



## A "How To" on Finance: Legacy Years



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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

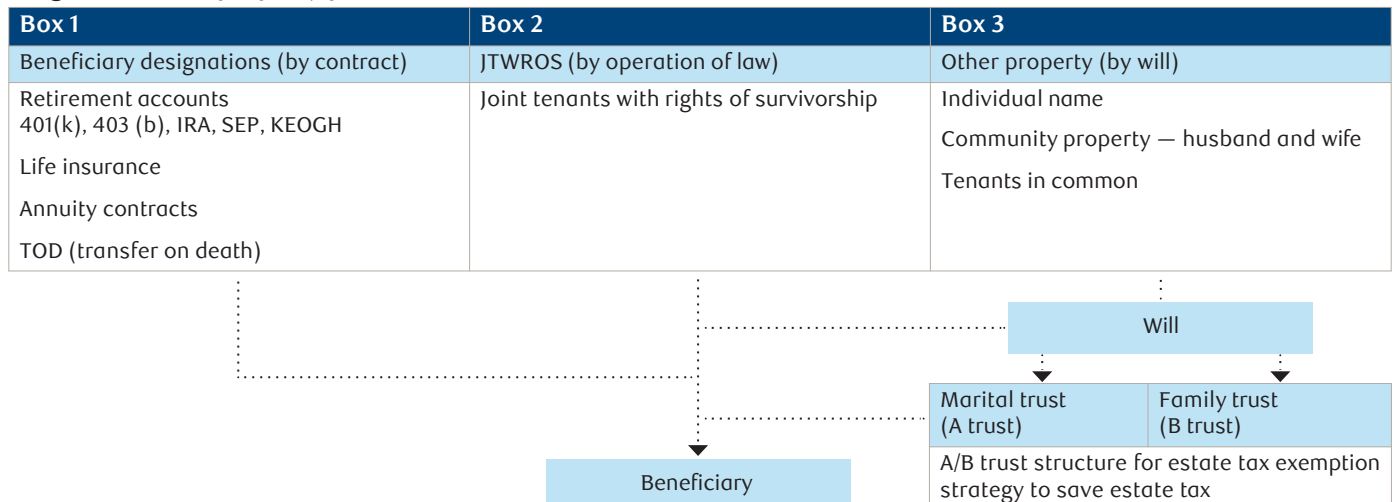
very important to carefully consider how your beneficiary designation is listed. This designation will dictate how the assets are to be transferred to your heirs. Only if you have named “my estate” as the beneficiary do the terms of your will dictate how these accounts are to be transferred.

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.

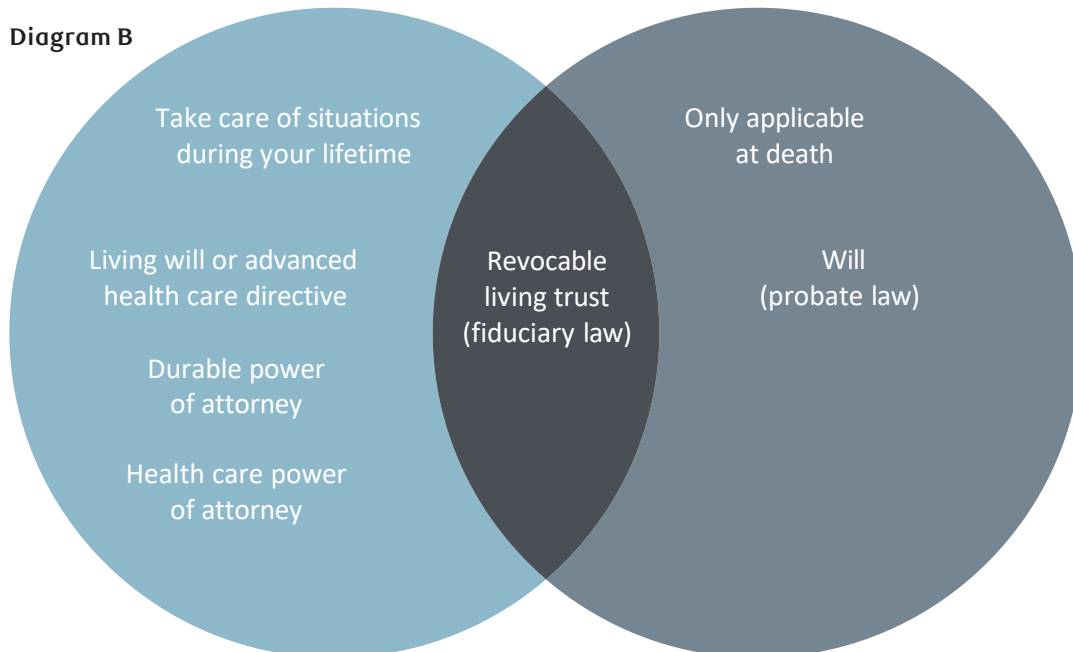
## Health care power of attorney

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.

# 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

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## 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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# Wills, probate and estate settlement



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## What is a will?

A will is the most basic component of a successful estate plan. A will is a legal document that directs how your estate is administered and allows distribution of your assets to beneficiaries after your death, according to your wishes.

By having a properly drafted will, you can:

- Help protect your family under provisions to meet their future financial needs after your death
- Name a guardian for your minor children
- Minimize taxes by reducing the size of your taxable estate
- Make sure your assets will be managed prudently
- Avoid intestacy proceedings determining how your estate is distributed
- Name an experienced executor or personal representative to make sure that your wishes are carried out
- Establish trusts to manage the inheritances of minor or financially inexperienced beneficiaries
- Have peace of mind knowing your family and other heirs are taken care of

## How will you pass your personal property to heirs?

Many individuals want to leave equal amounts of their estate to

their beneficiaries. However, some personal items have sentimental value rather than a monetary value and are difficult to split. Potential conflict can be avoided by leaving a signed and dated list with your will spelling out who receives items of personal property.

## Who do you want to act as guardian of minor children?

It can be difficult to choose a guardian, especially if the parents want different guardians for their children. Not deciding on a guardian delays the distribution under a will and may result in the court appointing a guardian based on information it can gather.

## How often should a will be updated?

Professionals suggest reviewing your estate plan, including your will, every three to five years to make sure it still meets your needs and includes current information. You should also update your will to account for life changes, such as:

- Substantial increase or decrease in your estate
- Change in marital status
- Births or deaths in the family
- Move to a new state
- Business changes
- Retirement
- Tax law changes

## What is probate?

Property that passes through your will does so through the probate process. Usually court supervised, the process transfers property or assets from the estate of someone who has died to the proper beneficiaries, according to the terms of the will.

Probate also sees all estate taxes and liabilities of the decedent have been paid. If you own property in more than one state, probate must be completed in each state individually. This process can be time consuming and expensive—costs may range from one to five percent of your estate, or higher.

If you die without a will (intestacy), a state court will choose an administrator for your estate. This court-appointed administrator will distribute your property according to the state intestacy laws, regardless of your wishes.

## What is estate settlement?

At the time of death, all of an individual's property and assets become part of his or her estate. The estate is the legal entity into which the decedent's separately owned assets are gathered, from which taxes—both estate and income—are paid for a period of time, and ultimately from which bequests are paid to beneficiaries of the estate.

No two estates are exactly alike and, therefore, every estate settlement requires special handling. The process includes:

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- Submitting the will for probate
- Paying creditors
- Accounting for, valuing, and safeguarding the decedent's assets
- Title searches and acquisition of legal title
- Management of assets
- Preparing tax returns
- Representing the estate in court
- Ongoing communication with interested parties
- Possible transition to trusteeship
- Final accounting and distribution according to the descendant's instructions in the will

If a decedent created a trust during his or her lifetime, the trustee is responsible for this process rather than, or in addition to, the administrator of the estate.

The administration of an estate is time consuming and usually requires a year or more to complete. For example, in an effort to take advantage of all possible tax saving opportunities, the estate tax return is normally not filed until it is due, usually nine months after the date of death. Once filed, the return is audited by the IRS, which can take several months to complete.

### **Investing during the estate settlement process**

Preceding the date of death, the account may have been managed with a specific investment objective such as growth or income. However, upon death and continuing throughout the estate settlement process,

an investment strategy generally focuses on two equally important objectives: asset quality and liquidity. Preservation of principal may be a primary consideration during the estate settlement process because the estate is responsible for all the decedent's taxes, estate expenses, financial obligations and bequests.

The investment style for estate accounts is not passive management, but involves implementing a strategy that can minimize the risk of loss of value as well as provide sufficient liquidity for cash needs. The personal representative should review the safety and suitability of estate assets.

Upon completion of the estate settlement process, a new set of investment objectives will be determined. Thereafter, each program will differ and the solutions lie with the objectives and specific needs of the beneficiaries of the estate.

### **Who do you want to administer your estate?**

An estate administrator, also known as executor or personal representative, can be an individual or a professional or corporate administrator.

In deciding whether to choose a professional or an individual administrator, it is helpful to understand that a professional administrator has the proper accounting and tax skills and is impartial to the beneficiaries. While an individual administrator may be more familiar with the descendant's family, he or she may not have the skills or time available to settle the estate appropriately.

### **How can RBC Wealth Management help?**

As a client of RBC Wealth Management, you are able to take full advantage of our association with City National Bank and Comerica Bank & Trust. Both City National Bank and Comerica Bank & Trust are respected and experienced estate administrators. This alliance combines the strengths of great companies, providing you access to quality estate administration in addition to the professional, personalized investment services you've come to expect from your RBC Wealth Management financial advisor.

### **Professional personal representative**

Estate plans can be complicated because of special assets, specific family situations, or by their terms and applicable law. Serving as a personal representative entails responsibility and personal liability. Often, using a professional representative is the best option. They have the experience and the expertise to administer the estate properly. The professional representative makes objective decisions and is not seen as having favorites within the family. They are highly regulated for your protection.

**Contact your RBC Wealth Management financial advisor today to discuss the benefits of using a professional representative for your estate plan.**

# Timing Medicare enrollment



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Medicare will provide retirement health insurance for people age 65 and over. Determining the optimal time to enroll can be complicated. Since retirement health care costs may constitute a large expenditure, making prudent decisions on the optimal timing of Medicare enrollment is critical. Lifelong penalties are assessed to late enrollees.

For example, if you don't get Part B when you're first eligible, your monthly premium may go up 10% for each 12-month period you could've had Part B, but didn't sign up. In most cases, you'll have to pay this penalty each time you pay your premiums, for as long as you have Part B. And, the penalty increases the longer you go without Part B coverage.

Here's a look at common scenarios:

## Scenario 1:

Reaching age 65 and not covered by group health insurance.

## Scenario 2:

Working beyond age 65 and covered by group health insurance from employer or spouse's employer with **less than 20 employees**.

Enroll in Medicare Parts A and B during initial enrollment period.\*  
Purchase a Medicare Supplement and Part D prescription drug policy.

**OR**

Enroll in Medicare Parts A and B during initial enrollment period.  
Purchase a Medicare Advantage Plan that includes prescription drug coverage.

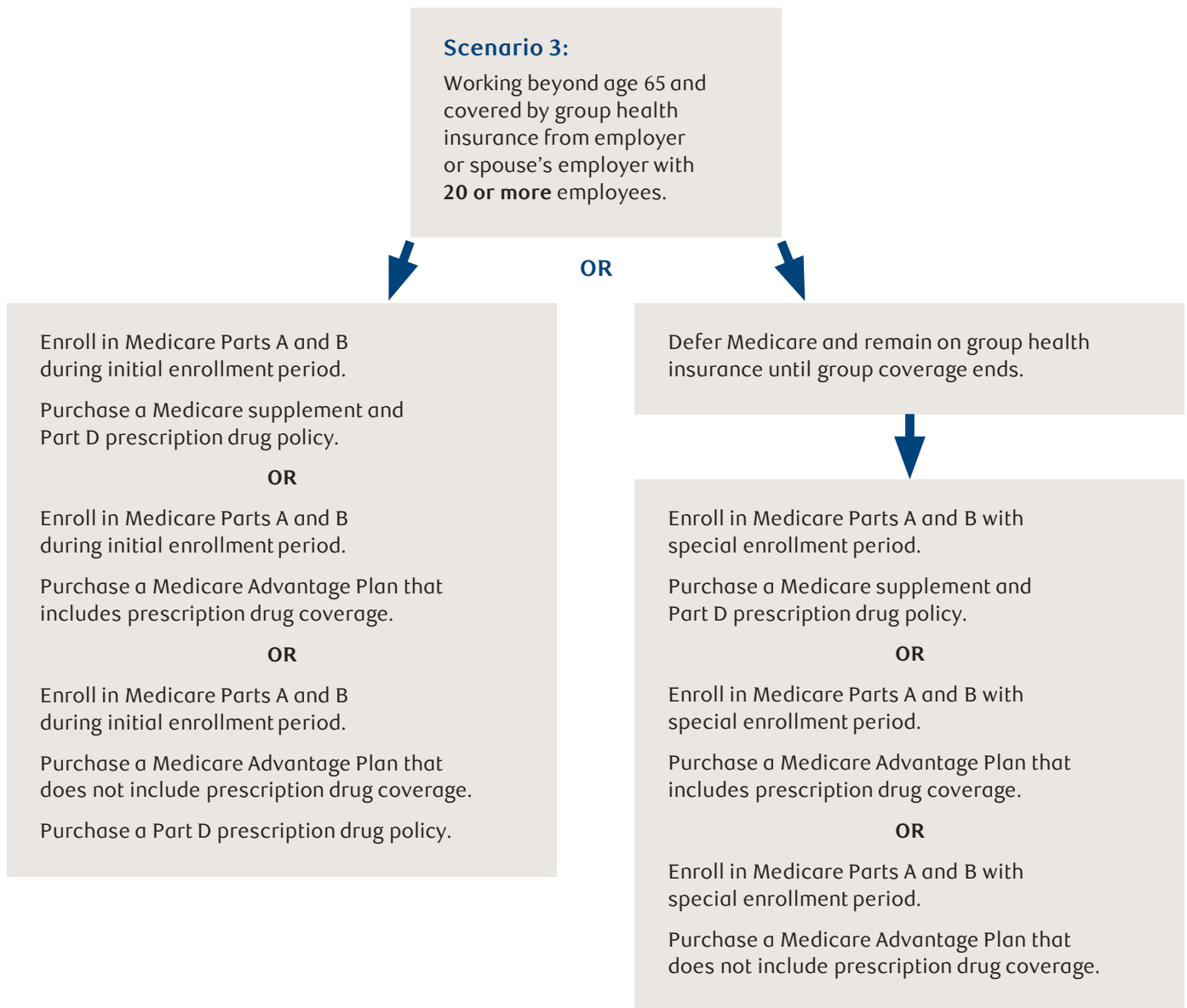
**OR**

Enroll in Medicare Parts A and B during initial enrollment period.  
Purchase a Medicare Advantage Plan that does not include prescription drug coverage.  
Purchase a Part D prescription drug policy.

\*Initial enrollment period is generally a seven-month period. It covers the three months prior to your birth month, your birth month and the three months following your birth month in the year you turn 65.

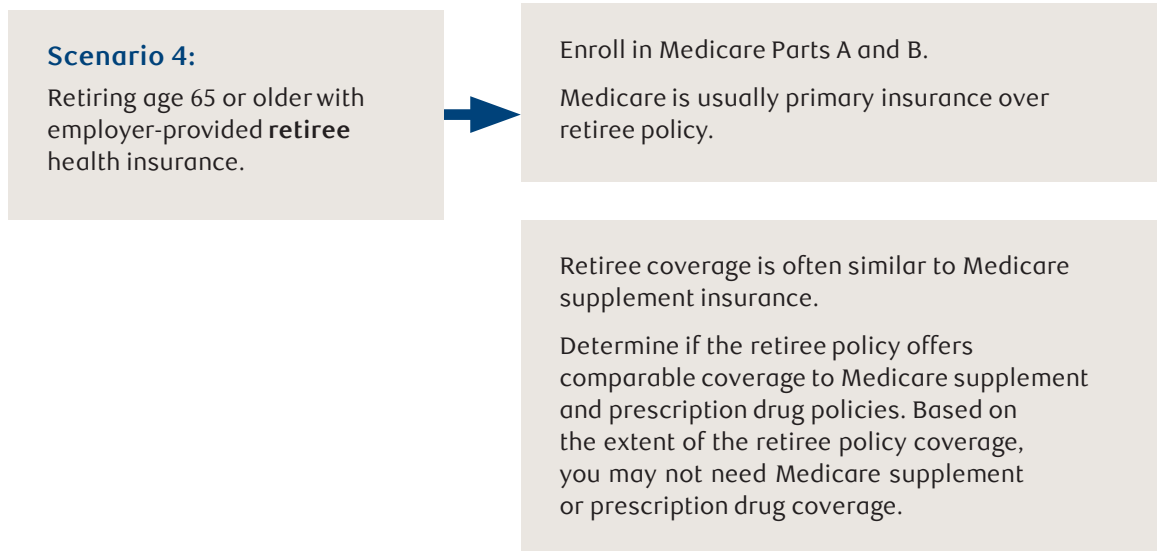
Under Scenario 2, if you elect to remain on group health insurance, Medicare will act as primary insurance while the group plan will be secondary.

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**Key considerations:**

If retiring at age 65, Medicare enrollment will take place during initial enrollment period. If retiring beyond age 65, enroll in Medicare during the special enrollment period.



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The information presented by Bedrock Business Results, LLC may reference Medicare, Medicaid, Social Security, tax and/or legal issues but such materials are not intended to provide tax, legal and or accounting advice. As with all matters of a legal nature, you should consult your tax or legal counsel for advice.

The information in this presentation is provided as a general overview. It is derived from the Internal Revenue Code, Medicare.gov and other government publications, all subject matter sources reasonably believed to be reliable. Tax law and the laws governing Medicare/Medicaid are complex and subject to change. Clients should consult with their attorney and/or qualified tax advisor when making decisions regarding these matters.

# How to rethink retirement during times of uncertainty

“Should I have retired earlier?”  
“Is this market volatility going to impact my ability to retire?”



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The Alliance for Lifetime Income, a nonprofit educational organization that educates Americans about protected lifetime income, conducted a nationwide survey of people in their prime retirement years—aged 61 to 65—to better understand the questions, lessons and surprises that arise for so many as they approach the end of their career. The survey also provided useful insights into how Americans at this age respond to heightened uncertainty and think about the timing of their own retirement. This new research paints a picture of what life is like for those nearing retirement or recently retired. And if you're a few years out from retirement, these findings may make your potential future a bit clearer.

## Market volatility and retirement

One big source of uncertainty for people in their prime retirement years is whether the stock market will go up or down—and by how much and how fast—commonly known as market volatility. Not surprising, six out of 10 people surveyed by the Alliance expressed concern about the significant market volatility experienced in early 2020, and the level of concern is even higher among those still working and nearing retirement.

This is a known challenge in retirement planning. Americans at retirement age face a unique risk from downturns in the market. Experts call it “sequence of returns risk,” which refers to the long-term impact on a wealth plan from a significant drop in the stock market immediately prior to or during the early years of retirement. As you approach retirement, the more exposure you have to sequence of returns risk, the greater your risk of running out of money in retirement.

In the Alliance survey, more than seven out of 10 people in their prime retirement years weren't making

changes to their portfolio; a number mirrored by the 76% of people who reported having a pension, annuity or both. While recent stock market volatility doesn't appear to change investment and portfolio decisions for most, it does appear to play a significant role in whether and when you retire as planned. Among those the Alliance surveyed who are currently employed, more than half (52%) are not fully confident they'll be able to retire at the age they identify as their goal. And stock market conditions were most often pointed to as the reason for that uncertainty.

## Planning for uncertainty

Retirement income planning is a strategy for managing uncertainty and creating retirement readiness and your financial advisor can help with this. Uncertainty is always in the markets, and was especially noticed in recent history.

One way to reduce uncertainty and the risk of running out of money in retirement is by making sure you have enough protected lifetime income to cover what we like to call your “basics”—those

essential monthly expenses such as a mortgage, utilities or groceries. Since Social Security traditionally only goes about 40% of the way to covering an average person's pre-retirement income<sup>1</sup>, leading economists and retirement planners recommend using an annuity as a way to help cover your basics and fill that gap in protected income.

Speak with your RBC Wealth Management financial advisor about what steps you can take to plan for uncertainty in your retirement plan.

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1. <https://www.ssa.gov/planners/retire/r&m6.html>

# Sustainable withdrawal rates in retirement

Utilize as a guideline to help avoid running out of money



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In retirement, your “measure for success” as an investor changes from beating the market to helping secure income for life. Indeed, when retirees think about risk, many say outliving their money is their number one fear. Choosing a withdrawal rate that is sustainable over the course of your retirement will play an essential role in your retirement income plan.

## What is a withdrawal rate?

A withdrawal rate is a number that provides context for the amount you take out of your portfolio in a given year, expressed as a percentage of your overall assets. A simple way to determine that number is:

$$(\text{Outflows} - \text{Inflows}) \div \text{Assets}$$

The withdrawal rate is affected not just by the income you need (including taxes), but also by your income sources, like Social Security or pension, that help offset those outflows.

## Example

In this hypothetical example, if you have a \$1 million portfolio, and you withdraw \$40,000, your withdrawal rate for that year is 4% (\$40,000 divided by \$1 million).

## What is a sustainable withdrawal rate?

When planning your retirement income, calculating a withdrawal rate is just the start. Understanding the impact of that withdrawal rate and how it changes over time is essential to your financial security. You want to base your planning on a sustainable rate and monitor this rate throughout retirement to make sure it remains sustainable.

Simply put, you want to choose an amount you can withdraw annually from your portfolio and still be reasonably certain you will not run out of money during your lifetime.

Sustainable withdrawal rates typically point to the initial rate you start with at retirement. Many studies have been done over time going back to the original study in 1994 by William Bengen. He found that a 4% initial withdrawal rate was 100% successful over 30-year

rolling periods dating back to 1926. So a retiree could have withdrawn \$40,000 from a \$1 million portfolio and increased that \$40,000 every year by inflation and never run out of money over any 30-year period. But your individual sustainable withdrawal rate will differ from someone else's depending on:

- Retirement planning horizon—years in retirement
- Portfolio mix (stocks and bonds)
- Probability of success you are comfortable with (i.e., 85%, 95%, 100%)

Whether you are either planning your retirement or currently retired, you should consider these three variables to help determine if your withdrawal rate (either now or in the future) feels sustainable to you. While it's important to start with a sustainable rate, we know your situation will change and the markets will not perform as expected. Even though the initial withdrawal rate studies attempt to take this into consideration, monitoring your withdrawal rate as you move through retirement is still important and can help you to understand when adjustments are needed to maintain the level of success you are comfortable with.

Annual expenses		Income sources	
\$75,000	Income need	\$30,000	Social Security
+ \$15,000	Taxes	+ \$20,000	Pension
<b>\$90,000</b>	<b>Total income need</b>	<b>\$50,000</b>	<b>Total income</b>
<b>\$90,000 income need – \$50,000 income = \$40,000 withdrawal</b>			

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### Utilizing the Trinity Study

The Trinity Study (page 3) can assist in determining your sustainable withdrawal rate and can be used as a guideline along the way. The Trinity Study illustrates historical success rates using:

- Six different time horizons (15 to 40 years)
- Five asset mixes (100% bonds to 100% stocks)
- Ten withdrawal rates (3% to 12%)

The Trinity Study confirms the work done by William Bengen, showing that a 4% withdrawal rate, over a 30-year retirement horizon, with a 50/50 mix of stocks and bonds was 100% successful. But what if you were more comfortable with a success rate closer to 85% for 30 years? The Trinity Study would indicate a 4.5% withdrawal rate would provide an 84% success rate with a 50/50 mix or about an 87% success rate using a 75% stock and 25% bond mix. Or maybe you only want to plan for a 25-year retirement horizon, then a 5% withdrawal rate with a 50/50 mix indicates an historical success rate of 85%.

Based on your time horizon, tolerance for risk and the probability of success you're comfortable with can make a big difference in determining your sustainable withdrawal rate.

### More recent withdrawal rate studies

Recent studies suggest that with our current low interest rates and high stock valuations, the sustainable withdrawal rate for someone retiring today may be closer to 3%. However, it's important to understand the

assumptions used to determine the results for this new study and the Trinity Study both of which suggest a set-it and forget-it approach to retirement income planning.

The table below compares the assumptions used to determine a 4% withdrawal rate, the "4% Rule," to the strategies we employ in our dynamic approach, where adjustments are used throughout retirement. Our dynamic approach has been shown to help increase the withdrawal rate, while maintaining a similar level of success.

### Be confident about your financial security

The key is understanding that your situation will change over time as will the markets, so it's important to continually review and monitor your plan. Our retirement income planning process will help guide you through the decisions you need to make throughout your retirement by employing a "dynamic approach." Your RBC Wealth Management® financial advisor can help you establish and monitor a withdrawal rate that is sustainable, flexible and appropriate for your long-term success. Talk with him or her today.

4% Rule: set-it and forget-it	Dynamic approach
100% historical success rate	Target 85% to 95% knowing changes will be made along the way
30-year time horizon	Your current age and life expectancy will have an impact on your current sustainable withdrawal and will change throughout your retirement
Income is increased each and every year by inflation	Spending is adjusted each year depending on how the portfolio performed
Only two investments are used—S&P 500 and a Government bond index	More diversified portfolio with several asset classes and investments, including dividend paying stocks
Remain invested in the same asset mix during the entire retirement	Adjusting your asset mix and investments over time based on your situation and market environment
Use a "systematic" withdrawal strategy to sell assets for income	Use a withdrawal strategy that may provide more assurances and help protect in down markets, like an "Income only" or "bucket" approach
Taxes are not considered	Utilize strategies to help minimize taxes through asset allocation, investment selection, asset location and managing distributions

# Trinity Study

## Returns and inflation 1926–2014

Additional information on the Trinity Study can be found in the “Choosing a sustainable withdrawal rate” fact sheet and white paper.

40-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	60%	98%	100%	100%	100%
4%	6%	42%	86%	92%	88%
5%	0%	6%	42%	64%	68%
6%	0%	0%	16%	42%	52%
7%	0%	0%	0%	30%	36%
8%	0%	0%	0%	6%	30%
9%	0%	0%	0%	2%	22%
10%	0%	0%	0%	0%	10%
11%	0%	0%	0%	0%	2%
12%	0%	0%	0%	0%	0%

30-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	82%	100%	100%	100%	100%
4%	41%	87%	100%	98%	93%
5%	18%	42%	68%	77%	77%
6%	10%	17%	43%	57%	65%
7%	3%	10%	22%	45%	53%
8%	0%	3%	10%	33%	40%
9%	0%	0%	2%	13%	35%
10%	0%	0%	0%	3%	22%
11%	0%	0%	0%	0%	8%
12%	0%	0%	0%	0%	5%

20-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	100%	100%	100%	100%	100%
4%	94%	100%	100%	100%	100%
5%	76%	94%	99%	94%	91%
6%	39%	63%	79%	80%	81%
7%	27%	46%	61%	69%	71%
8%	11%	23%	41%	54%	63%
9%	3%	9%	29%	47%	50%
10%	0%	1%	6%	27%	41%
11%	0%	0%	1%	14%	29%
12%	0%	0%	0%	4%	16%

35-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	71%	100%	100%	100%	100%
4%	24%	69%	96%	93%	91%
5%	4%	18%	56%	67%	75%
6%	2%	4%	31%	53%	56%
7%	0%	2%	4%	35%	49%
8%	0%	0%	0%	22%	33%
9%	0%	0%	0%	2%	24%
10%	0%	0%	0%	0%	11%
11%	0%	0%	0%	0%	5%
12%	0%	0%	0%	0%	2%

25-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	97%	100%	100%	100%	100%
4%	78%	100%	100%	100%	98%
5%	35%	65%	85%	83%	82%
6%	25%	43%	58%	68%	71%
7%	9%	22%	42%	57%	62%
8%	3%	9%	22%	45%	52%
9%	0%	2%	8%	28%	40%
10%	0%	0%	2%	12%	29%
11%	0%	0%	0%	3%	18%
12%	0%	0%	0%	0%	8%

15-year retirement horizon <sup>1</sup>					
W/D rate	100% bonds	75% bonds 25% stocks	50% bonds 50% stocks	25% bonds 75% stocks	100% stocks
3%	100%	100%	100%	100%	100%
4%	100%	100%	100%	100%	100%
5%	99%	100%	100%	100%	100%
6%	89%	99%	100%	97%	89%
7%	63%	76%	84%	83%	80%
8%	39%	60%	72%	73%	71%
9%	24%	40%	52%	61%	68%
10%	13%	20%	37%	49%	56%
11%	3%	8%	23%	40%	44%
12%	0%	1%	3%	21%	35%

- 90% to 100% success rate
- 80% to 89% success rate
- 70% to 79% success rate

An influential paper written in 1998 by professors at Trinity University<sup>2</sup> studied actual stock (S&P 500) and bond (20-year U.S. Government Bond) returns from 1926 through 1995, which were compiled by Ibbotson Associates, to determine sustainable withdrawal rates. (It was updated by Wade D. Pfau, Ph.D., CFA, Professor of Retirement Income, The American College, Director of Retirement Research, McLean Asset Management and inStream Solutions, Founder, Retirement Researcher, to include 35- and 40-year retirement horizons and real market data through 2014.)

The professors looked at five possible asset allocations—from 100% bonds to 100% stocks—to evaluate the impact of inflation adjusted initial withdrawals ranging from 3% to 12%. This created 50 hypothetical portfolios for each retirement horizon used throughout the study. (Five asset allocations times ten withdrawal percentages.)

<sup>1</sup> Returns of stocks (S&P 500) and 20-year U.S. government bonds compiled by Ibbotson Associates, covering period from 1926 to 1995 (subsequently updated through 2014). Historical inflation based on Consumer Price Index.

<sup>2</sup> Source: Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz, Retirement Savings: Choosing a Withdrawal Rate That Is Sustainable. (AAIJ Journal February 1998, Volume XX, No. 2).

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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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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.**

# Bunching tax deductions to impact charitable giving



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Like many other Americans, annual giving may be part of your long-term strategy to help accomplish personal and charitable goals. By carefully planning your giving, you have the ability to support your favorite causes while enjoying the possible income tax benefits.

Prior to the Tax Cuts and Jobs Act of 2017 (TCJA) that went into effect in 2018, charitable giving was incentivized because there was a corresponding income tax deduction for gifts made to qualified charities. Under the TCJA, the federal standard deduction nearly doubled, so for many taxpayers, the need to itemize has been eliminated.

The good news is, charitable donations to qualified charities and private foundations continue to be deductible as an itemized deduction under the TCJA, subject to adjusted gross income (“AGI limits”). Contributions of cash can be deducted up to 60% of AGI. The limit is 30% for capital assets like stock.

Yet unless total itemized deductions, including charitable contributions, mortgage interest, medical deductions, state and local taxes (SALT) combined equal more than \$14,600 for individuals or \$29,200 per married couple, taxpayers will likely use the new standard deduction versus itemizing.

The TCJA provisions that increased the standard deduction, as well as other income tax and estate tax provisions, are set to sunset at the end of 2025. Unless Congress enacts legislation to extend the larger standard deduction, beginning in 2026, the standard deduction levels will revert back to pre-TCJA levels that were \$6,350 for single filers and \$12,700 for married filing jointly, both indexed for inflation. This major cut to the standard deduction and the repeal of the “SALT cap” on deductions for state and local taxes could mean that it may be easier to itemize deductions such as charitable contributions as well as higher levels for property taxes and state and local income taxes. Depending upon the situation, this could have a major impact on tax bills beginning in 2026.

## Changes to federal income tax standard deduction rates

Taxpayer status	Pre-TCJA tax years*	Current tax year*
Individuals	\$6,500	\$14,600
Heads of households	\$9,550	\$21,900
Married, filing jointly	\$13,000	\$29,200

\*Taxpayers who are at least 65 years old or blind can claim an additional deduction of \$1,950 (\$1,550 for married couples, filing jointly).

In 2024 and 2025, for those who are charitably inclined and may be on the margin between taking the standard deduction or itemizing, tax benefits may be maximized by bunching charitable contributions in 2024 and itemizing deductions, and then taking the standard deduction in 2025.

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## Hypothetical example

If a couple uses the standard deduction of \$29,200 and they typically donate \$15,000 per year to charity—but their other deductible expenses are minimal—they may be losing the tax benefit of the charitable deduction. Accelerating several years of giving into a single year (sometimes called “bunching”) may allow some tax benefits. By bunching their donations into one year, and taking the standard deduction in the following year, they receive more in deductions compared to not bunching over the course of four years of charitable giving.

Couple 1 — No bunching	2024	2025	Total
Charitable deduction	\$15,000	\$15,000	\$30,000
SALT deduction	\$10,000	\$10,000	
Medical deduction	\$1,000	\$1,000	
Mortgage interest	\$0	\$0	
Total itemized deductions	\$26,000	\$26,000	
Standard deduction used	\$29,200	\$29,200	\$58,400

Couple 2 — Bunching donations	2024	2025	Total
Charitable deduction	\$30,000	\$0	\$30,000
SALT deduction	\$10,000	\$10,000	
Medical deduction	\$1,000	\$1,000	
Mortgage interest	\$0	\$0	
Total itemized deductions	\$41,000	\$11,000	
Standard deduction	\$29,200	\$29,200	
Deduction used	\$41,000	\$29,200	\$70,200
<b>Difference in deductions</b>			<b>\$11,800</b>

### Consider a donor-advised fund for bunching gifts

A donor-advised fund (DAF) offers an easy way to make gifts over multiple tax years for tax purposes. Contributions to the DAF are deductible just as though the donation was made to a qualified charity, funds can be invested according to your recommendations and grants can be dispersed according to your suggestions. By using a DAF, you can “bunch” charitable gifts, maximize tax savings and continue your consistent support of favored charities.

To discuss how a donor-advised fund may fit into your overall philanthropic and tax planning goals, contact your RBC Wealth Management financial advisor today.

# The donor-advised fund



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Charitable giving can be a powerful way to create a legacy and carry the family name into the future. It also offers a financial tool for family estate planning and tax management.

One charitable giving vehicle that is popular with financially successful individuals and families is the donor-advised fund (DAF). Choosing a DAF to help accomplish your charitable goals may offer you an easy way to make significant gifts over a long period of time—while enjoying significant tax advantages. And unlike a private foundation, a DAF may require less money, time and legal/administrative assistance to establish and maintain.

## The donor-advised fund: what is it?

A DAF is often used by cost-conscious donors or by donors who wish to maximize their current income tax deductions. It is a gifting vehicle created with a parent organization such as a community foundation or another qualified 501(c)(3) nonprofit organization. The parent organization provides a document, normally free of charge, in exchange for an irrevocable relationship. While you may choose what charity to support, you have few responsibilities beyond donating funds and suggesting how they are used. The parent organization will provide you with options for the investment

component, as well as the complete administration of the fund without the paperwork and start-up expenses. Contributions of cash can be deducted up to 60% of adjusted gross income (AGI). Appreciated securities (marketable securities are valued at fair market value) are usually limited to 30% of AGI. A five-year carry-forward of any remaining deduction is available.

## How does it work?

Funding your account is fairly straightforward. First, you sign a letter of understanding, which establishes the account, names it and recommends an investment strategy. You can choose an endowed fund, which invests your contribution in perpetuity and is allowed to distribute earnings only—helping create a lasting memory of your philanthropic goals. Or you can choose a non-endowed fund, which allows you or your designee to make distribution recommendations up to the entire account balance (principal and earnings). Next, you contribute the required minimum amount of assets, which may include cash, marketable securities and other types of assets, depending on the fund. The required minimum contribution varies from fund to fund. However, it is often less than the minimum contributions required by private foundations.

Throughout your lifetime, the DAF allows you or your designee to make ongoing, non-binding recommendations to the fund regarding how much, when and to which charities grants from the fund should be made. You or your designee can also offer advice to the fund as to how contributions should be invested.

Plus, the DAF allows you to make additional contributions from year to year, which helps you generate additional income tax deductions when the transaction is completed. This is one of the key benefits a DAF may offer you during your lifetime.

For estate planning purposes, the DAF can make grants to charities named in your will or other legal instrument, such as a revocable living trust. Or, you may designate which heir(s) may make grant recommendations.

These distributions can be identified as coming from your specific account, or they can be made anonymously at your request. However, there is one important caveat: the fund is not obligated to follow your suggestions—that is why they are called “donor-advised funds.” While keeping this fact in mind, it’s also important to observe that in general practice, many DAFs honor the wishes of the donor’s estate.

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### Setting up a DAF through RBC Wealth Management

Call your financial advisor today to discuss how you can create your legacy through charitable giving and enjoy significant tax advantages by using a donor-advised fund.

