My name is Andrew Blanchard and I am a Partner at Eastport Financial Group and along with my team, specialize in creating customized tax efficient financial plans and income strategies for the physician community across Canada. As an advisor who has been working with your peers for the last 8 years, I wanted to share with you some of the most efficient ways available for you to plan for today and the future - and the importance of building a quality advisory team and what expectations you should have for those professionals.

When developing new relationships and working with referrals, it has become apparent to me that many of you do not have the open and candid relationship with your advisory team that you deserve. Whether it's as early as the transition from traineeship to independent practice or later in your career, this fundamental relationship seems to be lacking. With current market fluctuations and changing tax codes, now more than ever, that type of relationship is key.

Many of you have taken this pandemic as an opportunity to ensure that your financial and risk protection house is in order. As you continue to work in a changing financial landscape, you need to have trust and confidence that your advisory team is guiding you in the right direction as it pertains to your tax, insurance, and investment planning while you deal with the day to day running of your individual practice.

You should be able to directly contact your advisory team when you need them, that's what you pay us for! I have heard far too many horror stories from newly brought on physician clients who had not heard from their previous advisor in years. I have always made that the focal point of my relationship with clients; you call, I answer. It doesn't matter if it's related to your investment and insurance planning, you need advice buying a vehicle, or you just need to chat - your advisor should be there for you.

What's Important For Today…and Tomorrow?

Unlike most professionals, you've spent 4 years in undergrad, perhaps graduate school, 4 years in MD, between 2 to 5 years in residency, and potentially another 1-2 years fellowship. You've made a massive investment in both dollars ($220,000 average student debt) and time to get to a point (normally in your late 20's to mid 30's) that you can start planning for your future. Although your income is strong when reaching the end of your studies, the debt load, desire to family plan, and the need to start setting funds aside in an arduous tax environment is oftentimes overwhelming. By virtue of starting your career later in life than most other vocations, your practicing career will be shorter than a more traditional career path, so the need to ensure prudent debt repayment schedules, protection plans, and savings strategies from the outset of your career is a must.

Who do you turn to for help as you devise a plan to navigate this? First, you build a team of trusted advisors. I'm a firm believer that everyone should have a "person" for everything. I've never once offered my professional opinion on how to treat a septic patient with comorbidities (to be honest, I'm not really certain what that means) because it is not my area of expertise. As a physician, I would encourage you to enlist the help of financial, accounting, and legal professionals when building structures and implementing investment strategies, as that is their area of expertise. Your financial advisor should be able to refer other professionals (accountants and lawyers), that will fit well with your personality, schedule, and objectives.

The remainder of this paper goes into a deeper dive on strategies and products that can be put in place to ensure you're running as tax efficient a practice as allowable given Canada's current tax landscape. Please click on the hyperlinks below for easy navigation of specific topics, or continue on.

Incorporate or Not?

As a physician, you have the ability to incorporate a professional services corporation in most instances regardless of where you practise in Canada. This affords you three major benefits:

1) Gives you access to the Small Business tax rate
2) Allows you the ability to dictate what your personal taxable income will be on an annual basis
3) Affords you the ability to save money inside your corporation at preferential tax rates to provide for maternity/paternity leaves, sabbaticals, and ultimately retirement.

I strongly recommend that you incorporate your practice. If you do not spend every dollar you make on lifestyle needs, you should incorporate. Like yesterday. The initial cost can vary depending on the law firm chosen, but will average between $1,500-$2,500. The cost benefit analysis of incorporation is explained in the *How do I Pay Myself, Save Money and Service Debt Tab*.

Once you have incorporated, with instructions from your legal and accounting professionals, what's next?

What is Your Biggest Asset?

In short, your biggest asset is your ability to be able to work as a practising physician until you decide not to anymore. A 30 year old physician with a net income of ***$300,000*** has the ability to make ***$10,500,000*** over a 35 year working career.

As stated above, you've spent countless years training to reach the level of a practising physician. You've spent hundreds of thousands of dollars. It is absolutely prudent for you to ensure that you have protected your ability to earn that income throughout your working career.

I work with multiple clients, who came to me from other advisors/firms, whose disability insurance coverage has not been adjusted from the policy they purchased in residency. Your advisor should be in contact with you as you work your way through residency/fellowship programs and at the latest, as soon as you reach the level of a practising physician to make sure you are covered for the maximum allowable coverage.

If you aren't certain of your current coverage levels, regardless of the stage of your career, you should investigate as soon as possible. There are multiple options included within a personal disability insurance policy that your advisor can help you with to ensure you have the most comprehensive coverage possible.

How do I Pay Myself, Save Money and Service Debt?

These are some of the most important decisions you will make while in practice. As you weigh the options available to you, there is one aspect that should be at the forefront of your decision making process; **TAX**.

First let's tackle how to take your income from your corporation for your day-to-day lifestyle needs. For the purpose of this article, I am going to focus on physicians that are making less annually than $500,000 which is currently the upper threshold of the Small Business Deduction limit.

There are generally two options for how you can pay yourself; dividends or salary. Although there are many subtle differences between the two types of methods for drawing your income, I would like to focus on one main difference. If you are to pay yourself in dividends, you have the ability to opt out of the CPP program. If you pay yourself in salary, you are obligated to participate in this program, paying both the employee and employer share of contributions.

By paying yourself in dividends, you will be saving nearly $6,000 in total CPP premiums per annum which you can reallocate to your own corporate savings strategies. Over the course of a 35 year career, with an average rate of return of 5%, this could result in an ending self-developed investment of $600,000. With that you could choose to take only the investment income per year ($30,000 at 5%) and leave the remainder for your family with proper estate planning. Alternatively, you could withdraw some of the capital, which at $48,000 per year, would still last for 20 years. The point is, you control your investment!

The maximum CPP currently available to recipients at age 65 is under $14,000 per year with no control of capital, withdrawal rate, rates of return, or estate planning options.

I know student debt can weigh on physicians and the desire to have that paid off as quickly as possible can be a driver in decision making. Although it is important to service this debt and get it off of the balance sheet, it should be done in a tactical manner that mitigates the amount of personal taxes you will need to pay to make this debt go away. We are currently in a very favorable interest rate environment, making the overall carrying cost of debt much more affordable than the arduous personal tax rates (as high as 54%) incurred by trying to aggressively pay down the debt.

Let's look at an example. Let's assume you are a physician who is making $350,000 with $250,000 in debt, and that you require $10,000 monthly in after tax cash flow to fulfill your lifestyle needs prior to servicing debt. The below two examples will show you the impact if you were to simply liquidate your corporation annually and pay personal taxes on that money to eliminate the debt as quickly as possible OR if you were to develop a payback strategy over 10 years for that debt and the subsequent savings you will have in your corporation as a result:

Note - Prepared with NS personal and corporate tax rates

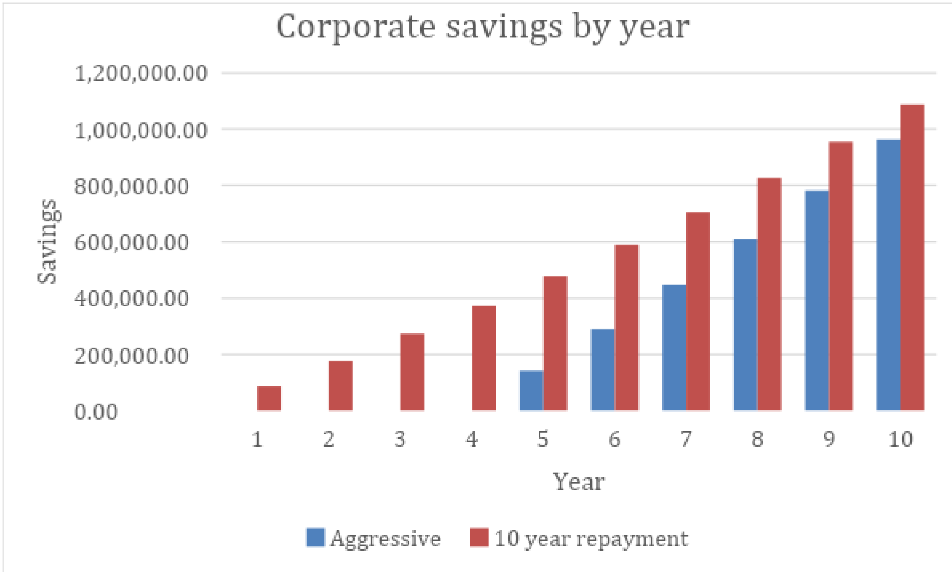
Scenario 1 - Aggressive debt repayment

		Years 1-4	Years 5-10
Corporate Income		350,000.00	350,000.00
Corporate taxes	11%	(38,500.00)	(38,500.00)
Corporate after-tax income		311,500.00	311,500.00
Dividends		(311,500.00)	(170,000.00)
Corporate savings		-	141,500.00
Personal Income		311,500.00	170,000.00
Personal tax on dividends		(120,000.00)	(50,000.00)
Personal after tax Cash		191,500.00	120,000.00
Debt service		71,500.00	
Personal spend		120,000.00	120,000.00
Total requirements		191,500.00	120,000.00
Corporate savings (Compounded)			960,000.00

Scenario 2 - 10 year debt repayment

		Annual	Monthly
Corporate Income		350,000.00	29,166.67
Corporate taxes	11%	(38,500.00)	(3,208.33)
Corporate after-tax income		311,500.00	25,958.33
Dividends		(225,000.00)	(18,750.00)
Corporate savings		86,500.00	7,208.33
Personal Income		225,000.00	18,750.00
Personal tax on dividends		(75,000.00)	(6,250.00)
Personal after tax Cash		150,000.00	12,500.00
Debt service*		30,000.00	2,500.00
Personal spend		120,000.00	10,000.00
Total requirements		150,000.00	12,500.00
Corporate savings (Compounded)		1,085,000.00	

* Debt service for principal of $250,000, 10 year repayment, 3% interest rate



It's evident that by spreading out the payments to your debt, minimizing your personal taxable income, and having wealth start to accrue in your corporation puts you further ahead in the long run. It also provides you with a cash buffer from the outset of your transition into practice – something that can prove to be very valuable for unforeseen events. So what do we do with those funds left over from tax savings in your corporation on an annual basis?

Where Are These Funds Best Put To Use?

With the recent tax changes implemented in in 2019, being cognizant of the amount of passive investment income that you generate in your corporation has become more important than in years past. The crux of these implemented changes sees that once your corporation starts to generate more than $50,000 of passive investment income on an annual basis, you will start to lose access to your small business tax rate at a ratio of $5 for every $1 you eclipse that number by. So for example, if you have $1M in a traditional investment portfolio of trust structure mutual funds (very often what you would be placed in with MD Management) and you make 20% in a given year, that would constitute as $200,000 of passive investment income generated for the year. Your small business limit in Nova Scotia is $500,000, which is taxed 11%. This means that for the first $500,000 of earnings that you make on an annual basis practicing medicine, you need to pay 11% at the corporate level. If you made $350,000 of income, as per the example shown previously, and had $200,000 of passive investment income for the year because of good performance of your investment portfolio, you would lose your entire small business tax rate, and you would be forced to pay 31% corporate tax on your earnings from practice in that year.

So how do we balance saving money inside our corporations, but minimizing the impact to our access to the small business deduction rate? I'm going to touch on 2 of the strategies we use at Eastport which can make up the bedrock of your financial plan:

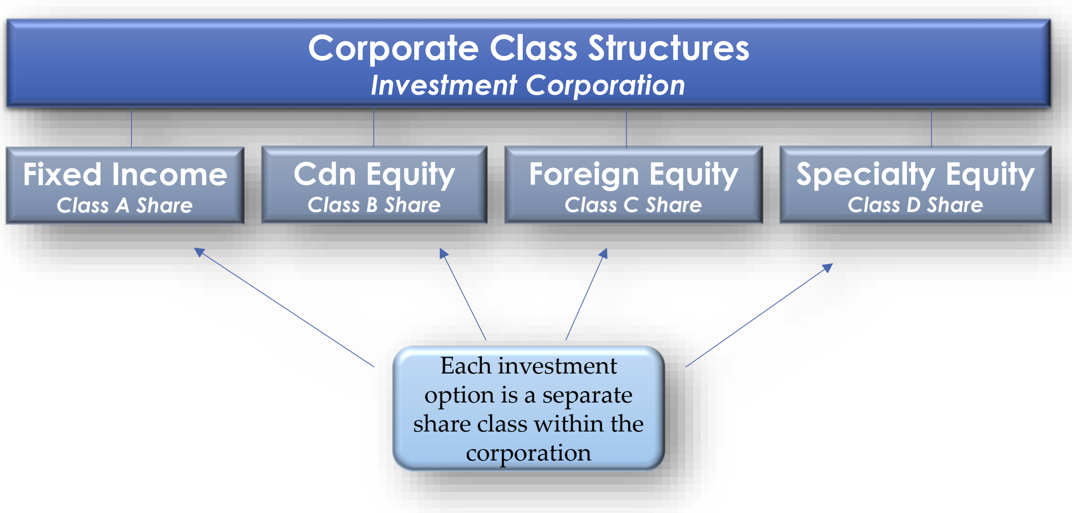
1) Corporate Class Mutual Fund Portfolio
2) Corporately Owned Permanent Whole Life Insurance

It is incredibly powerful to have multiple “buckets” of money that you can access when you retire. If these buckets of money can complement each other regardless of market conditions, that is even better.

Corporate Class Mutual Fund Portfolio

This is going to be your largest pool of assets and is going to provide you with the flexibility to take a Parental leave, take some time away from practice, and retire when you want.

A corporate class structure is frequently used for non-registered holdings including corporately held investments and trust accounts. It provides a method of structuring your investment funds to permit greater tax efficiencies. In a typical investment structure, each security or mutual fund trust is treated as its own separate entity for tax purposes. In a corporate class structure each fund is structured as a share class under an investment corporation umbrella. This permits two key taxation advantages as outlined below:



Preferred taxation of investment growth

Due to its structure as a share class, taxable distributions from any of the investment pools are treated as Canadian dividends or capital gains dividend. This creates the potential for significantly preferred tax treatment of your investment growth when compared to other types of income such as interest income (typically seen in fixed income investments such as bonds or GIC’s) or foreign dividends (typically seen in non-domestic equity investments such as US or International Stocks).

Reduced Taxable Distributions

Because each share class can pool its losses and expenses among all the share classes within the same investment corporation, there are greater opportunities to reduce and defer taxable distributions in any given year. By reducing the taxable distributions in any given year your portfolio can continue to generate growth from the tax liabilities that have been deferred. For investment assets held inside a small business corporation, reduced distributions also permit you to invest a higher amount of capital before any reductions to the small business deduction limit occur.

Example of Reduced Distributions in a Corporate Class Structure

The table to the right shows the impact of reduced distributions in the amount of taxes owing and the reduction in the small business deduction limit. Using one of Eastport's model portfolio for growth oriented investors with an 80% equity and 20% fixed income exposure, you can see the significant difference between a corporate class structure and a regular mutual fund trust structure:

Advanced Neutral Open Model	Portfolio Balance:	$ 2,500,000	1 yr return:		15.72%
Corporate Class Structure Tax Year: 2019	**Portfolio**	**Distributions**			**Taxes**
Holding	**Allocation**	**Income**	**Dividend**	**Capital Gain**	**Due***
Franklin Quotential Diversified Income Class - F	$ 205,000	$ -	$ 665	$ 1,663	$ 709
AGF Total Return Bond Class - F	$ 125,000	$ -	$ -	$ -	$ -
AGF Fixed Income Plus Class - F	$ 250,000	$ -	$ -	$ -	$ -
AGF Global Dividend Class - F	$ 220,000	$ -	$ -	$ -	$ -
Fidelity Canadian Large Cap Class - F	$ 165,000	$ -	$ 2,591	$ -	$ 993
Fidelity Dividend Class - F	$ 212,500	$ -	$ 6,120	$ -	$ 2,346
NBI Preferred Equity Income - F	$ 125,000	$ -	$ 5,500	$ -	$ 2,108
Invesco International Growth Class - F	$ 230,000	$ -	$ -	$ -	$ -
RBC Canadian Equity Income Class - F	$ 547,500	$ -	$ 15,111	$ 1,971	$ 6,331
RBC US Dividend Class - F	$ 420,000	$ -	$ -	$ 2,268	$ 620
Total Taxable Distributions	$ 32,937				$ 13,107
Reduction in Small Business Deduction Limit	$ -				

Advanced Neutral Open Model	Portfolio Balance:	$ 2,500,000	1 yr return:		15.87%
Trust Structure Tax Year: 2019	**Portfolio**	**Distributions**			**Taxes**
Holding	**Allocation**	**Income**	**Dividend**	**Capital Gain**	**Due***
Franklin Quotential Diversified Income - F	$ 205,000	$ 4,185	$ -	$ 4,709	$ 3,576
AGF Total Return Bond - F	$ 125,000	$ 3,072	$ -		$ 1,680
AGF Fixed Income Plus - F	$ 250,000	$ 6,050	$ -	$ -	$ 3,308
AGF Global Dividend - F	$ 220,000	$ 3,696	$ -	$ -	$ 2,021
Fidelity Canadian Large Cap - F	$ 165,000	$ -	$ 2,112	$ 11,303	$ 3,900
Fidelity Dividend - F	$ 212,500	$ -	$ 4,144	$ 7,055	$ 3,517
NBI Preferred Equity Income - F	$ 125,000	$ -	$ 5,500	$ -	$ 2,108
Invesco International Growth - F	$ 230,000	$ 3,542	$ -	$ -	$ 1,936
RBC Canadian Equity Income - F	$ 547,500	$ -	$ 16,973	$ 1,643	$ 6,955
RBC US Dividend - F	$ 420,000	$ 6,594	$ -	$ 32,676	$ 12,539
Total Taxable Distributions	$ 84,560				$ 41,538
Reduction in Small Business Deduction Limit	$ 172,801				

***-NS 2019 Corporate Investment tax rates of 54.67% on income, 27.34% on Capital Gains, 38.33% on Dividends*

When evaluating an advisor and his/her planning firm to help you reach your goals, it's important to ask yourself; Am I receiving value for the fee that I am paying?

When working with our clients at Eastport Financial Group, we adhere to six core principles when customizing an investment portfolio:

1/ - Liquidity

You should always have the ability to access your money in a timely manner without having to pay a fee or penalty to do so.
This provides you with the most flexibility to:

- adjust to changes in your investment objectives
- access capital for lifestyle needs
- explore other investment opportunities

2/ - Transparency

You should understand what you hold in your portfolio. Know how your advisor gets paid including timing and amount. Regardless of who you work with, there is always an overarching cost to employing an advisory team.
Ensure that total costs are broken down and visible including:

- Management Fees
- Advisory Service fees
- Taxes

3/ - Cost Effectiveness

Excessive fees and expenses can have a significant impact on your portfolio values, especially over longer investment horizons.
Look for opportunities to reduce investment costs:

- Lower Fee Structure Options
- Reduced Advisory Service Fees
- Preferred Pricing Availability

4/ - Tax Efficiency

Taxes are typically the largest expense most of us face throughout our lifetime and are one of the largest eroders of our wealth. I can't stress to you enough how much of an impact this can have for a physician saving money corporately and is often overlooked by the advisory team. Structure your portfolio to most effectively:

- *Defer taxation*
- *Optimize the tax treatment of investment growth*
- *Control the timing of taxable events*
- *Increase deductibility of expenses, where possible*

5/ - Risk Reduction

Exposing your portfolio to excessive and unnecessary risk can unravel any financial plan. Identify the risks that are most relevant to your investment objectives and time horizon and take the following steps to minimize them:

- Structure your asset mix appropriately
- Lower investment correlation to reduce short-term volatility
- Diversify properly to increase predictability of long-term growth

6/ - Investment Growth

The combination of efficient markets, emotional biases and unforeseen events make predicting investment growth in the short-term extremely difficult. However, we can still seek to increase our opportunities for investment growth.

- Be aware of current market and economic conditions
- Identify assets that most effectively meet your target growth requirements
- Research investments for consistency of downside protection and upside growth

Corporately Owned Permanent Life Insurance

Very much like the Corporate Class Mutual Funds discussed above, Permanent Cash Value Life Insurance is a second way that practising physicians can grow their wealth while protecting their small business tax rate.

There are two types of permanent life insurance available to Canadian's that allow you to accumulate Cash Value within the policy; Universal Life (UL) Insurance and Participating Whole Life (WL) Insurance. NOTE that the Cash Value grows free from annual accrual tax, which also protects your Small Business Tax Rate. Because of its consistent and more predictable growth and its lower day to day management costs and requirements, we will focus our discussions around WL insurance.

WL insurance has the ability to kill two birds with one stone in a physician's financial plan. First, it provides a tax free death benefit that can be used for income replacement for your family members if you die prematurely. If you live to your life expectancy, it will provide you with a death benefit to pay your estate taxes – making sure that CRA isn't the biggest beneficiary of the wealth you have worked so hard to create. Secondly, it can act as a "security blanket" style investment, providing consistent tax sheltered rates of return which are vested each year. This would allow you to draw funds if needed from a pool of assets that are not directly impacted by current market conditions. The Covid-19 market correction starting in Mar 2020 is an example of an event that would have had an immediate impact on a physician's investment portfolio. This correction wouldn't have had the same immediate effect on a physician's cash value in a life insurance policy

Let's look at an example. There are several quality companies in Canada providing this type of product, however for ease of reading, we have included only one company. It should be noted, as you move along this decision path, your financial advisor and their team should provide a thorough market analysis to ensure the company, and the product selected, is appropriate for your unique goals, tolerance for risk, and time horizons.

Let's assume you are a 36 year-old female physician, and you are a non-smoker. And let's further assume that you are comfortable allocating $50,000 per year of corporate savings into a WL insurance product. The following table shows values assuming:

- The WL insurance product is guaranteed Paid Up after 20 years and we have assumed all 20 years have been paid.
- The WL insurance products maximizes the EARLY accumulation of Cash Value
- We have assumed $40,000 of basic life insurance premium, plus $10,000 of additional premium deposit, to enhance the savings component of the WL plan
- The WL insurance Cash Values and Death Benefits are based on the current dividend scale for the company indicated. Dividends are not guaranteed and will increase, or decrease, depending on future dividend scales
- The Tax exposed Corporate Savings values shown are based on a 4% annual rate of return, before tax

	Canada Life WL Product	Tax-Exposed Corporate Savings
Initial Coverage	$1,328,021	$0
End of Year 1 ● Cash Value ● Death Benefit	$33,565 $1,384,651	$50,906 $50,906
End of Year 5 ● Cash Value ● Death Benefit	$215,692 $1,651,217	$263,923 $263,923
End of Year 10 ● Cash Value ● Death Benefit	$539,706 $2,039,934	$552,639 $552,639
End of Year 20 ● Cash Value ● Death Benefit	$1,169,842 $2,898,885	$1,213,990 $1,213,990
End of Year 30 ● Cash Value ● Death Benefit	$1,943,852 $3,619,693	$1,452,796 $1,452,796

There are several common questions that arise when we discuss corporate owned life insurance. They include:

1. *Who owns the policy?*
   This question is a key reason why your team of trusted advisors should be involved in the planning. Based on your planning details, your lawyer will recommend a corporate structure that is appropriate for you, and your accountant will offer their advice on where the policy should be owned

2. *Are the premiums paid a deductible expense?*
   No, the life insurance premiums are paid with "after corporate-tax dollars" and are not a deductible business expense. However, the Cash Value of the insurance policy is a Balance Sheet asset of the corporation, so the long-term financial strength of your corporation is not impaired by the life insurance

3. *Where does the Cash Value come from?*
   At each policy anniversary, the insurance company declares a dividend for the WL policy. These policy dividends are based on the actual operating results of the Participating Account of the insurance company. Although the future dividends are not guaranteed, once a dividend has been declared and credited to the policy, it is vested and cannot decrease in value, or be taken back by the insurance company.

4. *How can I use the Cash Value of my WL policy?*
   There are two ways to access the Cash Value of your policy. There are different income tax implications of accessing the Cash Value, so once again it is helpful to have your team of trusted advisors involved in this decision. The choice of which option is best for you depends on your tolerance for risk, and your time horizon. For example:
   a. As you are growing your business, the Cash Value is available as collateral for borrowing purposes, which can be helpful to grow your practice, to help fund operating costs, or to ride out economic volatility

   b. At any time, you have the option to "cash out" some, or all, of the dividends in your policy. The insurance company will then pay these dividends to the policyowner (your corporation), and the cash can then be used for whatever purpose you desire

5. *When should I use the Cash Value of my WL policy?*
   The Cash Value is another bucket of money available for you, and is part of a diversified portfolio of assets. Many policyowners find the stability of vested dividends is an attractive feature, and will access the life insurance Cash Values when the Fair Market Value of their other assets have declined. This helps maintain lifestyle and liquidity while avoiding locking in losses in their other investments.

6. *I hear about "Buy Term and Invest the Difference". Why wouldn't I use that strategy?* The answer to this question is really a matter of your planning horizon. As the table above shows, in the first 10 or so policy years, the Cash Value growth of the life insurance policy is less than the tax-exposed corporate savings. However, over time the tax-free compounding of Cash Value inside the life insurance policy out-paces the savings option. Your financial advisor can definitely provide this analysis, and expand on the pros and cons of this strategy.

What Ties All This Planning Together?

Greater wealth and insurance against risk will help you meet your goals, but having them is not enough: these resources are best connected to your goals through estate planning. In addition to ensuring that other issues are addressed (e.g. that your child(ren) will have the right guardian if you die), a Last Will and Testament and substitute decision-making authorities ensure that the increased financial resources you accumulate through your planning are directed to their intended purposes. The strategies recommended throughout this document integrate available tools to create better financial results than off-the-shelf investment solutions. The same holds true concerning off-the-shelf estate planning documents. In other words, you need more than a will kit to tie all of this together. People who put off estate planning often find it was not as difficult as they feared it would be. You already know what you want – it just needs to be written down the right way. The right lawyer, within your advisory team, will address the complexities. Ultimately, you should ensure that you name someone to make decisions anytime you cannot about your finances (Enduring Power of Attorney), your health care decisions (Personal Care Directive), and that you provide for how your growing wealth should benefit your heirs after you pass away (Last Will and Testament).

Final Thoughts

Every physician has different goals, tolerance for risk, and time horizons. It's important that you have a relationship with your advisor so that your planning can be fluid and adaptable with your life and career. If you aren't hearing from your financial advisor at least quarterly, even if it is just a check in or a high level discussion, you should be. If you haven't heard from your advisor multiple times since this pandemic started, you should really start to question whether you're receiving value for the fees you are paying them.

I'll close with this, "The Gamma Factor and the Value of Financial Advice" study completed by Cirano shows that wealth accumulation was 290% higher for clients over a 15 year period compared to people who tried to manage their own financial plan.[1] A combination of properly constructed investment portfolios and insurance planning, increased savings rates due to regular contact with clients, and tax considerations are the main drivers for this increase in wealth.

[1] *Montmarquette, C., & Viennot-Briot, N. (2016). The Gamma Factor and the Value of Financial Advice. Retrieved June 2, 2020, from https://www.cirano.qc.ca/files/publications/2016s-35.pdf*

Thanks again, stay safe, and if you feel like it might be time to review your planning – please don't hesitate to reach out, I'll be here.

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