



INVESTOR'S Edge



Wealth
Management

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An exclusive newsletter for RBC Wealth Management clients

Four ways your investment priorities may have changed because of the pandemic

Between winter of 2019 and early 2022, people changed their lives due to challenges caused by the COVID-19 virus. Not surprisingly, changes also are affecting how investors are handling their financial planning. Read on to learn more about investing trends changed by the pandemic.

Interest in making a difference

A February 2021 RBC Wealth Management client survey showed a majority of investors wanted to learn more about environmental, social and governance (ESG) investing from their financial advisor. Before the pandemic, interest in ESG and responsible investing were already hot topics, especially with women and young professionals. Younger generations are at the helm of the movement, encouraging families to act on their values, such as fighting climate change or advancing social agendas.

RBC Wealth Management researchers expect the interest in responsible investing is long-term, not a fad, thanks to political changes and proxy voting influences in the business world. Plus, early pandemic market volatility demonstrated how ESG stocks may be more resilient during bear markets, giving more credence to responsible investing.

The good news is that the timing is excellent for getting started in ESG investing—investors have many more responsible investing opportunities now as compared to just a few years ago. Schedule a conversation with your financial advisor to discuss your values, and how you can use your portfolio to support both those values and your long-term investing goals.

Retirement planning

Retirement age may be a bit younger than many Americans anticipated—or planned for—thanks to the pandemic. In fact, the Federal Reserve Bank of New York reports 49.9% of Americans expect to retire before age 62 as of September 2021 (an increase from before the pandemic hit).

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Four ways your investment priorities may have changed because of the pandemic, continued

Some employees lost jobs, some discovered they loved working from home so much they didn't want to return to the office, and others took advantage of good investment returns and high home values to sail off into early retirement.

However, because of ongoing low interest rates affecting fixed incomes, many investors are incorporating additional alternative assets like venture capital, private equity and real estate into their portfolios. It's a deviation from the more traditional switching of stocks to bonds for retirement years, because these alternative investing strategies have the potential for increasing risk in a portfolio.

It is important to evaluate with your financial advisor your financial goals and the timing of your retirement. Well-prepared retirement plans are designed to help families determine if early retirement makes sense for the family.

Health and insurance planning

Health care and housing are the two largest expenses most families will anticipate in retirement.

Unfortunately for the families of many COVID-19 patients, they were not able to be close to their loved ones during treatment due to social distancing policies at health care facilities. This led to an increase in families looking at alternative at-home care options if the need would arise. Estimated care costs for a home health aide are \$150 a day according to Genworth's Cost of Care Survey conducted in 2020, creating a need for many families to begin planning for those expenses at younger ages.

Many older Americans also are looking carefully at retirement living plans after reports of seniors becoming isolated in senior living residences in an effort to stop the spread of the disease. In addition to long-term care insurance, many families are looking for additional financial income sources like annuities to provide more flexibility in their future living scenarios.

To address your concerns about medical care or retirement living costs, be sure to meet with your financial advisor to determine wealth planning strategies to achieve your wishes.

Transitioning a business

The pandemic threw many challenges at business owners. These included looking for ways to avoid lay-offs, supporting a remote workforce and struggling with finding quality employees to fill vacant positions due to the great resignation—making it a struggle for many small business owners to keep the lights on.

Thanks to these challenges and also a number of small business owners who age-wise are ready to retire, the RBC Wealth Management Corporate Executive Services team saw a trend in late 2021 that many small business owners have regained interest in transitioning their firms to new ownership.

Mergers and acquisitions are a common way for business owners to monetize and exit an enterprise they may have spent years building. Unfortunately, the M&A industry has slowed down a bit because of the pandemic. Both the purchasing and selling sides of the industry slowed due to decreased company valuations, and individual company profits during this volatile time.

Setting up a business transition plan is a good step for addressing the challenges caused by additional M&A diligence. Be sure to schedule a meeting to review your plan with your financial advisor to confirm it still addresses your business retirement goals.

Taking advantage of 2022

The pandemic changed so many things with the way people live and work, so it's not a big surprise how much it changed for investors. As you consider what 2022 is going to bring for you and your family, don't hesitate to schedule time with your financial advisor to discuss potential changes for your portfolio to accommodate any new wishes or goals you may have.





Try a New Year's resolution— getting financially organized

Traditional New Year's resolutions often have something to do with losing weight and bettering one's life. Improving one's financial situation is also a common topic. If you're still in need of a resolution for 2022, consider organizing your assets. Not only will it benefit you immediately, but also will benefit your family well into the future.

Taking an inventory of your wealth assets—and having records of everything organized and convenient to access—is the first step of developing a legacy plan. The reason financial advisors recommend creating a family inventory is because it helps you—and your heirs for later—develop and follow a plan for distribution of your net worth in a well-documented way.

The RBC Wealth Management Family Inventory is a helpful organizational tool to make your legacy planning process much easier. The document first records your family's personal information—including medical history—and then provides you with the ability to track your insurance and annuity policies, the contact information for your tax, legal and financial advisors, as well as document all of your financial assets like loan, credit and financial account information. The Family Inventory also provides a way for you to track deed locations for your real estate holdings, list digital assets and document your funeral arrangements and if you have a will established.

Because the information in this document is sensitive, it's recommended to keep it in a secure location, whether you use it digitally or in hard copy. For example, use added password protection for electronic copies or store printed copies in a safe deposit box.

While your Family Inventory is intended for legacy planning, the information stored on it would be useful any time you need to review your wealth plan with your financial advisor, or update your insurance policies. Once you have the Family Inventory filled out, you'll want to share the information with your financial advisor and attorney while developing your will or trust, and probably review the information on an annual basis to be sure it's updated and correct. You could make it an annual New Year's resolution—one that is relatively easy to accomplish and that continues to benefit you in the present and into the future.

In combination with a will or trust, your Family Inventory is an excellent way to provide valuable information about your assets—and some of your intentions regarding those assets—to your heirs. Sharing the document with them as you develop it provides your family the opportunity to have a good discussion about your legacy wishes and other expectations for your wealth after you pass.

Ask your financial advisor today for an electronic or printed copy of the RBC Wealth Management Family Inventory and get started on accomplishing your New Year's resolution for 2022.

How climate change could impact your retirement plans

Is your dream retirement home a beach house in Florida or a mountain home in California's Sierra Nevada?

Today, with wildfires, severe drought, floods and hurricanes increasing in frequency, some people are re-imagining where they want to live and choosing to retire closer to home and save the cash they would have otherwise spent for other wishes and wants.

That's because erratic weather patterns are not only worrisome from a safety standpoint—they can be financially costly.

A *Coastal Heritage Magazine* article in 2007 noted that the cost of homeowners' insurance, including wind coverage, is increasing significantly in hurricane-prone areas. In fact, climate change will add \$183 billion to annual premiums for property insurance by 2040, according to research by the reinsurance group Swiss Re Institute published in April 2021.

For some insurers, premium hikes aren't even enough to make the risk profitable. *Coastal Heritage Magazine* found that in 18 states along the Gulf Coast and the Atlantic seaboard, many major insurers are in retreat, selling fewer policies or not renewing them at all. Meanwhile, in California, where 2017 and 2018 went down as the state's worst two years for fire on record, insurers paid \$24 billion in claims. Today, in an effort to limit their exposure and losses, some insurers are refusing to renew home policies there, declining 350,000 renewals over the past five years.

Exorbitant insurance premiums may be doable for some ultra-high-net-worth families, but even for families of means, they come at the expense of other important things like long-term care insurance or leaving a financial legacy for children and grandchildren.

Asking tough questions

There are four questions clients should be considering as they plan for their retirement home location.

1. What climate risks are there in the area I am looking to move to?
2. Can I insure against the risks present in the area I'm looking to move to?
3. Will I be able to sell my property in the climate risk area if I buy it now?
4. If I buy a destination retirement home, what will the resale value be for my heirs?

Increasingly, there are tools available to help answer these important questions.

The American Communities Project offers a climate risk mapping tool to determine what regions' populations and infrastructure may be especially vulnerable. Climate Check also offers a tool that allows you to look at risks for a specific address or ZIP code.

It's also imperative that people seeking to purchase property in a flood- or hurricane-prone area or in regions where wildfires are becoming more frequent speak first to a property and casualty insurer to see whether they can even purchase a policy to protect their new asset and if so, at what cost.

When risk outweighs reward

Counties with the largest share of homes facing high heat, drought,

fire, flood and storm risk saw their populations increase due to net migration over the last five years, while areas with lower climate risk saw their populations decline, according to a Redfin report published in August 2021. This is largely due to the lower costs and the attractiveness of the area they are moving to.

Areas with significant risk are also areas with a high level of retirees moving to them. That might be changing.

In fact, an April 2021 survey from Redfin found that about half of respondents who plan to move in the next year said extreme temperatures and/or the increasing frequency or intensity of natural disasters played a role in their decision to relocate. More than a third (36%) said rising sea levels were a factor.

As you discuss your retirement plans with your financial advisor, be sure to include these questions in your research and planning.



How to work collectibles into your estate plan

For some families, cleaning the house while staying home during the pandemic led to the discovery of valuable collectibles, memorabilia and antiques. No matter what you might have in your possession, if it has value, then you should consider incorporating it into your estate plan, says Liz Jacovino, a wealth strategist with RBC Wealth Management.

“Before you do anything, it’s important to understand what you want to happen to your collection,” Jacovino says. “If you’d like your heirs to have it, you may want to ask them if they want it first. Or you can consider selling part of the collection and keeping one or two items for heirs who want them.”

Protecting your collectibles

Depending on the value and condition of an item or a collection, you may need to invest in special storage, such as a glass case, safe deposit box or secure garage to maintain the item’s condition.

This may also include extra insurance coverage for collectible items such as art and jewelry. If storage and insurance are significant expenses, you may want to plan for that in your estate to assist the next generation’s ability to defray those costs. For example, you could purchase a life insurance policy in an irrevocable trust to provide liquidity for your heirs to help them pay estate taxes and the cost of maintaining your collection.

Options for distributing your collectibles

“Tangible personal property can be incredibly sentimental,” says Bill Ringham, director of private wealth services for RBC Wealth Management. “For family harmony, it’s best to have a clause in your estate documents that refers to a written list that designates what goes to each person. If an item has significant financial value, such as a collector’s car worth \$100,000 that one of your kids will appreciate more than the others, then you can give \$100,000 in cash or other assets to the other kids to equalize the inheritance.”

You can choose to gift the item either upon your passing or while you’re alive, but there are pros and cons of each option you would want to weigh, including both tax and sentimental considerations.

If the item is valued above the gift-tax exclusion of \$15,000 per person per year, you’ll need to file a form with the IRS. The value of the gift will be counted against your lifetime estate-tax exclusion—which, in 2021 was \$11.7 million per person and \$23.4 million per couple. There is also a monetary benefit of gifting while you’re alive: You’re removing the growth of that asset from your taxable estate, Jacovino explains.

You can also donate some items to charity and receive a charitable tax deduction. “There can be a tax benefit



to donating your art to a museum,” Jacovino says. “If your art is valued above the estate-tax exemption, you also get the benefit of reducing the size of your estate when you remove some or all of a valuable collection.”

Selling your collectibles

Another option is to simply sell your collectible and keep the assets for your estate. Sales of collectible items are in a special tax category—the capital gains tax rate is 28%, compared to a 20% capital gains tax on marketable securities.

That capital gains tax can be an important reason to consider making your collectibles part of your estate rather than selling them.

“If your heirs inherit an item from you, they have a step-up cost basis that can reduce the capital gains tax,” Jacovino says. “For example, if you bought a painting for \$25,000 and it’s now worth \$200,000, you would owe \$49,000 in capital gains tax on the \$175,000 profit. If you leave it to your heirs, their cost basis is the fair market value of the item at the time of your death. If they sell the painting for \$200,000, they wouldn’t owe any capital gains.”

Work with your financial advisor to develop a thorough plan so you can arrange for your antique or collectible items to be effectively incorporated into your estate.



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