



A "How To" on Finance: Parents with Kids and Teens



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12 easy conversations about money



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Discussing money with our teenagers can be one of the more difficult responsibilities we have as parents. But regardless of your parenting style or your philosophy about money, we all share a common goal: we want our children to be happy and successful.

Here are some ideas for everyday opportunities to have constructive conversations about money. By providing the necessary structure and context, using one or more of these ideas may help make teaching financial sense to your teen less stressful for you both.

Earning money

Associate allowance with accomplishment. To be financially responsible adults, teenagers should earn the things they want. For example, if you provide an allowance, make it contingent on your child's performance of family household duties. Provide older children with greater responsibilities that are tied to larger allowances. Talk with your children about your "rules for receiving an allowance" and thank them for doing such a good job on allowance day.

Make purchases personal. Next time your younger teen asks for money for a non-essential purchase, talk about how money represents the value of human labor, then have them contribute some of their allowance to buy the item. For larger purchases, a loan against their allowance

may be an appropriate way for them to earn the item they want.

Encourage age-appropriate jobs outside the home. For older teens, encourage them to get summer jobs (or part-time jobs during the school year) to help them fund their entertainment and social expenses. This provides an ongoing opportunity to talk about the work they are doing, the responsibilities of having a job and the money they are earning to spend on the things they want.

Managing expenses

Take your teenager grocery shopping. Talk with them about how the food the family eats is a significant part of the family budget. Show them how to compare prices and use coupons to save money. Give them a fixed amount to spend on the snacks they enjoy, then let them choose which groceries are purchased with it. When you get home, help them make a personal budget, based on the lessons they learned at the grocery store.

Discuss your next major expense. If you are buying a car or going on a vacation, talk about how you plan for a purchase like this, the process of budgeting for it, and delaying gratification on smaller things for a bigger purchase. Also talk about what would happen if an unexpected major expense came up, like a costly home repair.

Point out the consequences of over-spending. If your teen asks for an advance on allowance or a loan until the next paycheck, ask them to take mental inventory of what they have to show for their spending decisions. Before giving them a short-term bridge loan, talk about how their financial choices today can affect their ability to buy or do the things they want in the future.

Financial concepts

Review the family budget. When paying your bills, ask your teenager to help. Show them how you budget and what it really costs to keep your family running. Talk about the importance of forecasting expenses and tracking what you spend.

Look at financial statements together. Next time they come in the mail, show your teen how to read bank and credit card statements. Talk about how fees and interest expenses can affect account balances. Discuss late payment charges and talk about the consequences of getting behind.

Explain financial institutions and tools. Use the new account solicitations you receive in the mail to talk with your teen about banking, insurance and investment services. Point out the differences between checking and savings accounts, certificates of deposit and mutual funds, stocks and bonds, 401(k) accounts and IRAs, etc.

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Empower them to take control.

Introduce your teen to the important role interest, especially compounded interest, may play in their lives. Financial calculators on the internet can show how interest charges can limit your teen's financial future if it accumulates on credit cards and can open doors to opportunity if compounded interest works to their advantage in a savings or investment account.

Conserve energy and reduce utility expenses.

Talk to your teen about responsible electricity or water use. Instead of scolding them for not turning off lights and electronic devices, or taking long showers, show your teen how to read the electric bill or how the water bill is calculated. This can be a good way for your teen to see their impact on the bills and a great opportunity to talk about ways they can help conserve energy.

Remember to praise your teenager.

Positive reinforcement is a powerful motivator. Commend your teen when they demonstrate they have grasped an important concept or accomplished a financial goal. If you sincerely congratulate them when they show financial maturity, they will learn behaviors that will suit them well in adulthood.

Next steps

Use these tips to start talking with your teens today. Remember that it's easier to approach these topics in bite-size pieces, taken over time. And don't forget that your good fiscal example is the best possible conversation starter.

Section 529 education savings plans



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What is a Section 529 plan?

Also known as qualified state tuition programs, 529 plans are state-sponsored, tax-advantaged investment programs that help you save for your child's education. Assets can be withdrawn from the plan federal income tax-free when used for qualified education expenses.

Qualified state tuition programs, given special tax status under Section 529 of the federal Internal Revenue Code, generally fall into two categories: (1) prepaid tuition plans and (2) tuition savings plans.

1. Prepaid tuition plans

The prepaid tuition plans, sometimes called guaranteed savings plans, allow for the pre-purchase of tuition based on today's rates and are then paid out at the future cost when the beneficiary is in college. This plan protects you from the rising costs of college education—the return on your investment is the difference between the college cost when your child attends and the prepaid tuition cost. These plans are not offered through RBC Wealth Management.

2. Tuition savings plans

Tuition savings plans allow you to contribute to an investment pool—consisting of stock/bond mutual funds and ETFs. The growth in tuition savings plans is a result of the market performance of the underlying

investments. Most savings plans offer a variety of age-based investment options with underlying investments becoming more conservative as the beneficiary gets closer to enrolling in college.

What are 529 qualified expenses?

Money saved in a 529 plan can be used to pay for certain expenses associated with education. For college or other post-secondary training institutions, this includes tuition and some room and board expenses. Computers, related equipment and services are also considered qualified expenses if they are used primarily by the beneficiary while the beneficiary is enrolled at an eligible higher education institution.

Historically, qualified expenses were limited to higher education but due to a federal law change in 2017, up to \$10,000 annually for K-12 tuition is now included. A 2019 tax law change further expanded the qualified education expenses to include student loan repayment and apprenticeship programs.

Who can be a beneficiary?

You can establish an account for yourself, your child, grandchild, spouse, another relative or even someone not related to you and the beneficiary may be of any age.

What are the benefits of 529 plans?

Unlike some other education savings products, 529 plans have no adjusted gross income limits. Anyone can establish and contribute to a 529 plan—contributions can always be withdrawn federal income tax-free, while the earnings can be withdrawn federal income tax-free if the proceeds are used for qualified expenses.¹

Who controls the assets?

You maintain control of the plan's assets throughout the life of the account. You may withdraw funds if not used for qualified expenses, although this withdrawal is subject to a penalty (typically 10%) on the investment gains from the plan. In addition, if the beneficiary dies, becomes disabled or receives a college scholarship, the contributor can withdraw the funds without penalty. They are still subject to ordinary income taxation at the contributor's rate, however.

You have flexibility

You can transfer to another 529 plan or change investment options without changing the beneficiary. You are limited to one rollover in a 12-month period and two investment changes per calendar year.

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What about state taxes?

Depending upon a particular state's program, certain state or local tax advantages may be available to resident participants. Some states allow the contributor to deduct contributions on a state tax return, while other states may forgo the tax benefit and may instead offer matching grants. Consult your tax advisor for more information on your state's tax deduction requirements. Carefully consider any tax benefit that your state plan may offer before investing in a plan offered by another state.

What are the gift tax advantages of 529 plans?

Normally, a gift of more than \$19,000 made by an individual to a single person in one year is subject to federal gift tax. 529 plans allow you to accelerate up to five-years' worth of the annual exclusion amount by contributing up to \$95,000 per beneficiary (\$190,000 for married couples filing jointly) in the first year of the five-year period. Any additional gifts during this period may be subject to federal gift tax. Portions of the accelerated gift may also be subject to an add-back feature of the gift in the event of death in the prior five-year period. You must elect to treat the entire gift as a series of five equal annual gifts.

What if the beneficiary does not attend college?

You can name another member of the beneficiary's family—the original beneficiary's sibling, parent, child or other family member—as the new beneficiary of the account without any income tax consequences. If the new beneficiary is of a younger generation in the family than the original beneficiary, a federal generation-skipping gift tax may apply for the year in which the beneficiary change is made. In this situation, you should consult your tax advisor.

529 Roth IRA rollover option

Since 2024, eligible 529 plan account owners can roll over up to \$35,000 (a lifetime limitation applicable to each beneficiary) from their 529 plan to a Roth IRA owned by the plan's designated beneficiary. These rollovers are subject to the annual contribution limits and the 529 account must have been open for the beneficiary for more than 15 years. This new provision provides the opportunity to retain family savings and help the beneficiary save for retirement without penalties.

How much will I pay for a 529 plan?

Like mutual funds, 529 plans may charge a sales charge. In addition, you may pay an annual fee for participating in the plan. You will also pay administrative and management fees that are incorporated into the price of the investment product much like the expense ratio of a mutual fund. Consult the plan documents for a more detailed explanation of the fees.

How can I get additional information regarding 529 plans?

Contact your RBC Wealth Management financial advisor.

Participation in a 529 plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10% penalty on distributions for non-qualified expenses may apply.

¹ For further information on qualified higher education expenses, please consult IRS publication 970, Chapter 8: Qualified Tuition Program.

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Saving for K-12 education?

Consider 529 plans for elementary and secondary school expenses



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If you have researched options for tax-advantaged savings plans for education, then you likely have heard of 529 plans. Did you know that these plans may also be used to pay for elementary or secondary school tuition? Up to \$10,000 per year may be withdrawn tax-free at the federal level to pay for K-12 tuition at public, private or religious schools.

What education costs qualify?

Contributions to a 529 plan grow tax deferred, which means you don't pay income tax on the earnings each year. Then, if you withdraw funds for a qualified expense—either K-12 tuition or certain college costs (tuition, fees, room and board, books), the earnings portion of your withdrawal is free from federal income tax. Some states also offer income tax benefits.

How do 529 plans work?

When 529 plans were created in 1996, they were designed as an education savings tool aimed at giving parents a tax-advantaged way to pay for college or graduate school. The federal tax law defines 529 plans and the expenses they may be used for to gain the tax benefits, but states run the plans. There are two types of plans: pre-paid tuition plans and tuition savings plans. Each account has one designated beneficiary which can be changed by the account owner. Anyone can establish and contribute to a 529 plan.

Tax considerations

It is essential to evaluate both state and federal income tax consequences of withdrawals from 529 plans. Tax laws that govern 529 savings plans are complex, so be sure you understand the implications of using savings from a 529 plan for K-12 expenses before you go this route. Each state decides whether to recognize K-12 tuition as an expense that qualifies for state income tax benefits.

State tax benefits vary

More than half of states consider K-12 tuition a 529 qualified expense for state income tax purposes. However a few states have stated they will not allow K-12 withdrawals to be state income tax free and others have not made a decision on this topic. States also can change their laws, so tax benefits may change over time. Know your state's position on tax benefits before making K-12 withdrawals.

Who can be a beneficiary?

You can establish an account for yourself, your child, grandchild, spouse, another relative, or even someone not related to you, and the beneficiary may be of any age. Only one person may establish an account.

529 Roth IRA rollover option

Beginning in 2024, unused funds remaining in a 529 account could be rolled into a Roth IRA for the beneficiary free of income tax and penalties. Certain limitations and restrictions apply.

Contact your financial advisor to learn more about 529 plans.

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Seven ways to raise money-savvy kids



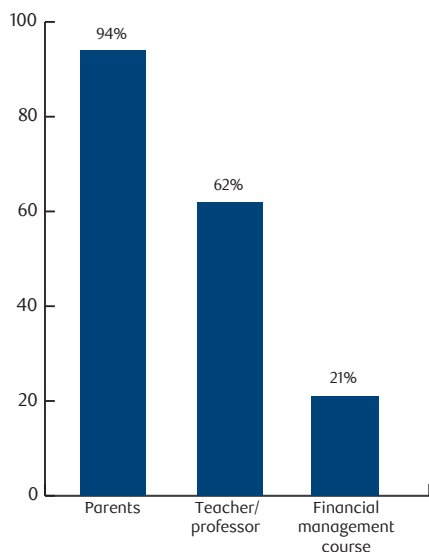
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If you want your children to be in good financial shape throughout their lives, you need to provide them with a solid education in managing money—and the sooner you begin, the better.

What can you do to raise money-savvy kids? For starters, try to help them understand the importance of personal responsibility, setting goals, saving and investing.

Who teaches money management

Percentage of students who say they find their financial information from these sources.



Youth and Money Survey, American Savings Education Council

Obviously, these are broad concepts. So, rather than try to explain them in the abstract to your children, focus on fun, hands-on activities that can be more readily understood. Consider the following seven areas:

- Budgeting
- Earning
- Saving
- Spending
- Giving
- Borrowing
- Investing

Budgeting

Creating a weekly budget is a great exercise for kids of any age—and it is easy to accomplish. Simply have your children divide a sheet of paper into two segments: “money in” and “money out.” In the money-in segment, ask your kids to itemize their money sources (allowance, gifts, jobs, etc.). In the money-out segment, have them itemize expenses in three categories: spending, saving and sharing. If you have younger children, you may want to have them put their money into three separate piggy banks rather than list the expense categories on paper.

Once your children start keeping a weekly budget, they should be able to see how personal responsibility is related to managing their money.

Money “in”

Allowance: \$ _____

Job: \$ _____

Borrowing: \$ _____

Money “out”

Spending: \$ _____

Giving: \$ _____

Saving and investing \$ _____

Earning

When your children ask for money for an impulse purchase, such as a book, CD or DVD, encourage them to earn all or part of the money to pay for it. By connecting the earning experience to satisfying a want, your children will begin to understand the concepts of personal choice, goal setting and discipline.

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You may want to sit down with your children and discuss the possible ways to earn money. What sort of work could they do? Young children can earn an allowance by helping out around the house. Tweens (children between the ages of 10 and 12) have the standard earning options—paper routes, babysitting, mowing lawns, raking leaves, shoveling walks, etc. Plus, with a little imagination, they can find other possibilities, such as serving as a computer tutor or a pet sitter. Of course, many older teens find part-time jobs at stores and restaurants, as well as summer jobs working as lifeguards or camp counselors.

Saving

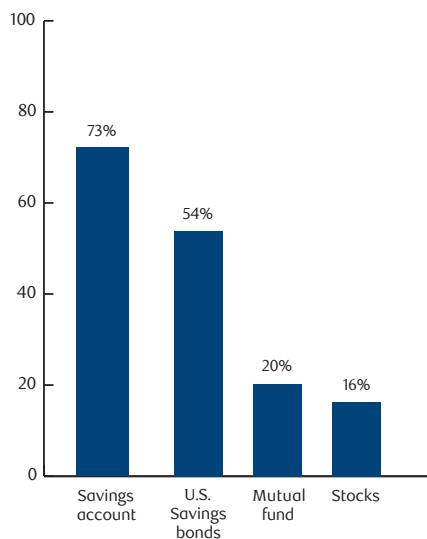
You can encourage any child to become a good saver. One proven technique is to open savings accounts for your children and match some portion of every dollar they save. If you receive a 401(k)-matching contribution from your employer, you are already familiar with this type of incentive.

Once you establish a savings account, review the monthly statements with your children and talk about how the account grows because of deposits and interest. You can further motivate older tweens and teens to save by requiring them to put money into their accounts to help pay for larger purchases, such as a new bike, computer or smartphone.

As your children get used to saving, they will learn the importance of discipline and goal setting—two financial skills that will serve them well throughout their lives.

How children are saving

Percentage of parents who say their children save in these ways.



Parents, Youth and Money Survey, American Savings Education Council

Spending

For kids of all ages, spending is the fun part of learning about money. Depending on your children's level of maturity, you can allow them to choose how they spend all or part of their spending budget. If you help them become smart spenders, you will instill in them some valuable lessons about how personal choice relates to managing money.

Naturally, you will want to supervise your children on how they spend their money and you should advise them on the consequences. However, unless they are considering truly inappropriate purchases, fight the urge to veto their spending decisions.

The American Savings Educational Council offers some ideas for parents to help kids become financially responsible adults:

- Discuss family financial matters with children (family budget, routine shopping, purchase of a new car or home, planning a vacation, paying for college, etc.)
- Share with kids financial education materials from the work place, educational organizations or financial institutions
- Use the media to educate kids about financial matters: newspaper articles, television and radio programs, magazines and books
- Use software and the internet as a resource for financial information and education
- Explain how different financial institutions and products work (banks, insurance companies, mutual funds, checking and savings accounts, 401(k) plans, IRAs, stocks, bonds, credit cards, savings bonds, etc.)

Giving

We all want our children to grow up to be responsible members of the community. You can help start them along that path by insisting they set aside a portion of their money to donate to a worthwhile cause, such as your religious institution or a charitable organization. You may want to discuss various options with your children to determine which organizations they want to support.

Borrowing

If your tween or teen asks to borrow money, you may want to help them out, depending on the purpose of the loan. But before you do, explain the importance of repaying debts in a timely manner. Establish a reasonable repayment schedule, and stick to it.

As you know, far too many people get in trouble by taking on unrealistic debt loads. By teaching your children the importance of borrowing only what they need and repaying their loans as promised, you can help them avoid trouble later on.

Investing

Tweens and teens will gain an interest in investing and develop a deeper understanding of how it works if you get them started with some stock of their own. First, explain the basics, including how to read the stock market reports in the newspaper. Then, help them choose a company in which they are interested, and buy a couple of shares for them to follow.

Along the way, explain the many factors that can affect a stock's success, such as competitiveness of products, changing public tastes, quality of a company's management, etc.

Start talking with your kids today

By regularly discussing these money management concepts with your children—or grandchildren—you can help them acquire the important skills and good financial habits necessary to enjoy a rewarding and prosperous life. Start your financial conversations today. Some day, your children will thank you.



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Discussing college funding with your teen



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College expenses have risen faster than inflation. This means it may be practical for you to make a decision today about how much of your child's projected college education you may reasonably be able to afford.

Use the worksheet on the other side of this page to estimate how much it will cost, where funding may come from and what student loan payments he or she may be responsible for after graduation.

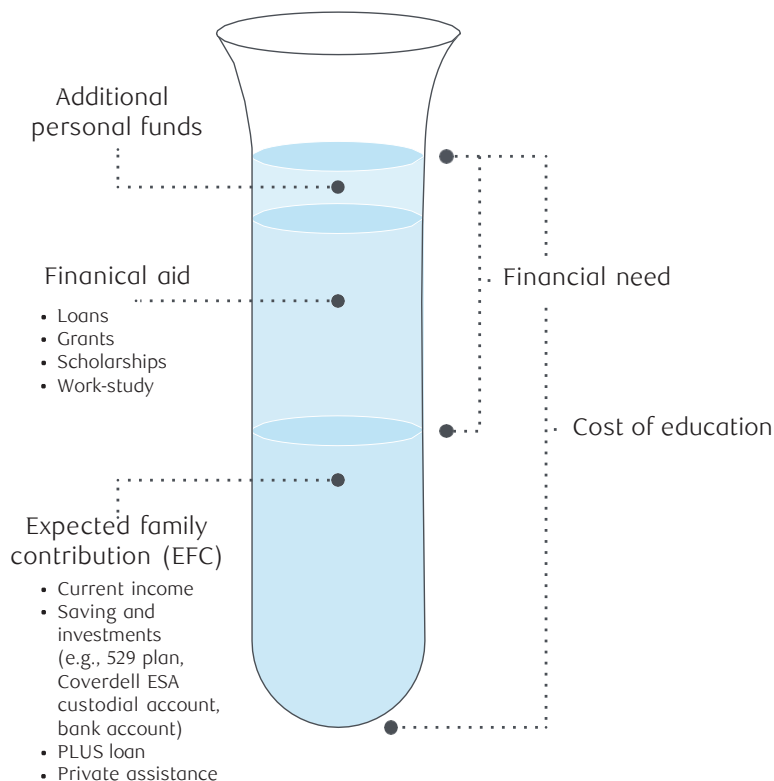
Talk with your teen now about what they may be responsible for paying, so that everyone has the same expectations about paying for college.

Where will funding come from?

If you claim your child as a dependent on your taxes, the federal government's financial aid formula mandates that you will be responsible for an Expected Family Contribution (EFC) that will come

out of your own pocket. The EFC is based on your current income, savings and investments and is the same regardless of the college your child chooses. The difference between your EFC and the cost of a particular college equals your child's financial need that may be covered by financial aid from the government, the educational institution itself and independent organizations.

Beginning with the 2023–2024 academic year, the term Expected Family Contribution will be replaced with the term Student Aid Index (SAI). The name was changed to clarify that the calculation is only an eligibility index for student aid.



What strategies make the most sense for your family?

Every family's situation is different. So the choices you make and the conversations you have may depend on how you respond to three key questions:

Question #1 — Do you intend to fund 100% of college costs? If you do, it may be practical to set expectations now, so both you and your child are clear about what you will each be held accountable for. You may want to talk about how many semesters you will pay for, whether your student will live off campus or on, what extracurricular activities will be acceptable, what grade point average will need to be maintained and what consequences (if any) there will be if these expectations are not met.

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Question #2 — Do you intend for your child to contribute to college expenses? It may help motivate your child to study harder and graduate more quickly if they have a financial interest in doing so. If you expect your child to contribute, you'll need to define how. For example, you may want to establish a rule that a percentage of every cash gift or earnings your child receives be contributed to a college savings account. Or, set the expectation that your child needs to participate in a work-study program or obtain outside work during college years to help with expenses.

Question #3 — Are any loans needed? If so, how much and in whose name will the loan(s) be obtained? The amount borrowed may affect the type of college your child applies to (e.g., public or private, top tier or middle tier, etc.).

Key take away

Communicating these expectations up front can help you and your teen avoid unpleasant surprises and help you both better prepare for the college experience that lies ahead. It may also increase your student's awareness of the financial burden you are undertaking on their behalf and contribute to greater scholastic and economic effort on their part.

Estimate the cost of college education

Average out-of-state public school cost per year:	\$45,240*
Average private school cost per year:	\$57,570*

1. Cost at school of your choice per year: _____
 x 4
 = _____

2. Total estimated cost of college:

There are many types of aid available, such as financial assistance and scholarships. For the purpose of this worksheet though, assume no other contributions are available to you.

3. Estimated family contribution per year: _____

4. Estimated student contribution per year: _____

5. Estimated total funds available: _____

6. Estimated total cost of college from line 2 _____

7. Estimated total funds available from line 5 - _____

8. Estimated loan amount needed = _____

Find your approximate loan amount needed on the chart below to see what monthly payments on your loan would be after you graduate from college. These amounts factor in a 6.8% interest rate (an approximate education loan rate) and monthly payments over 10 years.

Loan amount	Monthly payment	Loan amount	Monthly payment
\$7,500	\$86.31	\$30,000	\$345.24
\$10,000	\$115.08	\$32,500	\$374.01
\$12,500	\$143.85	\$35,000	\$402.78
\$15,000	\$172.62	\$37,500	\$431.55
\$17,500	\$201.39	\$40,000	\$460.32
\$20,000	\$230.16	\$45,000	\$517.86
\$22,500	\$258.93	\$50,000	\$575.40
\$25,000	\$287.70	\$55,000	\$632.94
\$27,500	\$316.47	\$60,000	\$690.48

Find calculators for determining aid, loans and payments at www.finaid.org/calculators



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*Costs shown are for four-year institutions and include tuition and fees, room and board, plus allowances for other personal expenses like books for one academic year; enrollment-weighted for full-time undergraduates, not adjusted for inflation. Source: Trends in College Pricing and Student Aid 2022, © College Board.

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Help parents organize their finances



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If you have elderly parents, you may, at some point, need to step in and help them get their financial house in order—so you'll want to be prepared.

Many people will age without losing the ability to manage their financial affairs; however, you can't dismiss the possibility that some type of medical condition may limit your parents over time.

Of course, the extent of your involvement will depend upon on the physical and mental health of your parents. Since you can't predict what the future will bring, you should be ready for any possibility. Here is how you can begin to take action now:

Communicate with your parents

Talking to your parents about their financial situation, their needs and their wishes is important, and the sooner you open the lines of communication, the easier it will be when the time comes to transition responsibilities.

Review their finances

Once you have the information you need, document their income, assets, expenses and debts to have a full picture of their finances when the time comes to transition responsibilities.

Get help

If your parents use trusted advisors, you may be able to rely on them

for help, should you need to get involved in your parents' affairs. But you also may need to rely on other professionals, such as a geriatric care manager who can evaluate your parents' situation and suggest options.

Apply for tax benefits

If you provide some financial support for your parents, you may be able to receive some tax benefits, such as a dependent care credit and an exemption for your parents as dependents. If you have a dependent care account at work, you can put pretax dollars into it and use the money to pay for some costs associated with caring for your parents.

Review your own financial situation

If you're a member of the "sandwich generation," you may still be paying the expenses of growing children—including college costs—while possibly providing some financial support for your parents. At the same time, you need to be saving and investing for your own retirement. Consequently, you'll need to review your overall financial picture to see what moves you may need to make.

Leverage Family Inventory

As you help your parents organize their finances, you may find it useful to use the Family Inventory that we've developed. In this easy-to-use document, you'll find space to enter a variety of financial information pertaining to your parents, including the following:

- Financial assets (mutual funds, stocks, bonds, collectibles, etc.)
- Name of insurance companies
- Name of financial and tax professionals
- Bank location
- Checking and savings account numbers
- Mortgage information
- Car loans, other commercial loans and credit cards
- Safe deposit box location

The Family Inventory also contains a glossary of terms related to investing and estate planning services.

To discuss end-of-life planning issues or to obtain a copy of the Family Inventory, contact your financial advisor.

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Frequently asked questions

Distributions and rollovers from retirement accounts



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Choosing what to do with your retirement savings is an important decision. Tax implications are just one of several factors you should consider when making your decisions. Your RBC Wealth Management financial advisor is committed to helping you choose strategies and solutions to help you achieve your financial objectives.

How are my distributions from an IRA or qualified retirement plan taxed?

In general, distributions from a qualified retirement plan or IRA are taxable unless the liability can be deferred by means of a rollover to an IRA or to another retirement plan.

What is a rollover?

A rollover is a tax-free qualifying distribution of cash or other assets from one retirement plan that you contribute to another retirement plan. The contribution to the second retirement plan is called a “rollover.” This transaction is reported to the IRS.

What is a qualifying rollover distribution?

A qualifying rollover distribution is the combined taxable and after-tax portions of a distribution paid from a qualified plan. Qualified plans include pension plans, profit-sharing plans, 401(k) plans, Thrift Savings Plans, ESOPs and Keogh plans.

Some types of plans, such as 403(b) plans and 457(b) plans sponsored by state and local governments, are not qualified plans. Yet distributions

paid from these plans are qualifying rollover distributions and, therefore, may be eligible to roll over to an IRA.

What types of distributions may not be rolled over into an IRA or other retirement plan?

The following types of distributions are not qualifying rollover distributions:

- Required minimum distributions (taken annually beginning at age 73)
- Installments made over a specified period of 10 years or more
- Any distribution that is made due to a hardship, or in the case of a governmental 457(b) plan, any distribution on account of an unforeseeable emergency
- Death distributions paid directly to non-spouse beneficiaries or qualified domestic relations order payments to a non-spouse alternate payee
- The return of excess contributions, excess deferrals and excess aggregate contributions, together with the income allocable to these corrective distributions, under 401(k) plans

- The cost of life insurance coverage
- Deemed distributions upon the default of a participant loan
- Dividends paid on employer securities as described in Internal Revenue Code §404(k)

How do I complete a rollover?

There are two methods of moving a distribution from an employer-sponsored retirement plan to your IRA or other retirement savings plan:

Direct rollover

- A distribution is rolled over directly from the plan to an IRA or a new employer’s plan. Direct rollovers are often sent directly from one trustee/custodian to the successor custodian. Alternatively, a check may be issued to you, but made payable to the successor custodian. This would also qualify as a direct rollover, since you are unable to negotiate the check.

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60-day rollover

- You take personal receipt of the distribution and must complete the rollover within 60 calendar days to avoid current taxation. Under this option, if the funds are being distributed from an employer-sponsored qualified retirement plan, the employer is required to withhold 20% of the value of the total taxable distribution as federal income tax withholding.
- Please note, when you are doing a 60-day rollover between IRAs generally, if you make a rollover of any part of a distribution from a traditional IRA, you cannot, within a 12-month period, make a tax-free rollover of any later distribution from any IRA. The 12-month period begins on the date you receive the distribution, not on the date you roll it over into an IRA.

What are the advantages of a direct rollover?

A direct rollover avoids the mandatory tax withholding of 20% of the eligible rollover amount. You also eliminate the risk of missing the 60-day rollover deadline.

What if I do not elect a direct rollover?

If you do not elect a direct rollover, the employer must withhold 20% of the distribution and forward this amount to the IRS as a prepayment for any taxes owed for the year. The check you receive will be for 80% of the distribution. For example, if your account is valued at \$100,000, then \$20,000 would be withheld and you would receive \$80,000.

Can I still roll over the distribution?

You may roll over the full value of the distribution within 60 calendar days. But you must replace the 20% that was withheld with money from other sources to avoid income taxes and possible penalties. If the withheld amount is not reimbursed and you roll over only the portion of the distribution you received (80%), the amount that was not rolled over must

be included on your tax return as additional income subject to ordinary income tax. Plus, there may be a 10% penalty tax on this amount depending on your age.

Can I roll over a retirement plan distribution into an existing IRA?

You may roll over a distribution into an existing IRA or into a new IRA.

Can I roll over only part of a distribution?

You may roll over any part of a retirement plan distribution and keep the rest. The portion that is not rolled over may be subject to the 20% mandatory withholding, ordinary income tax and possible penalties in the year the distribution is paid.

When can I get a distribution from my employer-sponsored qualified retirement plan?

Termination

Generally you or your beneficiary will become entitled to receive benefit payments under a qualified plan when your employment is terminated by reason of retirement, disability, death or otherwise.

Normal retirement age

You are entitled to a distribution at normal retirement age which is specified in your employer's plan document. However, it must be the earlier of one of the following:

- The normal retirement age specified in the plan
- Whichever of the two following dates is later:
 - The date you turn age 65, or
 - The fifth anniversary of plan participation

Under some plans the early retirement age provision combines an age and a service requirement.

In-service

In-service distributions are made to participants while they are still employed. Such distributions are not permitted under pension plans (e.g., money purchase, target benefit,

and defined benefit plans). Many profit sharing plans do, however, allow for in-service distributions. There are three basic in-service distribution provisions.

They are:

- **24-month rule** — You may withdraw any contribution (but no interest earned thereon) which has been in the plan for a period of 24 months.
- **60-month rule** — After participating in the plan for 60 months, you may withdraw any or all vested contributions plus earnings.
- **Hardship distributions** — The plan document will define the requirements for a hardship distribution. Normally there must be an immediate financial need to qualify. Hardship distributions are not rollover eligible.

Are there additional taxes associated with distributions from IRAs and qualified retirement plans?

Taxable distributions from qualified retirement plans, 403(b)s and traditional IRAs made prior to age 59½ are subject to an additional 10% penalty tax. This penalty is only imposed on taxable distributions. However, a number of exceptions do exist. Some apply to all plans and some are unique to IRAs or qualified plans. See table later in this document.

What happens to after-tax contributions?

Voluntary employee after-tax (non-Roth) contributions made to a 401(k) or 403(b) may be rolled to IRA styled accounts to retain their tax advantaged status. Qualified rollovers of after-tax balances are traditionally handled in the following manner: original after-tax contribution amounts are rolled to the clients Roth IRA. All earnings from the after-tax contributions would be rolled to the clients traditional IRA. Keep in mind, earnings from after-tax contributions are taxable upon distribution, unlike earnings from Roth elective deferral contributions

where the earnings are distributed tax free if considered a qualified Roth distribution.

Can my Roth 401(k) or 403(b) assets be rolled over?

Roth 401(k) and 403(b) assets can be rolled into a Roth IRA or another 401(k) or 403(b) that allows Roth deferrals.

Can I roll my distribution from my company's retirement plan into a Roth IRA?

Assets in an employer-sponsored retirement plan may be directly converted to a Roth IRA. You will be required to pay income tax on the amount you convert. However, the amount converted is exempt from the 10% penalty. All of the taxes must be paid in the year of the conversion.

To directly convert assets from an employer-sponsored retirement plan to a Roth IRA you must have a triggering event, such as termination of employment.

What if I have a loan on my qualified retirement plan account? Can I roll the loan into an IRA?

Loans are not allowed in an IRA. You must repay all loans from your qualified plan or the loan will be considered a distribution and will be subject to taxes and possible penalties. Generally, your loan may be repaid to the plan prior to your rollover, or you may deposit all or part of the outstanding loan balance to your IRA within 60 days, assuming your loan is in good standing at the time of distribution.

What if my qualified retirement plan distribution includes employer stock?

If your lump sum distribution includes employer stock, your shares of employer stock may be included as part of a direct rollover. However, if your distribution contains highly appreciated employer stock, you may want to take the stock as a distribution rather than roll it into your IRA.

Type of distribution	10% penalty waiver	
	Qualified plan	IRA
Qualified transfer or rollover to another retirement plan	Yes	Yes
Distribution due to disability (as defined under §72(m)(7))	Yes	Yes
Qualified reservist distributions	Yes	Yes
Distributions paid to a beneficiary on account of death	Yes	Yes
Unreimbursed medical expenses that are greater than 7.5% of your adjusted gross income	Yes	Yes
Involuntary distributions due to IRS levy	Yes	Yes
Substantially equal periodic payments made over your life expectancy (or the joint lives of you and a beneficiary) and continuing the longer of five years or age 59½ (with a qualified plan, you must also separate from service)	Yes	Yes
Distributions made after a separation from service during or after the year you reach age 55 (age 50 for qualified public safety employees)	Yes	No
Divorce distributions made to a spouse (or former spouse) pursuant to a qualified domestic relations order (QDRO)	Yes	No
Distributions of dividends from an employer's employee stock option plan (ESOP)	Yes	No
Health insurance premiums during period of qualified unemployment	No	Yes
Qualified post-secondary education expenses for you, your spouse, child or grandchild	No	Yes
First-time homebuyer expenses for the purchase of a primary residence, to \$10,000 lifetime limit	No	Yes
Qualified birth or adoption distributions (QBOAD)	Yes	Yes
Survivors of domestic abuse (limited to \$10,000, effective 2024)	Yes	Yes
Emergency withdrawal exception (limited to \$1,000)	Yes	Yes
Principal place of residence in qualified disaster area (up to \$22,000)	Yes	Yes
Qualified long-term care premium payments (limited to \$2,500 annually)	Yes	Yes
Terminally ill	Yes	Yes

This may be important to you because there is a special tax treatment available for in-kind distributions of employer stock as part of a lump-sum distribution from your employer's qualified retirement plan. This special tax treatment is referred to as net unrealized appreciation (NUA).

What is net unrealized appreciation?

If you take your employer stock as a distribution in-kind, meaning you receive the stock and do not roll it into your IRA, you pay ordinary income taxes on your cost basis (the price originally paid for the shares) in the shares when you take the distribution. When you sell the shares, regardless of how long you have held them, you pay long-term capital gains taxes on the NUA. NUA is the difference in value between cost basis for the employer stock and the value of that stock when it is being distributed to you as part of a lump-sum distribution.

How could this be an advantage?

Although you pay income taxes now on the stock's cost basis, you defer taxation on the NUA until you sell the shares. At that time, you pay long-term capital gains taxes, which are currently lower than ordinary income taxes. Here is an example of how this might work:

Lynn left ABC Company and received a lump-sum distribution consisting of \$600,000 of ABC Company stock and \$200,000 in cash. The plan's cost basis in the shares distributed was \$100,000.

Lynn takes the stock as an in-kind distribution and deposits it into her brokerage account. She rolls the \$200,000 in cash into her IRA. In the year of the distribution she must pay income taxes and any applicable early distribution penalty on \$100,000 of ordinary income (her cost basis on the stock).

Five years later, Lynn decides to sell all of the stock for \$1,000,000. At that time she will pay long-term capital gains tax on the following:

- The NUA of \$500,000 (\$600,000 market value less \$100,000 cost basis)
- The increase in value since the date of the distribution (long-term capital gain of \$400,000)

What qualifies as a lump sum distribution for NUA purposes?

The entire balance from all qualified and non-qualified deferred compensation plans you have with the employer must be distributed to you within one tax year, and the reason for the distribution must be separation from service, attainment of age 59½, or due to your disability or death.

Are there additional benefits of taking a lump sum distribution of employer stock?

There may be several other practical reasons to take a lump sum distribution of employer stock.

If you die before selling the stock, your heirs under current law will get a "step-up" in basis that eliminates the capital gains on any appreciation between the day of the original distribution from your qualified plan and the day of your death (\$400,000 in the preceding example). They will still have to pay long-term capital gains tax on the original NUA amount (\$500,000).

Since the employer stock will not be rolled into your IRA, the value will not be subject to RMDs when you turn 73. You can control when to pay income taxes on the NUA portion.

If you have charitable interests, you can avoid income taxes on the NUA by gifting shares directly to a charity or to a charitable remainder trust. This may also provide you with a tax deduction and lower the value of your estate.

Is there a mandatory 20% income tax withheld from my qualified plan distribution of employer stock?

Employer stock distributed from your qualified retirement plan is not subject to the mandatory 20% income tax withholding. This exception does not apply to other assets distributed from the plan.

Does the 10% early distribution penalty apply in the distribution of employer stock?

Unless you are over age 59½, or are age 55 or older and separating from service with the company, generally a 10% penalty tax will be applied to the taxable amount of the distribution.

What are substantially equal periodic payments under IRC Section 72(t)?

Substantially equal periodic payments allow you to receive distributions as a series of payments based on your life expectancy (or you and your beneficiary's combined life expectancy). This avoids the 10% penalty on premature distributions.

To qualify, these distributions must be made at least annually and continue for the longer of five years or until you reach age 59½. Plus, the amounts distributed must be calculated according to one of three IRS-approved methods:

Life expectancy

At the end of the previous year, your IRA balance is annually divided by a life expectancy factor, using either your single life expectancy, your joint life expectancy with your beneficiary or the Uniform Lifetime table. Generally, this is the same method used to calculate your required minimum distribution and will generally result in the smallest distribution possible.

Amortization

Your IRA balance is divided over your life expectancy, with the balance projected to grow at a rate that is

not greater than 5% or 120% of the federal mid-term rate for either of the two months immediately preceding the month in which distributions begin. The amortization method will produce a larger payment than the life expectancy method.

Annuitization

Your IRA balance is divided by an annuity factor that represents the present value of an annuity of \$1 per year beginning in the year of the first distribution and continuing for your expected lifetime.

Since the three methods of calculating substantially equal periodic payments generally produce different results, there is some flexibility in selecting a payment amount. Once payments begin, though, the procedure is rigid and you must comply with the exact payment schedule. If the amount of the periodic payments is modified (other than by reason of death or disability) before the later of the end of the five-year period or before you reach age 59½, the 10% penalty tax is imposed on all payments previously received.

However, if you begin distributions using either the amortization method or the annuitization method, you may make a one-time switch to the life expectancy method, which reduces the required amount to be distributed. Once the switch is made to the life expectancy method, it must be used in all subsequent years. Any other change would be considered a modification and may result in penalties.

SECURE 2.0 Act changes the rules in 2024

On December 29, 2022, as part of the Consolidated Appropriations Act of 2022 (P.L. 117-328), President Biden signed the SECURE 2.0 Act of 2022 into law. Section 323 of the SECURE 2.0 Act (effective in 2024) creates an exception to the current IRS rules that prevent an individual from making partial rollovers or transfers of accounts from which 72(t) distributions are made.

Prior to this rule change, partial rollovers or transfers were considered a “modification,” which triggers retroactive 10% penalties on all pre-59½ distributions taken pursuant to the 72(t) substantially equal periodic payment plan.

Clients will be allowed to make such transfers and rollovers (effective 2024) provided that the total distributions from the two accounts after the partial transfer are equal to the amount that would have otherwise been required to have been distributed.

What are required minimum distributions (RMDs)?

You cannot keep funds in a retirement plan indefinitely; eventually they must be distributed and taxed as ordinary income. You must receive at least a minimum amount for each year after your required beginning date.

When must I start taking RMDs?

Your required beginning date (RBD) is a key date in determining when your first RMD distribution is required and in determining beneficiary distribution options upon your death. The definition of required beginning date varies depending upon the type of plan.

IRAs (other than Roth IRAs)

Your RBD is April 1 of the calendar year following the calendar year in which you reach age 73.

Qualified plans

Non-5% owners — Your RBD is the April 1 of the calendar year following the calendar year in which you reach age 73 or the calendar year in which you retire from employment with the employer maintaining the plan.

5% owners — Your RBD is April 1 of the calendar year following the calendar year in which you reach age 73. A 5% owner is an individual who owns more than 5% of the business sponsoring the plan, with respect to the plan year ending in the calendar year in which they reached age 73.

How are RMDs calculated?

Your RMD is calculated each year by dividing your IRA’s value on December 31 preceding the year of distribution by your applicable life expectancy factor found in IRS Publication 590.

To determine your factor, you will use the Uniform Lifetime table—except if your spouse is the sole, primary beneficiary of your IRA and your spouse is more than 10 years younger than you. In this case, the more favorable joint life expectancy table may be used.

In the year that you turn age 73, you have the option to delay your first RMD until no later than April 1 of the following year. However, if you postpone your first RMD, you will need to receive two RMDs the second year: one for your first RMD by April 1, as well as your current year RMD by December 31.

Example:

An IRA owner’s date of birth is July 6, 1950. In 2023 the IRA owner will reach age 73 and must begin to take an RMD. The IRA owner may elect to defer this first required distribution until no later than April 1, 2024. The value of the IRA on December 31, 2022 is \$150,000.

If the IRA owner takes the initial required distribution before December 31, 2023, the RMD is:

$$\frac{\$150,000}{26.5 \text{ years}^*} = \$5,660.37$$

*Life expectancy factor from Uniform Lifetime Table (IRS Table III)

If the IRA owner defers the initial required distribution until no later than April 1, 2024, the RMD for 2023 is still \$5,660.37.

A second RMD for 2024 must be taken before December 31, 2024. By December 31, 2023, the IRA value has grown to \$165,000. The RMD for 2024:

$$\frac{\$165,000}{25.5 \text{ years}} = \$6,470.58$$

What happens if I don't take my RMD?

Section 302 of the SECURE 2.0 Act modified the rules related to penalties for missed RMDs. Previously, any missed RMD was subject to a 50% excise penalty. Section 302 modifies these rules by reducing the penalty for missed RMDs to 25% and further reduces to 10% if the missed RMD is corrected between January 1 of the year following the year of the missed RMD and upon the earliest of the following dates:

- when the Notice of Deficiency is mailed to the client,
- when the tax is assessed by the IRS, or
- the last day of the second tax year after the tax is imposed.

Section 313 of the SECURE 2.0 Act amends the rules that provided for an unlimited look back for IRS penalties on missed RMDs. Section 313 creates a statute of limitations for missed RMDs that does not exceed three years from the date of the 1040 filed that should have included the RMD amount missed. For those who do not file 1040s that statute of limitations begins upon their tax filing deadline.

Are Roth IRAs subject to RMDs?

There is no required beginning date for Roth IRAs because a Roth IRA owner isn't required to take RMDs during his or her lifetime. A Roth IRA is not subject to a required distribution period until a non-spouse beneficiary inherits the assets. When a non-spouse beneficiary inherits Roth IRA assets, they are subject to the SECURE Act's 10-year rule, where annual distributions are not required. The SECURE Act's 10-year rule stipulates that the inherited or decedent beneficiary IRA account must be fully withdrawn within 10 years and by no later than December 31 of the tenth year following the year in which the original IRA owner died.

In the event the named Roth IRA beneficiary qualifies as an EDB, they will not be subject to the SECURE Act's 10-year rule, but would be subject to pre-SECURE Act beneficiary

distribution rules where annual RMDs would be required based on the beneficiary's single declining life expectancy (IRS Table I).

What happens after death of the IRA account owner?

IRA and qualified retirement plan benefits bypass probate and may be paid directly to your beneficiaries. Upon inheriting an IRA, a beneficiary may be subject to RMDs. The distribution options available to non-spouse beneficiaries depend on the death date of the IRA owner.

- If the owner passed away prior to January 1, 2020 (pre-SECURE ACT), the beneficiary may have the option to stretch the IRA. This allows the beneficiary to transfer the remaining assets to their own decedent beneficiary IRA and to take required minimum distributions based on their remaining single-declining life expectancy.
- If the owner passed away on or after January 1, 2020 (post-SECURE ACT) and a non-spouse designated beneficiary was named, the beneficiary would generally be subject to the SECURE Act's 10-year rule, which in most cases will additionally require annual RMDs during that same 10-year period, provided the original IRA owner died post-RBD. See the beneficiary distribution chart on page 7 for additional information.

Spouse beneficiary

A spouse inheriting IRA assets may:

- Transfer the IRA into their own IRA
- Leave the assets in a "decedent" IRA and delay RMDs until the deceased IRA owner would have been age 73. At that time, the RMDs would be based on the spouse's single life expectancy.

SECURE 2.0 Act impacts to spouse beneficiaries

Section 327 (effective in 2024) provides for additional RMD calculation methods for surviving spouses previously only available

upon timely transfers between an inherited IRA and a Traditional IRA. In the event where a decedent is younger than the surviving spouse beneficiary, it may be beneficial for the surviving spouse to assume assets into an inherited IRA where there is no RMD requirement until the year the decedent would have reached age 73. This strategy, known as "spousal delay", can help delay RMDs for surviving spouses where if they would have assumed the assets as their own in a Traditional IRA, they would begin RMDs on those inherited assets in the year following death.

For clients who are employing this "spousal delay" strategy it is important that before January 1st of the year in which the decedent would have reached 73, that you transfer the inherited IRA proceeds to a Traditional IRA in the sole name of the surviving spouse. The reason why you transfer the inherited assets in a timely manner is to ensure that when RMDs are required, they are based on the Uniform Lifetime Table (Table III). If you do not timely transfer the inherited IRA to a Traditional IRA, the first year RMD will be based on the more accelerated Single Life Table (Table I). Section 327 (effective 2024) removes the onerous timing component of transferring assets and allows for the surviving spouse's inherited IRA RMD to be based on the Uniform Lifetime Table (Table III) and not the accelerated Single Life Table (Table I).

Section 327 of the Act continues this same treatment (if the surviving spouse assumes as an inherited IRA, it is treated as assuming in a Traditional IRA) so that in the event of death of a surviving spouse who assumed assets into an inherited IRA that the beneficiaries are treated as original beneficiaries, not successor or subsequent beneficiaries therefore affording them SECURE Act distribution rules.

Beneficiary distribution options ¹		
	Beneficiary	Distribution options
Death before required beginning date	Spouse ¹	<ol style="list-style-type: none"> Transfer or rollover to own IRA <ul style="list-style-type: none"> Lump sum distribution RMDs over their life expectancy beginning at 73 Distribute assets over their life expectancy in inherited IRA structure <ul style="list-style-type: none"> Distributions are required to begin by December 31 of the year following the year the deceased account owner would reach age 73. Distributions are based on the life expectancy of the surviving spouse utilizing the Uniform Life Table (IRA Table III) No 10% penalty for distributions from inherited IRA structure
	Non-spouse—designated beneficiary	All assets must be distributed by December 31 of the tenth year following the year of the original account owner's death unless the non-spouse beneficiary is an eligible designated beneficiary. If so, then the eligible designated beneficiary may distribute RMDs over the longer of their own life expectancy and the original account owner's life expectancy or alternatively can opt-in to the 10-year rule.
	Non-spouse—no designated beneficiary	The full balance of the account must be distributed by December 31 of the fifth year following the year of the original account owner's death.
Death after required beginning date ²	Spouse ¹	<ol style="list-style-type: none"> Transfer or rollover to own IRA <ul style="list-style-type: none"> Lump sum distribution RMDs over their life expectancy beginning at 73 Distribute assets over their life expectancy in inherited IRA structure <ul style="list-style-type: none"> Distributions are based on the surviving spouse's life expectancy utilizing the Uniform Lifetime table (IRS Table III) or the greater of: the life expectancy calculation based on the IRS Single Life Table (Table 1) of the surviving spouse or the life expectancy calculation based on the IRS Single Life Table (Table 1) of the deceased IRA owner No 10% penalty for distributions from inherited IRA structure
	Non-spouse—designated beneficiary	All assets must be distributed by December 31 of the tenth year following the year of the original account owner's death while additionally satisfying annual RMDs generally based on the beneficiary's life expectancy calculation based on the IRS Single Life Table (Table 1). If the non-spouse designated beneficiary is an eligible designated beneficiary, the eligible designated beneficiary is subject to annual RMDs based on the longer of their own life expectancy or the original account owner's life expectancy.
	Non-spouse—no designated beneficiary (Charity, estate, or non-look-through trust)	All assets must be distributed based on the remaining life expectancy calculation based on the IRS Single Life Table (Table 1) of the deceased IRA owner commencing in their year of death.



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1. See Section 327 of SECURE 2.0 Act in body of fact sheet.

2. If an account owner dies after their RBD but prior to satisfying their current year RMD, their beneficiaries must satisfy the current year RMD.

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Why participate in your 401(k) plan?



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Why contribute

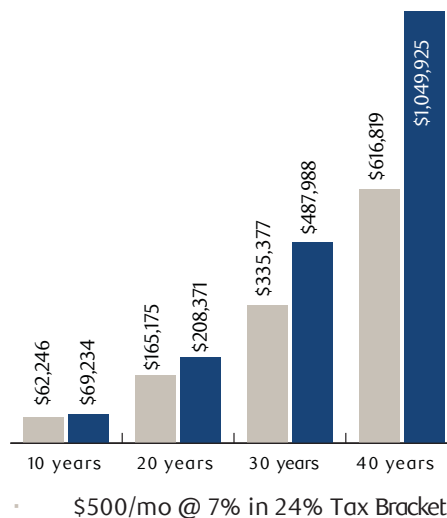
When saving for retirement, every dollar counts. The journey from work to retirement isn't made in one giant leap. It takes a lifetime of savings to steadily build your nest egg.

By contributing to your company retirement plan, small contributions today can add up to a significant amount tomorrow. This is due to the advantage of tax-deferred growth. For example, a contribution of \$100 per month to a 401(k) plan can grow to \$52,093 in 20 years, assuming a 7% rate of return. So, a total contribution of \$24,000 turns into \$52,093.

How a 401(k) plan works

A 401(k) plan allows participants to make pre-tax contributions through payroll deductions to save for retirement. Most plans will allow participants to contribute up to 100% of their pay not to exceed the IRS limit of \$23,000 for 2024. If the plan provides for catch-up contributions, participants age 50 and over may be able to make an additional \$7,500 catch-up contribution for 2024. Additionally, many companies make matching employer contributions

The advantage of tax-deferred growth



This is a hypothetical illustration comparing the growth of \$500/month invested in a taxable account and a tax deferred account and what those accounts would be worth at various points in time.

This is for illustrative purposes only and does not represent the performance of any particular investment vehicle. Your return will vary.

• \$500/mo @ 7% in 24% Tax Bracket • \$500/mo @ 7% in Tax Deferred

or profit sharing contributions to employee accounts. In most plans, participants have the opportunity to direct their contributions into a variety of investment choices. In addition to reducing taxable income and allowing tax-deferred growth, a 401(k) plan may offer other benefits such as provisions that allow for hardship withdrawal or loan options. Please refer to your summary plan description to see what is available in your plan.

How RBC Wealth Management can help

At RBC Wealth Management, our first priority is to help you achieve your financial and retirement goals. We put your needs first, using a wealth management approach to effectively help you meet those goals. We integrate your objectives into thoughtful, effective strategies and solutions.

Your RBC Wealth Management financial advisor will work with you to implement your retirement strategy.

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Year-end planning



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This is an ideal time to consider year-end strategies that may benefit you and to plan for the year ahead. Please discuss any ideas and questions with your financial advisor.

Traditional year-end planning focuses on deferring income into a future year and accelerating deductions into the current year to postpone tax payments. However, if you anticipate your marginal income tax rates increasing next year—whether due to increased income or changes to tax legislation—you may want to look for ways to accelerate income and defer deductions.

Income tax strategies

If you anticipate being in a **lower** taxable income bracket in 2024 and later:

- If possible, defer income and the sale of capital gain property to postpone taxable income to the following year.
- Bunch your itemized medical expenses in the current year to meet the threshold percentage of your adjusted gross income to claim such deductions.
- Make your January mortgage payment (i.e., the payment due no later than January 15) in December so you can deduct the interest on your 2023 tax return.
- If you can accept the risk of receiving payments over time, use installment sale agreements to spread out any potential capital gains among future taxable periods.

If you anticipate being in a **higher** taxable income bracket in 2024 and later:

- If possible, accelerate income and the sale of capital gain property to receive taxable income in the current tax year.
- Make your January mortgage payment after January 1 so you can deduct the interest on your 2024 tax return.

Additional income tax considerations:

- Consider using an RBC Credit Access Line offered by Royal Bank of Canada to cover any short-term income distribution gaps.
- Increase your W-2 federal withholding amount in preparation for a significant tax bill or to avoid the under-withholding tax penalty.
- If you have concerns that you may be subject to the alternative minimum tax (AMT), speak with your CPA or other tax advisor before deferring or accelerating income and/or deductions, as your AMT status could limit your ability to benefit from these actions.
- Be aware of the increased availability of residential clean energy tax credits.
- Be sure to alert your CPA or tax preparer if you have income or gains from cryptocurrency in 2023.

Tax-related investment strategies:

- Harvest your losses by selling taxable investments that may have unrealized losses to offset those losses against other gains.
- Harvest your gains by selling taxable investments if you have capital loss carryovers or year-to-date losses for the current year. Short-term losses are most effective at offsetting capital gains. Note: Wait at least 31 days before buying back a holding sold for a loss to avoid the IRS wash sale rule.
- Evaluate if you should delay purchasing mutual fund shares until 2024 to avoid capital gains distributions on brand new investments.

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Retirement planning—seize opportunities and avoid missteps

- Maximize your IRA contributions. You may be able to deduct annual contributions of up to \$6,500 to your traditional IRA and \$6,500 to your spouse's IRA for the 2023 tax year. If you are 50 or older, take advantage of catching up on IRA contributions. You may be able to contribute and deduct an additional \$1,000. This catch-up contribution will be indexed for inflation beginning in 2024.
- Consider increasing or maximizing your 401(k) and other retirement account contributions. These contribution limits have increased for the 2023 tax year as well—\$22,500 for the standard contribution limit and an increased catch-up contribution limit of \$7,500.
- Confirm with your tax advisor that you have withdrawn the appropriate amount from your retirement accounts as required minimum distributions before year-end. Note that the required beginning date for retirement account distributions increased to age 73 as of January 1, 2023. Therefore, if you reached age 72 after December 31, 2022, you most likely are not required to take retirement account distributions this year.
- Consider contributions to a Roth 401(k) plan (if your employer offers such a plan, and you are in a lower income tax bracket now than you expect to be in the future).
- Avoid mandatory tax withholding by making a direct rollover distribution to an eligible retirement plan, including an IRA.
- Avoid taking IRA distributions prior to age 59½ or a 10% early withdrawal penalty may apply.
- Consider setting up a Roth IRA for each of your children who have earned income.
- Consider converting from a traditional IRA to a Roth IRA if you are in a low marginal income tax bracket. Partial Roth IRA conversions are permissible.
- Explore taking employer stock from tax-deferred accounts (i.e., a net unrealized appreciation strategy) to take advantage of capital gains tax rules.
- Determine the optimal time to begin taking Social Security benefits, which you can apply for between ages 62 and 70.
- If you have business losses that flow through to your individual tax return, consider a Roth conversion or harvest capital gains to create income that is offset by the business loss.
- Make a Roth IRA contribution if under the applicable earnings limitation.

- Beginning in 2024, it will become possible for a beneficiary to convert a portion of unused 529 plan assets to a Roth IRA under certain circumstances. Check with your tax advisor to determine the extent to which you may take advantage of this strategy.

Gifting strategies

Give to loved ones

- Consider making gifts of up to \$17,000 per person as allowed under the federal annual gift tax exclusion. Use assets likely to appreciate significantly for optimum income tax savings. This annual exclusion figure may increase in 2024.
- Make sure that your estate plan is up to date, and that you have a will, revocable trust, health care directive and power of attorney in place.

Give to those in need—charity

- Make a charitable donation before the end of the year. Remember to keep all your receipts from the recipient charity. If the charitable contribution is made very close to year end, consider using a credit card so that you have a clear record of the date of the contribution.
- Use appreciated stock rather than cash when contributing to charities. This may help you avoid income tax on the built-in gain in the stock, while maximizing your charitable deduction.
- If you are over 70½ and would like to donate to charity from your IRA, you can donate up to \$100,000 each year directly to qualified charities using a qualified charitable distribution. You avoid taxes through a direct transfer of funds from your IRA custodian to qualified charities. It is a particularly effective way to direct your required minimum distribution.
- Set up a donor-advised fund for an immediate income tax deduction and provide immediate and future benefits to charity over time.
- Consider bunching several years of charitable contributions into one year with a gift to a donor-advised fund to make your contributions more tax-efficient.

Itemize personal residence and mortgage interest

- Up to \$250,000 (\$500,000 for married couples filing jointly) of the gain from the sale of your principal residence can be excluded from federal income tax if certain requirements are met.
- Interest on up to \$750,000 of mortgage indebtedness incurred after December 14, 2017, is allowed as an itemized deduction if used to purchase or improve a home.

- For mortgages incurred December 14, 2017, or earlier, interest will be deductible on up to \$1,000,000 of debt (the old cap), even if refinanced after December 14, 2017.

Set yourself up for success in the upcoming year Wrap up 2023

- Send capital gains and investment income information to your accountant for a more accurate year-end projection.
- Check your health savings account contributions for 2023. If you qualify, you can contribute up to \$3,850 (individually) or \$7,750 (family), and an additional \$1,000 catch-up if you are age 55 or older. Confirm you've spent the entire balance in your flexible spending accounts for the year.
- Revisit contribution amounts to your 529 plan accounts.
- Open an RBC Credit Access Line to be ready for unexpected opportunities or events.
- Review your Medicare Part D and supplemental coverage plan to potentially make a change during open enrollment, which begins in October.
- Check with your financial advisor and tax advisor about the possible year-end impact of SECURE 2.0 Act and related regulations. These regulations may impact how and when you must take distributions from inherited IRAs.

Planning for 2024

- Discuss major life events with your financial advisor to confirm you have clarity in your current situation and direction for tomorrow. This includes family, job or employment changes and significant elective expenses (real estate purchases, college tuition payments, etc.).
- Plan your health savings account contributions for 2024. If you qualify, you can contribute up to \$4,150 (individually) or \$8,300 (family), and an additional \$1,000 catch-up if you are age 55 or older.
- Check that your account preferences, risk tolerance and investment objectives are up to date with your financial advisor.
- Double check your beneficiary designations (employer-sponsored retirement plans, 401(k)s, IRAs, Roth IRAs, annuities, life insurance policies, deferred compensation plans, etc.), transfer on death (TOD) designations and payable on death (POD) designations. They should be updated as necessary and align with your estate plan.
- Review whether you have designated a trusted contact person on each of your accounts to help protect your assets against fraud and financial exploitation.



Wealth
Management

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in consultation with your independent tax or legal advisor. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice.

After December 31, 2021, the panel banks that submit rates required to calculate the LIBOR will no longer be required to do so. The transition away from LIBOR will require changes to the way that interest is calculated on loans that use the LIBOR as a benchmark. Borrowers with affected loans will be notified of such changes in advance of them taking effect. RBC Credit Access Line is a securities-based, demand line of credit offered by Royal Bank of Canada, an Equal Opportunity Lender and a bank affiliate of RBC Capital Markets, LLC. Subject to Credit Approval. Securities-based loans involve special risks and are not suitable for everyone. You should review the provisions of the RBC Credit Access Line agreement and related disclosures, and consult with your own independent tax and legal advisors about any questions you have prior to using RBC Credit Access Line. Considerations should be given to loan requirements, portfolio composition and diversification, time horizon, risk tolerance, portfolio performance expectations, and individual tax situations. There are important risks associated with securities-based loans that you should consider: - You will be required to deposit additional cash or securities, or pay down the line of credit, should the value of your securities decline below the percentage equity you must maintain or the percentage equity you must maintain increase. During a market downturn in which the securities in your portfolio decline in value, the percentage equity you must maintain will cause your losses to be greater than if there were no loan against your portfolio. Your losses can exceed your original collateral amount. - You are not entitled to an extension of time to satisfy equity percentage requirements. - Should you be unable to maintain the required percentage equity, some or all of your securities may be sold without prior notice to you. In the event of such a sale, you will not be entitled to choose which securities are sold, your long-term investment strategy may be interrupted and you will be responsible for all resulting fees and tax consequences. - Royal Bank of Canada may increase equity percentage requirements at any time without prior notice to you and may require you to pay down your line of credit, in part or in full, at any time and for any or no reason. - The rates, terms and conditions of your RBC Credit Access Line are subject to change in accordance with the terms of the RBC Credit Access Line agreement. - Should the rate of your RBC Credit Access Line be set to float against an index, you will be subject to greater interest costs in a rising interest rate environment. **RBC Credit Access Line is a non-purpose facility. The proceeds of an RBC Credit Access Line may not be used to purchase, trade, or carry margin stock or repay a margin debt that was used to purchase, trade, or carry margin stock. Royal Bank of Canada may demand repayment of all proceeds of RBC Credit Access Line advances that it has reasonable basis to believe were used to purchase or carry margin stock. RBC Wealth Management, a division of RBC Capital Markets, LLC, is a registered Broker-Dealer, Member FINRA/NYSE/SIPC, and is not a bank. Where appropriate, RBC Capital Markets, LLC has entered into arrangements with the Royal Bank of Canada to help facilitate and service your RBC Credit Access Line. RBC Capital Markets, LLC and its affiliates and their employees do not provide tax or legal advice.**

