



## A "How To" on Finance: Empty Nesters



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# Estate planning basics

How property passes and cornerstone documents



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The only constant in tax law is change. That’s why many of us get overwhelmed with the rules. Therefore, it is important to craft a flexible estate plan. This outline covers basic principles that should be part of most estate plans.

## How property passes

First, you need to understand how property passes at death. With this understanding you can properly arrange your assets to pass as effectively and efficiently as possible.

In Diagram A below, the type of assets in Box 1 pass to heirs based upon their beneficiary designation. The assets included in this category include retirement accounts such as 401(k), 403(b), IRA, SEP, KEOGH, etc. In addition, accounts that have a TOD (transfer on death) provision attached to the account have in essence named a beneficiary. Other assets that have named beneficiaries include life insurance contracts and annuity contracts. Therefore, it is

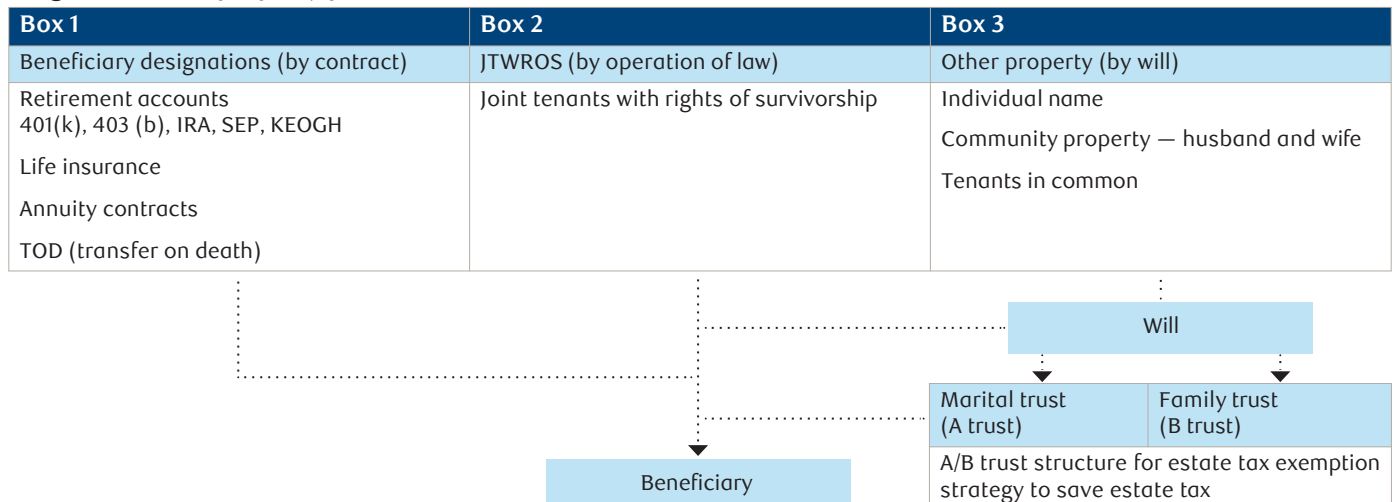
very important to carefully consider how your beneficiary designation is listed. This designation will dictate how the assets are to be transferred to your heirs. Only if you have named “my estate” as the beneficiary do the terms of your will dictate how these accounts are to be transferred.

If you have assets that are titled joint tenants with rights of survivorship (JTWROS) then you have in effect also given this asset a beneficiary designation. As Box 2 of the diagram illustrates, the assets will transfer to the surviving joint tenant(s) listed on the title of the account/asset.

Assets in Box 3 include assets titled in your individual name, as community

property between a husband and wife, or tenants in common. In order to determine how and to whom these assets are to be distributed, we have to look at the decedent’s will. Often, this may be the first time that your executor has picked up your will to look at your instructions. Box 1 and 2 trump your will and, therefore, the assets will flow to the designated beneficiary or the surviving joint tenant not according to your will. However, box 3 is likely the most important box in your estate plan. It is through your will that the tax savings family trusts are created. (Family trusts are also known as exemption equivalent trusts, credit shelter trusts and bypass trusts.)

Diagram A – How property passes at death



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## Family trust

It is often desirable for the decedent to have their property held in an irrevocable trust for the benefit of their surviving spouse and children. The family trust would hold the decedent's assets up to the exemption amount in the year of death. This technique allows the decedent to have these assets passed to heirs free of estate tax. In states that have enacted a state estate tax, the exemption trust often has two pieces: the federal exemption amount and the state exemption amount. Additional benefits of the family trust include creditor/predator protection of the assets for the beneficiaries as well as control by the decedent of the ultimate disposition of the assets to heirs.

## Marital trust

Any property of the decedent in excess of the exemption amount is often left to the surviving spouse outright or via a marital trust. While this trust does not avoid the estate tax at the death of the surviving spouse, it does have the benefits of creditor/predator protection and control of the ultimate disposition of assets to heirs by the decedent. The exemption equivalent and marital trust outline in your will is commonly referred to as an marital/family trust technique.

## Cornerstone documents

Now that we understand how property transfers at death, let's review the four cornerstone documents that everyone should have in their estate plan. Please review Diagram B.

### Will

A will outlines your wishes of how and to whom property is to pass at your death. This may include the establishing of the marital/family trust strategy outlined above. It may include trusts for the benefit of children or grandchildren. It may also include specific bequests to individuals and charities. Basically you can include in your will your desire of how your assets are to pass.

### Durable power of attorney

A durable power of attorney allows you to appoint an agent to act on your behalf if you are unable to act for yourself with regard to financial matters. It is recommended that you name an agent and at least two successor agents to serve in the event the first agent you have named is also unable or unwilling to serve.

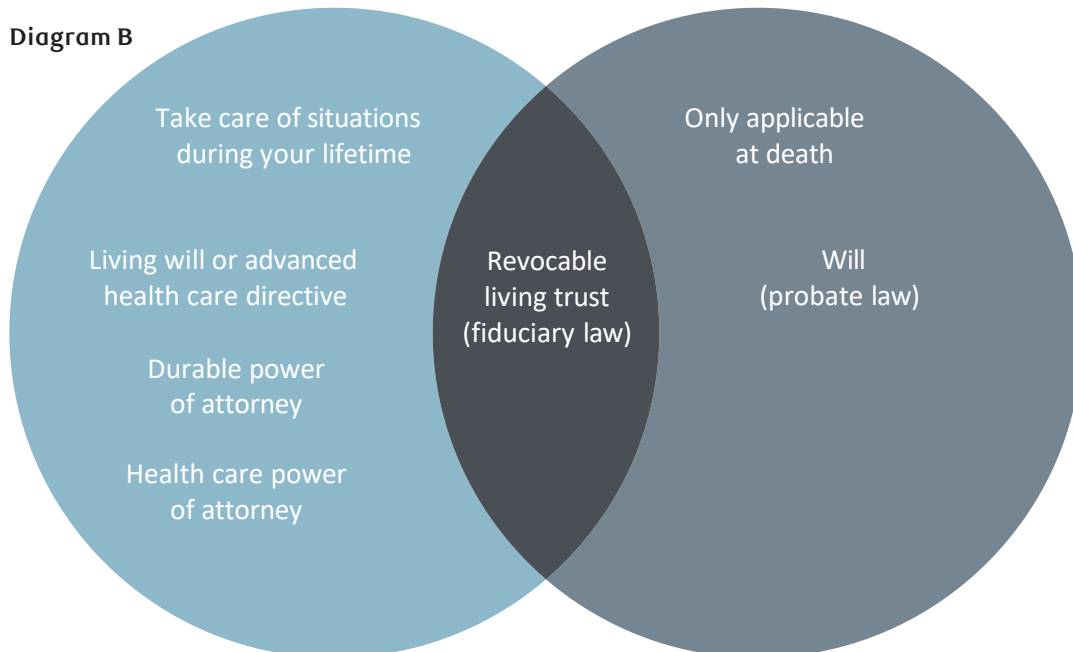
## Health care power of attorney

Health care power of attorney allows you to appoint an agent to act on your behalf for medical decisions if you are unable to make those decisions for yourself due to incapacity. This document is vital in the planning documents. It is recommended that the medical power of attorney include a HIPAA release. This release will allow the doctors, hospitals and other care providers to release your medical information to your agent so they can make an informed decision on your behalf. Without a signed HIPAA release, the doctors, hospitals and other care providers will be unable to release this data by law.

### Living will

A living will (or advanced health care directive) outlines your wishes to be followed by your family and medical care providers in the event you have a terminal illness or are in a vegetative state. This important document allows you to outline your desires for food, hydration, pain medication and the concept of dying with dignity.

Diagram B



## Revocable living trust

Some individuals choose to have their estate plan outlined in a revocable living trust. In essence, a revocable living trust combines the two financial documents of your plan: your will and your durable power of attorney. Rather than having your finances controlled by an agent, your finances are controlled by a trustee. Both techniques will carry out your estate plan.

Using a will and durable power of attorney means that your estate will be overseen by a probate court. The main reason for this stems from the fact that “agents” don’t have a specific set of laws to follow. Therefore, if a beneficiary is somehow harmed by the actions of an agent, their remedy is via the court systems/probate court. In contrast, a revocable living trust has a trustee appointed which is bound by fiduciary duty or sometimes referred to as the prudent person rule. Since these rules exist there is no requirement for a probate.

It is, however, important to note that durable power of attorney ends at death.

## Conclusion

The key to estate planning for your family at this point is flexibility. We know that laws will continue to change and you need to be able to modify your plan based upon a new environment or changes in your personal situation. Do not put off estate planning. Bad things sometimes happen when you least expect it. Be certain your family is protected.

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# Estate planning checklist

A guide to what is included in developing a flexible estate plan



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By developing a flexible estate plan, you can help remove the need to constantly change your plans to compensate for frequently shifting tax laws. Use this checklist to help you develop an estate plan designed to potentially weather law changes.

## Initial development

- Develop a will or trust
- Establish a health power of attorney
- Establish a durable power of attorney
- Identify beneficiaries
- Create a health care directive
- Create a list of charitable beneficiary choices
- Review any life insurance coverage
- Inform heirs about your wishes, and provide them with access to all documents

## After three years

- Review your will or trust to confirm your wishes still are met, and it accommodates any family changes that may have occurred
- Update beneficiaries if needed
- Update executors, trustees, powers of attorney and guardians if needed
- If living in a new state, meet with an estate attorney to confirm your documents work with local estate laws
- Review your health care directive for possible changes
- Re-evaluate your life insurance coverage

- Update your charitable beneficiary selections
- Would it be beneficial to decant your trust, or do you need to keep all documents as developed in the original?
- Update your heirs about changes to your wishes

It's good to continuously repeat a review of your estate plans every three years to confirm that documents address any life change situations that may happen in your family.

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# Medicare basics



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Medicare is a U.S. government program providing health insurance for people age 65 and older, people under age 65 who have certain disabilities and people of any age with end-stage renal disease.

Most people get their Medicare health care coverage using one of two basic strategies. Your costs will vary, depending on your plan, the coverage you select and the services you use.

## Strategy 1: Original Medicare plan

Beneficiaries use Medicare Part A (hospital coverage), Medicare Part B (medical coverage), Medicare Part D (prescription drug coverage) and a Medicare policy (Medigap) to pay for their health care expenses.

- Part A (hospital) is free for all seniors eligible for Social Security with 40 quarters of employment history. Seniors can purchase Part A if they do not qualify for free Part A coverage.
- Part B (medical) requires the beneficiary to pay a monthly premium.
- Part D (prescription) requires the beneficiary to pay a monthly premium. Private companies approved by Medicare run these plans. Plans cover different drugs and medically necessary drugs must be covered. For premium estimates, you can search by state at [www.medicare.gov](http://www.medicare.gov).

- Medigap is an optional insurance policy from a private provider designed to fill in the coverage gaps in Part A and Part B coverage and requires the beneficiary to pay a monthly premium.

### Provision

You may have greater choice of doctors than in Medicare Advantage Plans (see Strategy 2).

### Caution

Your costs may be higher than in Medicare Advantage Plans.

## Strategy 2: Medicare Advantage Plans

Sometimes called “Medicare Part C,” this option combines Medicare Part A (hospital) and Medicare Part B (medical).

Most of these plans—which are provided by private insurance companies approved by Medicare—also cover prescription drugs (Part D). If they don’t, you can purchase Part D coverage separately.

### Provision

Your costs may be lower than in the Original Medicare Plan and you may get extra benefits.

### Caution

Generally, you must go to doctors in network to obtain favorable pricing. Health care provided outside of the plan network is significantly more expensive. You usually pay a monthly premium and copayments for covered services.

### Important consideration

Medicare covers only 50–60% of medical costs. Medicare also does not cover:

- Hearing aids
- Dental
- Routine eye care
- Most chiropractic care
- Routine foot care
- Long-term care

## Medicare premiums and deductibles\*

Some Medicare costs are going up, to keep pace with increasing cost of providing health care.

	2024
<b>Part A</b>	
Medicare Part A deductible for inpatient hospital stay of 1-60 days	\$1,632
Medicare Part A daily coinsurance for days 61-90 of hospitalization	\$408
Medicare Part A daily coinsurance for days 91-150 of hospitalization (60-day lifetime maximum)	\$816
Medicare Part A daily coinsurance for days 21-100 of extended care in a skilled nursing facility	\$204
<b>Part B</b>	
<b>Medicare Part B annual deductible</b>	\$240

**Medicare Part B monthly premium (IRMAA – Income-related monthly adjustment amount premiums are based on 2022 Modified adjusted gross income (MAGI))**

Individual	Joint	2024
\$103,000 or less	\$206,000 or less	\$174.70
\$103,001–\$129,000	\$206,001–\$258,000	\$244.60
\$129,001–\$161,000	\$258,001–\$322,000	\$349.40
\$161,001–\$193,000	\$322,001–\$386,000	\$454.20
\$193,001–\$499,999	\$386,001–\$749,999	\$559.00
above \$500,000	above \$750,000	\$594.00

The Part D monthly premium, deductibles, copayments and coinsurance amounts vary by state plan. Compare plans and detailed cost figures at [www.medicare.gov/find-a-plan/questions/home.aspx](http://www.medicare.gov/find-a-plan/questions/home.aspx).

If your income is above a certain limit, you'll pay an income-related monthly adjustment amount in addition to your plan premium.

<b>Part D</b>		
File individual tax return (2022 MAGI)	File joint tax return (2022 MAGI)	You pay
\$103,000 or less	\$206,000 or less	Your plan premium
\$103,001–\$129,000	\$206,001–\$258,000	\$12.90 + your plan premium
\$129,001–\$161,000	\$258,001–\$322,000	\$33.30 + your plan premium
\$161,001–\$193,000	\$322,001–\$386,000	\$53.80 + your plan premium
\$193,001–\$499,999	\$386,001–\$749,999	\$74.20 + your plan premium
above \$500,000	above \$750,000	\$81.00 + your plan premium

### Key decisions

Manage income sources to mitigate the impact of IRMAA on Part B and D premiums. Maximize cash flow outside of Medicare MAGI calculation

- Health Savings Accounts (HSA)
- Roth IRAs
- Reverse mortgages
- Some life insurance and annuities

Begin IRA distributions at age 59½ to maximize lowest tax brackets

- Reduces future RMDs

Be aware of the effect taking IRA distributions will have on Medicare surcharges

\* Source: Centers for Medicare and Medicaid Services

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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 <sup>1</sup>		
	Beneficiary	Distribution options
Death before required beginning date	Spouse <sup>1</sup>	<ol style="list-style-type: none"> <li>Transfer or rollover to own IRA <ul style="list-style-type: none"> <li>Lump sum distribution</li> <li>RMDs over their life expectancy beginning at 73</li> </ul> </li> <li>Distribute assets over their life expectancy in inherited IRA structure <ul style="list-style-type: none"> <li>Distributions are required to begin by December 31 of the year following the year the deceased account owner would reach age 73.</li> <li>Distributions are based on the life expectancy of the surviving spouse utilizing the Uniform Life Table (IRA Table III)</li> <li>No 10% penalty for distributions from inherited IRA structure</li> </ul> </li> </ol>
	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 <sup>2</sup>	Spouse <sup>1</sup>	<ol style="list-style-type: none"> <li>Transfer or rollover to own IRA <ul style="list-style-type: none"> <li>Lump sum distribution</li> <li>RMDs over their life expectancy beginning at 73</li> </ul> </li> <li>Distribute assets over their life expectancy in inherited IRA structure <ul style="list-style-type: none"> <li>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</li> <li>No 10% penalty for distributions from inherited IRA structure</li> </ul> </li> </ol>
	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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# Required minimum distributions



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## Required minimum distributions

Retirement planning is all about envisioning your retirement lifestyle, and then saving and investing for your future. The primary goal is to make sure you'll have enough financial resources in retirement and to satisfy other legacy goals you may have. For most individuals, saving for retirement means funding individual retirement accounts (IRAs) and other employer-sponsored retirement plans.

An IRA is not designed to shield savings from taxes indefinitely. Consequently, when you reach the age of 73, the IRS requires that you begin taking distributions from your traditional IRAs, whether you need the money or not. These withdrawals are called required minimum distributions (RMDs).

In addition to traditional IRAs, most employer-sponsored retirement plans are subject to RMDs. The rules governing RMDs from employer-sponsored qualified plans vary slightly from traditional IRA RMD rules. So, if you have assets in this type of plan, please contact your employer, or former employer, for further information regarding your RMDs.

Roth IRAs, however, are different. You are not required to take any distributions from a Roth IRA during your lifetime. Required distributions from Roth IRAs are not mandated until a non-spouse beneficiary inherits the account.

## When must RMDs be taken?

The chart below outlines at what age an individual needs to start their RMDs.

Birth year	Age at which RMDs begin
1950 or earlier	72 (70.5 for those who turned 70.5 before 1/1/20)
1951-1959	73
1960 or later	75

Your first RMD must be taken for the year in which you attain the age indicated above. However, you have some flexibility with your distribution in your first year. You can take the distribution during the year you turn this age or you can delay it until April 1 of the following year; this date is known as your required beginning date (RBD). Subsequent annual distributions must be taken by December 31 of each year.

Please note that if you delay your first distribution until the following year, you will be required to take two distributions during that second year, one for your first year RMD and one for your second year distribution. You will want to compare the advantage of leaving the money in your IRA for as long as possible with the tax consequences of taking two distributions in one year.

## How are RMDs calculated?

Your minimum distribution amount is calculated each year by dividing your ending account balance from the previous year (as of the close of

business on December 31) by your applicable life expectancy factor.

There are two ways to determine the applicable life expectancy factor:

- If your sole beneficiary is your spouse, and they are more than 10 years younger than you, the applicable life expectancy factor is based on the joint life expectancy of you and your spouse from Table II in IRS Publication 590.
- In all other cases, the applicable life expectancy factor used is from the Uniform Lifetime Table (IRS Table III), as illustrated on page 2.

## Taking your RMD

A distribution from your RBC Wealth Management IRA can be processed in a number of ways. You can:

- Schedule automatic distributions
- Submit a distribution form for each distribution
- Set up "on-demand" distributions
- Establish IRA check writing and withdraw your RMD yourself. Your RMD can be distributed in either cash or securities from your IRA. Securities are valued at the closing price on the day prior to the distribution. A cash distribution can be made in the form of a check, sent directly to your bank or journaled to your retail account at RBC Wealth Management. Securities can be distributed to your retail account here.

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If you distribute your RBC Cash Management Account, you can use it to help you manage your cash and investments.

Your RBC Cash Management Account provides several options for easily accessing your retirement paycheck. Some of these options include:

- Visa® Platinum Debit Card
- Check writing
- Online bill pay
- Electronic transfer of funds—ACH and wire transfers

### Taxation of RMDs

Distributions from your IRA are generally subject to federal (and possibly state) income tax for the year in which you receive the distribution. However, a portion of the funds distributed to you may not be subject to taxation if you have ever made non-deductible (aftertax) contributions or if you've ever rolled over after-tax dollars from an employer-sponsored retirement plan to your traditional IRA. Since non-deductible contributions were already taxed, they will be tax-free when you withdraw them, although the earnings on the contribution will be taxable. You should consult a competent tax professional if your traditional IRA contains any nondeductible contributions.

### Penalties for missed RMDs

There is a 25% penalty for missed RMDs. This excise penalty is reduced 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.

For missed RMDs, there is a lookback of only three years from the date of the 1040 filed that should have included the RMD amount missed. For those who do not file 1040s, the lookback begins with their tax filing deadline.

### Additional information

- The amount of your RMD will change each year because your account value and life expectancy factor will change.
- You may always take more than the minimum amount.
- Income tax withholding from IRA distributions is voluntary.

### Planning

Understanding your RMD is an important part of your retirement planning. Your RBC Wealth Management financial advisor can work with you to:

- Develop a well-rounded retirement saving and retirement income plan
- Effectively manage your assets in retirement
- Plan appropriately for leaving assets to your beneficiaries

Together, you will review this plan periodically and make any necessary adjustments to assist you in achieving your goals.

**IRS Table III (Uniform Lifetime) for use in 2022 and forward<sup>1</sup>**

Age	Factor
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4
101	6.0
102	5.6
103	5.2
104	4.9
105	4.6

1. The IRS recently released updated tables for use in calculating required minimum distributions (RMDs) from qualified retirement plans, individual retirement accounts (IRAs) and annuities, and certain other tax-favored, employer-provided retirement arrangements. The updated tables listed here take effect in 2022. For RMDs prior to 2022, please contact your financial advisor.

You can view the full table at <https://www.irs.gov/forms-pubs/about-publication-590-b>.

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# The benefits of a consolidated investment portfolio



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Selecting an investment professional is a very personal decision, based on trust that recommendations will be made in your best interest. Once the decision is made as to who will help you manage your assets, it's important to consider the benefits of consolidating all investment assets, such as assets held at other firms, your IRA or your 401(k), into one diversified household portfolio. While it may seem like you are more diversified by maintaining multiple accounts with multiple advisors, there are three main risk factors to keep in mind:

## 1) Structuring your asset allocation

Asset allocation should be reflective of your current and possible future situation, your feelings and your family dynamics. When assets are spread among multiple firms and advisors, you become responsible for your own asset allocation, which may or may not include the right mix of asset classes for your risk tolerance.

## 2) Reviewing your asset allocation

As markets and individual positions rise and fall in value, your target asset allocation needs to be adjusted on a periodic basis. It's important

to have a primary investment professional periodically reviewing your complete asset allocation to see that you stay within a range that mitigates risk to your portfolio.

## 3) Managing the interrelationship of investments, funds and managers

Each investment, fund and manager must stand alone as having a solid track record as well as be appropriately interrelated with other investments, funds and managers. There should be no excessive overlap or conflicts, and checks and balances must be in place to minimize downside risk.

In addition to the three main risk factors, there are practical advantages to consolidating assets, including:

- Fewer brokerage statements and 1099 forms
- One main contact when you have questions
- One liaison to consult with tax and legal professionals
- One review meeting, rather than multiple updates in multiple locations
- Better access to fund breakpoint discounts

- Reduced fee percentages on certain managed accounts
- Potential tax savings from taking withdrawals or distributions from the most appropriate accounts

Having a primary advisor for your investments will help you maintain proper diversification—and ultimately help you achieve your financial objectives more efficiently.

**For more information, contact your RBC Wealth Management financial advisor.**

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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.



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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.**

# Long-term care insurance



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If you are concerned about increasing health care costs, now may be the time to consider long-term care insurance.

## What is long-term care insurance?

Long-term care insurance helps insure against the possibility of personal spending for nursing or custodial care. As the name implies, it provides benefits for the costs of “long-term care,” where services primarily consist of nursing home care, assisted living facilities and home health care. Simply put, long-term care insurance helps provide its holders with peace of mind. It reduces the worry about rising costs of health care and whether or not you will be able to afford services you may need in the future, and may provide you with a choice of where and how you receive your care.

## Why is long-term care insurance an important consideration?

With an increasing number of people needing long-term care each year, policy owners can find assurance in the fact that they will be covered. Long-term care expenses can quickly add up considering an average annual nursing home stay is \$116,800 for private care and \$104,025 for

semiprivate care.<sup>1</sup> Long-term care insurance provides relief for these expenses so as not to burden family members. Protecting against family dependence, long-term care insurance enables you to maintain your hard-earned assets and have the freedom to use them as you wish, not as you must.

## Medicaid and Medicare

Medicare generally does not pay for long-term nursing home care but covers short-term care while one recovers from an illness or injury. With a detailed list of requirements that an applicant must fulfill before receiving limited coverage, Medicare is often not a viable option for long-term coverage.

As a welfare program, Medicaid isn't appropriate for many people either. It is designed to cover those who are unable to pay for their own medical care. In order to receive Medicaid benefits for nursing home care, patients are forced to “spend down” their assets to be considered impoverished.

## Long-term care insurance

One of the options to assist with costs associated with long-term care needs is a long-term care insurance policy. Individual policies can be different from one company to the next.

## Traditional or stand-alone long-term care policies

These policies generally pay benefits only when a claim occurs. When purchased, you may have an option to design your coverage by selecting:

- Monthly benefit—what would be paid in the event you qualify for a claim
- Benefit period—how long benefits would be payable to you
- Inflation protection—a coverage increase that may be triggered by increase in cost of living and typically requires additional premiums to add to the policy
- Waiting or elimination period—reflects the number of days you have to wait before benefits start

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Traditional or stand-alone long-term care policies are typically less expensive compared to other types of insurance policies that provide broader benefits, such as cash value accumulation and/or death benefits. However, similar to auto insurance, if you do not have a claim, your contract will not have value.

### **Hybrid/combination life insurance policy or annuity contract that offers long-term care coverage**

Hybrid or combination policies are typically funded with a single or abbreviated series of payments. They may combine long-term care benefits by utilizing a life policy or annuity contract. If long-term care benefits are not needed, clients may leave a death benefit or accumulated value as part of their financial legacy to a named beneficiary.

### **Life insurance policies with long-term care riders**

Combining a long-term care rider on a life insurance policy allows one to receive a portion of the death benefit to cover long-term care expenses while they are alive. A long-term care rider can be triggered by a diagnosis of a critical or chronic illness that leaves one unable to take care of themselves.

As with all long-term care insurance policies, once the impairment has been certified and approved by the carrier, benefits may be received.

### **Difference between indemnity and reimbursement provisions**

Indemnity long-term care policies will pay a selected daily benefit as soon as one qualifies for benefits. Reimbursement long-term care policies will pay the actual costs of care, which are demonstrated by receipts being filed with the carrier, once one qualifies for benefits.

### **Is long-term care insurance right for you?**

The most important question to ask yourself when deciding whether long-term care insurance is right for you is whether you are worried about long-term care expenses and the possibility of runaway health care costs. If the answer is yes, a policy that is not a financial burden may be right for you. There are many different degrees of coverage from which to choose. You can tailor a plan that is comfortable for you by determining your benefit period, benefit amount, waiting period and several other options.

You've spent your life trying to build your assets. Now through long-term care insurance, we want to help you keep them.

