

STATISTICS on 2016-05-31

CANADA

Unemployment (April)	7.10%	
C.PI. (April)	1.70%	↑
3 months treasury bills CDA	0.54%	↓
Bonds CDA 5 years	0.78%	↓
Bonds CDA 10 years	1.35%	↓
S&P/TSX	14066	↑

UNITED STATES

Unemployment	4.70%	↓
C.PI. (April)	1.10%	↑
3 months treasury bills US	0.28%	↑
Bonds US 5 years	1.37%	↑
Bonds US 10 years	1.85%	↑
Dow Jones - Industrial	17787	↑
S&P 500	2 097	↑

CURRENCY

\$ US / \$ CAN	0.7638	↑
\$ US / € Euro	1.1132	↑
¥ Yen / \$ USA.	110.73	↓

The arrow indicates the trend since the publication of the last monthly data or end of the month.

A 2.4% growth in Canadian GDP in the first quarter was weaker than expected, and the second quarter also promises to be below expectations. The wildfires that raged in Alberta in May forced the interruption of several oil sector activities in the Fort McMurray area. According to the Bank of Canada forecasts, these disruptions should lead to a 1.25% shortfall in our overall economy. However, rebuilding efforts should result in third-quarter growth.

The U.S. dollar appreciated by 4.28% in May, following a change of tone from the U.S. Central Bank, which raised the possibility of increasing its key policy rate sooner than expected. The rebounding greenback resulted in significant returns from investments outside Canada. Thus, the S&P 500 and MSCI EAFE International Index respectively gained 6.18% and 3.36%, when expressed in Canadian dollars. Meanwhile, the S&P/TSX generated a return of 1% in the month

of May. The technology sector provided the highest returns in North American markets, with increases of 8.32% in Canada and 9.81% in the United States. Health care and materials sectors delivered the poorest performances on the TSX, with respective returns of -6.75% and -6.65%. The strength of the U.S. currency resulted in declining prices for some Canadian-produced metals, such as gold, silver, copper, nickel and aluminum.

In the bond market, the FTSE-TMX index for Canadian bonds rose by 0.91% during the month. With a 0.66% gain, corporate bonds underperformed government bonds, which increased by 1.00%. April's upward trend in interest rates reversed in May, which allowed securities with longer maturities to provide higher yields than those with shorter maturities. Thus, long-term securities posted a 1.42% decline, while short- and medium-term sectors respectively yielded 1.20% and 0.35% returns.

U.S. dollar value compared to major world currencies



Source: Bloomberg

— U.S. Dollar Index

PERFORMANCE as of 2016-05-31

	1 month	3 months	12 months
Bonds			
FTSE/TMX - 91 Day Tbill	0.06%	0.11%	0.51%
FTSE/TMX - Short Term	0.35%	0.06%	1.38%
FTSE/TMX - Mid Term	1.20%	1.60%	3.87%
Stock Market Indices			
CANADA - S&P/TSX	1.00%	10.24%	-3.31%
USA - S&P 500	6.18%	5.62%	6.89%
MSCI - E.A.FE.	3.36%	5.10%	-5.08%
\$ CAN versus \$ US	-4.28%	3.30%	-5.13%

SOURCES: Bloomberg, TSX Group - Total Return, \$ CAN

DOES THE LAST FEDERAL BUDGET AFFECT YOUR ESTATE PLANNING AND THE TAXES PAYABLE UPON YOUR DEATH?

In recent years, on recommendation of your financial advisor, you have transferred one or more of your life insurance policies to your management company, at fair market value and without tax consequences. This strategy was determined by an actuary through assessment based on several factors, including your health and life expectancy. It provided more value than your current

contract(s), especially since, at the time of your death, your heirs would receive the death benefit tax free.

With the Canada Revenue Agency acknowledging the validity of such planning, chartered professional accountants and tax and financial advisors have been recommending this strategy.

However, the axe fell on March 22, 2016, when the 2016 federal budget ended the tax benefits for such transaction, and WITHOUT ANY ACQUIRED RIGHTS. Therefore, this new rule applies to your situation, regardless of when you transferred your policy to your management company.

Here's an example:

Term 100 Life Insurance Plan issued at age 50 and transferred to the management company at age 60

PREVIOUS RULES		NEW RULES (MARCH 22, 2016)	
Death benefit	\$1,000,000	Death benefit	\$1,000,000
Fair market value	\$400,000	Fair market value	\$400,000
Surrender value	\$0	Surrender value	\$0
Adjusted cost basis (ACB) of policy upon transfer	\$100,000	Adjusted cost basis (ACB) of policy	\$100,000
Amount received free of tax from the management company upon transaction	\$400,000	T5 Slip Additional income for the year	\$400,000

At time of death - age 84 (transaction made before March 22, 2016)

PREVIOUS RULES		NEW RULES (MARCH 22, 2016)	
Benefit paid at death	\$1,000,000	Benefit paid at death	\$1,000,000
Minus - ACB	\$0	Minus - ACB	\$0
		Minus (-) FMV	\$400,000
Amount paid to capital dividend account (CDA)	\$1,000,000	Amount paid to capital dividend account (CDA)	\$600,000
Tax-free amount paid to heirs	\$1,000,000	Tax-free amount paid to heirs	\$600,000
		Taxable dividend	\$400,000
		Marginal tax rate	43.84%
		Additional tax	\$175,360

What are your options?

Experts at **Eterna Insurance** and its affiliates can assist you in evaluating your new situation. They will recommend solutions to minimize the impact of these new tax rules, while keeping you informed of any changes in tax laws affecting financial products, including life insurance contracts, prescribed life annuity and corporate pooled investment funds.

Please, do not hesitate do contact us for more information.

