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RBC Wealth Management
WealthMonitor

Questions to Ask Before Buying That Thing You've Always Wanted



Even if you're generally comfortable with your finances, you may occasionally worry about how much you're spending, especially if you consistently have trouble saving for short- or long-term goals. Here are a few questions to ask that might help you decide whether a purchase is really worth it.

Why do I want it?

Maybe you've worked hard and think you deserve to buy something you've always wanted. That may be true, but are you certain you're not being unduly influenced by other factors such as stress or boredom?

Take a moment to think about what's important to you. Comfort? Security? Safety? Status? Quality? Thriftiness? Does your purchase align with your values, or are you unconsciously allowing other people (advertisers, friends, family, neighbors, for example) to influence your spending?

How will buying this now affect me later?

When you're deciding whether to buy something, you usually focus on the features and benefits of what you're getting, but what are you potentially forgoing? When you factor this into your decision, what you're weighing is known as the opportunity cost. For example, let's say you're trying to decide whether to buy a new car. If you buy the car, will you have to give up this year's family vacation to Disney World? Considering the opportunity cost may help you evaluate both the direct and indirect costs of a purchase. Ask yourself how you will feel about your purchase later. Tomorrow? Next month? Next year?

Will this purchase affect your family?

Couples often fight about money because they have conflicting money values. Will your spouse or partner object to your purchasing decision? And what about your children? Children learn from what they observe. Are you comfortable with the example you might be setting?

Do I really need it today?

Buying something can be instantly and tangibly gratifying. After all, which sounds more exciting: spending $1,500 on the ultra-light laptop you've had your eye on or putting that money into a retirement account? Consistently prioritizing an immediate reward over a longer-term goal is one of the biggest obstacles to saving and investing for the future. The smaller purchases you make today could be getting in the way of accumulating what you'll need 10, 20, or 30 years down the road.

Be especially wary if you're buying something now because "it's such a good deal." Take time to find out whether that's really true. Shop around to see that you're getting the best price, and weigh alternatives. You may discover a lower-cost product that will meet your needs just as well. If you think before you spend money, you may be less likely to make impulse purchases and more certain that you're making appropriate financial choices.

Can I really afford it?

Whether you can afford something depends on both your income and your expenses. You should know how these two things measure up before making a purchase. Are you consistently charging purchases to your credit card and carrying that debt from month to month? If so, this may be a warning sign that you're overspending. Reexamining your budget and financial priorities may help you get your spending back on track.

December 2017

Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?

It's Time for Baby Boomer RMDs!

What can I learn from looking back on my financial situation in 2017?

What financial resolutions should I consider making as I look ahead to 2018?

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See disclaimer on final page



Demographic Dilemma: Is America's Aging Population Slowing Down the Economy?



It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.[1]

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.[2]

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.[3]

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.[4]

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry, and start families, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.[5]

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate — the percentage of the civilian labor force age 16 and older who are working or actively looking for work — peaked at 67.3% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then; in August 2017, it was 62.9%. This reflects lower birth rates, increased college enrollment, some men in their prime working years dropping out of the labor force, and large numbers of retiring baby boomers.[6]

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.[7]

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.[8]

1, 3) The Conference Board, February 24, 2017

2) *The Wall Street Journal,* January 16, 2017

4-5) Federal Reserve, 2016

6, 8) *The Financial Times,* October 25, 2016

7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017



It's Time for Baby Boomer RMDs!



In 2016, the first wave of baby boomers turned 70½, and many more reach that milestone in 2017 and 2018. What's so special about 70½? That's the age when you must begin taking required minimum distributions (RMDs) from tax-deferred retirement accounts, including traditional IRAs, SIMPLE IRAs, SEP IRAs, SARSEPs, and 401(k), 403(b), and 457(b) plans.

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If you're still employed (and not a 5% owner), you may be able to delay minimum distributions from your current employer's plan until after you retire, but you still must take RMDs from other tax-deferred accounts (except Roth IRAs). The RMD is the smallest amount you must withdraw each year, but you can always take more than the minimum amount.

Failure to take the appropriate RMD can trigger a 50% penalty on the amount that should have been withdrawn — one of the most severe penalties in the U.S. tax code.

Distribution deadlines

Even though you must take an RMD for the tax year in which you turn 70½, you have a one-time opportunity to wait until April 1 (not April 15) of the following year to take your first distribution. For example:

- If your 70th birthday was in May 2017, you turned 70½ in November and must take an RMD for 2017 no later than April 1, 2018.
- You must take your 2018 distribution by December 31, 2018, your 2019 distribution by December 31, 2019, and so on.

IRS tables

Annual RMDs are based on the account balances of all your traditional IRAs and employer plans as of December 31 of the previous year, your current age, and your life expectancy as defined in IRS tables.

Most people use the Uniform Lifetime Table (Table III). If your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, you must use the Joint Life and Last Survivor Expectancy Table (Table II). Table I is for account beneficiaries, who have different RMD requirements than original account owners. To calculate your RMD, divide the value of each retirement account balance as of December 31 of the previous year by the distribution period in the IRS table.

Aggregating accounts

If you own multiple IRAs (traditional, SEP, or SIMPLE), you must calculate your RMD separately for each IRA, but you can actually withdraw the required amount from any of your accounts. For example, if you own two traditional IRAs and the RMDs are $5,000 and $10,000, respectively, you can withdraw that $15,000 from either (or both) of your accounts.

Similar rules apply if you participate in multiple 403(b) plans. You must calculate your RMD separately for each 403(b) account, but you can take the resulting amount (in whole or in part) from any of your 403(b) accounts. But RMDs from 401(k) and 457(b) accounts cannot be aggregated. They must be calculated for each individual plan and taken only from that plan.

Also keep in mind that RMDs for one type of account can never be taken from a different type of account. So, for example, a 401(k) required distribution cannot be taken from an IRA. In addition, RMDs from different account owners may never be aggregated, so one spouse's RMD cannot be taken from the other spouse's account, even if they file a joint tax return. Similarly, RMDs from an inherited retirement account may never be taken from accounts you personally own.

Birthday Guide: This chart provides sample RMD deadlines for older baby boomers.

Month & year of birth	Year you turn 70½	First RMD due	Second RMD due
Jan. 1946 to June 1946	2016	April 1, 2017	Dec. 31, 2017
July 1946 to June 1947	2017	April 1, 2018	Dec. 31, 2018
July 1947 to June 1948	2018	April 1, 2019	Dec. 31, 2019
July 1948 to June 1949	2019	April 1, 2020	Dec. 31, 2020
July 1949 to June 1950	2020	April 1, 2021	Dec. 31, 2021

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What can I learn from looking back on my financial situation in 2017?

If your financial plan for 2017 didn't work out the way you wanted it to, don't beat yourself up. Instead, ask yourself the following questions to determine what you can learn from reflecting on your financial situation in the last year.

Did you meet your financial goals and expectations for 2017? Perhaps you started the year with some financial goals in mind. You wanted to establish a budget that you could stick to, or maybe you hoped to build up your emergency savings fund throughout the year. If you fell short of accomplishing these or other goals, think about the reasons why. Were your goals specific? Did you develop a realistic timeframe for when they would be achieved? If not, learn to set attainable and measurable goals for your finances in the new year.

How did your investments perform? A year-end review of your overall portfolio can help you determine whether your asset allocation is balanced and in line with your time horizon and goals. If one type of investment performed well during the year, it could represent a greater percentage of your portfolio than you initially wanted. As a result, you might consider selling some of it and using that money to buy other types of investments to rebalance your portfolio. Keep in mind that selling investments could result in a tax liability. And remember, asset allocation does not guarantee a profit or protect against loss; it is a method to help manage investment risk. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Are your retirement savings on track? Did you contribute the amount you wanted in 2017? Or did unexpected financial emergencies force you to borrow or withdraw money from your retirement savings? In that case, you can help your savings recover by contributing the most you can to your employer-sponsored retirement plan and taking advantage of employer matching (if it's available to you). Contributing to a 401(k) or 403(b) plan can help you save more consistently because your contributions are automatically deducted from your salary, helping you avoid the temptation to skip a month now and then.



What financial resolutions should I consider making as I look ahead to 2018?

A new year is right around the corner, bringing with it a fresh start for you and your finances. What will you do this year to help improve your financial situation?

Evaluate your savings goals. The beginning of the year is a great time to examine your overall financial plan. Maybe you want to buy a new vehicle this year or save money toward a Caribbean cruise next year. Perhaps you want to focus less on material items and more on long-term goals, such as your retirement savings. Regardless of what you are setting money aside for, make sure you come up with a realistic savings plan that will help you achieve your goals and avoid the risk of significant loss.

Pay down debt. Whether you owe money on your credit cards or have student loan payments to make, the start of a new year is a good time to develop a strategy to reduce your overall level of debt. Reducing your debt can help create opportunities to contribute toward other goals throughout the year. But unless you can definitely afford it, don't plan to pay off all your debts in one fell swoop. Set a smaller goal that you'll be more likely to achieve over the course of the year.

Automate as much as you can. Your plan to pay down debt can be accomplished more easily if you automate your bill paying, saving, and investing. Most banks, credit card issuers, retirement plan providers, and investment companies offer services that make payments automatic — allowing you to worry less about payment dates. The best part is that it might only take a few taps on your smartphone to make these processes automatic.

Think about organizing your financial documents. If your overall financial situation is already in good shape for the new year, consider taking time now to clear out and organize your financial records. Do you have important documents, such as your tax returns or passport, in a safe place? Are you holding on to records that you no longer need? Organizing your financial records now can save you time and frustration later if you need to locate a particular document.

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