

# WealthMonitor



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**Wealth  
 Management**



**\$1.65 trillion**

Outstanding federal student loan debt as of Q3 2025. Approximately 9.4% is 90 or more days delinquent or in default.

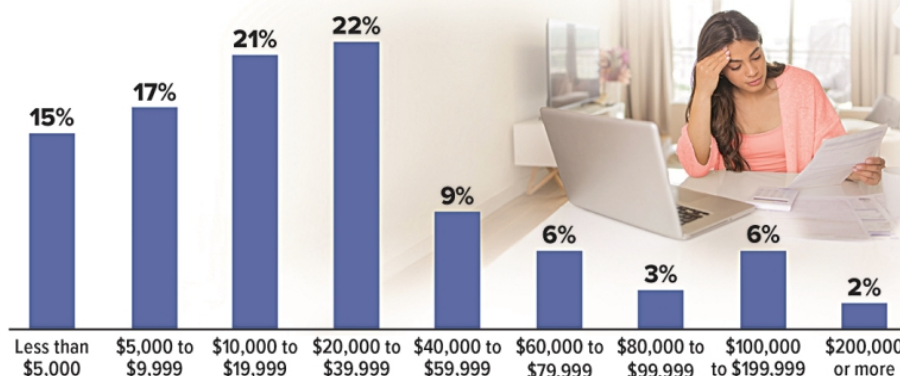
Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit Q3 2025*

## Federal Student Loans: How Much Do Borrowers Owe?

Millions of Americans have federal student loans. This chart shows the distribution of borrowers by outstanding loan balance.

As of June 2025, 32% of borrowers owe less than \$10,000 (representing 4% of all outstanding debt), 43% of borrowers owe between \$10,000 and \$40,000 (representing 24% of all outstanding debt), 15% owe between \$40,000 and \$80,000 (representing 23% of all outstanding debt), and 11% owe more than \$80,000 (representing 49% of all outstanding debt). All told, 75% of borrowers owe less than \$40,000.

Distribution of federal student loan borrowers by outstanding balance



Source: College Board, *Trends in College Pricing 2025* (numbers may not equal 100% due to rounding)

# Foreign Stocks Outperformed in 2025

Over the 20-year period ending in 2025, the stocks of large and mid-sized U.S. companies — represented by the Russell 1000 Index — produced an impressive average annual return of 10.94%. By contrast, the stocks of similar-sized companies in foreign countries returned just 6.22%.<sup>1</sup>

A large part of this performance disparity was due to the stronger U.S. economic recoveries after the Great Recession and the pandemic, along with the rise of massive technology companies that provided a large percentage of U.S. market returns. Even so, foreign stocks outperformed U.S. stocks in seven out of the last 20 years, most notably in 2025, with a return of 32.55%, almost double the 17.37% return of U.S. stocks.<sup>2</sup>

## One year or a trend?

The dominance of foreign stocks in 2025 was likely due to a combination of factors, including restrictive U.S. tariff policies, a weaker U.S. dollar, and because foreign central banks were more aggressive than the Federal Reserve in lowering interest rates. It's too early to know whether this marks a fundamental shift, but some analysts believe foreign stocks — which remain significantly less expensive than U.S. stocks based on their price/earnings (P/E) ratios — still have plenty of room to grow and could experience strong performance over the next decade.<sup>3-4</sup>

On the other hand, those who remain skeptical of foreign stocks point out that large multinational U.S. companies provide global exposure, U.S. companies typically have higher profit margins than foreign companies, and U.S. technology juggernauts are unparalleled in foreign markets (although there are some large foreign technology companies).<sup>5</sup>

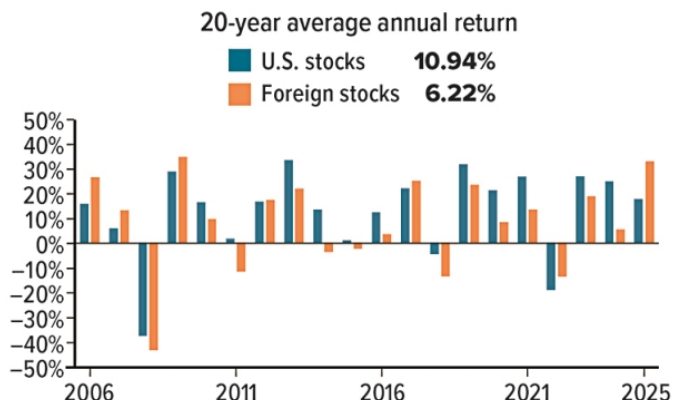
Holding foreign stocks is a standard diversification strategy, but some investors have backed away from it in recent years due to poor performance. If you are interested in adding a global dimension to your portfolio or expanding your current international holdings, here are some considerations.

## A world of choices

One way to participate in global markets is by investing in mutual funds or exchange-traded funds (ETFs). In late 2025, about 1,280 mutual funds and almost 900 ETFs focused on global equities.<sup>6</sup>

International funds range from broad global funds that attempt to capture worldwide economic activity to regional funds and those that focus on a single country. Some funds are limited to developed nations, whereas others focus on nations with emerging economies, which may have greater growth potential but could be substantially more volatile, risky, and less liquid than the stocks of companies located in more developed foreign markets.

## Stock performance, annual total returns



Source: London Stock Exchange Group, 2026, for the period 12/31/2005 to 12/31/2025. U.S. stocks are represented by the Russell 1000 Index, and foreign stocks are represented by the MSCI World ex USA Index. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

The terms "ex US" or "ex USA" typically mean that the fund does not include domestic stocks. On the other hand, "global" or "world" funds may include a mix of U.S. and international stocks, with some offering a fairly equal balance between the two. For any international stock fund, it's important to understand the mix of countries and types of businesses represented by the securities in the fund.

## Additional risks

All investments are subject to market volatility, risk, and loss of principal. However, investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country.

Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss. The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

*Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1-2) London Stock Exchange Group, 2026, Russell 1000 Index and MSCI World ex USA Index for the period 12/31/2005 to 12/31/2025

3) Morningstar, August 20, 2025

4) CNN Business, January 4, 2026

5) *Forbes*, October 11, 2025

6) Investment Company Institute, December 30, 2025

# Mega Backdoor Roth: A Tax-Friendly Retirement Strategy for Serious Savers

Contributing to a traditional 401(k) or IRA can help reduce your current tax bill, but you may run into some drawbacks in retirement. Withdrawals are taxed as ordinary income, and you must take required minimum distributions (RMDs) once you reach age 73 (age 75, for those born in 1960 or later). On the other hand, qualified Roth distributions are tax-free after age 59½, as long as you've held the account for at least five years.\* Plus, Roth accounts are not subject to RMDs during your lifetime.

Roth IRA contribution limits are somewhat low (\$7,500 in 2026, or \$8,600 if you are age 50 or older), and you can't contribute at all if your income exceeds certain annual limits (\$168,000 for single filers and \$252,000 for joint filers in 2026). You can make larger contributions to a Roth 401(k) regardless of your income.

If you have a sizeable income and would like to shelter as much as possible in a Roth account for the future, find out if your employer's 401(k) plan allows both after-tax contributions and in-service withdrawals. If so, you could also make special after-tax contributions to your traditional 401(k) and then move (or convert) the funds to a Roth IRA or a Roth 401(k). This strategy — called the mega backdoor Roth — is only an option for some people under limited circumstances.

## Saving to the max

The employee contribution limit for 401(k), 403(b), and government 457(b) plans is \$24,500 in 2026, with an additional \$8,000 catch-up contribution for those age 50 to 59, and 64 and older, for a total of \$32,500. Workers age 60 to 63 can make a larger "super catch-up" contribution of \$11,250 in 2026 for a total of \$35,750. Like all catch-up contributions, the age limit is based on age at the end of the year, so you are eligible to make the full \$11,250 contribution if you will turn 60 to 63 any time during 2026 (but not if you will turn 64). However, there is one important change that takes effect in 2026: high earners with incomes exceeding \$150,000 (based on the previous year's W-2 wages) must direct all of their catch-up contributions to a Roth account.

The combined total for salary deferrals in 2026 (not including catch-up contributions), employer contributions, and employee after-tax contributions is \$72,000 or 100% of compensation, whichever is less. You generally must max out salary deferrals before you can make additional after-tax contributions. For example, if you are age 60, and you contribute the maximum \$35,750 to your 401(k), and your employer contributes another \$18,000, you may be able to make an after-tax contribution of \$29,500 for a grand total of \$83,250.

## Fast track your Roth conversion

Your after-tax contributions are not taxable upon withdrawal, but any converted earnings would be taxed as ordinary income. Thus, if in-service withdrawals are permitted, it may make sense to transfer your after-tax contributions to a Roth account as soon as possible to help reduce the amount of investment growth and the resulting tax burden.



*If you have a sizeable income and would like to shelter as much as possible in a Roth account for the future, find out if your employer's 401(k) plan allows both after-tax contributions and in-service withdrawals.*

Bear in mind that 401(k) distributions are subject to the pro-rata rule, which requires you to withdraw proportional amounts of pre-tax and after-tax amounts if your account balance contains both types of contributions. So if your 401(k) balance is \$100,000 (\$80,000 in pre-tax money and \$20,000 in after-tax money), any distribution, including a conversion, must also consist of 80% pre-tax dollars and 20% after-tax dollars. In this case, you might avoid triggering taxes on the distribution by moving your pre-tax dollars to a traditional IRA at the same time your after-tax dollars are transferred to a Roth account.

If your employer accounts for pre-tax and post-tax contribution amounts and associated earnings separately, you might be able to withdraw your entire after-tax balance (including the taxable earnings) and leave your pre-tax account balance in the 401(k). Again, the tax bill may be minimal if the conversion is completed soon after making the after-tax contribution (or you roll the earnings portion into a traditional IRA).

You might consider yourself lucky if your plan allows after-tax contributions; it's not very common, especially at smaller companies. If your workplace plan allows after-tax contributions but doesn't permit in-service withdrawals, this strategy might still be worthwhile if you expect to retire or leave your employer in the near future.

*\*Distributions from traditional or Roth accounts taken prior to age 59½ may be subject to a 10% federal tax penalty, with certain exceptions, as well as ordinary income tax.*

# How AI Is Helping Modernize the IRS

After years of slow audits, taxpayer frustration, and seemingly endless mounds of paperwork, the IRS is now turning to artificial intelligence (AI) to overhaul its technology infrastructure, strengthen compliance, and improve taxpayer services. With funding from the Inflation Reduction Act (IRA), these modernization efforts represent a fundamental change in how the agency operates.

The first area in which the IRS is leveraging AI to help improve its operations is audit selection and fraud detection. Specifically, AI is aiding the IRS in optimizing its audit and compliance functions. For individual tax returns, AI models select a representative sample of returns to audit and identify returns likely to contain errors and taxpayers who may owe additional taxes. For partnerships, the agency uses two AI models to help prioritize partnership returns for audit. The significant increase in the number of large partnerships since 2002 has made it more difficult for the agency to identify taxable income and potential tax evaders. Because large partnership tax returns are complex, the IRS conducts very few of these audits; however, AI can select the highest-risk large partnership returns for audits.<sup>1</sup>

AI is also helping to provide better taxpayer service. Since 2022, the agency has deployed AI-powered chatbots and voicebots to provide self-service assistance for payment collection questions, such as payment options and notices. These tools can help

reduce call wait times and free up IRS agents to focus on more complex issues requiring human intervention.<sup>2</sup> The IRS plans to expand its use of a commercial AI agent to help with tasks such as case summarization and searches that could increase efficiency amid an IRS workforce reduction.<sup>3</sup> To assist in processing the millions of paper tax returns received annually, the IRS is piloting AI-powered tools to implement advanced automated scanning and AI-assisted data extraction to help reduce manual data entry and minimize data errors.

In 2024, the U.S. Department of the Treasury reported that AI helped prevent and recover more than \$4 billion in fraudulent or improper payments.<sup>4</sup> While this shows some progress has been made with AI initiatives, the modernization effort, which includes AI government oversight bodies, such as the Government Accountability Office (GAO), have warned about the need for transparency, safe data, and ongoing monitoring to ensure fairness in audit selection.<sup>5</sup> Despite these concerns, AI modernization efforts will continue to move forward, and the IRS has stated that it has made considerable progress on its long-term IT modernization plan to better serve taxpayers.<sup>6</sup>

1, 5) GAO.gov, June 2024; 2) IRS.gov, 2025; 3) Axios.com, 2025; 4) U.S. Treasury Department, 2024; 6) Federalnewsnetwork.com, September 2025

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