matched contributions.
TFSA[3]	+ It's easy to reduce or pause contributions to a TFSA.[3] – You lose potential tax-sheltered, compound growth.
Non-registered investments	+ For many accounts, it's often simple to lower or pause contributions. + There may be a lower cost of lost opportunity compared with registered accounts because non-registered accounts typically don't have tax-preferred compound growth. + These are less likely to be part of retirement plans (compared to RRSPs[1]).

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Options	What you should know
Life insurance premiums	You may have some flexibility in paying your insurance premiums, such as: + Offsetting premiums on a par policy by using policy dividends to pay future premiums. + Changing the dividend option in your par policy to take dividends in cash. + Accepting a reduced death benefit amount to reduce the premium required to maintain the policy. + Reducing premium deposits or taking a premium holiday. – Some of these options are not reversible. – There may be tax implications.
Withdrawing or accessing cash	
RRSP[1]	+ During a reduced income year, tax on registered plan withdrawals may be lower than a withdrawal taken in a subsequent year (if taxable income in the subsequent year will be greater). – Impacts attainment of retirement goals. – You lose potential tax-sheltered, compound growth. – Withdrawal could be subject to tax (including withholding tax). – Unlike TFSAs, you typically don't get increased future contribution room to match your withdrawal.
RRIF[4]	You must withdraw at least the government-mandated minimum each year. But there's no cap on how much you can withdraw. – Withdrawals up to the minimum amount aren't subject to withholding tax. But tax may be payable depending on total income reported at the end of the year. – Withdrawals made in excess of the minimum amount will be subject to immediate withholding tax.
TFSA[3]	+ Withdrawals aren't taxed. + Your subsequent year contribution room increases by the amount of the withdrawal. – You lose potential tax-sheltered, compound growth.
Non-registered investments	+ Upon disposition, you can use up to 50% of capital losses[6] to reduce or eliminate taxable capital gains[7] from the current year, the previous three years or any future year. + Lower cost of lost opportunity relative to withdrawals from registered accounts because non-registered accounts typically don't receive tax-preferred compound growth. – Dispositions may trigger a capital gain (taxed on growth amount above ACB[5]). – Due to recent market declines, you might be selling at a low unit price.

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Options	What you should know
Accessing credit	– Consumer-level insolvency rates have been climbing since Q1 2019. Credit card delinquency rates have increased. This may make banks less willing to lend.[8] – You will be charged interest on the loan. – You may have to pledge assets as collateral. – Taking a loan may affect your credit rating.
Life insurance	A permanent life insurance policy with a cash value may offer the following options: • **Policy loan:** the insurance company may lend up to 100% of the CSV.[9] + Doesn't immediately affect cash value growth inside the policy. + Quick and simple with no financial underwriting or fees. + Policy loan amount up to the policy's ACB[5] is tax-free. – Interest will be charged (Sun Life's current rate is prime + 2%). • **Policy withdrawal:** involves removing cash from the policy. + Quick and simple (no financial underwriting or fees). – Decreases cash value and death benefit amount. – You cannot recontribute the withdrawn funds to the policy. – Taxes may apply. • **Collateral assignment:** involves applying for a loan with a third-party lender using the policy as collateral. + These loans are not taxable income. + Loan rate is often lower than a policy loan. + You may be able to deduct some of the NCPI[10] for tax purposes if the interest on the loan is also deductible. – You must qualify for the loan based on the lender's criteria. – The lender may charge you fees. – Your loan could be called by the lender.

[1]**RRSP:** Registered Retirement Savings Plan
[2]**DC:** Defined Contribution Pension
[3]**TFSA:** Tax-Free Savings Account
[4]**RRIF:** Registered Retirement Income Fund
[5]**ACB:** Adjusted Cost Basis
[6]**Capital loss:** When you are considered to have sold a capital property for less than the ACB plus the outlays and expenses involved in selling the property
[7]**there** is expanded deductibility in year of taxpayer's death, or the immediate preceding year
[8]**Source:** Covid-19 and Oil Prices: Understanding the Canadian Market Amid Disruption, TransUnion, 2020 https://www.transunion.ca/blog/covid-19-and-oil-prices
[9]**CSV:** Cash Surrender Value
[10]**NCPI:** Net Cost of Pure Insurance

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