

# Taking Stock with Steele

Your Monthly Newsletter

*The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well informed of changes affecting local business decisions and our investment recommendations.*

*We believe Knowledge Pays and we want our knowledge to help pay for you.*

## CANADA PENSION PLAN ENHANCEMENTS STARTING IN 2019

Starting in 2019, the Canada Pension Plan (CPP) will be gradually enhanced. The Department of Finance determined that many families were not saving enough, mostly due to the decline of workplace pensions, and that additional savings were necessary for satisfactory retirement outcomes for most Canadians. The retirement and post-retirement benefits, disability benefit and survivor benefits will be affected.

### Changes to the CPP Retirement Pension and Contribution Rates

The CPP retirement pension was originally designed to replace one quarter of the annual average Canadian wage in retirement or 25% of the annual maximum contributory earnings of \$55,900 (2018). The changes target the replacement of one third of the annual average Canadian wage by 2023, to fight the general decline in workplace pension participation and lower savings rates among younger workers. The changes also boost the upper contribution limit by 14% by 2025 to fight the decline in work pension participation's effect on above average earners.

Enhanced CPP benefits will accumulate as individuals pay into the enhanced CPP meaning younger Canadians will pay the most in CPP contributions and see the largest increase in benefits. **Once fully in place, CPP enhancements will increase the maximum CPP retirement benefit by ~50%.** To fund the enhanced benefits, contribution rates will change as follows:

Year	Employee Contribution Rate Up to Old Maximum (\$55,900 in 2018 dollars)	Employee Contribution Rate From Old Maximum to New Maximum	Employer Contribution Rate Up to Old Maximum (\$55,900 in 2018 dollars)	Employer Contribution Rate From Old Maximum to New Maximum
Currently	4.95%	-	4.95%	-
2019	5.10%	-	5.10%	-
2020	5.25%	-	5.25%	-
2021	5.45%	-	5.45%	-
2022	5.70%	-	5.70%	-
2023	5.95%	-	5.95%	-
2024	5.95%	4% up to \$59,800 (2018 dollars)	5.95%	4% up to \$59,800 (2018 dollars)
2025	5.95%	4% up to \$63,700 (2018 dollars)	5.95%	4% up to \$63,700 (2018 dollars)

### Changes to CPP Survivor Benefits

As part of CPP enhancement, survivor eligibility rules have been relaxed. As of 2019, full survivor benefits will be paid to widows and widowers, regardless of age.

### Other Changes (Death Benefit, Child Rearing Drop-Out Provision, Disability Benefits)

- As of 2019, the \$2,500 maximum lump sum death benefit will be paid to all contributors.
- The child rearing drop-out provision will become a drop-in provision in 2019+.
- Disability and post-retirement benefits will be affected by contribution and payment changes.

## Current Rates & Data

### Govt of Canada

90 day	1.14%
1 year	1.56%
2 year	1.80%
5 year	2.08%
10 year	2.35%
30 year	2.49%

### U.S. Treasury

90 day	1.59%
1 year	1.94%
2 year	2.15%
5 year	2.60%
10 year	2.87%
30 year	3.14%

### Canada Prime Rate

3.45%

### U.S. Prime Rate

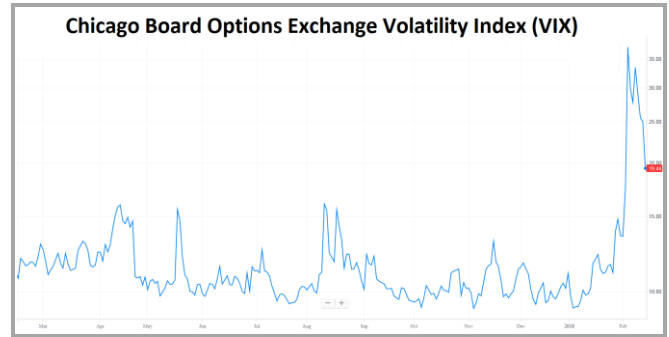
4.50%

### Exchange Rates

CAD/USD	0.799
USD/EUR	1.245
JPY/USD	107.1

## ECONOMIC TIDBITS EQUITY MARKETS WOBBLE AS VOLATILITY SPIKES & MIN WAGE HIKES LEAD TO LAYOFFS

- After a historic run, particularly in the US, equity markets finally experienced a pullback in early February. The pullback has been modest so far with US and Canadian markets are trading where they traded in November 2017 and September 2017, respectively. The selloff was triggered by a spike in the VIX—a benchmark for expected market volatility. Markets should recover as the VIX normalizes.



- After a blockbuster year for employment growth, the Canadian economy shed 88,000 jobs in January, the largest one month loss in nine years. Part-time positions fell by 137,000 while full-time positions rose 49,000. The minimum wage hike in Ontario is being blamed for most of the losses, particularly in part-time jobs. Wages rose 3.3% year-over-year as minimum wage hikes directly affect 20% of workers.



## LE JIT A “JUST-IN-TIME” RUNDOWN OF OUR CURRENT INVESTMENT THEME

Telecoms Are Trading Like Defensive, Interest-Rate Sensitives Although They Are Actually Cyclical

- **Telus Corp (T)** and **Rogers Communications (RCI.B)** are two ideas related to this theme.
- **Telus** is the third largest telecom stock in Canada with a focus on mobile. Telecom stocks have declined over the past three months as investors shift from defensive stocks to cyclical stocks in response to improving global economic activity and rising interest rates. Telecom operators have historically performed well in periods of stable or high economic growth and when interest rates are rising. Telecoms are actually more cyclical than defensive. We think the recent weakness will be temporary. Telus now trades at ~17x trailing normalized earnings and should continue to experience 2%-3% growth over time as mobile phone growth tracks population growth and as data usage per user grows over time.
- **Rogers** is the second largest telecom stock in Canada with a focus on mobile. Like Telus, Rogers trades at ~17x trailing normalized earnings and should continue to experience 2%-3% growth over time as mobile phone growth tracks population growth and as data usage per user grows over time. Rogers is a little more diversified than Telus due to its meaningful media and cable TV business.

Key risk points: Both stocks could continue to be depressed due to rising interest rates, despite historical trends. Both stocks could be affected by increased competition from Freedom Mobile or a new entrant.

## JEANNINE'S TIP O' THE MONTH Showcasing Matthew Bell of Steele Wealth Management

**Matthew Bell, Investment Analyst.** I have worked with Steele Wealth Management since 2008. I assist in the investment research and strategy, portfolio construction, trading and financial planning functions. I am licensed in the U.S. with FINRA to advise clients on cross-border issues. My primary roles within the team include writing investment research/comments, generating trade ideas, processing trades, generating financial projections and assisting in the tracking process, writing this newsletter and other publications/presentations, and meeting with US clients.

**This newsletter has been brought to you by Steele Wealth Management**

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