Educators
FINANCIAL GROUP

Insights

SPRING 2019

More in-depth educator-specific financial tips, articles and resources are available at educatorsfinancialgroup.ca

DID YOU KNOW?

You now have more SRI options than ever before.

Educators Financial Group was created with the purpose of providing educators like you with financial advice and products that reflect your needs and interests.

Today, one of those interests is SRI – Socially Responsible Investing. *"A 2019 report by the Responsible Investment Association of Canada states that SRI represents more than half of Canada's investment industry,"* **according to Educators Senior Financial Advisor Darryl Martella**. *"Educators is therefore pleased to offer investments that adhere to environmental, social, and corporate governance (ESG) standards."*

Also, all of the funds we offer are rigorously screened to ensure they reflect the six UN Principles for Responsible Investment. (You can find out more about these Principles and Educators' SRI offerings, here: educatorsfinancialgroup.ca/SRI-matters.)

Our partner Foresters has signed the Principles for Responsible Investing.
In their announcement on January 16, 2019, Foresters debunked the opinion some still hold that SRI automatically results in lower returns. *"The evidence suggests that integrating responsible investment decisions can increase long-term, risk-adjusted returns in properly diversified portfolios."*

Foresters funds are in Educators' Money Market Fund and Monthly Income Fund. We also offer SRI options in the Canadian and Global Equities space, and the Canadian Fixed Income category.

How to make SRI part of a balanced portfolio.
Our wider selection of socially responsible investments lets you include this type of fund while maintaining a balanced and diversified portfolio. Not sure how to incorporate SRI into your investment strategy? An Educators financial specialist can explain your options. Speak with one today at 1.800.263.9541.

CHUCK'S CORNER

The real lesson of the mortgage stress test.

Recently, the Bank of Canada (BoC) wrote about how the mortgage stress test has affected would-be homeowners (and education members are no exception). It states that, as a result of the stress test, the number of highly-indebted borrowers has been slashed. In addition, the number of people taking on a mortgage of more than 4.5 times their annual income has dropped.*

What the BoC doesn't talk about is what homebuyers are doing if they fail the stress test.

At Educators, we've found that they're doing three things. One, they're borrowing from other sources to increase their down payment (read the 'Borrowing' column in this issue). Two, they're turning to other less-regulated sources, such as private lenders (which could mean hidden fees and high interest rates). And three, they're making do with a less expensive home (often a prudent choice).

For many potential homebuyers, then, the stress test has added more decisions to an already decision-laden process. If you're one of these individuals facing a stress test when applying for a mortgage, it's important to have a knowledgeable, trained and caring professional—like the lending specialists at Educators—to explain all of your options, and to negotiate with many different lenders so that you get the mortgage that's right for you.

Find out the difference a mortgage broker makes: educatorsfinancialgroup.ca/why-use-a-broker.

The next time you need a mortgage (or are renewing your existing mortgage), we're here to help.

Cheers!

C. Hamilton

Chuck Hamilton, *President and CEO,*
Educators Financial Group

PS: Have questions or suggestions about how we can do more for you? Email me at: chamilton@educatorsfinancialgroup.ca

*Source: https://www.bankofcanada.ca/2018/11/staff-analytical-note-2018-35/

PLANNING

Working this summer? What you should know.

Many educators in the midst of building a career are also busy buying or renovating a home, or starting a family. It's a challenge. No wonder some of you work an extra job during the summer to boost your savings.

Here's how to maximize the summer income you make.

1. Use the extra income to pay down debt first.
"It's hard to save if you're paying high interest on debt every month," **says Educators Certified Financial Planner professional Franc Oliveri.** *"But once that debt is paid off, your savings increase much more quickly."* (You could slash the interest you're paying by consolidating your debt with a low-interest line of credit: educatorsfinancialgroup.ca/secured-vs-unsecured-locs.)

2. Live on what you had before that extra income.
While it's nice to have some extra cash, resist spending more freely. Try to live on the amount of money you had coming in before.

3. If you have room, put the funds into a TFSA.
A tax-free savings account (TFSA) is like turbo-charging your savings, because interest earned inside it accumulates tax-free. But before you make a deposit, ensure you haven't exceeded your limit to avoid potential penalties.

4. Consider topping up your RRSP.
If you worked full-time during the regular school year, the income from your summer job isn't pensionable. Use it to boost your retirement income and potentially reduce tax by topping off your Registered Retirement Savings Plan (RRSP). But speak with your Educators advisor before you do. Your pension and RRSP should work together, and your advisor will know how.

**Budgeting is crucial to saving.
We have online tools that can help:
educatorsfinancialgroup.ca/budget-calculator**

INVESTING

Investing in times of rising rates.

When interest rates rise like they have been recently—the Bank of Canada increased its benchmark interest rate 5 times since 2017—consumers are obviously affected. (Ask anyone with a variable rate mortgage!) But investors also feel it. *"Knowing how to manage your portfolio during periods of rising rates can help to mitigate any potentially negative effects"*, **says Educators Certified Financial Planner professional Lisa Raponi.**

3 things to consider when rates rise
Investors who favour bonds, listen up: there's an inverse relationship between bonds and interest rates. Rising rates can reduce bond yields, and long-term bonds with maturity terms from 10 to 30 years fluctuate more than some short-term bonds.

Guaranteed Investment Certificates (GICs), on the other hand, can become attractive, because they don't fluctuate in price. They also offer significantly higher yields than government bonds of the same maturity. (Ask an Educators financial advisor about how building a GIC ladder* also lets you spread out your risk.)

Lastly, the sectors you invest in count too. Industries such as financial institutions, industrial companies and energy providers are less affected by rising rates.

The basic rules remain the same.
Regardless of rising interest rates, investors are more likely to succeed when they work with a professional to build a diversified portfolio of quality stocks, bonds, cash and cash equivalents.

**Call us today for investment advice
that reflects your unique needs.
1.800.263.9541**

For more information on high interest rates and your portfolio, click here: educatorsfinancialgroup.ca/rising-rates-investing.

*educatorsfinancialgroup.ca/investing-glossary

BORROWING

Can you afford to be the 'bank of mom and dad'?

A 2017 survey stated that 37% of millennials who purchased a home used the 'bank of mom and dad'.* With the mortgage stress test, is it likely that this number has declined?

For education members looking to help their kids buy a home, **Educators Agent-Mortgage Specialist Mara Rossi advises:** *"First, ensure your good intentions won't hurt you or your ability to retire. Remember, your children will have longer to work (and save) than you. Then, discuss options with your Financial Advisor."*

Here are some ways to help (you can read more about these, here: educatorsfinancialgroup.ca/bank-of-mom-and-dad):

First, gift the cash. But know the tax implications. There will be less to pay in estate tax when you die… but liquidating investments to raise the cash could mean taxable capital gains or losses.

Second, loan the money for a lower rate than a traditional lender.

Third, co-sign or guarantee your child's mortgage. Because the rate will reflect your finances and not your child's (who may not have established a credit rating, high enough salary, or track record of employment to qualify), you may save some money. But remember – you'll be responsible for paying the mortgage if your child can't!

Last, co-ownership. For example, buy a duplex to share with your child.

Remember your choice could affect your estate plan. For example, is the cash you give a gift, or part of an inheritance? If it's a loan, will it be forgiven when you pass away?

The decision to help your child buy a home is complex. Get the advice you need from an Educators lending specialist.

Make sure the mortgage you want is a mortgage you can live with: educatorsfinancialgroup.ca/mortgage-calculator

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*https://www.theglobeandmail.com/globe-investor/personal-finance/genymoney/millennials-are-buying-homes-but-many-have-parental-help-survey-finds/article34157168/