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This is the Private Wealth Podcast with Manulife Private Wealth.

Speaker Participants

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Presentation

Glen Brown, VP, Managing Director, Head of Manulife Private Wealth

Hello, everyone. Welcome, and thank you for taking the time to join us today at Manulife Private Wealth's webinar. As we continue to reopen, but see swings in the up cases in the pandemic around the world, getting better insight into the economic direct we're heading is going to be tremendously important. Today, we'll start with an economic macro-outlook heading into the new year, and then we'll start some highlighting on estate plan changes that might have taken place during the global pandemic.

As you know, estate planning is a process where you lay out your instructions on how your assets should be distributed when you pass away, determining when they go, how they go and in what form. This is usually done in a very thoughtful way, and unfortunately, during the pandemic, some of this may have been upended and we have some estate planning thoughts to consider. All too often, we don't complete or revise an estate plan and there's always consequences.

As always, the upcoming webinar is provided solely for information. It you're interested in a replay or if you want to have the content shared with you, we have this recording available and it will be available to you for members of Manulife Private Wealth. We'll also upload it on our website at manulife.ca and on our LinkedIn site at manulifeprivatewealth.com. If you have any questions or concerns after the call, please contact one of the Private Wealth team members.

Our first quest today is Frances Donald, the Global Chief Economist and Global Head of Macroeconomic Strategy at Manulife Investment Management. She analyzes the economy and capital markets for potential opportunities and risks, and serves as a thought leader both within the firm and externally. As a senior member of the firm's Multi-Asset Solutions Team, she coordinates global macro research, assists with the team's forecasting process and contributes to portfolio positioning views. Frances is an essential member of the MPW family, and I'm thrilled to have her here with us today. Frances, over to you.

Frances Donald, Global Chief Economist and Global Head of Macroeconomic Strategy, Manulife Investment Management

Wow, thank you, Glen. There's nothing like Glen intro to really pick you up and instill confidence in you, which is great because my husband just yelled at me. Apparently, I make the bathroom floors too wet when I go in there. So, I needed the pick me up, Glen. Thank you very much for that.

Glen, it's nice to see you. I think you are back in the office or it looks like the Manulife building behind you. Am I correct in this?

Glen Brown, VP, Managing Director, Head of Manulife Private Wealth

You are correct.

Frances Donald, Global Chief Economist and Global Head of Macroeconomic Strategy, Manulife Investment Management

Well, I'm looking forward to being back in office too, and I was reflecting on how it is going to be almost two years since they suggested we go home for two weeks. And there's nothing like that to make you reflect on all the things that you've learned. I've learned tons of things. For example, I've learned how to balance this plant on the rowing machine that I bought early in the pandemic and I've used twice. It's an excellent plant stand. I've learned how to make my own lunches. This is a skill I didn't have. I learned just how loud my husband chews. That one, I don't know how after ten years together I hadn't figured that one out yet. And I've also learned how to become more comfortable with uncertainty. So, I think we all feel this uncertainty. You know, will I be able to have my family for Christmas? When will my kid be able to go back to school without constantly coming back? When are we going into office? And also, uncertainty with respect to the economic forecast.

I have to tell you that admitting there is a lot of uncertainty or you're not sure in your outlook is not typically a good look for an economist. So we don't book CNBC interviews by saying, "It's a toss-up. Who knows what could happen next?" You don't get clicks on Twitter or views on LinkedIn when you say I have low conviction in my ideas. But one of the things that's happened to me, particularly in the last few months, is I've gone from thinking, "Well, that's not really a good look," to realizing that when you're managing your client's money or your own money or large funds, sometimes acknowledging just how extensive uncertainty is, maybe it doesn't play as well in a headline, but it's actually the right thing to do and the best thing to do.

So, I'm construction 2022 forecasts right now and outlooks. I'm in the process of writing my 2022 outlook, and here's a little spoiler alert. As part of my little rebellion against the field of economics and the push we get in the financial media to have big, bold ideas at all times, I am naming my 2022 forecast, The Anti-Forecast, because I think now is a time for us to acknowledge just how many ways 2022 could go. Now is the time to acknowledge no big bets and to take just a minute and really step back and think bigger picture as long-term investors like I know many of us are on this call. What are the key long-term questions that we need to be answering?

Now interestingly, I would actually not be invited back to this call or any other call; I might lose my job if I didn't actually produce a forecast, a base case one, so I will give you my base case forecast for 2022, and then I'll tell you why I indeed have very limited conviction on it and how many different variations I can go. Now, I'm not sure you can all see this, but Glen is turning white and also laughing, not sure why he's employed me to come onto this call today.

So we're going to do that, we're going to go through Anti-Forecast here. So here's the base case for 2022. The base case for 2022 is that it is – this is an overused term in economics – effectively probably going to be a year of two-halves. In the first half of the year, an uncomfortable slowdown as manufacturing activity rolls over. We do have a fifth wave of COVID. I don't like to say it, but indeed it's in the data. China is weighing on the economy. We've had a lot of tightening of monetary policy from many central banks around the world. Even if we haven't yet seen rate hikes in Canada or the United States, we have seen a withdrawal of liquidity over that period.

So, you know, slowdown in housing activity, all going to contribute to maybe a little bit less excitement in the first half of 2022. And a lot of people who claimed they would have a grand reopening are going to have to backtrack on that. This is very much being exacerbated by supply chain disruptions that are limiting our ability to buy things even if we wanted to.

My mother-in-law has repeatedly told me this year, all she wants for Christmas is an iPad. Thank goodness yesterday I went to order her one, because it's being delivered December 23rd. Pray for me that that iPad arrives by December 23rd or else we're going to be in trouble, more so than my bosses with my anti-forecast perspective.

We expect, however, the second half of the year that the supply chain disruptions will unwind. We're going to be able to buy all the things that we wanted to buy. I know many people are looking for PlayStation 5s. If we don't get that iPad, we'll definitely get it. We'll be able to probably by the summertime not be in a sixth wave and start to see more of that reopening momentum that just hasn't yet materialized in an economy that was supposed to be massively booming and just hasn't yet.

We expect that inflation is actually going to be a lot of a roller coaster ride. I've talked about this on this call before. Inflation high and uncomfortable into year end. In 2022, deflationary pressures. Why? because I'm telling you, this rowing machine, you can't see, I would sell it for 50% off in a heartbeat. If you want one, I'll include shipping as well with it. All of those goods that we bought, we're probably going to see their prices unwind before we settle at a slightly higher inflation rate by the end of 2022, 2023. Maybe, like, 2.5%, a little bit higher than what we were used to before.

So that's the base case. And I could do 20 minutes on how we arrived at that base case, but instead I'm going to tell you the four things that could change that base case. And while we get to talk every quarter, there might be developments on this front in between, and how elements of these four known unknowns could actually have a material impact on how that base case works out.

So the first known unknown, dagger to my heart, I hate to say it, is COVID. And particularly COVID responses. So there's two ways in which COVID impacts our economy. There's only really two ways in which the surge of the virus changes our growth outlook. The first is when it affects our behaviours. So when Glen and I say, "You know what, we're just a little too nervous about going to get that lunch we're long overdue for, let's hold off a little bit longer," or companies say, "We're just gonna wait a little bit longer before we do return to office," these types of corporate and household decisions that weight our desire and what we choose to spend on.

Now, the other argument or the other side of this story, the other way in which COVID impacts our economy, is when countries or governments choose to lock down our economies or have restrictions. And this may not be things like full lockdowns, but it could be the persistence of the view that you must have a seat in between all people in a movie theatre, or you cannot have your restaurant at full capacity, all these types of decisions. Now, the reason that COVID is really hard to model on the economy, especially on a go-forward basis, is that our behavioural responses and government responses are very varied across the entire world.

I'll give you a good example of this. In Florida, for example, we saw a massive fourth wave of the virus and yet we saw no change in behaviour and no change in government restrictions, so the Floridian economy actually had very little impact from a sizeable fourth wave. Now, the counter example to that, and this is the one that keep me up at night, is China. China has a complete opposite perspective. COVID Zero. As soon as there's one case, huge amounts of the economy are locked down. Many people saw headlines that Shanghai Disneyland had one case; 30,000 people locked in to Disneyland. And every time we see a breakout of COVID, you see huge swaths of China that are fully locked down. They're pursuing COVID Zero.

Now, the reason this keeps me up at night is because A), I have no insight into what China is going to do with a COVID Zero policy. I'm not sitting in Beijing; I have no model. It is purely a policy decision that I can't model, and yet the implications of China shutting down are so wide and varied across all our economies. They include slowing global manufacturing, global trade, they include the inflationary pressures of disrupted supply chain disruptions. I mean, the impacts of China's COVID Zero policy are massive.

You might have seen in the last few days that the global economy is going into its fifth wave of COVID. Austria, Germany, talking about lockdowns and restrictions again. We in Canada are actually looking a little bit better on this front, in part because of higher vaccination rates, but we are not immune from the impact of a fifth wave coming out. Again, I don't like to talk about that. It weighs on me. It's something we need to monitor.

The second known unknown is indeed the supply chain disruptions. I have absolutely no economic model for when supply chain disruptions are going to unwind. I have a 75-page chart pack that tries to estimate when supply chain disruptions are going to unwind, but here too we have a problem. I thought supply chain disruptions would unwind in the second half of last year and then, bam, Delta came in and we actually saw another wave of supply chain disruptions come through.

I'm obsessed with LA and Long Beach ports. Actually, first business trip that I have done was two weeks ago, I got to go to LA and speak at a US conference. And at that conference, I asked the taxi driver to take me to the LA port so I could do a little bit of researching for myself. It looks like Lego blocks across the whole ocean, the extent of ships that are waiting to come offboard. Now, a lot of that is demand, so we're going to see about 14% more demand for goods. Good is something you drop on your foot that hurts. Or as I like to think about it increasingly, things we bought to turn our homes into all-inclusive resorts.

Now, we've seen a little bit of a demand for that. But the really big problem is the inability of the supply side of the economy to really respond, in part because of massive labour shortages. Why do we have labour shortages? Lots of reasons. Fear of COVID. Straight up amount of people who have died from COVID. How macabre is that? Virtual school and challenges with children coming in and out of school with respect to COVID. Loss of immigration, which filled a significant amount of labour force participation rate. And then last but not least, mass early retirement, particularly 65 plus.

This leads me to my third known unknown, which is that we're really struggling the entire profession to know when labour is going to come back online. Now, this is less of a problem in Canada than it is in the US, there's still a problem in Canada. We've expected that the labour force participation rate would come back. In the US in particular, it has completely stalled out and there is a lot of questions that are hard for us to model. Why is that? Are people just trading bitcoin and meme stocks? Has their relationship with work changed entirely? Are they still nervous about their children who have not been vaccinated en masse yet? What is creating this disconnect between our traditional models of labour and when people are going to come back? That's the third known unknown.

Now, why is that so critical? Those supply chain disruptions and the labour shortage are contributing to that uncomfortable level of inflation that we see in the environment and the inability for our economy to really take off. I can want to buy all the PlayStation 5s in the world and have the income to do it thanks to CERB cheques, but until they're available to me to come off a ship and until people are there to unload them, I can't grow the economy with my PlayStation 5 desires. For the record, please don't send me a PlayStation 5. I have zero interest in that. Other people in my house do, but they don't deserve it. So, you know, that's an example.

Fourth known unknown, and perhaps the biggest one is that we don't know how policy-makers are going to respond to this particular predicament. Now, the common experience out there, the common suggestion is that these high levels of inflation, well, we should respond to them with higher interest rates, right? This is what we hear: "There's too much inflation in the system, hike interest rates now!" Except that the bulk of the inflationary pressures that we see in our system have to do with these port clogs, the bottlenecks. They have to do with the labour shortages. They have to do with China's COVID Zero policy.

Now we have these additional complicating factors which is a little bit of a perfect storm: we have big draughts in Latin American that are contributing to higher food prices. We have OPEC, which has chosen not to respond to higher supply and driving up energy prices at the same time. And then, of course, we have these geopolitical developments like high tariffs because of US-China trade relations and Brexit that are creating global ripples in inflation.

Now, the big problem that I have, and it's sort of a mid-life crisis for an economist to reach this moment, is I'm asking myself, "How the heck will higher interest rates change COVID Zero policies in China, or make it rain in

Brazil, or release oil supply out of OPEC, or change Brexit?" Now it's particularly true in Canada, because as much as we like to think we can control our own destiny, so much of what's happening to Canada on our inflationary picture right now is global and supply side in nature.

The Bank of Canada is really not in a good position to help us fight the type of inflation we're feeling right now. So what the Bank of Canada and many other central banks have done, it says, "Well, we are going to respond; we're going to try to tighten interest rates and smack demand downwards." That's not going to be entirely effective at actually calming the inflation in the system, and it's likely that we're going to see something more painful, which is that central banks try to fix a problem they can't fix, which means we remain with these high inflationary pressures, but dampen growth in the long end because of that. That's exactly why the seals curve has been flattening and it's going to continue to flatten until central bankers turn around, probably in the first half of 2022, and say, "You know what, interest rate policy is not the right tool to deal with these challenges."

So all in all, if you want to take away the message from that, is that by the second half of 2022, we do think that central banks will have had to 180 their more hawkish rhetoric and we can see that curve start to steepen again. But until that moment comes, we're probably in an environment where central banks and their desire to fix a problem that they ultimately can't is going to result in a flatter yield curve.

So what do you do when you kind of have this uncertainty? What do you do when 2022 looks so cloudy? You take a step back. You think longer term. The one question that kind of plagues me as I go to bed at night is not, you know, when do supply chains come through in 2022 or Beijing or any of that. No, the one question that keeps me up at night is the most important question of my career that I absolutely must nail. And if I don't get it right, Glen, please disinvite me from these calls because it's so much more important than the 2022 forecast. And that is, the 40-year decline in interest rates. Are we going to see a meaningful turnaround or are we going to stay in a low-rate environment on a persistent matter?

Now, six to twelve months ago, I believed that we could break out, that we could see higher interest rates. Not because of inflation, but because I had this maybe naïve hope that central bankers would say, "You know what, we're going to let economies run hot. We're going to focus on broad-based inclusive employment." I believed that governments were going to spend money on the right thing. Please stop me next time that I come up with that crazy idea. No, that's not what's happened at all. I believed in productivity gains. I believed that we were all going to become hyper-efficient in our jobs. And yet what's happened is that central banks have said, "Forget that idea of broad-based inclusive employment, we've got to tackle inflation."

We've had governments who have actually focussed much more on short-term stimulus than long-term stimulus. In the US, the "build back better infrastructure package" for Biden looked like about less than half what was initially proposed as part of that development. And productivity, well, it's actually not doing well and I kind of understand why. First reason is that, well, we don't have the right people in the right jobs.

Glen, if I tried to do your job, I'd be very bad at it. I can just tell you right now, you'd probably be better at my job than I'd be at your job. So you can understand when you're putting the wrong people in the wrong jobs that you end up having productivity declines.

And the second reason is that this whole concept of work from home is actually weighed on people's productivity in the longer run. I used to think I was really good at it, but I think we can all admit that work from home has actually had a non-negligible impact on mental health. Things that economists would never talk about is actually changing our relationship with productivity as well.

So when I think about what's actually going to change the growth picture in the next few years, many of you have used my example or have heard me use the example of an economy operating like a McDonalds. And the growth of the economy is just the number of hamburgers that a McDonalds produces. The number of hamburgers that a McDonalds produces is always a function of two things. One, how many people work behind the counter, their labour force. And two, how fast of how many hamburgers each one of those people is making. That's your productivity.

And when I look at the big picture, forget 2022. When I look out over 2023 and beyond, what we see is actually we have far fewer people available to work because the labour force has been squashed by COVID and they're not actually being more productive, the people who are working. So ultimately, that says to me that, well, we might see the ten-year rise to 2%, maybe 25. While we might see a little bit of interest rate hikes here and there, the long-term downtrend in rates probably persists. And if that's the case, we're going to have to do exactly what we did pre-COVID now that COVID is "over." I say that as we enter the fifth wave here, right? And that is going to be overallocations to equities, lots of diversifying internationally, but also a focus on new asset classes that maybe didn't enter our minds before, from natural resources, to infrastructure, to emerging market debt and beyond.

And that, I think, is far more important than any outlook you're going to read about 2022. You may not agree with me, maybe you have a really good case for why interest rates are going to rise out of this 40-year downtrend. That is the key question that every single economist on the street should really be trying to answer. Much more important than any of these known unknows. In the meantime, we may have to go through some volatility, but do what we always do: stay long picture, stay invested, think about the long term and we're all going to be just fine.

I'm going to leave it there and pass it back to Glen because I'm really excited about hearing from Carol today, next speaker. I'll be staying online with my video off. I think it's going to be a good one.

Glen Brown, VP, Managing Director, Head of Manulife Private Wealth

Thanks so much, Frances. Really good insight and really glad that you're there as part of the Asset Allocation Team to get us through these humps and hurdles.

High-net-worth individuals often require solutions to help with their complex wealth and estate planning needs. Manulife Private Wealth's seasoned professionals can help with the knowledge and expertise needed to handle even the most complex challenges, offering wealth and estate planning that works for you, your family and your business.

Our next speaker, Carol Foley, is a Lawyer and Chartered Professional Accountant with over 30 years' experience in taxation, trusts and estate planning. She graduated from the University of New Brunswick in Fredericton with a Bachelor of Business Administration, received her Bachelor of Laws from Dalhousie University in Halifax. Carol joins Manulife Private Wealth as our in-house Tax and Estate Planner, bringing a unique combination of accounting, legal and insurance expertise. She's gathered diverse estate planning experience while working with various wealth management groups and trust companies. Today, we look forward to her insights on the unintended consequences of the pandemic on estate planning, including the increased use of technology and the impact of the housing market. Carol, we're thrilled to have you, and over to you.

Carol Foley, Tax and Estate Planner, Manulife Private Wealth

Thanks so much, Glen. And it was nice to hear Frances' take on economics. It was way better than any economic classes I had done in my undergrad.

So, let's have some fun talking about estate planning. Really, we're going to talk about the two topics of the increase due to technology on estate planning, and I don't think that people usually think of technology and estate planning in the same breath. And then the other thing is really the impact of the housing market.

So, let's first dive into increased use of technology in signing wills. So if you have had your wills and powers of attorney prepared by your lawyer pre-COVID, you may have remembered that you went to their office for meetings, and then when you had to sign the wills and the powers of attorney, you either had a lawyer and their assistant of clerk and it was this whole thing for witnesses on the signing of the documents. So I'm going to focus my comments about this primarily in Ontario because I am called to bar in Ontario, but similar things apply in other provinces.

So prior to April 7th, 2020, in Ontario, when you were going to sign your will, the succession law reformat to legislation is what details how that is supposed to be done. And it actually says that a will isn't valid unless it's signed by the testator at the end and then the testator signs the document in the presence of two or it could also be more witnesses present at the same time, and two or more of those witnesses are also signing.

Essentially, we have a signing party because you had the testator who was the one making the will, and the witnesses. If that wasn't done properly, you didn't have a valid will. In Ontario, it's either valid or it isn't, there isn't any legislation that allows the judge to kind of say, "Well, they were pretty close to getting it, so it'll count." So very, very strict rules about how this has to be done.

So enter the pandemic, now what's going to happen? We're supposed to be social distancing, we're supposed to kind of keep all the stuff like we were at lockdown in Ontario. So how is somebody going to get their will done? So we had legislation that got passed that suddenly updated this legislation that said notwithstanding we kind of had that signing party, they're going to allow it to be possible to have these wills and other documents signed when the person is connecting by an audiovisual communication technology – so essentially what we're doing today – provided that at least one of the people who is a witness is a member of the Law Society of Ontario.

So, that essentially meant that there was a lot of paper process so that the clients could be signing their wills, and then the subscribing witnesses could also be signing the will. So sometimes you might have the client in one spot, the lawyer or paralegal in another spot and also another witness, but it was possible to get the wills done. So I think that's really exciting news that the lawyers have embraced the technology and the legislation got enacted; there was emergency legislation. And since that, in April of this year, those temporary measures have now been made permanent. So hopefully we never have to go through another pandemic in our lifetime, but if we do, we've got the legislation in place that this can be done, and this also impacts the ability to get powers of attorney done. So, wills are when you die; powers of attorney are when you're not capable of making financial or healthcare decisions. Those documents can also get done.

So, what does this mean to you? So it really means it's saying that lawyers can find ways to be creative, to get things done, to make sure clients' documents can get in place, even in the middle of a pandemic, and it's showing that increased acceptance of technology. So who knows where that will go.

And the other thing is, I was listening to a webinar for a lawyer that does international estate planning for clients that have assets and things around the world. She's saying with the use of, you know, Zoom or whatever, she's been able to connect with a lot of international lawyers, estate planning lawyers, and been really efficient to be able to handle clients' needs. So, for some MPW clients that have assets around the world, this use of technology is allowing estate planning to be done not just kind of in Ontario or Canada, but also helps that people are starting to do things more internationally. So, that's number one.

Number two. I think pretty much everybody on this call probably has a cell phone. And probably a cell phone that you can take pictures with. And what might that have to do with estate planning? Well, let's talk about a case. Contact vs. Golay is a Saskatchewan case that came out in 2021. And in this case, we had Barry Golay who purchased a $250,000.00 life insurance policy in 2011, and he named four children of his first cousin as beneficiaries by insurance policy.

In 2016, he got his will done, he appointed his cousin's husband and his brother as an alternate executor, and he got is powers of attorney done and appointed his cousin. In 2017 – in October of 2017, he is diagnosed with colon cancer, goes into the hospital and, unfortunately, passes away in November 2017. He's in the hospital, Wendy, this first cousin, would come and visit him and they talked a lot about his wishes for his funeral. And so, one day she's there visiting, Barry's asleep, but she sees these handwritten notes beside his bed and she's thinking it's dealing with his funeral arrangements so she takes a picture on her cell phone. She never sees the notes again, and after Barry passes away, she sends the photos to the people that were named as executor and alternate executor.

And essentially, these notes were dealing with his wishes. They seem to be in keeping with what the documentation was, but he made additional comments about cremation and then he had this schematic about changing beneficiaries on the insurance policy. So originally, he had four people named, these handwritten notes had 10 people named. So all of his first cousins' children, a nephew, his brother's son, and family friends.

So now we go from four beneficiaries on $250,000.00, to ten. So needless to say, they end up going to court as to who is going to end up getting the spoils of the insurance policy. And the judge was really left with the decision about these handwritten notes, there wasn't the paper copy, and would that be good enough to be considered a declaration of insurance beneficiary designation for purposes of his life insurance policy.

So nobody had any fights about the notes; they all said it was Barry's handwriting. Now, he didn't actually kind of go I name these people as the beneficiaries. He had the names and he kept signing his name in cursive around the notes, but he hadn't actually done it in kind of nice order. So the judge really had to look at this and say, "Was that good enough to be considered an insurance beneficiary designation?" And the judge did. So it essentially meant that the $250,000.00 got divvied up around ten of these people.

So you're sitting there, "Carol, well, that's great, what does that mean to me?" So one of the things is I kind of want to say the DIY of doing your own estate planning or beneficiary designations and things can be a bit of a nightmare. So the judge figures this was Barry's intent, but at the same time, there have been some unintended consequences. One is the time that passed. He died in November 2017, this case was heard in June 2021, and the decision was handed down in August 2021. If that beneficiary designation had been done properly, that could have all been dealt with essentially around the time that he had passed away or shortly thereafter, but we wouldn't be dealing with years.

We have no idea how much everybody spent on legal fees, but there would have been legal fees. And the other thing is, what has this done to family relationships? One of the things in the decision was Barry's brother has an affidavit and he got a text from his cousin's partner, and it was essentially said, "You are not to ever set foot in my house ever again." So those are lasting – or they can be lasting effects. So these are some of the unintended consequences of the DIY estate planning. So that's, I think, not a good thing.

So let's move on. Let's change gears and talk about the impact of the increases in the housing market on estate planning. So, I think we all know that real estate has been going up and up and up, and parents have been gifting money to their children to buy homes. So on October 26th of this year, CTV News reported that parents are continuing to give money to their children – this was based on a CIBC report – and roughly 30% of first-time home buyers and nearly 9% or existing homeowners received financial help from family in the past year to purchase a house. And to just put context on what that help was looking like, in Toronto in the first three quarters of 2021, the first-time home buyers got help of $130,000.00, and then the ones that already had an existing house and were going to move to another one, they were called the mover-uppers, the mover-uppers received $200,000.00. And if were out in Vancouver, the first-time home buyers were getting help of about $180,000.00, and the mover-uppers were getting $340,000.00.

So I thought, well, we know this is happening, and then I have to put the lens on what does that mean from an estate planning point of view? And so, I didn't have a case, but let's just have a case study and I decided that everybody's first name is going to start with S. So we have parents Susie and Sam, and they live in one of the big cities, and they want to help their younger adult child, Siri, purchase a home. Siri's single, she's been dating somebody, maybe it'll get serious, but right now she's single and they really want to help her get a downtown condo.

Siri's got a job and she's got a cash flow to make mortgage payments. And Susie and Sam have saved money from during the pandemic because, as we had heard, you know, people had pent up demand but they couldn't get things, so they haven't been able to spend things. So they have this money and they're going to help Siri get her condo.

So they're going to give her the help, so the article talked about gifting. So what if they gift her money to purchase the condo? The biggest thing I want to say about a gift is, it is a voluntary transfer of property with no conditions or strings attached. So, once they make the gift, it's now Siri's, so they give up the right to dictate what's going to happen to the money. That's what a gift is.

So maybe they're going, "Hm, I don't know about that. Maybe I want to give her a loan because I kind of want some strings." So that could be a possibility. So, let's say they are going to deal with this. One of the considerations they have to think about is whether that makes sense. So in Ontario, the Family Law Act provides that matrimonial home is a specific asset that gets special treatments. So let's say Siri ends up getting married, and so the parents could make the gift to her and that gift could get divvied up on a marital breakdown because it's community property and it gets divvied up. That's assuming there was no prenup or marriage contract. So that's if she's legally married. And in Ontario, we have a difference between common law spouses and legally married spouses. In other provinces, common law spouses have more rights than they do in Ontario. So that's one factor.

And the other factor is maybe they want to give the loan to Siri, but maybe that could impact Siri's ability to actually get the mortgage financing. So let's assume we figured out whether they're going to do a gift or loan. And certainly, clients would need to go to their professional advisors, their lawyer to get that dealt with.

So, we've got that done. So they're going to gift her this, and so what if they make the gift and let's say I had said she was one of their children. But what if Susie and Sam give this to Siri and they don't give it to their other children? What's the estate planning impact? We're looking at, you know, depending on where we are, that could be hundreds of thousands of dollars. So it's really important that they're going to give it as a gift, that it's clear about the intention. They can even document that it's a gift. And then the other thing is let's say they wanted all of their children to be treated equally and essentially Siri is essentially getting an early inheritance. So they could go to their lawyer and look at updating their wills to deal with this and have their executors do a divvying up at their final distribution when Susie and Sam pass away, and this could be taken into consideration so that all the kids will be treated equally. So, it's really thinking about what could that look like down the road. And if they end up doing the loan, whether they would want to forgive that under their wills if it hadn't been paid back before.

So what does this mean to you? Well, whenever people start treating children differently – that's not to say you can't, there's no right way or wrong way to do estate planning – but communication is key, because if you don't share why you've done what you've done, and I've seen this happen in families where one sibling got a lot more than the other and the parent had a reason, but the kids didn't all know what the reason one and it caused hard feelings. So, nature abhors the vacuum and so if the reasons aren't communicated well as to why the parents are giving more to one child than another, then the kids are going to make up stories and they could be wrong. So again, the cautionary tale.

then the last is, I hope a little bit of happy note, these increases in housing prices can really help charity because if somebody's leaving money in their estate to charity and their house goes up, there's a possibility that the charity could do even better. So we have a case of Henderson vs. Mylar, and this is a BC case. And in this case, Ms. Murray was a childless widow and she was leaving life savings to her extended family, about $400,000.00 worth of that to extended family, and the residue of her estate was going to go to the BC SPCA.

She did her will in 2013, and her house was worth about $1 million. So at this time, the BC SPCA was going to get about $750,000.00, and then we had the other legacies going to family, but she had a few other assets. She dies in 2017. At the time she died, her home in Kitsilano was worth just under $2 million. So in four years, it essentially went up about $1 million. So, that meant that the BC SPCA was now looking at getting $1.4 million.

So what issues could we have, Glen? You know, she's got a will done, it's all kind of clean, so what could possibly make this go awry? Well, it seems that Ms. Murray was a little concerned about how much was going to the SPCA. She kept thinking about stuff after she had actually gotten the will done, and so she had notes and she kept scribbling down numbers. And when they found the will, they found this "note" that had a whole bunch of figures and it looked like the BC SPCA was getting $100,000.00 and some people were in the will and some people were out of the will and should really deal with the residue. And so, needless to say, they go to court to figure out who is going to get what. Whether that note really kind of was a modification of the will or whether the will would stand. And they also argued that she didn't really know how much was going to go to the SPCA when she did her will. And the judge said, "No, she had an idea. She knew what she had and you don't have to be an accountant to figure out the exact number. But if you've got a good sense of how much would be in your residue and where it's going, that's good enough."

And then they looked at this note that she had. It wasn't signed, it wasn't dated, and they kind of went, "It's not enough." And the other thing is, there had been evidence that other notes had been written and some people had thrown them out. They were found in the kitchen, and so she was thinking about it, but the judge said, "I can't use legislation that would allow me to say that this note would be good enough to essentially overwrite the will because," the judge said, "I don't think that this was Ms. Murray's fixed and final view of how she wanted to deal with her estate." So, the original will stood and the BC SPCA got $1.4 million.

So, what does this mean to you? Well, it certainly shows that house prices can have a really big impact on what's happening to the residue, and that happened to be going to charity. Well then, you know, that's a big impact. And you can also say this is highlighting the perils of unfinished DIY renovations of a will also.

You know, I don't know if we can have those renovation come in and save you type things, so we'll see. Maybe there's a new industry.

So anyways, if you're considering charitable giving, think about how you want to give it, whether you want to give it as part of the residue or whether you want to give a fixed amount. And the other thing is, life insurance can also be an option on how they do this if you kind of want to have a fixed amount.

So in summary, I think I've highlighted the use of technology in estate planning. We're seeing it now in how wills are executed; we're seeing this very unusual case with beneficiary designations in our photo from a cell photo; and then the hot housing market, it's got all kinds of implications for parents that are leaving money – you know, giving money to children; and then also the impact that it can have on charity. So what do I say? DIY, get some help, make use of your professionals, including your MPW advisors to help you address your estate planning matters. And I'll turn it over to you, Glen.

Glen Brown, VP, Managing Director, Head of Manulife Private Wealth

Thanks, Carol. I think that's really good insight. The importance of ongoing documentation and updating your plan to make sure it's clear. We appreciate our clients have a broad range of wealth management needs, so I hope today's comments were valuable in helping to develop better goals-based wealth and estate plans.

At Manulife Private Wealth, clients can benefit from one cohesive team and consistency in approach in access to private banking, as well as taxes and estate planning services alongside your investment management team. To learn more about Manulife Private Wealth's platform, please reach out to a member at Manulife Private Wealth.

On behalf of all of our team, thank you for joining and we hope to welcome you to our Market Outlook, January 12th, 2022, where Frances Donald will share what asset allocation, economic growth and investment returns might look like in Canada for the new year, including her anti-forecast. Registrations will open in January.

Thanks very much for your time, have a very good day.

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