RBC Wealth Management

WealthMonitor



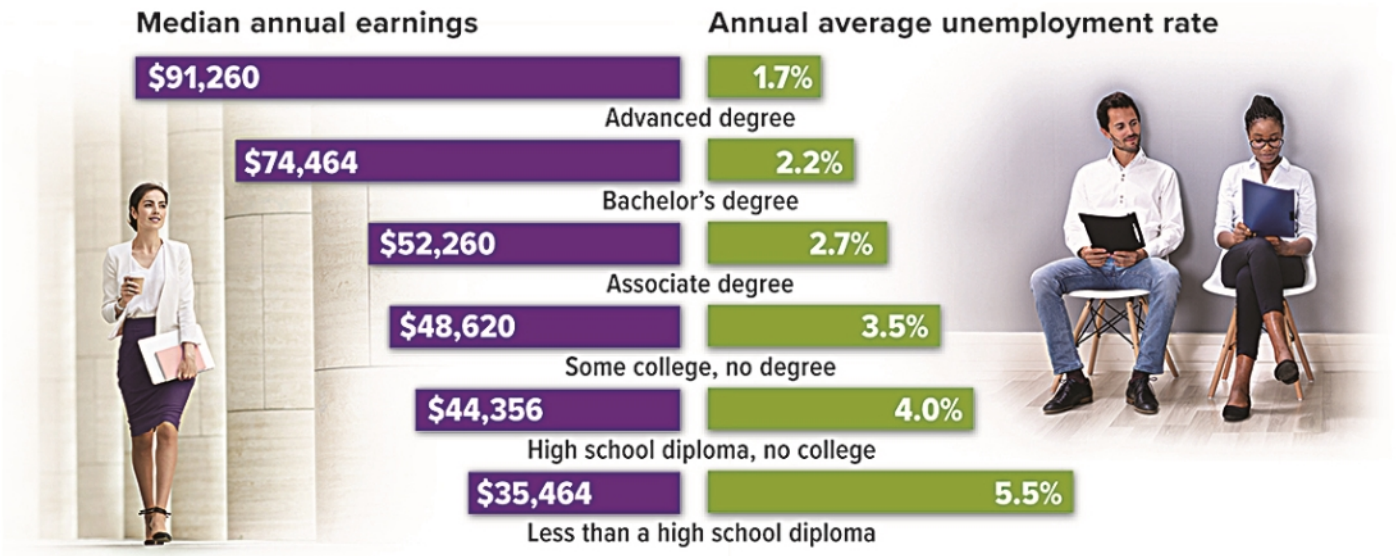
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Education and Earnings

While there is widespread concern about student debt and the cost of higher education, data from the U.S. Bureau of Labor Statistics makes a strong case that higher education leads to higher earnings and lower unemployment rates.

In 2022, median annual earnings for a full-time worker with a bachelor's degree were about $30,000 more than for a worker with only a high school diploma, a difference of more than $1 million over a 35-year career. Even so, it's important to be realistic about taking on debt in relation to expected earnings, as the job market and potential compensation can vary widely for different fields of study.



Source: U.S. Bureau of Labor Statistics, 2023 (data for ages 25 and older; annual earnings based on usual weekly earnings for full-time wage and salary workers)

SECURE 2.0 Act Expands Early Withdrawal Exceptions

Tax-advantaged retirement accounts such as 401(k) plans and IRAs are intended to promote long-term retirement savings and thus offer preferential tax treatment in return for a commitment to keep savings in the account until at least age 59½. Withdrawals before that age may be subject to a 10% federal income tax penalty on top of ordinary income tax. However, there is a long list of exceptions to this penalty, including several new ones added by the SECURE 2.0 Act of 2022.

Before considering these exceptions, keep in mind that the greatest penalty for early withdrawal from retirement savings could be the loss of future earnings on those savings (see chart). Even so, there are times when tapping retirement savings might be necessary.

Some employer plans allow loans that may be a better solution than an early withdrawal. If a loan or other resources are not available, these exceptions could help. They apply to both employer-sponsored plans and IRAs unless otherwise indicated.

New Exceptions

The SECURE 2.0 Act added the following exceptions to the 10% early withdrawal penalty. Withdrawals covered by these exceptions can be repaid within three years. If the repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

- **Disaster relief** — up to $22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
- **Terminal illness** — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
- **Emergency expenses** — one distribution of up to $1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
- **Domestic abuse** — the lesser of $10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)

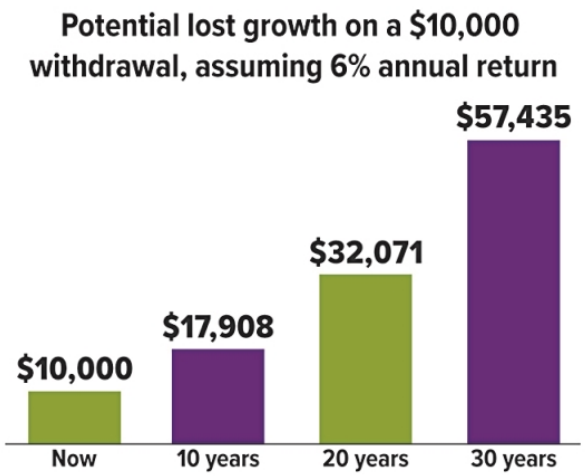
Exceptions Already in Place

These exceptions to the 10% early withdrawal penalty were in effect prior to the SECURE 2.0 Act. They cannot be repaid unless indicated.

- Death or permanent disability of the account owner
- A series of substantially equal periodic payments for the life of the account holder or the joint lives of the account holder and designated beneficiary
- Unreimbursed medical expenses that exceed 7.5% of adjusted gross income
- Up to $5,000 for expenses related to the birth or adoption of a child; can be repaid within three years
- Distributions taken by an account holder on active military reserve duty; can be repaid up to two years after end of active duty
- Distributions due to an IRS levy on the account
- (IRA only) Up to $10,000 lifetime for a first-time homebuyer to buy, build, or improve a home
- (IRA only) Health insurance premiums if unemployed
- (IRA only) Qualified higher education expenses

Lost Opportunity

An early retirement plan withdrawal could end up costing more than you might imagine, even without the 10% penalty. Income taxes will reduce the present value of the withdrawal, and you will lose the potential long-term growth on the amount withdrawn.



This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Special Exceptions for Employer Accounts

The 10% penalty does not apply for distributions from an employer plan to an employee who leaves a job after age 55, or age 50 for qualified public safety employees. SECURE 2.0 extended the exception to public safety officers with at least 25 years of service with the employer sponsoring the plan, regardless of age, as well as to state and local corrections officers and private-sector firefighters.

Retirement account withdrawals can have complex tax consequences. Consult your tax professional before taking specific action.

Why Buy Life Insurance During Unsettled Economic Times?

To say the economy has been uneven over the past few years is an understatement. Amid these bumpy economic times, why buy life insurance? Here are a few reasons.

Protection for Loved Ones

Savings that were intended to provide support for you and your family may have taken a hit over the past few years due to stock market volatility. If you die, life insurance can be used to replace some of the savings you may have lost during these turbulent economic times. The tax-free death benefit could be used to provide income to your spouse and family, pay off mortgages and loans, meet tax liabilities, or pay for college expenses.

May Help Diversify Your Portfolio

Certain types of permanent life insurance have a cash value option that can be beneficial during times of economic uncertainty. Some policies offer minimum interest rate guarantees (subject to the financial strength and claims-paying ability of the issuer), that may offer an alternative to the unpredictability of the stock market.

Offers an Additional Way to Accumulate Wealth

Cash value life insurance allows all interest and earnings on the policy's accumulations to grow tax deferred. You may be able to take withdrawals from the cash accumulation of the life insurance policy. Any withdrawal you make will typically be tax-free up to your basis (i.e., premiums paid) in the policy. Because any earnings grow tax deferred while inside the policy, they will be subject to income tax when you withdraw them. Withdrawals coming out of your policy are generally treated as basis first. Be aware that surrender charges may also apply when you withdraw from your policy, even if you withdraw only up to your basis. One way to avoid this and still access your money is to take a policy loan from the insurance company, using the cash value in the policy as collateral. The amount you borrow is generally not treated as taxable income as long as you repay the loan, and there are no surrender charges because you're not actually withdrawing your money. But you'll have to pay interest on the loan, which is not tax deductible.

Provides Protection in the Form of Living Benefits

Life insurance may help replace lost funds should you become disabled, need long-term care, or face a terminal illness. For example, if you are terminally ill, you may be able to receive a portion of the death proceeds from your life insurance before you die in order to pay necessary expenses. Some life insurance policies include a special rider that allows you to accelerate your life insurance death benefit if you need long-term care during your life. Certain riders can be added to a life insurance policy and may help in the event you become disabled and unable to work.

Comparison of Types of Cash Value Life Insurance



	Whole Life	Variable Life	Universal Life	Variable Universal Life
Earnings grow tax deferred	Yes	Yes	Yes	Yes
Cash value may be withdrawn tax-free	Within limits	No	Within limits	Within limits
Policy loans allowed	Yes	Yes	Yes	Yes
Policy loan proceeds received tax-free (**Note:** Special tax rules apply if policy is later cancelled)	Yes	Yes	Yes	Yes
Cash value growth guaranteed by insurance company	Yes	No	Yes	No

Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit or annuity value and can be much less than those of a typical long-term care policy. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Any guarantees are subject to the financial strength and claims-paying ability of the insurance issuer. The investment return and principal value of the variable investment options will fluctuate and are not guaranteed. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase.

As Your Parents Age, Help Them Protect Their Finances

It's heartbreaking to hear stories of people losing money (even their life savings) as a result of fraud or financial exploitation, especially if they are older and financially vulnerable. In fact, it's quite common. People age 70 and older reported losses of $567 million in 2022.[1] You know your parents could be at risk, and you want to protect them, but how?

One place to start is by looking for warning signs that your parents have been victimized, or are at risk of being influenced, manipulated, or coerced by a stranger or someone they know.

- Unusual bank account activity, including large or unexplained withdrawals, and nonsufficient fund notices
- Missing checks, credit cards, or financial statements
- Unpaid bills
- Lost money or valuables that can't be located after a thorough search
- Relationships with people who seem to have undue influence
- Unexplained changes to legal documents
- Declining memory and decision-making skills

Regularly checking in with your parents may help you spot issues that need to be addressed. If your parents have fallen victim to a financial scam or are being pressured for money from someone they know, they may be embarrassed or reluctant to tell you, even if you ask. Do your best to remain objective and nonjudgmental, and patiently listen to their views while expressing your own concern for their well-being.

Laying some groundwork to help prevent future incidents is also important. For example, talk to your parents about how they might handle common scams. Let them know it's a good idea to get a second opinion from you before acting on any request for information or money, even if it seems to come from their financial institution, a well-known company, law enforcement, a government agency such as the IRS or Social Security Administration, or even a grandchild in trouble.

Encourage them to set up appointments with their elder law attorney or financial professional to talk about concerns and legal and financial safeguards. They might also want to add layers of protection to their financial accounts, such as naming a trusted contact or setting up account alerts.

People are often reluctant to report financial fraud or exploitation, either out of embarrassment or fear of being wrong. But if you suspect your parents have been victimized, you can get help from many sources, including the National Elder Fraud Hotline, sponsored by the U.S. Department of Justice. You can call (833) 372-8311 to be connected with case managers who will assist you and direct you to additional resources.

1) Federal Trade Commission, 2022

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