



## A "How To" on Finance: Early Adults



Wealth  
Management

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

# Table of contents

---

4	Education
7	IRAs
13	Wealth planning

# Fact sheet(s) included

---

<b>Section</b>	<b>Fact sheet(s)</b>
<b>Education</b>	Mutual funds—invest early and often Financial management for early adults
<b>IRAs</b>	Roth IRA Traditional IRA Why participate in your 401(k) plan? Traditional and Roth 401(k) deferrals
<b>Wealth Planning</b>	Investment choices pyramid The cycle of market emotions Health savings accounts: strategic information Employee stock options and restricted stock units

# Mutual funds—invest early and often



Wealth Management

One of the most important benefits of investing in mutual funds is that they make it easier for you to invest on a regular basis. This can be an important foundation for accumulating wealth, but also for helping to manage the ups and downs of the market.

## Try dollar-cost averaging

Dollar-cost averaging is simply the practice of investing a predetermined amount of money at a regular interval, regardless of market conditions. The amount you invest is constant, so you buy more shares when the price is low, and fewer when the price is high. When you do this, the average cost of your shares may be lower than the average market price per share during the period in which you are investing.

The hypothetical example in the table to the right shows how investing \$2,400 over time could yield 257 shares. If you invested the full amount up front at \$10 per share in January, you would have acquired only 240 shares.

## The power of discipline in investing

By maintaining a consistent monthly investment, you put the market's volatility to work in your favor.

Dollar-cost averaging helps to minimize the market risk of making

Month	Amount invested	Price per share	Shares purchased
January	\$200	\$10	20
February	\$200	\$8	25
March	\$200	\$9	22
April	\$200	\$10	20
May	\$200	\$11	18
June	\$200	\$9	22
July	\$200	\$10	20
August	\$200	\$8	25
September	\$200	\$8	25
October	\$200	\$9	22
November	\$200	\$10	20
December	\$200	\$12	17
<b>Total</b>	<b>\$2,400</b>	<b>–</b>	<b>257</b>

a lump-sum investment, encourages discipline in investing, takes the guesswork out of when to invest and may, over time, be an important step on the way to accumulating wealth. As the table below illustrates, a one-time investment of \$2,400 in January would have resulted in fewer shares being acquired and at a higher average cost than if the same amount was invested through dollar cost averaging.

Dollar-cost averaging does not assure a profit and does not protect against a loss in declining markets. Such a plan involves continuous

investments in securities, regardless of fluctuating price levels, and you should consider your financial ability to continue your purchases through periods of low price levels.

## Automatic purchases

Your financial advisor can set up monthly buy orders that draw from your checking or other account automatically. If you are interested in implementing an automatic investment plan, please call your RBC Wealth Management financial advisor.

	Total investment	Total shares	Average cost
Lump investment	\$2,400	240	\$10
<b>Dollar cost averaging</b>	<b>\$2,400</b>	<b>257</b>	<b>\$9.34</b>

**Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.**

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. Prospectuses containing this and other information about the fund are available by contacting your RBC Wealth Management Financial Advisor. Please read the prospectus carefully before investing to make sure that the fund is appropriate for your goals and risk tolerance.

# Financial management for early adults

Ages 18–23



Wealth Management

Whether you're planning for college or are just starting out in your new career, money—how to make it, how to spend it and how to hang on to at least some of it—will play an important role in your life. An RBC Wealth Management financial advisor can work with you to access the many resources available to help you manage your finances. What follows is an overview of some of the ways we can help, as well as links and information to help you get started and stay on the right financial track. Once we meet, we can focus in-depth on the areas that are most important to you.

## Budgeting basics

Knowing where your money is coming from and where it's going are essential. A budget puts all of that information in one place and helps you anticipate shortfalls, adjust your priorities and plan for the unexpected. In a nutshell, a budget records all of your income sources and all of your expenses, from rent to food to entertainment to savings.

Once you've subtracted your total expenses from your total income, you'll be able to see where you may need to generate additional income, or where you have a surplus.

Remember, a budget is a guideline to help you stay on track. You'll need to adjust it from time to time as your needs change. And if you stray from it, just refocus and remember that financial management is an ongoing learning process. It's the big picture that counts.

## Using credit wisely

A credit card can be a great tool to have on hand in case of emergency (your car breaking down in the

middle of nowhere, for example). It can also become a huge source of financial stress in a short amount of time if you make only minimum payments on the balance owed.

Should you have a credit card at all? The answer is yes, because establishing a good credit rating is a key factor in your current and future financial health. If you're in school, choose a student credit card, which offers no annual fee and often additional perks. You might also want to consider other flexible credit options, such as a credit line, which allows you to access credit when and as you need it. You pay interest only on the credit amount you draw down.

All credit is not created equal, and you may have already discovered that there are many credit companies offering tempting deals and easy access to credit cards.

If you are moving for school, you may also want to think about establishing a credit line for emergency access to funds while you are away from home. Your parents or their financial advisor can help you look at your

projected expenses and then determine a credit limit to give you an emergency financial buffer.

With all credit, the key is to keep it simple, spend only what you can afford to repay, and make all your payments on time.

## Investing—it's not just for your parents

When you're working on a degree or a new career, retirement is probably the last thing on your mind. But in this case, time is most definitely on your side, and putting as little as \$25 per month away now can generate a huge payoff (literally!) later (see the box below for the impressive numbers).

### The miracle of compound interest

A 20-year-old who puts away \$1,000 a year and earns an average rate of return of 8% a year will have \$386,505 by age 65. Waiting until age 30 to put that same \$1,000 away will generate less than half that growth, or \$172,317.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

## Your key priorities

At this stage of life, you're probably focused on a number of financial priorities. Your financial advisor can provide professional one-on-one assistance, as well as resource materials, to help in any or all of the following areas:

- Understanding your personal net worth
- Investing in stocks and bonds
- Gaining financial independence through budgeting
- Understanding your credit options and ratings
- Creating the independent lifestyle that's right for you, including the career path that will help to take you there

### Making 401(k)s and traditional IRAs work for you

Saving for your future should be a key part of any financial plan. There are some ways to save that will also benefit you today—in the form of immediate tax savings.

## 401(k) plan

The journey from work to retirement isn't made in one giant leap. It takes a lifetime of savings to steadily build your nest egg. By contributing to your company retirement plan, small contributions today can add up to a significant amount tomorrow. This is due to the advantage of tax-deferred growth. A 401(k) plan allows participants to make pre-tax contributions through payroll deductions to save for retirement. Most plans will allow participants to contribute up to 100% of their pay (not to exceed the IRS limit).

Additionally, many companies make matching employer contributions and profit sharing contributions to employee accounts. In most plans, participants have the opportunity

to direct their contributions into a variety of investment choices. In addition to reducing taxable income and allowing tax-deferred growth, a 401(k) plan may offer other benefits such as provisions that allow for hardship withdrawal or loan options.

## Traditional IRA

A tax-advantaged retirement vehicle is attractive to many individual investors because contributions grow tax-deferred. When saving for retirement, you want every investment advantage you can get—and one of the biggest is tax deferral.

Earnings on your IRA investments are tax-deferred and will accumulate faster than if they were held outside an IRA.

When you do begin to take withdrawals—usually in retirement—you will have to pay taxes on the distributions. You may, however, be in a lower tax bracket. Therefore, your total tax obligation could be less than it would have been with the taxable investment.

Ask your financial advisor for more information on these savings options.

## Protecting yourself from fraud

Fraud can take many forms, from false advertising to deceptive telemarketing and e-commerce schemes. Remember that no one is going to give you something for nothing, and “special limited time offers” and amazing cash prizes should be treated as highly suspicious. Beware of any situation where you're being asked to supply personal information or payment up front. And never give out your Social Security Number (SSN) unless you're listing it on your tax return or are signing a legitimate employment agreement. Your SSN provides access to a lot of information about you, and it should be carefully protected.

## Credit card fraud

1. Never leave your cards or purse unattended at work or in your car's glove compartment. Both are common targets for thieves.
2. If you're away on vacation, take cash or traveler's checks with you whenever possible and store your credit cards in the room safe or hotel safe.
3. Plan for what you'll need, and take only that amount of cash with you for a night out with friends (this will protect your cards and your budget).
4. Make a list of your credit cards and their numbers, and keep it in a safe place. This will be helpful if you need to report a lost or stolen card.
5. If your card is lost or stolen, immediately notify the credit card company.
6. Review your monthly statements carefully. If you notice any transactions that you did not make yourself, contact the bank or credit card company right away.

## How we can help

If you need help to determine or understand your key financial priorities and if investing your savings is a priority, your financial advisor can help. They can help you decide what kind of account is right for you—an online investing account where you make the decisions, a full-service account where investment decisions are made with an advisor, or both.

Working with you (and your parents, if you wish), your financial advisor can create a plan to meet your current financial needs, as well as your longer-term goals. They can help you plan out where you should set up a bank account if you are going abroad for school or traveling overseas, and the best methods for transferring money. And if you're leaving for college, your financial advisor can help you manage most of your financial needs online or over the phone.

# Roth IRA



Wealth  
Management

A Roth IRA is a tax-favored retirement plan that can be established by an individual investor. It is one of the most common individual retirement vehicles available, and many investors can benefit from investing in this type of plan.

## Contribution limits

Contributions to a Roth IRA may be made in one or more payments throughout the year. You can contribute up to \$7,000<sup>1</sup> in 2024 (\$6,500 in 2023) if you meet the following requirements:

- You have earned income or are married to someone with earned income.<sup>2</sup>
- Your modified gross income is below \$218,000 for 2023 and \$230,000 for 2024, if you're married and file a joint return.<sup>3</sup>
- Your modified gross income is below \$138,000 for 2023 and \$146,000 for 2024, if you're filing an individual return.<sup>3</sup>

In addition, if you are age 50 or older, you may contribute an additional \$1,000 to your Roth IRA, as a "catch-up" contribution indexed for inflation.

## Benefits of a Roth IRA

When you invest in a Roth IRA, you receive considerable benefits, including:

- **Tax-free withdrawals** — You'll pay no taxes on distributions as long as your Roth IRA has been open at least five years and you have reached age 59½.

- **Tax-free earnings** — Your Roth IRA earnings will accumulate tax-free. This means that the power of compounding is put to full use in your retirement plan.
- **Age limit for contributions** — There are no age restrictions for contributing to a Roth IRA.
- **No required minimum distributions** — There are no required minimum distributions when age 73 or at any time during your life. You can put off taking distributions until you need the money or you can leave the entire balance to your beneficiary without ever taking a single distribution. Please note, a non-spouse beneficiary is required to take annual distributions.
- **Penalty-free withdrawals** — Distributions from Roth IRAs made prior to age 59½ may be subject to an additional 10% early withdrawal penalty. However, a number of exceptions exist to mitigate this penalty:
  - Qualified transfer or roll over to another retirement plan
  - Distributions made to your beneficiary after your death
  - Unreimbursed medical expenses that are greater than 7.5% of your adjusted gross income (AGI)
  - Distributions made because of a qualifying disability
  - Qualified reservist distributions
  - Substantially equal periodic payments
  - Involuntary distributions due to IRS levy on the account
  - Qualified birth or adoption distributions (QBOAD)
  - Survivors of domestic abuse (limited to \$10,000, effective 2024)
  - Emergency withdrawal exception (limited to \$1,000)
  - Principal place of residence in qualified disaster area (up to \$22,000)
  - Qualified long-term care premium payments (limited to \$2,500 annually)
  - Terminally ill

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

## Converting from a traditional IRA to a Roth IRA

If you already have a traditional IRA, you may be interested in converting it to a Roth IRA. Converting may make sense under the following conditions:

- **You have enough non-IRA savings to pay the taxes** — You'll have to pay taxes on your deductible IRA if you plan on converting it to a Roth IRA. If you can use non-IRA assets to pay these taxes, the conversion can be a good idea, but if you have to cash out part of your traditional IRA, the switch might not be worth it. Plus, the amount withdrawn to pay the taxes may be subject to a 10% penalty.
- **You are years away from retirement** — If you won't need your money for many years, you may come out ahead by converting to a Roth IRA. That's because the advantages of tax-free distributions, offered by the Roth IRA, will start to outweigh the cost of taxes today for moving the money out of your traditional IRA.
- **You may be in a higher tax bracket in retirement** — When you own a traditional deductible IRA, you'll be taxed at your marginal tax bracket when you withdraw your money. That could work to your favor—if your tax bracket falls during retirement. But if you think your tax bracket will stay the same, or perhaps even rise, then you may well come out ahead by converting to a Roth.
- **You do not anticipate spending the assets for your retirement** — By converting your traditional IRA to a Roth IRA, you can

prepay income taxes for your heirs. This may reduce the size of your taxable estate and may allow your beneficiaries to receive tax-free distributions.

Keep in mind, the amount you convert will be subject to ordinary income taxes. However, the converted amount is not subject to a 10% premature distribution penalty no matter what your age is.

## Investing your Roth IRA assets

Assets in a Roth IRA can be invested in virtually any type of investment, including mutual funds, common stocks, corporate and government bonds, annuities and more.

The investments you select will depend on your individual needs, your tolerance for risk and your time horizon—how long you have until retirement. We can help you determine how much you'll need to meet your retirement goals, and can assist you in selecting appropriate funding vehicles for your Roth IRA.

## Conclusion

Investing in a Roth IRA can be an excellent way to help you fund the type of retirement you dream of. Your financial advisor can assist you in determining if a Roth IRA is the right IRA for you. He or she can also provide you with the information you need in order to make your investment decisions.

Start funding your IRA today. The sooner you act, the more time you'll have to accumulate the wealth you'll need in retirement and let the power of tax-deferred savings work for you.

1. Total yearly contributions to all IRAs may not exceed \$7,000 for 2024, unless you are eligible for the catch-up contribution.
2. You or your spouse must have earned income equal to or greater than the dollar amount you contribute.
3. There are phase-out schedules for adjusted gross income for both single and joint filers. You should contact your RBC Wealth Management financial advisor for more information. No information, including but not limited to written materials, provided by our firm should be construed as legal, accounting or tax advice.

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.

# Traditional IRA



Wealth  
Management

A traditional IRA is a tax-advantaged retirement vehicle for individual investors. It's attractive to many investors because contributions grow tax-deferred. In addition, some investors, depending on their income and their ability to participate in an employer sponsored retirement plan, are also able to make tax-deductible contributions to the account.

## Tax-deferred advantages

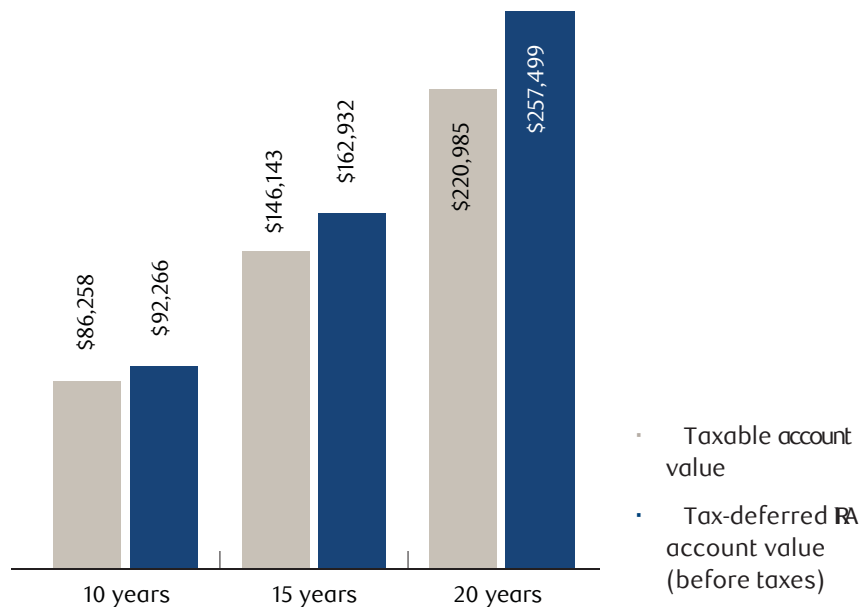
When saving for retirement, you want every investment advantage you can get—and one of the biggest is tax deferral.

Earnings on your IRA investments are tax-deferred, and may accumulate faster than if they were held outside an IRA.

The hypothetical illustration shows you how you might accumulate more in an IRA compared to a taxable account.

### Assumptions:

- \$7,000 contribution per year to an IRA vs. a \$7,000 contribution to a taxable account
- 24% federal tax bracket, 6% annual average rate of return
- Taxes on investment earnings are paid annually in the taxable account, but deferred until withdrawn from the IRA



This chart is for illustrative purposes and not intended to be representative of any specific investment vehicle. Past performance is not indicative of future results.

When you do begin to take withdrawals—usually in retirement—you will have to pay taxes on the distributions. You may, however, be in a lower tax bracket. Therefore, your total tax obligation could be less than it would have been with the taxable investment.

## Contribution limits

Anyone who has earned income or is married to someone with earned income and files taxes jointly, may contribute to an IRA. In 2024 the annual contribution limit for an individual is the lesser of 100% of compensation or \$7,000. In addition, individuals who are age 50 or older may contribute an additional \$1,000 to their IRA.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

### Deductibility limits

If you are single and do not participate in an employer-sponsored retirement plan, you may deduct the full amount of your IRA contribution. If you are married, file your taxes jointly and do not participate in an employer sponsored plan, but your spouse does, you may deduct your full contribution amount if your joint modified adjusted gross income is \$230,000 (2024) or less. The full deduction is phased out for incomes between \$230,000 and \$240,000 (2024).

If you participate in an employer-sponsored retirement plan, you can deduct your contributions to a traditional IRA according to the schedule\* below.

#### Modified Adjusted Gross Income (MAGI)\* limits for deductible IRA contributions

Tax year	Married (joint filers)	Single filers
2024	\$123,000–\$143,000	\$77,000–\$87,000
2023	\$116,000–\$136,000	\$73,000–\$83,000

Source: Internal Revenue Code and Regulations §219(g)(3)(B).

### Penalty-free withdrawal options

Your IRA is a retirement savings vehicle—it wasn't designed to help you pay for short-term goals. You have to pay a 10% penalty—in addition to applicable taxes—on most withdrawals you make before age 59½. However, there are certain exceptions available to you that are exempt from the 10% early withdrawal penalty.

### Penalty-free exceptions

- Distributions made to your beneficiary after your death
- Unreimbursed medical expenses that are greater than 7.5% of your adjusted gross income (AGI)
- Distributions made because of a qualifying disability
- Qualified post-secondary education expenses for you, your spouse, your child or grandchild
- First time homebuyer expenses for primary residence, up to \$10,000 lifetime limit
- Health insurance premiums during period of qualified unemployment
- Qualified reservist distributions
- Substantially equal periodic payments
- Involuntary distributions due to IRS levy on the account
- Qualified birth or adoption distributions (QBOAD)
- Survivors of domestic abuse (limited to \$10,000, effective 2024)
- Emergency withdrawal exception (limited to \$1,000)
- Principal place of residence in qualified disaster area (up to \$22,000)
- Qualified long-term care premium payments (limited to \$2,500 annually)
- Terminally ill

Although you may be able to take these distributions without paying a penalty, you will still owe income taxes on your IRA's earnings and deductible contributions. Consult with your tax professional before making any withdrawals.

### Investment options for your IRA

Assets in a traditional IRA can be invested in virtually any type of investment, including mutual funds, common stocks, corporate and government bonds, annuities and more.

The investments you select will depend on your individual needs, your tolerance for risk and your time horizon—how long you have until retirement. We can help you determine how much you'll need to meet your retirement goals, and can assist you in selecting appropriate funding vehicles for your IRA.

### Call us today

At RBC Wealth Management, we can answer your retirement planning questions and can give you the information you need in order to help you effectively invest your assets.

\* You can deduct the full \$7,000 for 2024, if your MAGI doesn't exceed the lower figure in the ranges given. As your MAGI increases through the range listed, your ability to deduct will phase out as you reach the higher listed limit.

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.

# Why participate in your 401(k) plan?



Wealth Management

## Why contribute

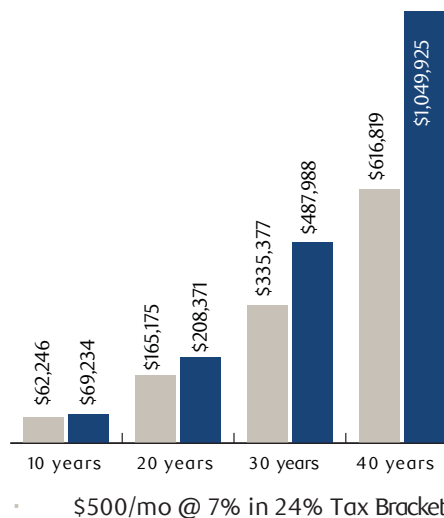
When saving for retirement, every dollar counts. The journey from work to retirement isn't made in one giant leap. It takes a lifetime of savings to steadily build your nest egg.

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

## How a 401(k) plan works

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

## The advantage of tax-deferred growth



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

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

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

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

## How RBC Wealth Management can help

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

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

**Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.**

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.

# Traditional and Roth 401(k) deferrals

## Key differences



Wealth Management

	Traditional 401(k) deferrals	Roth 401(k) deferrals
<b>Contributions</b>	Funded with pre-tax dollars	Funded with after-tax dollars
<b>Matching contributions</b>	Allowed	Allowed; however, employer matching of Roth 401(k) is treated as pre-tax contributions.
<b>2024 contribution limits</b>	\$23,000 (\$30,500 if age 50 or older)	\$23,000 (\$30,500 if age 50 or older). If participant makes a combination of Roth 401(k) and traditional pre-tax deferrals, the total amount contributed cannot exceed the contribution limit.
<b>Income restrictions</b>	No	No
<b>ADP testing required</b>	Yes, unless plan is a Safe Harbor 401(k)	Yes, unless plan is a Safe Harbor 401(k)
<b>Investment earnings</b>	Tax-deferred earnings	Tax-free earnings
<b>Taxes</b>	Pay taxes on contributions and earnings later. Reduces current income taxes.	Pay taxes on contributions now. Qualified withdrawals are tax-free.
<b>Tax-free distributions</b>	Not available	A 'qualified distribution' (tax-free) is one that occurs at least five years after the year of the employee's first designated Roth contribution (counting the first year as part of the five) and is made: <ul style="list-style-type: none"> <li>• On or after attainment of age 59½,</li> <li>• On account of the employee's disability, or</li> <li>• On or after the employee's death.</li> </ul>
<b>Required minimum distribution</b>	At age 73	Roth 401(k) balances are not subject to RMDs (2024)
<b>Rollovers</b>	Can be rolled over into a traditional IRA and other qualified plans, plan permitting	Can be rolled over into a Roth IRA or a Roth 401(k), plan permitting. The entire amount of a qualified Roth 401(k) account distribution that is rolled over to a Roth IRA is treated as basis in the Roth IRA. If this rollover results in the establishment of a first-ever Roth IRA, then the five-year period starts in the year of the rollover. The Roth 401(k) account's five-year period does not carry over. In the case of a direct rollover to another Roth 401(k) account, the five-year period is the earlier of the two plans' five-year periods.

**Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.**

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.

# Investment choices pyramid



Wealth Management

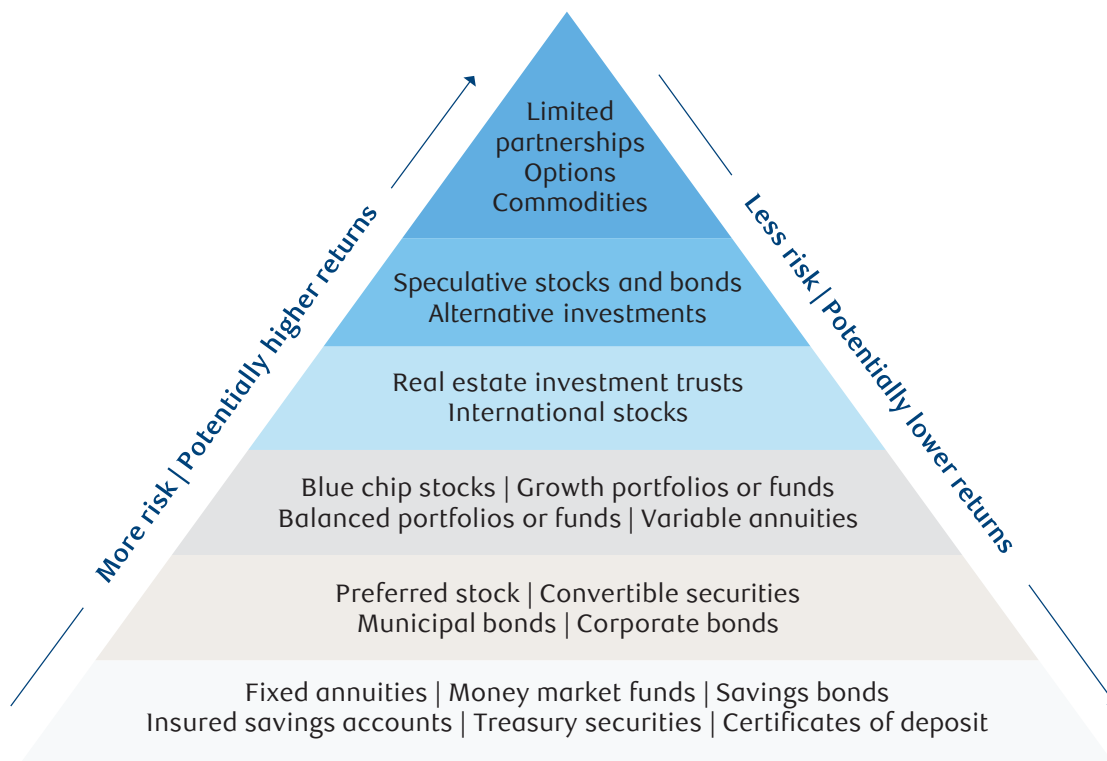
The relationship of risk and reward is central to the decision-making process for investors. Understanding your time horizon and your overall objectives for investing is key to making investment choices. For example, savings accounts carry very little risk, but they offer little in the way of reward because they do not pay very much interest. Stocks can offer investors potentially good

returns—but they also carry a high degree of risk, because there is no guarantee you won't lose your money in a stock. Some investors are more aggressive by nature, and are willing to take on more risk in exchange for potentially higher returns. On the other hand, conservative investors prefer investments that are unlikely to lose money—even if they do not grow significantly.

The investment choices pyramid provides context at a glance for investments that tend to carry more risk and reward and those that typically have less risk or reward.

Choosing the right mix of investments is a personal decision and one that is best done with the guidance of a professional.

Talk to your financial advisor about the portfolio that is right for you.



This is for illustrative purposes and not intended to be representative of any specific investment vehicle. Past performance is not indicative of future results. This information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor.

**Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.**

# The cycle of market emotions

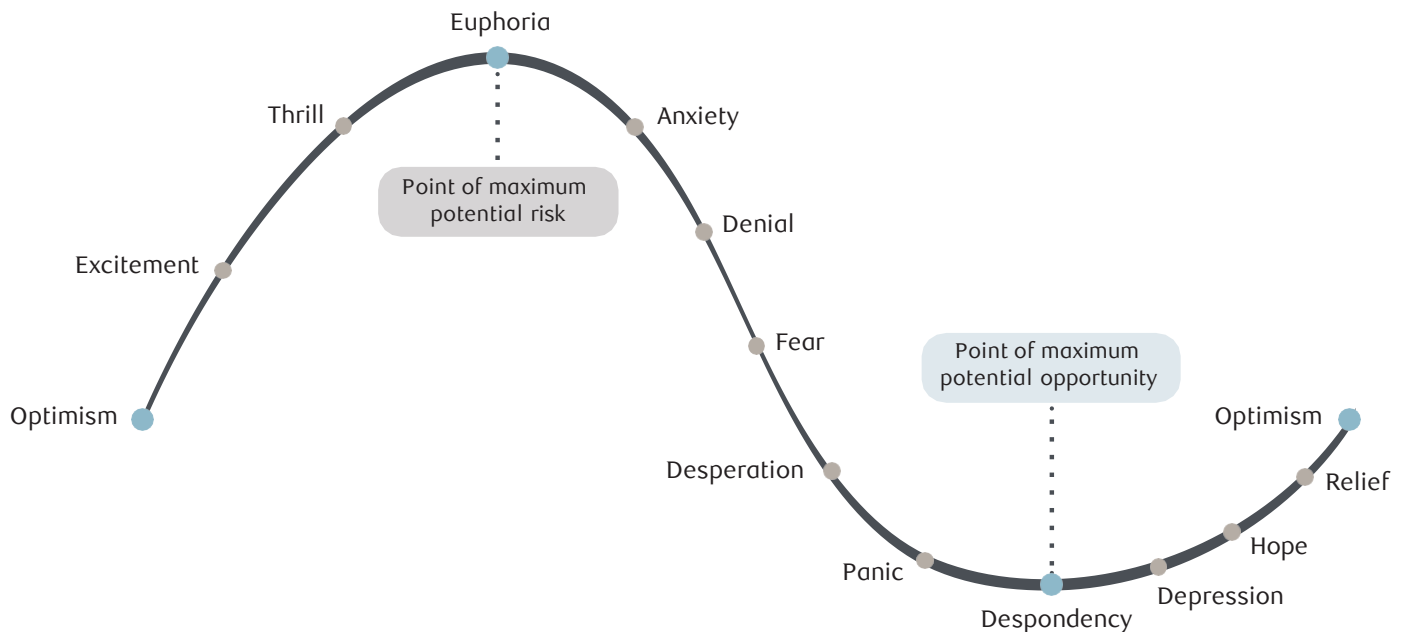


Wealth  
Management

Human emotion drives financial markets as much as or more than market fundamentals. As your investments grow, your confidence grows. And while you don't know exactly where the top of the market is going to be, there is a feeling of euphoria when returns are favorable. This is also the point of maximum

potential risk for your portfolio. Conversely, as your investments lose value, your confidence diminishes and you begin to feel nervous. And while you don't know exactly where the bottom of the market is going to be, there is a feeling of despondency when returns are unfavorable. This is also the point of maximum

potential opportunity. A diversified portfolio can help protect you from the extreme highs and lows of market volatility, which in turn can help prevent you from feeling extreme emotions as your portfolio expands and contracts. To review your asset allocation, talk to your financial advisor.



**Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.**

# Health savings accounts: strategic information



Wealth Management

Health savings accounts (HSAs) offer a unique, tax-free method to save and grow assets to fund the cost of care in the future. Getting the most out of this benefit requires an early start and disciplined investing over time.

## HSA basics

### A powerful tool

Many employers offer HSAs for employees who select a high-deductible health care plan. These accounts offer a powerful method to invest continually and strategically grow assets to fund health care expenses in the future. Note: anyone with an HSA-qualified health plan can contribute.

### Triple tax benefit

HSAs offer a tax-efficient method to build reserves by delivering a rare triple tax benefit.

- Contributions are made on a pretax basis, potentially reducing current taxable income
- Investments grow tax-free for qualifying withdrawals for health care
- Withdrawals for qualified health care expenses are made tax-free

### A long-term approach

While many individuals use these accounts to fund their current-year expenses, real value comes as an investment vehicle for the future.

Unlike flexible spending accounts, HSAs permit owners to carry balances across calendar years and invest the assets. By paying for current health care expenses out-of-pocket instead of paying from the HSA, investors are able

to invest and grow balances, building effective resources for the future.

By consistently contributing the maximum annual amount, and investing the balance for future health care costs, one can accumulate a nice tax-free reserve to fund future health care costs. For example, an investment of just \$100 per month over 20 years can turn \$24,000 into over \$56,000 (assuming a 5.5% rate of return).

### Limits and restrictions

HSAs have contribution limits that are periodically adjusted by the IRS. For 2025, you are able to contribute up to \$4,300 for individual health coverage or \$8,550 for family health coverage. Like most retirement accounts, there is also a catch-up contribution. Individuals age 55 and older can contribute an additional \$1,000, putting the total family contribution at \$9,550 for families with one member age 55 or older.<sup>1</sup>

### HSA qualifying expenses

The range of qualifying medical expenses is quite broad and includes most common health care costs. Additionally, funds may be used for insurance deductibles, dental and vision care. When taking distributions from your HSA account to fund care, qualifying withdrawals are 100% tax-free. This includes both the initial contribution and any growth.

## Funding your HSA



### Salary deferral

Contributions to your account may be made by pretax salary deferral. This can be set up during your annual enrollment period as a simple way to begin to invest pretax dollars.



### Direct contributions

Additional and ongoing contributions may be made at any time outside of salary deferral and in most cases may be deducted from taxable income.



### Employee incentives

Many employers offer incentives in the form of direct payments to an HSA to encourage participation in health and wellness programming.



### IRA rollover

Your account may also be funded via a one-time tax-free rollover from an IRA. The amount of the rollover is limited by annual HSA contribution limits, but this can serve as an effective way to jump-start investing.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

The list of qualifying expenses is expansive and includes:	
Medical insurance premiums while unemployed	Doctor's visits
Hospital services	Preventive care
Some long-term care insurance	Eye exams, glasses or contact lenses
Dental care	Hearing aids
Medical devices	Home care
Mental health services	Smoking cessation

### Dependents

HSA account balances may be used to fund care for a spouse and/or dependent children. Expenses are allowed for anyone who is eligible to be listed as a dependent on the primary account holder's tax return. Qualified medical expenses for your spouse and dependents you claim on your tax return (assuming they are also covered by your health plan) are eligible for tax-free distribution treatment. It is important to note that even though a dependent is eligible to be covered under your high-deductible health plan, they may not be eligible for tax-free distributions from your HSA if they claim themselves as a dependent on their own tax return.

### Timing of payments

All qualifying expenses are eligible so long as the expenses occur after establishing the account. The balance in your account does not have to be large enough to cover the expense at the time it was incurred. In this manner a hospitalization or other large expense can be reimbursed after the fact if an account balance is run to zero but is still being funded.

### Age 65 and beyond

Following Medicare enrollment, you are no longer eligible to contribute to an HSA but may continue to fund your care with HSA dollars, including paying for long-term care and Medicare premiums. For added flexibility, seniors are allowed withdrawals from their account for nonqualifying expenses after age 65. These are available without a penalty but will trigger normal income tax.

### Unused balance

If an account holder passes away prior to exhausting the balance in their HSA, the surviving spouse is eligible to inherit the account. They may continue to use the balance of the account with the same benefits and restrictions as the account holder. However, if passed on to a nonspousal beneficiary, the benefits will be subject to tax.



### Catching up after a late start

Even with a late start, a 50-year-old can build a meaningful reserve within an HSA prior to Medicare enrollment. When the maximum amount is invested each year, balances can grow to over \$215,000 in the 15 years prior to Medicare eligibility.

This projection is helped by investment growth of 5.5%.

\$0

HSA balance at age 50

+

Maximum contributions (\$8,550 annually)

+

Catch-up contributions beginning at age 55 (\$1,000 annually)

+

Investment growth

=

\$215,000

Balance at age 65

### Take action:

- Review your benefit elections annually, using online tools to project costs
- Consider saving in an HSA and systematically saving the maximum contribution over time to build flexibility for the future
- Leverage the power of time to bolster your resources across all your employee benefits
- Invest unused balances for tax-free growth and to fund qualified health care expenses tax-free in retirement

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 connection 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.

1. As Medicare is not considered a high deductible plan, qualified contributions end with Medicare enrollment. If one spouse is not enrolled in Medicare, yet is still eligible for an HSA, they can contribute to an HSA. Rev. Proc. 2020-32, IRS.gov, 2020

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. 24-68-2890188\_68701 (01/25)

# Employee stock options and restricted stock units



Wealth Management

Many companies offer employee stock options and/or restricted stock units as a form of compensation to attract and retain employees. Through issuing employee stock options, the employer grants the employee the right to purchase stock at a specified price in the future. Through issuing restricted stock units, the employer grants the right to stock or cash on the vesting date.

When you receive your employee stock options, a predetermined grant exercise price, vesting dates and expiration dates are set.

The price is usually the same as the current market value on the grant date. After the employee stock option has vested, you may exercise your stock purchase option. You pay the predetermined exercise price for the stock, regardless of the current market value.

The key dates in the life of an option:

- **Grant date** — the date the option is granted to the employee.
- **Vesting date** — the date the option vests.

- **Exercise date** — the date the employee exercises the option and purchases the stock.
- **Sale date** — the date the employee sells the stock.

There are two basic types of employee stock options, nonqualified stock options (NQSOs) and incentive stock options (ISOs). The main distinction between an NQSO and an ISO occurs at the exercise of the employee stock option.

A restricted stock unit (RSU) is a form of compensation issued by an employer to an employee in the form of company shares. Restricted stock units are issued to an

employee through a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with their employer for a particular length of time.

RSUs give an employee interest in company stock but they do not own the stock until vesting is complete. As shares vest, the fair market value of the vested portion of the grant is considered ordinary income. A portion of the shares may be withheld to pay income taxes while the employee receives the remaining shares to hold or sell at their discretion. The basis of the stock shares received for future sales is the fair market value (FMV) price on vesting date.

Event	Nonqualified stock options (NQSO)	Incentive stock options (ISO)	Restricted stock units (RSU)
Grant	Grant exercise price \$10/share	Grant exercise price \$10/share	No cost to exercise
	No tax consequences	No tax consequences	No tax consequences
Vesting			Market price \$40/share
	No tax consequences	No tax consequences	Ordinary income is the FMV on day of vesting. \$40/share is subject to ordinary income tax.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Event	Nonqualified stock options (NQSO)	Incentive stock options (ISO)	Restricted stock units (RSU)
Exercise	Fair market value \$50/share	Fair market value \$50/share	
Ordinary income tax	Ordinary income is the difference between fair market value and exercise price. \$40/share is subject to ordinary income tax.	None	N/A
Alternative minimum tax (AMT) preference	None	AMT adjustment for difference between fair market value and exercise price. \$40/share is AMT preference adjustment. <b>This may or may not cause an AMT amount due.</b>	N/A
Withholding	Subject to federal statutory withholding (currently 25%), state statutory withholding, FICA withholding (6.2%) and Medicare withholding (1.45%).	Not subject to withholding unless transaction is a disqualifying disposition and then subject to the same withholding as NQSOs.	Subject to federal statutory withholding (currently 25%), state statutory withholding, FICA withholding (6.2%) and Medicare withholding (1.45%).
Fair market value \$100/share	Fair market value \$100/share	Fair market value \$100/share	Fair market value \$100/share
Capital gain	If held more than one year, the amount is a long-term capital gain taxed at capital gain tax rates. \$50/share is subject to long-term capital gain tax.	If held more than one year, the amount is a long-term capital gain taxed at long-term capital gain tax rates. \$90/share is subject to capital gain tax.	If held more than one year, the amount is a long-term capital gain taxed at capital gain tax rates. \$60/share is subject to long-term capital gain tax.
	If held less than one year, the amount is a short-term capital gain taxed at ordinary income tax rates. \$50/share is subject to short-term capital gain.		If held less than one year, the amount is a short-term capital gain taxed at ordinary income tax rates. \$60/share is subject to short-term capital gain.
Disqualifying disposition if holding periods not met		If held less than one year, a disqualifying disposition occurs. If stock is sold within one year of exercise or two years of grant, it is a disqualifying disposition. The difference between the grant price and fair market value on the date exercised is classified as ordinary income.	
Transfer			
	Refer to employer's plan. Generally can be transferred during your lifetime to family members, trust for your benefit or charities.	Can be transferred only at death.	Cannot be transferred.
	Gift is complete only when the employee stock option is vested.		
Lifetime gift			
	Donor subject to income tax on the exercise	Not allowed	Cannot be transferred.
Estate			
	If transferred at death, considered income in respect of decedent (IRD).	If transferred at death, considered IRD beneficiary is subject to income tax on the gain.	If transferred at death, considered income in respect of decedent (IRD).
	Beneficiary is subject to income tax on the gain.		Beneficiary is subject to income tax on the gain.

## Cashless exercise of your employee stock options

In 1987, the Federal Reserve Board amended lending regulations allowing employees to exercise stock options with no personal outlay of cash. RBC Wealth Management is able to offer you financing\* for your employee stock option exercise at competitive rates. Instead of borrowing money from a bank or other lending institution, RBC Wealth Management can loan you the funds to exercise your employee stock option.\* And in many cases our rates may be lower than those of our competitors.

We will lead you through the process of exercising your options and loan you the funds by selling either all or part of your stock to cover the cost of your employee stock option exercise.

## Here's how it's done

Your company will provide you with an employee exercise notice and a letter of intent stating that after your employee stock options are exercised, your shares will be delivered to your RBC Wealth Management account.

You will set up an RBC Wealth Management account to which your shares will be delivered, and sign a margin account agreement,\* cashless letter and (if needed) a stock power, which will allow RBC Wealth Management to process the stock.

RBC Wealth Management will sell your stock and wait until the shares are delivered from your company to your RBC Wealth Management account. In doing so, RBC Wealth Management provides you with a loan by issuing a check payable to your employer for the amount of your employee stock options. You will be charged interest from the date of payment until your shares are delivered or through settlement date.

Your RBC Wealth Management financial advisor will let you know when your stock has been deposited in your account.

## Transfers during life: Gift and estate tax consequences

NQSOs can be transferred during your lifetime to family members, trusts for your benefit, or charities, provided the employer's plan allows for such transfers. A gift of NQSOs is complete only when the employee stock option is vested. Giving vested and unexercised NQSOs with strong appreciation potential may avoid future appreciation in your estate.

Further, you, not the donee, will owe the income tax on exercise. This may be desirable because the income tax paid is not treated as an additional gift. ISOs and RSUs can only be transferred at death.

## Transfers at death

At death, any gain of NQSOs, ISOs and RSUs are included in the decedent's gross estate for estate tax purposes and is considered Income in Respect of a Decedent (IRD). IRD causes the gain to be included in the beneficiary's gross income for income tax purposes.



Wealth  
Management

This material is not intended to replace the advice of a qualified tax advisor, attorney, accountant or insurance advisor. Consultation with the appropriate professional should be done before any financial commitments regarding the issues are made. Although this is designed to provide accurate and authoritative information with respect to the subject matter being covered, it is expressly understood by the reader that RBC Wealth Management does not provide tax, legal or accounting advice or services. Any reference to investment return is hypothetical and is used for illustrative purposes only. It should not be construed as a guarantee and may not be used to project or predict future investment results. Financial forecasts are based on many assumptions including estimated expected return rates, taxes, inflation, earnings, spending, time periods as well as other factors and should be reviewed periodically.

\*Purchasing securities on margin may not be suitable for all investors. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, the firm can take action, such as to issue a margin call and/or sell securities or other assets in any of your accounts held with the member, in order to maintain the required equity in the account. Before you sign a Margin Agreement, it is important that you read and fully understand the Margin Disclosure Statement, which describes additional risks involved in trading securities on margin.

