Your moment & your money: Empty nesters

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RBC Wealth Management

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Direct indexing

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What is direct indexing?

Simply put, the objective of direct indexing is to closely mirror the performance of a major index, such as the S&P 500, by purchasing and holding individual securities. It should be noted that direct indexing does not necessarily require owning every security in the index. Most direct indexing platforms use "partial replication" and/or optimization techniques whereby portfolio managers can mimic the index's performance while reducing the number of holdings. As opposed to "full replication," such techniques help to lower costs and simplify management.[1]

Why should someone use direct indexing?

One of the benefits of direct indexing is the potential for further tax-efficiency. Using such a strategy opens the opportunity to use tax-loss harvesting, which can be beneficial for long-term investors, especially those in higher tax brackets. This approach involves recognizing and utilizing capital losses to offset capital gains by selling securities at a loss.[2]

Another benefit of direct indexing is that it grants the ability to customize the individual securities within an account. For example, if an investor has a strong preference for responsible investing or wants to reduce stock concentration compared to the index, they can utilize direct indexing to create a portfolio that aligns with their investment objectives. Such control also gives investors the ability to proxy vote for the individual securities that they own.

With the benefits of replicating a major index and tax-efficiency, the following question sometimes arises: *Why would an investor not just invest in passive index exchange-traded funds (ETFs)?*

The passive choice: direct indexing or index ETFs?

When it comes to investing, there is no one-size-fits-all solution, and the unfortunate answer is often, "It depends." Direct indexing and index ETFs exhibit several differences, including tax efficiency, customization and cost. Below, we delve into some of the most common scenarios investors may find themselves in and which solution may be best.[3]

1. Direct indexing investing is subject to risk, including the loss of principal. There is no guarantee that direct indexing investing will meet an investor's objective or produce the desired tax results.
2. Tax-loss harvesting. IRS rules stipulate that if a security is sold by an investor at a tax loss, the tax loss will not be currently usable if the investor has purchased the same or substantially identical securities 30 days before or 30 days after the sale. This so-called "wash sale" rule is applied with respect to all of the investor's transactions across all accounts.
3. Exchange-traded fund involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices.

Scenario	Strategy	Why
Investor using a qualified account	**Index ETFs**	Since tax-loss harvesting may not apply, it may not make sense for an investor to pay extra for direct indexing.
Affluent investor	**Direct indexing**	With larger minimums and fees, direct indexing is better suited for high-net-worth individuals who can build a diversified portfolio despite higher minimum investment requirements and higher fees. Additionally, tax-loss harvesting, could prove beneficial, helping to offset any capital gains and potentially increasing after-tax returns.
Small account, fee-sensitive investor	**Index ETFs**	Smaller accounts can invest in a diversified portfolio of ETFs at a low cost while keeping annual capital gains low.
Desire to customize holdings	**Direct indexing**	Direct indexing allows for customization based on preference, providing greater control and transparency over individual holdings. Investors can restrict certain companies, industries and sectors they do not wish to invest in. Additionally, direct investing gives participants the advantage of tracking their holdings in real-time, as opposed to index ETFs, which only update daily. Of course, customization can be done in most managed accounts independent of tracking an index or being actively managed.
Transitioning concentrated positions	**Direct indexing or exchange funds**	Direct indexing is a solution for transitioning concentrated positions or unmanaged accounts, but exchange funds could also be considered in this scenario.

While the decision-making process may seem straightforward, we found that an even further simplified framework can help. If a taxable investor is interested in passive index investing and could build a diversified account using higher minimum managed accounts, direct indexing is an option to consider.

Moreover, direct indexing can complicate end-of-year taxes due to the need to account for individual securities, but also allows for the gifting of individual securities, which can be an advantage.

Direct indexing and index ETFs are both valuable passive investment strategies, each with its unique benefits and drawbacks. By carefully considering your specific needs and circumstances, you can make an informed decision that best suits your investment goals and preferences.

To learn more about direct indexing, contact your RBC Wealth Management financial advisor.

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

529 Plan account rollovers to Roth IRAs

Wealth Management

If you have researched options for tax-advantaged savings plans for education, then you likely have heard of 529 Plans. Did you know that under the SECURE 2.0 Act these plans may now be used to fund a Roth IRA for the account beneficiary?

What's changing?

Before the SECURE 2.0 Act, 529 Plan account owners or beneficiaries who wanted to withdraw funds for nonqualified education expenses would be forced to make a nonqualified withdrawal. A nonqualified withdrawal is subject to income tax and a 10% federal tax penalty on earnings.

529 Plan account owners can now rollover 529 Plan assets into a beneficiary-owned Roth IRA free from federal taxes and penalties, subject to certain conditions.

How much can be rolled over?

Eligible beneficiaries of a 529 Plan can rollover up to $35,000 (a lifetime limitation applicable to each beneficiary) from their 529 Plan to their Roth IRA. The rollover amount must fall within the annual limits on contributions to Roth IRAs (for 2026 $7,500 for individuals under the age of 50 years old) less any other traditional or Roth IRA contributions made that year. The designated beneficiary must have earned income that is at least equal to the rollover amount.

What special rules apply to the rollovers?

Unlike direct contributions to a Roth IRA, rollovers from a 529 Plan to a Roth IRA are not subject to income limits. Individuals who earn more than Roth IRA contribution income limits can still transfer from their 529 Plan account to a Roth IRA.

To take advantage of this rollover provision, the 529 Plan must have been established at least 15 years ago. The industry is still awaiting guidance on how changing the 529 Plan beneficiary affects the 15 year requirement. Additionally, contributions made or earnings on contributions made in the past five years are not eligible for the rollover. Proof of eligibility should be shared with your tax advisor and maintained by you.

Assisting RBC Wealth Management clients with the request

Clients interested in this new funding option will need to confirm with their 529 Plan provider if they are eligible for rollover/contribution to Roth IRA. If eligible, the transaction begins with the 529 Plan provider making the payment payable to the client's Roth IRA with subsequent deposit to the client's Roth IRA as a contribution.

Roth IRA qualified distributions

The same Roth IRA distribution rules apply for distributions of 529 Plan assets rolled/contributed to a Roth IRA as they do for contributory Roth IRA assets. Strict ordering remains with distributions first consisting of contributions, then conversions, then earnings. Only Roth IRA qualified distributions allow for tax- and penalty-free distribution of earnings. Roth IRA qualified distributions are only available upon the attainment of age 59½ and realization of the five-year Roth IRA rule.

Nonqualified Roth IRA distributions when funded with 529 rollover

Often clients need access to these funds before a Roth IRA qualified distribution is available. The SECURE 2.0 Act assists by providing clarity as to how basis is treated in 529 Plans when rolled over to Roth IRAs.

With a nonqualified distribution from a Roth IRA funded solely by 529 Plan rollovers, the basis and earnings of funds rolled from the 529 Plan into a Roth IRA are treated in the same way as if they had been transferred from another Roth IRA.

The basis of the 529 Plan funds (which is the pro rata portion of contributions to the percentage of the total account value of the entire 529 Plan) is added to the basis of the existing Roth IRA, if any, and the earnings of the 529 funds are added to the earnings of the Roth IRA. This means the basis in your 529 Plan now rolled to your Roth

IRA is eligible for distribution at any time and any age as a return of principal.

What should I consider before rolling 529 Plan funds to a Roth IRA?

Moving remaining 529 Plan funds to a beneficiary's Roth IRA can be a way for you to contribute to retirement savings. However, there may be reasons not to rush into a rollover. In addition to unclear guidance to 529 Plan managers on rules for these transfers, not all states follow the federal definition of qualified expenses for 529 Plans. Some states could update their laws to include rollovers as a qualified expense, and others may choose not to do so. Make sure to check with your tax advisor to learn what the tax treatment is in your state.

There are other options for the 529 Plan account owner or beneficiary to utilize this money in addition to rolling to a Roth IRA:

- Change beneficiary to another person
- Pay off up to $10,000 in qualified student loans
- Leave funds available for future education needs
- Take a nonqualified distribution and pay applicable tax and penalties

Consult with your tax advisor to discuss your tax situation and ask any tax related questions.

You should consider and consult with your tax advisor regarding the following information before rolling funds from your 529 Plan to your Roth IRA.

Neither RBC Wealth Management, a division of RBC Capital Markets, LLC, nor its affiliates provide legal, accounting or tax advice. All legal, accounting or tax decisions regarding your accounts and any transactions or investments entered into in relation to such accounts, should be made in consultation with your independent advisors. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice.

For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary and therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10 percent penalty on distributions for non-qualified expenses may apply. RBC Wealth Management is not a tax advisor. All decisions regarding the tax implications of your individual investments should be made in connection with your independent tax advisor.

Rollover portability chart

Wealth Management

Roll to

Rollover from	Roth IRA	Traditional IRA	SIMPLE IRA	SEP-IRA	Governmental 457(b)	Qualified plan[1] (pre-tax)	403(b) (pre-tax)	Designated Roth account (401(k), 403(b) or 457(b))
Roth IRA	Yes[2]	No	No	No	No	No	No	No
Traditional IRA	Yes[3]	Yes[2]	Yes,[2,7] after two years	Yes[2]	Yes[4]	Yes	Yes	No
SIMPLE IRA	Yes,[3] after two years	Yes,[2] after two years	Yes[2]	Yes,[2] after two years	Yes,[4] after two years	Yes, after two years	Yes, after two years	Yes, after two years
SEP-IRA	Yes[3]	Yes[2]	Yes,[2,7] after two years	Yes[2]	Yes[4]	Yes	Yes	No
Governmental 457(b)	Yes[3]	Yes	Yes,[7] after two years	Yes	Yes	Yes	Yes	Yes[3,5]
Qualified plan[1] (pre-tax)	Yes[3]	Yes	Yes,[7] after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
403(b) (pre-tax)	Yes[3]	Yes	Yes,[7] after two years	Yes	Yes[4]	Yes	Yes	Yes[3,5]
Designated Roth account (401(k), 403(b)or 457(b))	Yes	No	No	No	No	No	No	Yes[6]

1. Qualified plans include, for example, profit-sharing, 401(k), money purchase and defined benefit plans
2. Only one rollover in any 12-month period
3. Must include in income
4. Must have separate accounts
5. Must be an in-plan rollover
6. Any amounts distributed must be rolled over via direct (trustee-to-trustee) transfer to be excludable from income
7. Applies to rollover contributions after December 18, 2015

For more information regarding retirement plans and rollovers, contact your financial advisor.

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Required minimum distributions

Required minimum distributions

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

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

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

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

When must RMDs be taken?

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

Birth year	RMD age
1950 or earlier	72 (70.5 for those who turned 70.5 before 1/1/20)
1951–1959	73
1960 or later	75

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

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

How are RMDs calculated?

Your minimum distribution amount is calculated each year by dividing your ending account balance from the previous year (as of the close of business on December 31) by your applicable life expectancy factor.

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

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

Taking your RMD

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

- Schedule automatic distributions
- Submit a distribution form for each distribution
- Set up On Demand Distributions
- Establish IRA check writing and withdraw your RMD yourself
- RMDs can be distributed in either cash or securities from your IRA
- Securities are valued at the closing price on the day prior to the distribution

- A cash distribution can be made in the form of a check, sent directly to your bank or journaled to your RBC Wealth Management retail account. Securities can also be distributed to your RBC Wealth Management retail account.

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

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

Taxation of RMDs

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

Penalties for missed RMDs

There is a 25% penalty for missed RMDs. This excise penalty is reduced to 10% if the missed RMD is corrected between January 1 of the year following the year of the missed RMD and upon the earliest of the following dates:

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

Additional information

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

Planning

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

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

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

Uniform Lifetime Table III*

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

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

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Compare Medicare Supplement vs. Medicare Advantage Plans

Confused about Medicare plans? For most, Medicare Supplements will provide the most comprehensive coverage. Learn the pros and cons of Medicare Supplements (Medigap Plan G) and Medicare Advantage.

	Medicare Supplement (Medigap)		Medicare Advantage	
Provider network	Can see any doctor nationwide who accepts original Medicare—about 90% of doctors	✓	Limited provider networks	
Out-of-pocket costs	Most Medicare-eligible costs are covered at offices that accept original Medicare	✓	High out-of-pocket costs	
Referrals	None required	✓	Often required; depends on the plan's restrictions	
Prior authorization	You don't ever need to get prior authorization for covered services	✓	May require prior authorizations, which may delay or impede important care	
Premiums	Monthly premium that depends on geography and age		Many Advantage plans may be $0 premium (plus Part B premium)	✓
Additional benefits	Medicare Supplements do not provide coverage for dental, vision and hearing services. You can purchase a stand-alone prescription plan.		May offer dental, vision, hearing, gym and a variety of other benefits. Prescription drug coverage typically included.	✓

Questions about Medicare?

RBC Wealth Management offers access to an independent Medicare resource that can help find the plan that best meets your needs at no cost to you.

Contact your financial advisor to learn more.

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Social Security

At a glance 2026

Retirement benefits

- Annual Social Security statements are available electronically (www.ssa.gov) or are also mailed to workers beginning at age 60 and older
- Based on highest 35 years of indexed earnings, working a few extra years can increase benefits, while retiring before Full Retirement Age (FRA) may lower your benefit
- Need 40 credits (10 years) to qualify for benefits; earn a maximum of four credits per year
- Workers taxed on earnings at 6.20%—earnings above $184,500 in 2026 are not subject to Social Security tax
- The 2026 maximum Social Security benefit at full retirement age:
  - Monthly: $4,152
  - Annual: $49,824

Spousal, survivor and ex-spouse (divorce) benefits

Spouse

Eligible to receive the higher of either:

- Benefits they may have earned on their own record
- Half (50%) of spouse's primary insurance amount (up to FRA)
- Spousal benefits do not increase FRA

Spouse cannot collect on your record until you file for benefits and spouse must be at least age 62.

You can file for your own benefit starting as early as age 62

- Social Security Administration (SSA) will then look to see if your spouse has claimed. If so, you may get the higher of your own benefit or 50% of your spouse's FRA benefit, no matter what age your spouse claimed their benefit (age 62 to 70)
- Spousal benefit is reduced if you claim prior to your FRA

If your spouse has not yet claimed

You will receive your own benefit, based on the age you claim (62 to 70). However, once your spouse claims, SSA will again determine if your spousal benefit would then be higher than your own benefit.

- Any reduction in the spousal benefit would be calculated, based on the age you claimed prior to your FRA

Survivor

A surviving spouse will generally receive 100% of the deceased's benefit or benefits on their own record at FRA but will not receive both:

2026 Full retirement ages and early retirement reductions

Year of birth	Full retirement age (FRA)	No. of months from age 62 to FRA	Total % reduction
1954 and earlier	66	48	25.00%
1955	66 and 2 months	50	25.84%
1956	66 and 4 months	52	26.66%
1957	66 and 6 months	54	27.50%
1958	66 and 8 months	56	28.33%
1959	66 and 10 months	58	29.17%
1960+	67	60	30.00%

- Reduced benefits can begin as early as age 60
- A surviving spouse can choose to take the survivor benefit first, then switch to their own benefit at a later date, or claim their own benefit first, then claim the survivor benefit at FRA
- Survivor benefits that start at age 60 are reduced by 28.50%
- Surviving spouse must remain unmarried or remarry after age 60

Ex-spouse (divorce)

If married for at least 10 years and divorced for at least two years, an ex-spouse can get Social Security benefits based on the other ex-spouse's record:

- Both ex-spouses must be at least age 62 and the receiving ex-spouse cannot remarry or benefits are forfeited
- The benefits received by the ex-spouse have no effect on either the primary earner or their current spouse
- Divorced spouse can receive benefits even if other ex-spouse has not filed
- Divorced spouse of a worker who has died could get the benefits as a survivor

Did you know?

You can receive an 8% credit for each year you wait to claim benefits past full retirement age, up to age 70.

Help is available

All individuals and couples can benefit from a conversation with their RBC Wealth Management financial advisor. Contact your advisor today to discuss what Social Security benefits strategies are right for you.

Taking early benefits while continuing to work

	2026 Benefit reduction for earned income in early retirement		
	Age 62 to normal retirement age	Year of reaching full retirement age—months prior to attaining normal retirement age	Month attaining full retirement age and greater
Earned income	$24,480	$65,160	No limit
Reduction in benefit	$1 for every $2 earned	$1 for every $3 earned	Not applicable

Taxation of benefits

	2026 Amount of benefit subject to federal income tax	
	50% of benefit subject to federal income tax at your marginal tax rate	85% of benefit subject to federal income tax at your marginal tax rate
Filing individually	Combined income* of $25,000 to $34,000	Combined income* more than $34,000
Filing jointly	Combined income* of $32,000 to $44,000	Combined income* more than $44,000

Note: 42 states do not tax Social Security benefits as of January 2026
*Combined income = Adjusted gross income + non-taxable interest + 1/2 of Social Security benefit

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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.

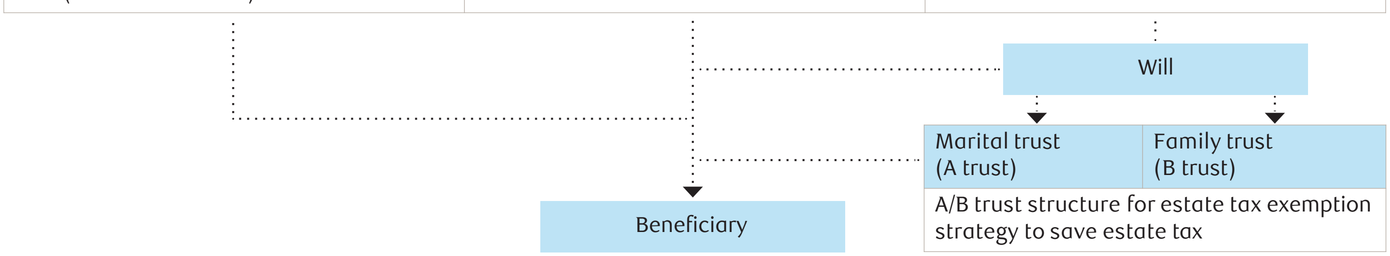
In Diagram A below, the type of assets in Box 1 pass to heirs based upon their beneficiary designation. The assets included in this category include retirement accounts such as 401(k), 403(b), IRA, SEP, KEOGH, etc. In addition, accounts that have a TOD (transfer on death) provision attached to the account 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. Boxes 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

Box 1	Box 2	Box 3
Beneficiary designations (by contract)	JTWROS (by operation of law)	Other property (by will)
Retirement accounts 401(k), 403(b), IRA, SEP, KEOGH Life insurance Annuity contracts TOD (transfer on death)	Joint tenants with rights of survivorship	Individual name Community property — husband and wife Tenants in common



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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 a 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.

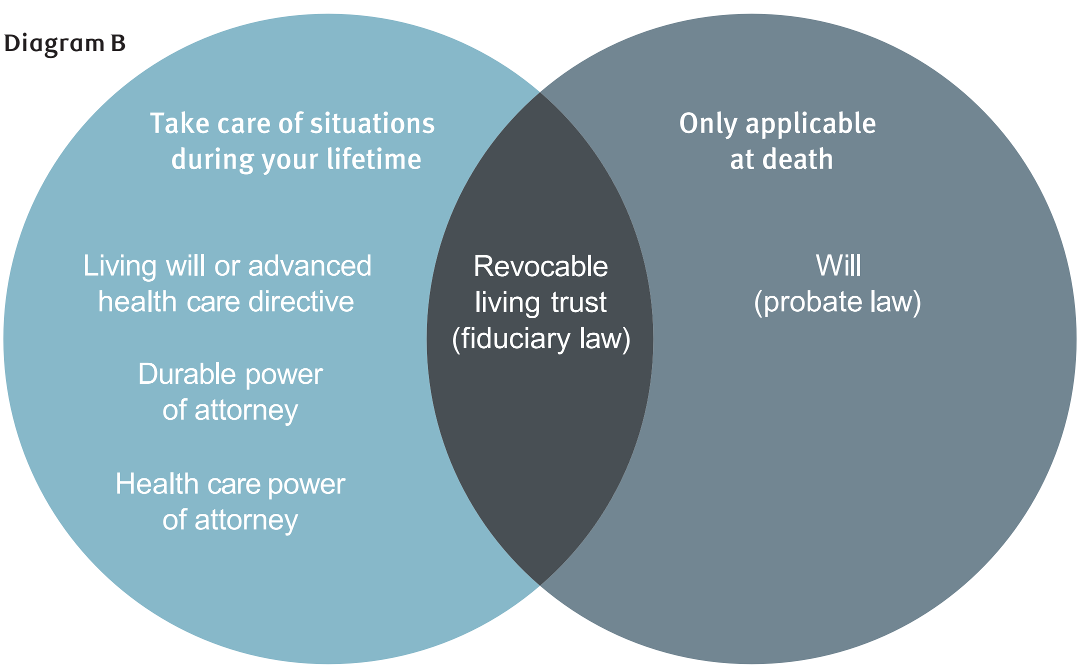
Health care power of attorney

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 who is bound by fiduciary duty or sometimes referred to as the prudent person rule. Since these rules exist there is no requirement for a probate.

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

Conclusion

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

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Estate planning checklist

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

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

Initial development

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

After three years

- ☐ Review your will or trust to confirm your wishes still are met, and it accommodates any family changes that may have occurred
- ☐ Update beneficiaries if needed
- ☐ Update executors, trustees, powers of attorney and guardians if needed
- ☐ If living in a new state, meet with an estate attorney to confirm your documents work with local estate laws
- ☐ Review your health care directive for possible changes
- ☐ Re-evaluate your life insurance coverage
- ☐ Update your charitable beneficiary selections
- ☐ Would it be beneficial to decant your trust, or do you need to keep all documents as developed in the original?
- ☐ Update your heirs about changes to your wishes

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

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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 2026 and later:

- If possible, defer income and the sale of capital gains 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 2025 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 2025 and later:

- If possible, accelerate income and the sale of capital gains 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 2026 tax return.

Additional income tax considerations

- Consider using an RBC Credit Access Line offered by Royal Bank of Canada and RBC Bank (Georgia), N.A. 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 2025.

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 2026 to avoid capital gains distributions on brand new investments.

Retirement planning—seize opportunities and avoid missteps

- Maximize your IRA contributions. You may be able to deduct annual contributions of up to $7,000 to your traditional IRA and $7,000 to your spouse's IRA for the 2025 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.
- Consider increasing or maximizing your 401(k) and other retirement account contributions. These contribution limits have increased for the 2025 tax year as well—$23,500 for the standard contribution limit and a 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. Consider depositing your RMD into RBC's high-yield savings or cash sweeps. Note that the required beginning date for retirement account distributions increased to age 73 as of January 1, 2023.
- 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 has 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.
- Beginning in 2025, it will become possible for individuals aged 60 to 63 to make increased catch-up contributions of up to $10,000 to a retirement plan. However, if you earn more than $145,000, any catch-up contributions will be considered after-tax Roth contributions.

Gifting strategies

Give to loved ones

- Consider making gifts of up to $19,000 per person as allowed under the federal annual gift tax exclusion. Use assets likely to appreciate significantly for optimum income tax savings.
- Make sure your estate plan is up to date, and 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 $108,000 in 2025 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 before December 14, 2017, 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 2025

- Review the opportunity to consolidate your cash into RBC's high-yield savings or cash sweep solutions
- Send capital gains and investment income information to your accountant for a more accurate year-end projection.
- Check your health savings account contributions for 2025. If you qualify, you can contribute up to $4,300 (individually) or $8,550 (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 2026

- 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 2026. If you qualify, you can contribute up to $4,400 (individually) or $8,750 (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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Notes