WINTER 2024

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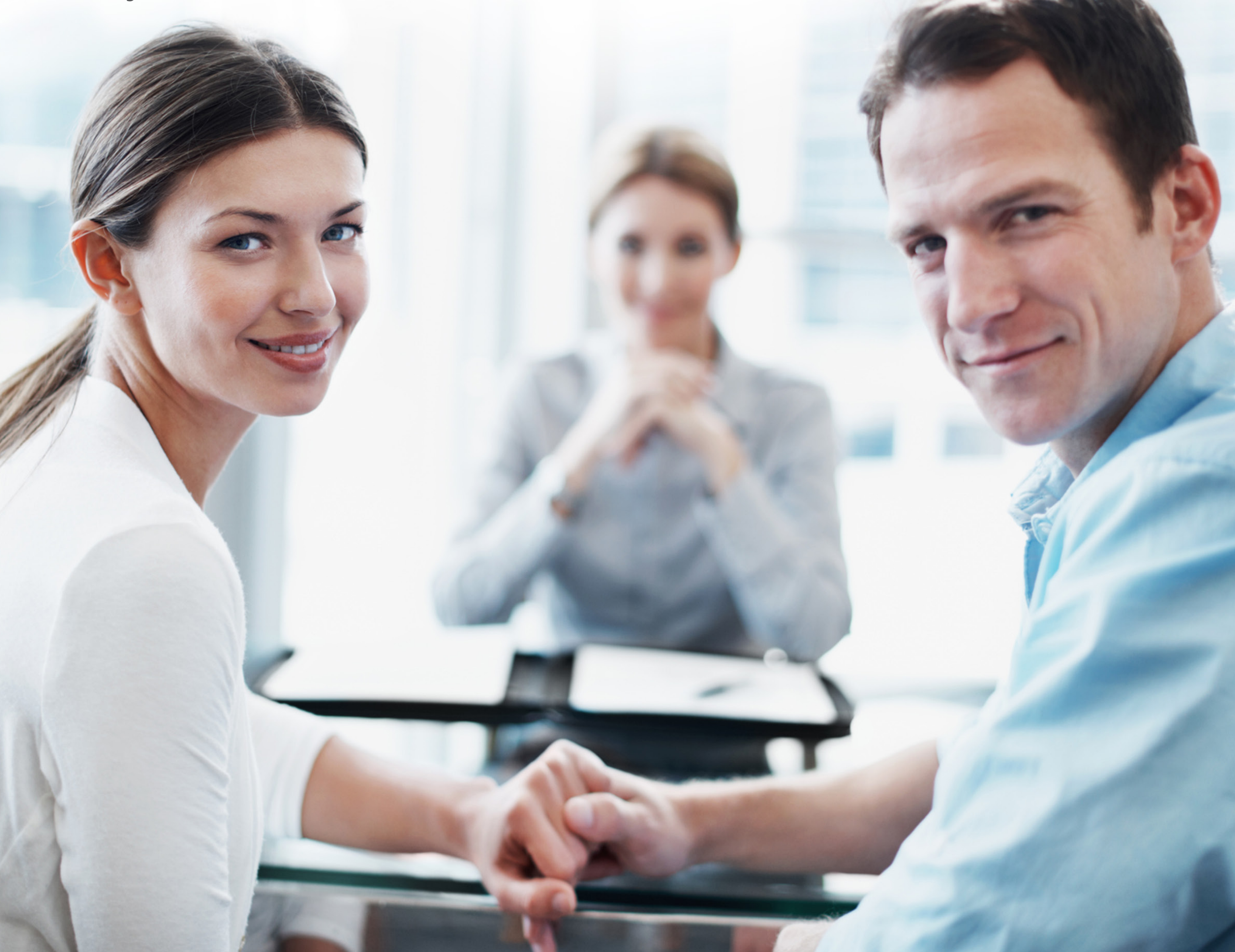
ADVICE FOR LIFE

Market watch:
Interest rates, inflation & the job outlook

The importance of saving for retirement

Is inflation impacting your finances?

PLUS
THE BENEFITS OF STARTING RETIREMENT PLANNING EARLY



ADVICE FOR LIFE

TIPS, TRENDS & TALK ABOUT MONEY MATTERS AND YOU

HELLO!

Interest rates, inflation & the job outlook

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MARKET WATCH

On December 6, the Bank of Canada (BoC) held its policy interest rate at 5%[1] as the economy continued to show signs of cooling. If inflation remains under control and declines toward its target, the BoC has signaled it may begin lowering rates. However, the BoC also said it remains on guard and any notable spike in inflation may prompt it to raise rates again. The next interest rate announcement is slated for January 24, 2024.

Inflation in Canada rose 3.1% year-over-year in November, the same increase as in September and significantly lower than the cycle peak of 8.1% in June 2022. Adding to inflation in November were rising mortgage interest costs and higher travel tour prices, while year-over-year prices for food, cellular services and fuel oil declined.[2]

Many experts were surprised that Canadian gross domestic product (GDP) actually contracted at an annualized rate of 1.1% in the third quarter, as opposed to the general forecast of a 0.2% GDP increase and the BoC's projection of a 0.8% gain.[3]

Canada's unemployment rate in November rose to 5.8% (up from 5.7% in October), the fifth monthly increase in the past seven months. The Canadian economy added roughly 25,000 jobs over the period. Job gains were highest in the manufacturing and construction industries, while employment in wholesale and retail trade declined the most in November. Provincially, job creation was strongest in New Brunswick and weakest in Prince Edward Island. Employment figures in the rest of Canada were little changed.[4]

While October was difficult for the equity and fixed income markets, the trend reversed in November as gains were made across most asset classes globally. Investors were buoyed by signs that inflation appears to be under control and interest rates may have topped out.

FACT vs FICTION

Here are three common misconceptions about the saving process:

1. Saving is only for retirement.

Sure, retirement is the biggest saving goal for most people, but there are other important goals in life, such as buying a home, taking a trip or creating an emergency fund, that you need to save for.

2. Saving small amounts of money isn't worth it.

Any saving helps create good money habits and, over time, compound growth adds up. Start with as little as $10 per month using a Nest Egg Term Deposit.

3. Credit cards always lead to debt.

Overextending credit may result in unwanted debt, but using credit cards can be "interest-free loans" if you pay off balances promptly. Read more.

WEBINARS

Check out our *Advice for Life* webinars. Watch past webinars or register for upcoming ones.
Read more

1. https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/
2. https://www150.statcan.gc.ca/n1/daily-quotidien/231219/dq231219a-eng.htm?indid=3665-1&indgeo=0
3. https://www.reuters.com/markets/canadas-economy-shrinks-11-q3-growth-seen-october-2023-11-30/
4. https://www150.statcan.gc.ca/n1/daily-quotidien/231201/dq231201a-eng.htm?HPA=1

Saving for retirement is **essential.**

Do you find yourself overwhelmed by expenses associated with daily life? Is debt piling up, especially as interest rates rise and the cost increases for servicing your mortgage, credit card, vehicle loan and line of credit? You're not alone. Life has become more expensive in these inflationary conditions and it's getting harder to make ends meet.

So, why are we talking about the need to save for retirement? Of course you should focus on managing your current level of debt, but you can't ignore that retiring comfortably is an important financial goal – perhaps your most important – and the one that requires the most planning so you have enough savings to sustain you through your later years. How much money you'll need in retirement depends on factors like your health, where you'll live and what type of lifestyle you anticipate.

Fortunately, there are several vehicles to help save for retirement. For instance, the Registered Retirement Savings Plan (RRSP) has been around since 1957, empowering Canadians to build wealth by offering tax breaks when you contribute to an RRSP, and tax-deferred growth from investments held in your plan. Some employers will even match a portion of the contribution amount you make toward your company RRSP or pension plan, helping you grow wealth even faster.

While only around since 2009, the Tax-Free Savings Account (TFSA) can be another way to save for retirement. Unlike RRSPs, contributions you make to this account are not tax deductible, but whatever growth you achieve inside your TFSA will be tax free. As a result, whenever you choose to withdraw funds from the TFSA – such as in retirement to create a steady cash flow – every penny of it will be available to use as you wish.

Another source of income in retirement is the Registered Retirement Income Fund (RRIF). This plan is basically the opposite of an RRSP. When you retire (or, at the latest, by December 31 of the year you turn 71), you'll need to convert your RRSP into a RRIF or another income-generating vehicle like an annuity. The RRIF is flexible because, similar to RRSPs, you can invest in a wide range of security types and any growth in the plan remains tax deferred until withdrawal. Typically, retirees are in a lower tax bracket relative to their working days, so the tax impact should be lower as well, particularly if they only withdraw the income they need (or the minimum mandated amount) from their RRIF, pension, etc.

Government pension sources like Canada Pension Plan and Old Age Security are designed to help cover some of your expenses when retired, but you'll likely need much more to live comfortably. An advisor can help you develop a plan that accounts for an appropriate amount of retirement savings. That's why people who work with an advisor generally feel more confident about their financial future.[1] If you haven't yet begun saving for retirement, now is as good a time as any. If you don't have cash available to start putting money away or to maximize your annual contributions, consider an RRSP loan. Curious to see how much savings you may need to retire? Check out our handy Retirement Calculator.

Meet an **ADVISOR**

At Alterna, we care about finding the right financial solution that meets your unique needs. We offer competitive rates, pressure-free transparent advice and caring service. **Get advice**

1 https://investorcentre.ific.ca/grow-wealth-advisor/
2 https://www150.statcan.gc.ca/n1/daily-quotidien/230317/dq230317e-eng.htm

QUICK FACT

According to Statistics Canada's latest figures,[2] less than 25% of Canadian tax filers made an RRSP contribution in 2021, even though the RRSP is a proven way to save for retirement. **Read more.**

What if?

Inflation is impacting your finances.

Everyone is affected by rising inflation and the higher interest rates that typically follow. A good long-term financial plan can endure periods of high inflation and other macroeconomic events, but what if you want to understand the short-term impact of inflation? Here are three ways inflation may affect your finances right now:

1. **Increased expenses.** The cost of goods and services will increase under inflationary conditions, so you may find your dollars don't stretch as far as they used to. Many people fight inflation by being more careful with spending and curbing discretionary expenses to help keep their financial plan on track.

2. **Markets become more volatile.** Investors generally don't favour periods of high inflation because it can negatively impact company earnings and profits. A strong financial plan includes a long-term investment strategy, so try to ignore short-term market volatility and focus on your financial goals.

3. **Savers can benefit.** High interest rates during inflationary times are welcomed by people who invest in interest-producing securities like GICs and high-interest saving accounts. Floating rate loans, real return bonds and inflation-linked bonds may also perform well amid rising interest rates.

Did you know?

As people get older, they may wonder if it's too late to save for their impending retirement. True, you won't benefit as much by waiting to start saving, but it's never too late. On the other hand, it's also never too early to create a retirement plan and begin saving immediately.

Younger people rarely think about retirement. It's far into the future and they have plenty of expenses right now. Some want to buy a home, which is a big financial commitment – although using the Home Buyers' Plan and new FHSA can help. If you get into the habit of saving and investing early for retirement, you can take advantage of compounding, which is basically investment growth that earns its own growth. Compounding allows you to effectively build long-term wealth, even if you only begin with a relatively small amount.

While retirement may seem far away, saving whatever you can now through vehicles like RRSPs and TFSAs can help you enjoy the retirement lifestyle you want down the road. Your retired self will thank your younger self for having a good long-term strategy in place. **Chat with an Alterna Advisor** about setting up a retirement plan today.

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