NOVEMBER 2021

PERSPECTIVES ON BUSINESS & FINANCIAL MANAGEMENT

the Capital Partner

"Preserving, Protecting & Propagating Capital through Prudent Planning"

Justice Mahmud Jamal Welcomed onto the Supreme Court of Canada

Thursday, October 28, 2021.

Justice Mahmud Jamal was sworn on to the **Supreme Court of Canada** today, during a ceremony that was webcast live (*link found at the end of this article*).

He was appointed and officially sworn in on July 1, 2021, but today marked the public ceremony.

During the event, the new justice said the only unifying principle that seemed to stitch his life together was an abiding belief in pluralism. It meant 'faith in the inherent value of the diversity of nationalities, ethnicities, religions, languages, legal systems and perspectives that exemplify what it means to be Canadian."

Justice Jamal served as a justice of the Court of Appeal for Ontario from 2019 to 2021.

Before his appointment to the bench, Justice Jamal practised with **Osler, Hoskin & Harcourt** LLP for over 23 years in the fields of appellate litigation, constitutional and public law, class actions, and commercial litigation. He appeared before the Supreme Court of Canada as counsel to a party or intervener in 35 appeals addressing a wide range of civil, constitutional, criminal, and regulatory issues, including issues of Quebec civil law.

He also appeared before the courts of seven provinces, the Federal Court, the Federal Court of Appeal, the Tax Court of Canada, and various federal and provincial administrative tribunals.

As a lawyer, Justice Jamal was a director of the Canadian Civil Liberties Association, The Advocates' Society, and the Osgoode Society for Canadian Legal History. He was an advocacy advisor to the Supreme Court Advocacy Institute and a trustee of the Canadian Business Law Journal. He has taught constitutional law at the Faculty of Law of McGill University and administrative law at Osgoode Hall Law School, and he has published widely in his areas of practice. He was also chair of his firm's national pro bono program and a member of its partnership board.

> *"The only unifying principle that seems to stitch my life together is an abiding belief in pluralism."*
> Justice Mahmud Jamal

Justice Jamal was born in Kenya, raised in England, and completed high school in Edmonton. He received a **Bachelor of Arts** degree from the **University of Toronto**, **Bachelor of Laws & Bachelor of Civil Law** degrees from the Faculty of Law of **McGill University**, and a **Master of Laws** from **Yale Law School**, which he attended on a Fulbright Scholarship.

He served as a law clerk to **Justice Melvin L. Rothman** of the Quebec Court of Appeal and **Justice Charles D. Gonthier** of the S.C.C.

The ceremony can be viewed here: https://www.scc-csc.ca/judges-juges/webcast-webdiffusion-ceremonies-mahmud-jamal-eng.aspx

Supreme Court Justice Mahmud Jamal

PLEASE REMEMBER

Thursday, November 11, is **Remembrance Day.** Please take time to reflect on those who served, sacrificed and serve still (taking family to Tofino doesn't count).

GORDO'S CAPITAL COMMENT

Duty. Honour. Service. Things to Remember

I'M OLD ENOUGH to have had teachers who served in World War II.

My elementary school Vice-Principal, **Mr. Clement** saw combat and saw comrades die. He directed our Remembrance Day ceremonies and they were always stern, solemn events. Mr. Clement made sure we stood at attention and observed a minute of silence. God help you if your tummy growled.

In high school, I learned how my Law/History teacher **Mr. Gibson** enlisted in the latter days of the war. He didn't see combat but he was fond of telling us how he got drunk on D-Day (the only time).

Both gentlemen were old school, stiff upper lip types and tougher than nails. At least, that's how I remember them. Order and the chain of command were embraced and standard operating procedure.

When they talked about duty, honour and service, the words stuck. They lived them. They were not hollow slogans - although they haven't been in vogue for awhile.

These days we hear civic leaders talk about rights, encroachments, entitlements, the environment, gender equality, glass ceilings, lives that matter, etc. Some apologize for things they never did by people they never knew to people whom they don't genuinely engage. Ad hominem attacks are common - especially by those unable or unwilling to engage in informed policy debates or discussions. Then, there are the self anointed folks who do a "google search" and are suddenly experts.

Amidst the noise, we still see acts of courage and valour. U.S. General **Colin Powell** died recently. His was a soldier's life marked by service and duty to his country. RIP.

Closer to home, we've seen countless examples of front line service workers stepping up during the pandemic. Of course, selfless acts of heroism are found in the usual places by professionals: fire-fighters, police officers, teachers, nurses, doctors, shopkeepers, etc.

On the front page of this issue, we read about **Justice Mahmud Jamal**. Judging by his resume, it would appear he's utilized his legal skills for the good of a broader community.

This month's interview is with **Moshe Milevsky -** a brilliant math mind whose research serves the elderly (harken commandment #5).

As I age, I'm mindful how lucky I've been… most of us have been that we've never seen war or been asked to serve. Still, we've enjoyed all the benefits a free society is able to bestow upon a citizenry.

Remembering those who served and serve is the least we can do. ❍

the Capital Partner

is published by Gordon Wiebe of
STANLEY GORDON
FINANCIAL MANAGEMENT

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PRINTING

The Capital Partner is printed at The UPS Store –Westbank . Thanks, Gail, Jenn, Christie. Thanks, Elaine Ophus - Editorial Advisor.

CAPITAL PARTNER STRATEGIES

CD Howe Institute: We Can Do Better with End of Life Care

A **RECENT STUDY** from the **C.D. Howe Institute** suggests Canadians could do a better job of managing end-of-life care costs.

"Canadians spend more on end-of-life care than other high-income countries, including the United States, yet we achieve poor results compared to most," the study reports.

The authors of the study: **Kieran Quinn, Sarina Isenberg** and **James Downar** found there are structural factors and inefficiencies within our healthcare system that facilitate unhelpful and unwanted medical interventions at the end of life.

The report recommends a greater use of palliative care versus the more costly acute care, in end-of life treatment as a strategy for cost saving.

Palliative care primarily focuses on improving comfort and quality of life, often avoiding hospital-based, invasive, costly and potentially inappropriate care.

Palliative care is preferably (but not always) delivered outside acute care settings, including in patients' homes.

People approaching the end of life often require an intensification of healthcare services and at least three in four would potentially benefit from palliative care prior to death. Yet, only one in five Ontarians, for example, receives a physician home visit or palliative homecare in their last year of life, and only half receive palliative care in any setting.

Instead, most Canadians get acute care as they approach death, with no palliative focus. As a result, the cost of healthcare delivery increases significantly in the final months of life with hospital admissions and emergency room visits.

Several structural problems exacerbate the situation.
They include:

Inadequate end-of-life beds and options. In-patient palliative-care units and residential hospice beds may be appropriate for people with significant symptom control and supportive needs, but there are so few such beds available that admission is usually restricted to people in the final weeks of life.

Budget siloing. Canadian healthcare budgets are siloed by sector. Acute-care beds are substantially more expensive than hospice or in-patient palliative-care beds, long-term care beds or homecare. If budgets were "global," efficiencies could be found by increasing capacity in lower-cost settings to reduce backlogs in higher-cost settings. But since each sector or organization manages its own budget, any decision to increase costs faces resistance no matter how large the benefits that would bring to the system as a whole.

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The Master Retirement Quant

Professor Moshe Milevsky wants us to re-think the metrics we use for retirement calculations. Instead of basing retirement income amounts on our age i.e., the number of orbits around the sun, Dr. Milevsky suggests we consider using our biological age. What is your biological age?

Advances in science suggest our biological age is based on our actual physical shape or our personal physiology. Rock stars like **Sting**, **Phil Collins** and **Ace Frehley** were born in 1951. Their legal age is 70, but their actual condition may be substantially different from **Mark Hamill** (Luke Skywalker) or **Dr. Jill Biden** (U.S. First Lady) who also turned 70 in 2021.

The cumulative effects of genes, lifetime dietary habits, exercise, social conditions and stress levels for instance, could lengthen or decrease life expectancy and therefore provide a better indication of future retirement income needs. Recent scientific advances are helping make this information more available to seniors, advisors, researchers and policy advisors.

BACKGROUND

TCP: *From where does your passion for mathematics originate?*

M.M. I guess it comes from my life as an undergrad. I was taking various courses including one on English literature and essay writing. I handed in an essay and received a bad grade. The professor said, "You really can't write to save your life, you might want go into math."

I did and I got an undergraduate degree in mathematical physics. Then, I went to graduate school and studied math and statistics, but I was really interested in gravitational physics. That was my thing, like how a golf ball moves after a drive, the arc that it makes, etc.

My thesis supervisor said, "Moshe, you'll never find a job with that kind of specialty. You might want to go to business school." So, I moved into business and finance and it's where I've been for the past 25 years.

TCP: *You also have a passion for financial history. Is there a period in history that strikes you as particularly innovative or ingenious?*

M.M. There is. I'm interested in the 17th century, specifically 17th century Europe and the evolution of financial products, instruments and economics.

Anything from the crowning of James II in 1685 until the ascension of George II in the mid-18th century.

TCP: *I'm not that familiar with that era. Does it line up with the advances in math, probability and statistics?*

M.M. It does. There was this interesting alignment of people interested in mathematics and statistics and they developed the basics of probability theory, economics and finance. It was an alignment of interests that led to many of the instruments we use today.

You know, nobody would say that 1690 was the origin of the I-Pad or the I-Phone or the laptop. But, many of the financial instruments we use, whether it's pensions, annuities, stocks, bonds, mutual funds, they all kind of originated in the late 17th century. You can almost trace back a direct line. I'm fascinated by that. It interests me and I've spent a lot of time looking at history from that period.

TCP: *Among other things, the pandemic has shown how segments of the population struggle with basic math principles. Are you surprised by the lack of financial literacy?*

M.M. It is a problem the pandemic has brought home. I think it's a problem that finance has brought home.

A lot of people are incapable of mathematical reasoning and that's not healthy in today's very quantitative, data driven environment.

Thousands of years ago, you had to make sure to out run the dinosaurs and get home in time for dinner. What did your brain have to do? Nobody was asking you to solve calculus problems.

Now, we have to evolve to deal with these very quantitative issues and make decisions and I think the pandemic has brought that home very starkly. There's some completely irrational decision making because of a misinterpretation of probabilities and the odds. Just look at Toronto.

There are 300 infections and everybody is walking around like it's Ebola and every other person has it. In some

THE CAPITAL PARTNER INTERVIEW...

sense, you have to step back and say, "Wait a minute. What are the probabilities? Do you understand all of the things you're sacrificing?" It's all probabilities. Those things all come down to mathematical reasoning.

I do think the educational system should focus more on some of these statistical, data driven issues. I think financial literacy is an absolute must.

My bread and butter is teaching undergraduate students at the university. Undergraduate Personal Finance. That's a course I've been teaching now for almost twenty years.

It's basic personal finance. You know. What's a tax return? What's an insurance policy? How does a mortgage work? What's an RRSP?

Why do I have to teach this to 22 year olds? Why don't they know this from high school? Why isn't this covered before I see them? And, why are only the ones that I teach in Business School getting this? What about the rest of the students who are studying something else? Why is this not considered a national emergency? People are wandering into the world without the requisite tools.

TCP: *Carrying credit card balances in perpetuity, putting 5% down on million dollar homes…*

M.M. Let alone, just verify that what they're paying is correct, right? Nobody's able to do that because it's all coming from calculations that are being done by algorithms that nobody wants to or even knows how to verify. So, there are a number of things that worry me.

The MATHEMATICS of RETIREMENT INCOME

TCP*: I haven't had a chance to watch the movie "**The Baby Boomer Dilemma,"** yet. I've just seen the trailer.*

M.M. Yes, that's an interesting one. I'm not sure how I got dragged into that, but I now have an IMDb movie rating. I am now officially a Holly-wood actor *(chuckling)*. Go figure.

TCP*: On the trailer you say, "what's been happening over the last few years is our accounts have been growing. It looks like we are getting wealthier. But, the income that we can get from that sum of money is shrink-ing." What did you mean by that?*

M.M. The issue there is that people are retiring in the U.S. with 401K plans. This would apply to RRSPs and TFSAs as well.

The dividend yields or the interest from the bond yields has collapsed. And, on an after inflation basis the yields are negative.

So how wealthy are you really if you have triple the money you had ten years ago, but it yields a quarter of what it did ten years ago - in terms of yield assumptions? That's a problem.

We have to get people to think, or re-orient themselves as to how wealth is defined back to how it was defined historically. Here's history again…

Historically, when you asked people how wealthy they were they didn't do an **NAV** *(net asset value i.e. a measure of net worth)* at 4:00 pm, add it up and say, "oh, my mutual funds are worth…"

What they did is they counted their wealth in terms of annual income. The famous English philosopher **David Hume** passed away and he wrote in his last will and testament and he said he was very proud. He was born with nothing and now he's passing away with £1,000 of income per year.

That's how wealth was measured.

How much income are you getting per year? Nobody did a NAV, nobody multiplied their (NAVs). "What's my income?"

Jane Austen, when she talked about "wealthy bachelors," it was about how much income they came with.

Or LAND…

What was the value of LAND? Well, what's the income and you figure out a multiple… That got forgotten with 4:00 pm closing values on people's mutual funds statements and this whole notion of, "What's it worth? "What's it worth?" Every minute, "what's it worth?"

We're now realizing that "what's it worth" really isn't really a good metric of wealth because it yields very little. And, when we get to retirement, this becomes a problem.

You retire with a house worth two million dollars. Good luck living off that. You retire with some money in an RRSP. Good luck generating an income from there.

I think as a society we need to redefine and financial advisors to their clients need to redefine how they measure wealth and focus them on income. That's really the point.

I call it going from the numerator to the denominator. The numerator is how much money I have. The denominator is how do you convert it into income? Focus on the denominator. That was the point I was trying to make in that particular segment *(i.e. of the movie).*

TCP: *I get what you're saying, specifically with RRSPs. Everyone looks at the NAV, but people don't consider that it's a before tax figure.*

M.M. Let alone the income it's going to generate… you have to live off this. How much money can you pull out of it. Twenty years ago you put money in the bank and you pulled out seven per cent. Now you get nothing. Your income is zero. In some sense you could have an infinite amount and you're still not wealthy.

TCP: *I wanted to turn to your Book,* ***Longevity Insurance for a Biological Age.*** *Your thesis is that we should be looking at our biological age and using that to calculate and project our income and how much we should be drawing from our savings.*

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Master Retirement Quant - Moshe Milevsky Interview

(Continued from page 5)

M.M. And, more importantly than that, making decisions in our personal finances, right?

You know, somebody is trying to figure out at what age they should take C.P.P. Should I take it at 60? 65? 70?

I don't think they should use their chronological age to do that.

Trying to figure out when to retire? Stop using your chronological age.

I mean there's a whole host of decisions that you have to make based on age and I'm saying we're using the wrong age metric. It should be based on your biological age.

Now, at this point, biological age sounds like this funny number that comes out of some website, but sooner or later we'll all have it. And, it's going to be faster than you think. Your watch will tell you your biological age. And, then in a couple of years, people will stop associating themselves with their chronological age.

They will just stop using it.

And you're going to sit down with your antiquated compliance driven forms that say, "I need to know my client's age. Oh, you're 62."

And, the client says, "Ha, ha. That's chronological age. We don't use that any more, buddy. I use biological age. 62. That's not my age."

It's about preparing people for the world in which age is not the number of times we circle the sun.

TCP: What metrics do you think we'll lean towards to measure biological age? Telomeres? Others?

M.M. There's a whole bunch of bio-markers that can be used. Some people use telomeres or something called "DNA methylation" or epigenetic clocks. There are about fifty of them, but eventually they'll all coalesce into a number called "biological age."

There will be a consensus on how to measure it and you'll go to your doctor and your doctor will say, "your chronological age is fifty, but your biological age is sixty-two." You're doing something wrong.

Then a financial advisor will use that information differently when you build a retirement plan.

Books by Moshe A. Milevsky

Retirement Income Recipes in R: From Ruin Probabilities to Intelligent Drawdowns
Toronto: Schulich School of Business York University, 2020

Longevity Insurance for a Biological Age: Why Your Retirement Plan Shouldn't Be Based on the Number of Times You Circled the Sun
M.A. Milevsky, 2019.

7 Most Important Equations for Your Retirement: The Fascinating People and Ideas Behind Planning Your Retirement Income
Mississauga: Wiley, 2012.

Pensionize Your Nest Egg: How to Use Product Allocation to Create a Guaranteed Income for Life
by Moshe A. Milevsky, Alexandra C. Macqueen
Mississauga: John Wiley & Sons.

King William's Tontine: Why the Retirement Annuity of the Future should Resurrect its Past.
Cambridge: Cambridge University Press.

Your Money Milestones: A Guide to Making the 9 Most Important Financial Decisions of Your Life

Are You a Stock or a Bond?: Create Your Own Pension Plan for a Secure Financial Future

15 Expert Lessons for Retirement Planning
by Moshe A. Milevsky, Trent A. Hamm, Liz Pulliam Weston

Money Logic: Financial Strategies for the Smart Investor by Moshe A. Milevsky, Michael Posner

The Calculus of Retirement Income: Financial Models for Pension Annuities and Life Insurance
New York: Cambridge University Press, 2006.

Is Buying a Home or Renting Right for You?
by Moshe A. Milevsky

Insurance Logic: Risk Management Strategies For Canadians
by Moshe A. Milevsky

Plan for Managing Your Retirement Risk
by Moshe A. Milevsky

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https://www.amazon.com/Moshe-Arye-Milevsky/e/B001IQZG5Y

The CAPITAL PARTNER INTERVIEW

TCP: *That makes sense, but trying to achieve a consensus and getting everyone to use the same metrics from a compliance standpoint or trying to get pension plans and policy makers to agree would be a challenge, wouldn't it?*

MM: It would be. In fact, that's exactly where I'm headed now. I'm giving a speech in Madrid and that's exactly what regulators from a number of different countries want me to talk about.

They want to know, "is this feasible? We want to implement this in our pension system. We don't want wealthy people retiring at the age of 65, they're going to live forever and bankrupt our system. We want people to retire at a biological age."

TCP: *Let's talk about that a little more. Advisors typically use a 4% draw on savings as a benchmark withdrawal rate. But, if we use our biological age, there would then be a range. I assume somewhere between 3-6%?*

M.M. You're absolutely right. That's where I would go with this. You have to use your biological age and the 4% rule has to be adjusted.

But, what I'm saying is more than that. That rule has to change. It's not just about the number or percentage. It's how the rule is applied.

I really don't like the idea of fixing a spending rate today and sticking to it for the rest of your life no matter what happens. Your spending rate has to be adaptable.

What you have to tell people is, "look, this year we can pull out 6.2%. Next year, it really depends on how markets behave. If markets go down, we may have to cut back. If markets go up, we can give you a bit more."

I think the 4 per cent rule is really what I call a one dimensional rule. It's not that four is one dimensional. Any one number is one dimensional - just telling them a per cent.

It's got to be at least two dimensional. Meaning, this is what it is now, but next year if this is what happens we'll do that...

Three dimensional is to go beyond that is to go beyond that and say let's take a look at what other income and assets you have.

> **" It looks like we are getting wealthier. But, the income that we can get from that sum of money is shrinking."**
> Moshe A. Milevsky

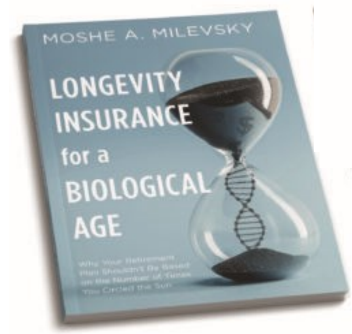
"Oh! You've got a lot more income from guaranteed sources, you can afford more than four per cent, this year."

TCP: *It's a dynamic scenario, a moving target.*

M.M. That's the key word, dynamic versus static.

TCP: *Canadian investors currently have over two trillion invested in mutual funds. Over half is invested in balanced funds or fixed income and we're in a horrible position where fixed income is concerned. We've had declining rates for the past forty years. At best, bonds will stay flat. At worst, bonds could lose up to thirty per cent of their value.*

You talk about the importance of the sequence of returns and how that affects income potential. Have you or your students run scenarios with higher interest rates and the impact it could possibly have?



M.M. I haven't thought about it beyond what you're noting.

The obvious scenario is as interest rates move up, these things are going to take a big hit.

And, retirees who feel they've been playing it safe by putting funds in bonds will suddenly realize there's nothing safe about bonds in a rising interest rate environment.

I think they're confusing liquidity and safety with interest rate risk. It's liquid and its safe. Government is not going to default but boy, can it lose its value.

We've become accustomed to this declining pattern. Anybody who is younger than forty doesn't even understand what higher interest rates means. It's never happened in their lifetime. They don't believe it. Understand it. Never felt it. You show them graphs going back to 1970s. That's not how to convince them. They're empiricists. They've never lived it themselves, they don't believe you.

So, it's going to be ugly and I don't know what the alternative is. We know equities can be inherently risky and volatile. We also know that if there's a shock to the bond market - if interest rates suddenly take a big hit, meaning: if the bank of Canada or the Federal Reserve in the U.S. realizes, "Whoa! Inflation

(Continued on page 8)

Dr. Milevsky is a finance professor at the **Schulich School of Business** at **York University** in Toronto and a member of the graduate faculty in the Department of Mathematics and Statistics and Managing Director of PiLECo. He has published 15 books, over sixty scholarly papers in addition to hundreds of popular articles and blog pieces. He is an award-winning author, a fin-tech entrepreneur and he was named one of the 35 most influential people in the U.S. financial advisory business by Investment Advisor magazine. The Retirement Income Industry Association awarded him a lifetime achievement award in recognition of his extensive retirement research. I spoke with him in late October as he was waiting to board a flight to Madrid, Spain.

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Master Retirement Quant - Milevsky Interview

(Continued from page 7)

is out of control. We gotta do something." And, if they act quickly, they're going to scare everyone, not just the bond market. All the chickens are going to start running now. Not just the bond holders. Everyone will get hit.

It's volatile times and I'm very glad I'm not working at the Federal Reserve or the Bank of Canada. They must be looking at every single inflation data point coming out and keeping their fingers crossed and saying the words, "Temporary. Temporary. Temporary." And, they're going to get hanged on that. It's not good.

I think that's the reason we have to talk about alternative investments. That's why we have to talk about guaranteed sources of income as opposed to the values of accounts.

Very careful budgeting exercises.

Inflation sensitive assets, and I really mean inflation sensitive. Things that will provide you with real income.

It's abnormal. I mean as someone who studies history. These times are unprecedented. One percent. What does that even mean? And, after inflation it's negative. It's unprecedented. We've never had this before.

TCP: *Well, we're going to need our best and brightest minds pulling the policy strings.*

M.M. We will. And, I just want to say, it's not just the best and brightest. We need very good communicators. We're going to need people that can explain this to Canadians because there is going to be a point where people will say, "do I trust them?"

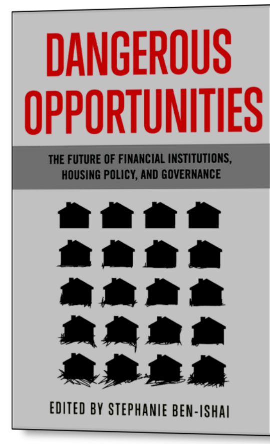
You can be very bright. I've met a lot of bright people. I've had a lot of bright graduate students. They can't all communicate. And, I've had a lot of great students, you know, they're not the brightest spark but boy they really explain things well. We're going to need communicators in this coming future. And communicators who can quickly summarize what's happening. What's going on here.

Some of the best hedge funds in the world have blown up. Brilliant people. They couldn't communicate what they were doing and people panicked. So, I agree. These are very scary times and I think bonds are going to be the ones that really surprise people. You know, if equities fall twenty percent tomorrow, are you shocked? Come on, you know stocks are risky. If bonds collapse, it's going to be, What? This isn't supposed to happen."

TCP*: On that note, you have a plane to catch. Thank you for your insights Professor Milevsky. I hope we get to hear to more from you as events unfold. Godspeed. Have a safe flight.* ❍

BOOK VALUE

Dangerous Opportunities Explores Lessons Learned from Home Capital Fiasco



Dangerous Opportunities: The Future of Financial Institutions, Housing Policy and Governance
Edited by Stephanie Ben-Ishai
(Toronto: Toronto University Press, 2021).
ISBN 9781487506087

DURING THE SUMMER of 2015, **Home Capital -** an alternative Canadian mortgage lender underwrote a number of falsified mortgage applications.

It was reminiscent of the bogus mortgage underwriting that led to the sub-prime crisis in the U.S.

Home Capital launched an internal investigation and it revealed systematic falsification among some broker channels. Forty-five brokers were fired.

Their mortgage originations accounted for about a tenth of all mortgages underwritten by Home Capital - significant enough to have had a material affect upon the bottom line.

Markets and regulators ought to have been notified. They were not.

Instead, management suggested in their next quarterly disclosure that "the quarter had been characterized by a traditionally slow real estate market, exacerbated by very harsh winter conditions..." and they were elusive on subsequent analyst calls.

Eventually, a whistleblower's memo made its way to the OSC. They investigated and made a public announcement in April 2017. The share price plummeted 65% and set off an old fashioned "bank run."

Depositors pulled $600 million they had parked at Home Capital. Were it not for capital injections by **Warren Buffett** and the Healthcare of Ontario Pension Plan (**HOOPP**), Home Capital may have become insolvent and problems could have spread to other lenders or the rest of the financial industry.

The crisis was averted. Cue the post mortem analysis. That's where the book begins.

Dangerous Opportunities uses the events at Home Capital to review:

i. Board governance
ii. The role of pension plans in Canadian capital markets
iii. Securities regulation
iv. Canada's mortgage framework versus U.S. counterparts
v. Taxes, housing incentives and social policy.

Each topic is covered in a chapter authored by some of the country's top legal minds: **Simon Archer** - partner at **Goldblatt Partners; Gail Henderson** - Associate Professor and Associate Dean at Queen's University Faculty of Law; **Jinyan Li** - Professor at Osgoode Hall and internationally recognized expert in e-commerce taxation, Canadian income tax law and international taxation; **Poonam Puri -** Full professor at Osgoode Hall and internationally recognized expert in corporate governance, corporate law and securities law. This is an informed slate of commentators.

As you might expect, the book is well researched and documented, but it doesn't read like an academic publication. The logic is easy to follow. The issues presented should be clear to anyone, especially those sitting on corporate boards, involved in corporate management or governance.

Readers should emerge wiser and more informed about mortgage financing, housing policy, the law and regulatory framework . It should be required reading for executives, directors, mortgage brokers, policy makers, politicians, even strata councils, etc.

Of note is Simon Archer's analysis of Canadian pension plans and their evolving role in today's Canadian capital markets. Might regulators lean more heavily on pension plans to influence and modulate markets in the future?

I did wonder why there was no post-mortem on the forty-five fraudsters. I know that's the realm of criminal law, but prosecuting wrong doers is a critical aspect of regulatory enforcement. What lessons, if any, were learned? Perhaps litigation is still pending and a verdict yet to be determined. I look forward to further commentary and analysis.

Recommended for investors, their advisors and the curious. ⧗⧗⧗⧗⧗

NOTE: Books are ranked on a scale from 1-5 hourglasses
⧗= not worth the time spent reading.
⧗⧗⧗⧗⧗= time very well spent. Recommended.

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CAPITAL PARTNER STRATEGIES

Let's Make a Deal:
How to Take the IF Out of Your RRIF

In the Year You Turn 71, Your RRSPs Must Be Converted

LET'S MAKE A DEAL was a 1970s TV game show hosted by Canadian **Monty Hall.**

During the first minutes of the show, the host would bargain with members of the studio audience, all donning Halloween costumes (in order to draw attention away from the host's ties and plaid sportscoats?)

"I'll give you $10 if you can find three hair pins. Show me a picture of a family member for $20. Make it $50 if it's a grandchild..." On it went.

Contestants would quickly search wallets and purses for contents. Then, they would wave frantically in an effort to get the host's attention. They wanted to play for bigger cash prizes.

Two contestants would emerge as finalists and they would have to choose a "prize" hidden behind Door number One. Door Number Two or Door Number Three.

Behind one door would be a goat, a turkey or some other remedial prize. A deflating cornet would play in the background affirming the contestant's prize was a gag. Behind another door would be a set of steak knives or something of nominal value.

Then, behind the last door there would be an over the top grand prize like a brand new Chevy convertible or an all expense paid trip to some exotic destination. If won, confetti would fall. The lively, upbeat music would play. The winning contestant would be overwhelmed with emotion and the show's credits and sponsors would scroll on your screen. It was classic 1970s Americana.

RRSP Conversion

Canadians get an opportunity to play "Let's Make a Deal" in the year they turn seventy - one (if you were born in 1950, this is your year!). During the year, Canadian RRSP holders must also choose one of three options.

Behind Door Number One... A complete withdrawal of accounts funds. As funds from registered accounts are taxed 100% as "income," the account holder would be vaulted into a higher income tax bracket, and she could lose as much as 30-45% to taxes. That would mean a permanent loss of capital and less income. Consider this the turkey option. Blow the trumpet.

Behind Door Number Two... Convert Your RRSP to a RRIF (Registered Retirement Income Fund). This is the "default option." It's the one selected by most retirees, but it's not the grand prize.

Reason? It requires constant vigilance and the account holder to withdraw minimal and ever increasing annual amounts. Unless a retiree achieves returns over the minimal withdrawal amounts, capital will erode and a declining income stream will result (sound the buzzer).

This option is sometimes promoted by banking institutions & advisors who really want you to maintain your assets with their institution. But, given the risks associated with this option, a retiree may want to ask the following questions…

i. Are you aware of the mandatory withdrawl schedule and how it

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CAPITAL PARTNER STRATEGIES

affects your assets and income?

ii. Who will manage the funds, not just today but 20 years from now? Will your current advisor still be with you or will she have moved on or retired?

iii. How long do you expect you or your spouse to live?

iv. What happens if you suffer a cognitive decline?

v. How much exposure do you have to market swings and the risk of a prolonged market downturn?

That last one is a bit of a Catch-22.

Most retirees "de-risk" by placing greater portions of their retirement savings into fixed income.

But, when interest rates rise, their value will invariably decline and so will retirement income.

Ouch! Those funds were supposed to provide a safe haven from the volatility of the stock markets.

Instead of steak knives, those choosing Door Number Two might be dodging falling knives.

Behind Door Number Three... Convert Your RRSP to an Annuity. This option has widespread support from academics and behavioural economists like Nobel Prize Winner **Professor Richard Thaler.** It really is the grand prize.

In spite of the favourable research on annuities, roughly five percent of the population will actually choose Door Number Three. Why? Well, researchers and professionals are a bit perplexed.

Perhaps some have issues with the math, so let's run a comparison.

Suppose we have two retirees. We'll call one **Monty** (Hall) and the other **Bob** (Barker). They were born in the same year and each has exactly one hundred thousand dollars ($100K) in their RRSPs, needing to be converted.

Bob thinks he can get a constant 4% annual return on his RRIF. He opts for Door Number Two convinced the "price is right."

Monty chooses a (single) life annuity with a ten year guarantee. It pays 6.76% of his initial premium, but he knows the real prize is a guaranteed stream of income.

The table below, shows how each manages after each calendar year.

By the time they reach age 81, Bob's total income is **$60,232.96.** He expects annual income of **$5,708.91**, less than Monty's initial annual income.

Meanwhile, Monty has received total income of **$74,541.00,** a difference of **$14,308.04** or **23.7%** more than Bob.

In the grand scheme of things, **Door Number Three** looks like the better deal. Just ask the guy in the plaid. ❍

Assumed RRIF Interest Rate of: **4%**

Age	Life Exp.	Amt Starting Year	Annual Min w/d %	Y/E Annual Min w/d $	Value of RRIF Year End	Total Payments From RRIF
71		$ 100,000.00	5.28%	$ 5,280.00	$ 98,508.80	$ 5,280.00
72	13.68	$ 98,508.80	5.40%	$ 5,319.48	$ 96,916.90	$ 10,599.48
73		$ 96,916.90	5.53%	$ 5,359.50	$ 95,219.69	$ 15,958.98
74		$ 95,219.69	5.67%	$ 5,398.96	$ 93,413.56	$ 21,357.94
75	11.91	$ 93,413.56	5.82%	$ 5,436.67	$ 91,495.97	$ 26,794.61
76		$ 91,495.97	5.98%	$ 5,471.46	$ 89,465.49	$ 32,266.06
77		$ 89,465.49	6.17%	$ 5,520.02	$ 87,303.29	$ 37,786.08
78	10.13	$ 87,303.29	6.36%	$ 5,552.49	$ 85,020.83	$ 43,338.57
79		$ 85,020.83	6.58%	$ 5,594.37	$ 82,603.52	$ 48,932.94
80		$ 82,603.52	6.82%	$ 5,633.56	$ 80,048.76	$ 54,566.50
81		$ 80,048.76	7.08%	$ 5,667.45	$ 77,356.56	$ 60,233.96
82	8.04	$ 77,356.56	7.38%	$ 5,708.91	$ 74,513.55	$ 65,942.87
83		$ 74,513.55	7.71%	$ 5,744.99	$ 71,519.30	$ 71,687.87
84		$ 71,519.30	8.08%	$ 5,778.76	$ 68,370.16	$ 77,466.62
85	6.69	$ 68,370.16	8.51%	$ 5,818.30	$ 65,053.93	$ 83,284.92
86		$ 65,053.93	8.99%	$ 5,848.35	$ 61,573.81	$ 89,133.27
87		$ 61,573.81	9.55%	$ 5,880.30	$ 57,921.25	$ 95,013.57
88	5.53	$ 57,921.25	10.21%	$ 5,913.76	$ 54,087.79	$ 100,927.33
89		$ 54,087.79	10.99%	$ 5,944.25	$ 50,069.28	$ 106,871.58
90		$ 50,069.28	11.92%	$ 5,968.26	$ 45,865.07	$ 112,839.84

Age	Annual Annuity Income	Total Payments From Annuity
71	$ 6,763.00	$ 6,911.00
72	$ 6,763.00	$ 13,674.00
73	$ 6,763.00	$ 20,437.00
74	$ 6,763.00	$ 27,200.00
75	$ 6,763.00	$ 33,963.00
76	$ 6,763.00	$ 40,726.00
77	$ 6,763.00	$ 47,489.00
78	$ 6,763.00	$ 54,252.00
79	$ 6,763.00	$ 61,015.00
80	$ 6,763.00	$ 67,778.00
81	$ 6,763.00	$ 74,541.00
82	$ 6,763.00	$ 81,304.00
83	$ 6,763.00	$ 88,067.00
84	$ 6,763.00	$ 94,830.00
85	$ 6,763.00	$ 101,593.00
86	$ 6,763.00	$ 108,356.00
87	$ 6,763.00	$ 115,119.00
88	$ 6,763.00	$ 121,882.00
89	$ 6,763.00	$ 128,645.00
90	$ 6,763.00	$ 135,408.00

Assumptions: Table assumes Bob's 4% is a constant return (like a GIC). Real returns would vary, exposing retiree to market risk and possible lower income. No interest calculated on annual minimum withdrawal amounts (i.e. as there is an obligation by institution to de-register). Life Expectancy figures use 2000 Report from Canadian Society of Actuaries. Life Expectancies would now be longer. Annuity assumes a single "male" life registered annuity with a 10 year guarantee. Rates change daily. For an updated quote/comparison, click here: https://www.rbcinsurance.com/annuities/annuity-calculator.html

C.D. Howe Institute on Critical Care Costs

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Lack of timely prompts. Acute care, usually beginning in the emergency room, is all too often the starting point for patients at end of life. Mechanisms to introduce palliative care earlier are broadly missing and would avoid acute-care hospitalization and intensive care.

Barriers to home and community-care resources. There are some notable barriers to increasing the use of homecare for patients nearing the end of life. These barriers cannot be overcome by simply increasing the number of available caregiver hours.

If implemented, the structural changes recommend could result in substantial improvement in end-of-life care and potentially save hundreds of millions of dollars annually for the Canadian healthcare system. ❍

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The report can be viewed by clicking on this link:
IM-Quinn Isenberg Downar_2021_1027.pub (cdhowe.org)

Sample Annuity Rates

Rates are as of October 31, 2021 & based on a registered (RRIF) $100,000 premium (via transfer). Payments are **Guaranteed for LIFE** & include a 10-year guaranteed minimum payment stream (i.e. balance paid to beneficiaries). Rates change daily. Quotes available upon request. E & O.E.

# of Lives, Age & Gender	Monthly Income	Annual Payment as % of Premium
65 Yr Male	$ 483.25	5.80%
65 Yr Female	$ 450.92	5.41%
65 Yr Joint	$ 402.11	4.83%
70 Yr Male	$ 548.53	6.58%
70 Yr Female	$ 510.44	6.13%
70 Yr Joint	$ 455.15	5.46%
75 Yr Male	$ 624.00	7.49%
75 Yr Female	$ 572.76	6.87%
75 Yr Joint	$ 517.88	6.69%
80 Yr Male	$ 726.13	8.71%
80 Yr Female	$ 671.84	8.06%
80 Yr Joint	$ 613.66	7.36%